

## REPORT OF THE ASSISTANT CHIEF EXECUTIVE – PERFORMANCE

### CORPORATE RESOURCES & IMPROVEMENT OVERVIEW AND SCRUTINY COMMITTEE

16 MAY 2011

#### WELFARE REFORM BILL 2011

##### 1. Purpose of Report

- 1.1 The purpose of the report is to provide the Committee with an update on current developments in relation to the Welfare Reform Bill and the potential impact this will have on services provided by the Council.

##### 2. Connection to Corporate Plan / Other Corporate Priority.

- 2.1 Welfare Benefits contribute to the Corporate Priority theme of supporting our disadvantaged communities.

##### 3. Background

- 3.1 The Welfare Reform Bill will legislate for the biggest change to the welfare system for over 60 years.

It introduces a wide range of reforms that will deliver commitments made by Central Government, to make the tax and benefits system more fair and simple by:

- creating the right incentives to get more people into work
- protecting the most vulnerable in our society
- delivering fairness to those claiming benefits and to the tax payer.

The main elements of the bill will be:

- the introduction of Universal Credit to provide a single streamlined benefit that will make work pay. There will be an amount included within Universal Credit for housing costs.
- a stronger approach to tackling fraud through tougher sanctions, improved investigation, and speedier recovery of fraudulent overpayments.
- a tough but fair approach, with clear levels of commitment expected of claimants, placing more responsibility on those who can work, while giving protection to those with the greatest needs.
- reforms to Disability Living Allowance, through the introduction of the Personal independence Payment to meet the needs of disabled people today.

- creating a fairer approach to Housing Benefit to bring stability to the market and improve incentives to work.
  - driving out abuse of the Social Fund system by giving greater power to local authorities.
  - reforming Employment and Support Allowance to make the benefit fairer and to ensure that help goes to those with the greatest need.
- 3.2 The Welfare Reform Bill legislates for the abolition of Housing Benefit. Whilst Central Government is developing its plan the amount of housing benefit paid in the transition period should be broadly similar to the support currently provided through Housing Benefit but some changes will impact earlier than others.
- 3.3 Changes to Housing benefit in relation to the Local Housing Allowance (LHA) came into effect from April 2011 but the most radical changes to the benefits system will be implemented, or commenced, in 2013. These changes are:
- Implementation of Universal Credit
  - A localised Council Tax Rebate scheme to replace Council Tax Benefit
  - A single integrated fraud investigation service

## **Current Situation**

### **Housing Support - Local Housing Allowance (LHA) changes**

- 4.1 Housing Benefit is a means tested benefit for those on low incomes living in rented accommodation. Council Tax Benefit provides assistance for those on low incomes with a liability to pay Council Tax. These benefits are currently administered by local government on behalf of Central Government's Department for Works and Pensions (DWP).
- 4.2 LHA arrangements are a way of calculating Housing Benefit for people who rent from a private landlord. Local authorities use LHA rates based on the size of household and the area in which a person lives to work out the amount of rent which can be met from Housing Benefit. The Government has changed the legislation with the intention of reducing the overall level of expenditure in relation to LHA claims, effectively reducing the amount of help that people will receive towards their rent. Detailed explanations of the changes and examples of how these could potentially affect the amount of benefit a housing benefit a claimant could receive in Bridgend are contained in Appendix 1.
- 4.3 One of the main concerns regarding the potential reduction in housing benefit awards is that rent arrears and evictions will increase leading to an increase in the number of homeless cases. At a local level this will impact on the Council's Housing Options Team and financially on the homelessness budget. There may also be indirect impacts for other welfare services in the Council. To mitigate the potential impact of these changes the Benefits Service is working

closely with the Housing Options Team to identify and target support for vulnerable customers. To assist customers to prepare for these changes the Benefits Service has:

- In conjunction with Housing Options, devised an action plan designed to mitigate the impact of the changes