Welfare Reform

Background

This report has been collated by the Welfare Reform Board (WRB). The contributors include Customer Support and Collections (Bury Council), Six Town Housing and Citizen Advice Bureau (CAB).

The WRB continues to work in partnership to share information and plan ahead with the aim of mitigating the effect of such reforms: including promoting work options.

Introduction

There are two groups of welfare reforms – those introduced during the 2010-2015 Parliament and those announced in the Budget in July 2015, which started to be introduced from April 2016.

Many reforms offer an approach where a reduction in the amount of benefits is matched with an offer of government support to help people follow a prescribed course of action. In Universal Credit, for example increased levels of sanctions are imposed if claimants do not take up offers of advice on how to find work.

The starting point for the 2010 reforms was a welfare benefits system that included a large number of eligible people, particularly through the Tax Credits system. The reforms have looked to dismantle this type of welfare.

Welfare reform is a slow process. The government usually tries to avoid reducing the amounts of benefits paid to existing claimants. Most reforms are targeted at new claimants, and those whose circumstances change. This leads to situations where households with similar circumstances receive different amount of benefits depending on when they applied.

Welfare reform changes are themselves subject to reforms, sometimes before they have been introduced. Delays to the introduction of Universal Credit have seen its qualifying criteria change before significant numbers of people have started to receive it.

In the main, these have been targeted at working age claimants, with the aim of getting as many people into employment or training as possible.

Pensioners are protected through not cutting their benefits and also increasing them at a rate either equal to or above inflation. But at the same time the age when people become classed as a pensioner is increasing.

Disabled people are protected from welfare reforms, but the qualifying conditions for disability benefits have been made more stringent.

A number of reforms, particularly those introduced after 2015, affect larger families. This group is also more likely to be affected by more than one type of reform at the same time.

The group of people claiming benefits is not a static one. There is always a steady flow of people starting to receive benefits and those ending their claims as they return to work. This can means that reductions in the levels of benefits have less effect, because people are only claiming them for relatively short periods. For example a majority of people claiming unemployment benefits in Bury find work within 13 weeks.

In the Autumn Statement in November 2016 the chancellor announced that there would be no more new welfare reforms before 2020.

Costs of reforms

One of the clearest attempts at estimating the costs of welfare reforms can be found in the *Centre for Regional Economic and Social Research (CRESR) report 'The uneven impact of welfare reform'.*

The reports uses data from various government sources, and then breaks the figures down into local authority areas. It accepts that forecasting these types of figures up to 5 years in advance is difficult. Previous government estimates have been shown to be too high, and the report does not take account of any changes in behaviour that the reforms may produce. However, the report remains one of the most comprehensive of its kind available.

The report estimates that by 2021 people living in the borough of Bury will be receiving **£249million** less due to the welfare reforms which began in 2010. This equates to a financial loss per working age adult of **£760** per year.

Some of the individual losses in Bury up to 2021 are estimated as follows:

- Employment Support Allowance £7.1m
- Local Housing Allowance cap in social rented sector £2.3m
- Benefit cap £4.2m
- Benefit freeze £38m

2010-2015 reforms

Removal of spare bedroom subsidy/bedroom tax

Introduced April 2013, and set two levels of reductions to Housing Benefit for households living in properties which were too large for their family size. In Bury 953 households were affected at the start of the scheme. This number reduced to 560 over the next three years. Six Town Housing estimate it could take up to another 6 years to re-house all the affected households.

Current Position

- Currently there are 544 bedroom tax cases. 301 accounts are in arrears owing £71,767.

	Aug 2016	Sep 2016	Oct 2016
Bedroom Tax cases	548	543	544
Bedroom Tax cases in arrears	300	309	301
Bedroom Tax arrears	£70,047	£70,270	£71,767

Many tenants affected receive a Discretionary Housing Payment (DHP) to cover the shortfall: 246 payments awarded to Six Town tenants so far during this financial year : on-going this could be a risk as the enhanced DHP budget: (in Bury it has increased from around £50kpa to £330kpa) is only in place temporarily. Further, it is now also intended to help customers affected by the benefit cap: with no further increase in the grant.

Introduction of Universal Credit

The government's flagship welfare reform scheme, which combines a group of working age benefits into one payment. The project as seen many delays and it is estimated it could be 2021 before it is fully rolled out.

The government has made changes to the original scheme to take account of reforms planned from 2016 onwards despite the fact the benefit isn't fully available yet. The work allowance in Universal Credit, the amount you can earn without your benefit being affected, was reduced from April 2016.

From April 2016 the amount of Universal Credit available for child care costs increased from 70% of the costs charged to 85%.

Numbers on UC remain limited: the next stage of rollout forBury will be May 2018.

In terms of local impact, Six Town Housing have carried out the following analysis relating to their tenants:

We currently have 336 claimants with an arrears total of £148k.	August 2016	Sep 2016	Oct 2016
Number of UC cases	322	330	336
Average arrears per claimant	£513	£513	£516

% Of UC claimant in rent arrears	86.34%	83.33%	85.12%
Total UC arrears	£142,702	£140,969	£147,707
UC collection rates	95.44%	95.77%	95.80%
Arrears covered by an APA	£69,159	£65,161	£66,192

Council Tax Support (CTS)

A transfer of control of providing financial help towards Council Tax from the government to local councils. This was accompanied by a 10% cut in the amount of funding for the new scheme. Despite the funding cut Bury maintained a scheme similar to the old one. There has been a steady reduction in amount of benefits paid out as the caseload has reduced.

In April 2017 Bury Council will introduce a 20% minimum contribution towards the Council Tax for all working age households in receipt of Council Tax Support. This will affect 9000 households in the borough. From the same date, CTS will not be paid in respect of any third or more children born after this date.

Introduction of Personal Independence Payments

Replacing Disability Living Allowance, with more stringent and frequent medical tests. This is still ongoing and is not expected to be completed until 2018.

Child Benefit freeze

Three year freeze in the amounts paid, and the withdrawal of the benefit from households with higher earnings

Limits on uprating of benefits

A 1% cap on the amount most working age benefits are uprated every year.

Benefit cap

A ceiling on the amount of working age benefits paid, set at £26,000 per year. Further reductions have been introduced in November 2016.

In Bury the initial cap in 2013 only affected a small number of claimants. All of those affected lived in privately rented properties where their higher levels of rent took them above the threshold.

In November 2016 the Benefit Cap was reduced to £20,000. This will affect approximately 232 households in the borough. The households affected tend to be those with three or more children, and for the first time it will include some social housing tenants.

The cap is imposed by reducing a claimant's Housing Benefit. If their Housing Benefit is not sufficient then no further reductions are applied. If a claimant is receiving Universal Credit the whole of the cap is applied.

2016 Onwards reforms

2016 Benefit and Tax Credit rates frozen

The amounts of working age benefits, Tax Credits and Local Housing Allowance were frozen for 4 years from April 2016.

Disability benefits, maternity, paternity and statutory sick payments are due to be up-rated in line with the Consumer Prices Index. However because this index fell in September 2015 there was no up-rating of these benefits in April 2016.

Pensioner benefits are excluded.

Although the amounts involved for each household are small this measure will generate the largest saving for the government because of the large number of claimants affected. By the end of the four years it is estimated that residents of Bury will be receiving up to £13M less in benefits than they would have done if their benefits had continued to be up-rated.

2016 Housing Benefit changes

Housing Benefit is worked out by comparing a needs allowance to a household's income. The more their income exceeds their needs allowance the less benefit they are entitled to. From May 2016 Housing Benefit payments for working age households with children were reduced by removing one of the needs allowances called the Family Premium. This is also due to be introduced to Child Tax Credit and Universal Credit.

This only affects:

- households making a new claim or
- households where there is a new birth.

It does not affect existing claimants with children, unless they have more children or have to make a new claim.

2016 Tax credit allowance and taper cut

The government proposed a cut in the amount of Tax Credits by:

- reducing the earnings threshold at which Tax Credits start to be withdrawn, and
- increasing the rate at which Tax Credits were withdrawn as a person's income increased.

This would have seen a reduction in the Tax Credits of anyone earning above £3850 a year. The proposal was unpopular and was cancelled by the government before it could be introduced.

However the change is still scheduled to be introduced into Universal Credit, which will gradually replace Tax Credits. This means that this reform has been delayed rather than being abandoned.

2016 Tax Credit income change disregard reduction

Prior to April 2016 a Tax Credit claimant's income could increase by up to £5000 a year before their award was reassessed. From April 2016 this threshold was reduced to £2500. The government estimates that 800,000 people will see their Tax Credits reduced by an average of £200 to £300 per year because of this change. This means more people will be classed as having an overpayment of tax credits and will find their future payments reduced as a result

2016 New State Pension

For those reaching pension age from 6 April 2016 a new state pension is has been introduced to replace the basic State Pension and State Second Pension. This affects all women born on or after 6 April 1953 and all men born on or after 6 April 1951. The new pension is designed to be much simpler than the current system. It will consist of a same amount, of £155.65, being awarded to everyone who has 35 qualifying years of National Insurance contributions.

Anyone who has between 10 and 35 years of National Insurance contributions, will receive a pro rata amount. Those who do not have enough contributions, will still be able to claim Pension Credit.

2016 National Minimum Wage increased

The National Living Wage was increased to £7.20 per hour for those 25 or over from April 2016. It will increase again to £7.50 from April 2017 and continue to increase until it reaches £9.00 per hour by 2020. These increases are above the rate of inflation and are higher than people not on the National Living Wage are receiving.However, CAB have identified that it may impact in the following ways also:

May impact on overtime / weekend / additional pay and other work incentives (e.g. tips) if employer changes T&Cs

May impact on smaller employers unable to pay and result in potential redundancies / cuts in hours

Will impact on recipients of Carer's Allowance (working 16 hours per week at NLW = £115.20 = more than £110 earning threshold)

In combination with changes to the personal tax allowance rates (see below) this sets a higher threshold of earned income a person can expect to receive. This means that the government's contribution to a household's income through Tax Credits or Universal Credit will be lower.

2016 Personal tax allowance increased

The Personal Tax Allowance, the amount you can earn before paying income tax, was increased from £10,600 to £11,000 from April 2016. It will continue to be increase until it reaches £12,500 by 2020. These increases match those being made with the National Living Wage to make sure that people benefiting from this do not have to pay more tax.

2016 Rent reductions for social tenants

From April 2016 social housing rents will be reduced by 1%, or in some exceptions frozen, for four years.

This will only benefit tenants who have to pay something towards their rent. If their rent if fully covered by Housing Benefit, or Universal Credit then they will not benefit from this reform.

2016 Tax credit debt recovery

Increase in the maximum recovery rate from 25 per cent to 50 per cent of an ongoing award of tax credits for households with income over £20,000 – likely to "hit those with high childcare costs or who receive extra payments due to disability even harder as their awards will be higher." (Low Incomes Tax Reform Group)

More "efficient" recovery of Tax Credit debt (CTC OP from WTC award and vice versa) – could cause more claimants to fall into hardship

Extending the use of the private sector to improve the collection of Tax Credit debt – Citizens Advice Bureau currently monitoring this with Calls for Evidence

2017 Removal of automatic entitlement to the housing element of Universal Credit for young people aged 18 to 21.

To be affected young people will:

- have to be claiming Universal Credit, as opposed to Housing Benefit.
- be living in an area with a full Universal Credit service. This is where the Department for Work and Pensions will provide support to young people to find work in addition to processing claims for Universal Credit. It is estimated by the government that this level of service will not be rolled across the country until September 2018
- have to have refused an apprenticeship or mandatory work placement
- not be able to return home to live with their parents

- not have been in work for 6 months prior to making a claim
- not be in supported accommodation

Entitlement to Housing Benefit will continue until a person moves onto Universal Credit and in cases where a young person is in supported accommodation.

The Department for Work and Pensions have admitted that they believe that few people will be affected by this reform, because they will either move into work, move back to live with their parents or be exempt. (Social Security Advisory Committee 9.11.16)

2017 Welfare benefits limited to 2 children

From April 2017 awards of Tax Credits, Universal Credit and Housing Benefit will be restricted for some households which contain more than two children.

The benefit entitlements for larger households will be capped at those paid for a family with two children.

This only applies to:

- households in receipt of benefits which currently contain two or more children and who have a third or subsequent child after 1 April 2017
- households with more than two children making a new claim after April 2017

This proposal will not affect:

- households which already contain more than two children, unless another child is born
- multiple births after 1 April 2017 (and the household is not already at their maximum of two children)
- adopted children
- were households merge
- households where the claimant or their partner is a pensioner

Bury Council has also decided to introduce a similar limit to its Council Tax Support scheme.

2017 Reductions in Employment Support Allowance rates.

Employment Support Allowance provides help for people who are ill or disabled and unable to work. There are 2 categories:

- support group – for people considered incapable of work

- work related group – for people considered capable of work at some point in the future

The work related group will see their payments reduced to the equivalent rates of Jobseekers Allowance. In effect this is a 30% reduction.

Bereavement Benefits

Current system (including Bereavement Payment, Bereavement Allowance, Widowed Parent's Allowance) will be replaced with a new single "Bereavement Support Payment"

It will focus support in the 12 month period following the bereavement and will not be ongoing.

2017 Universal Credit requirements for parents to look for work

Parents with a youngest child aged 3, including lone parents, will be expected to look for work if they want to claim Universal Credit.

2017 (September) – increase free childcare provisions from 15 to 30 hours for children aged 3 to 4

This is linked to the changes to Universal Credit requiring parents with a child over the age of 3 to be available for work (see above). The increase in child care funding provides support for parents starting work when their youngest child reaches their third birthday.

2017 Conditionality

Parent conditionality

This involves extending parent conditionality (all work-related requirements applicable to parents of a child aged 3): it will impact on household child care commitments. In practical terms this is the equivalent of threshold levels for Income Support going down from children aged 5 to 3.

In-work conditionality

Low-paid workers working up to 35 hours a week at the NLW will be required to work with DWP job coaches to seek more work hours, higher pay, or an extra job as a condition of receiving low-wage top ups and other benefits

If claimants fall short of the targets agreed with coaches they face fines and sanctions.

It is currently being trialled on 15,000 claimants in 10 UC areas: a report is due early 2018 prior to further expansion.

Youth obligation

18-21 year olds on Universal Credit will participate in an intensive period of support at the start of their benefit claim.

After 6 months they will be expected to apply for an apprenticeship, traineeship, gain work place skills or go on a work placement if they wish to keep the benefit

2018 - Support for Mortgage Interest payments

Support for Mortgage Interest payments are a government scheme where people in receipt of benefits such as Income Support or Jobseekers Allowance can get help towards their mortgage payments. From April 2018 any new Support for Mortgage Interest payments will be treated as a loan rather than a grant. Loans will be repaid upon sale of a claimant's house, or when claimants return to work.

2019 – Social rents to be capped at Local Housing Allowance rates

The amount of Housing Benefit or Universal Credit available for tenants in social housing will be capped at Local Housing Allowance rates. This was originally set to be introduced in 2018 but has been put back a year to April 2019.

The Local Housing Allowance rates are used to work out how much Housing Benefit can be paid to tenants of private landlords. They are a set of banded payments based on the size of the tenant’s household.

Although most social rents are lower than those in the private sector this will affect single people under the age of 35, as the Local Housing Allowance rates for this group are set at the average rent for a room in a shared house. This is considerably lower than the rent charged for even the smallest types of social housing.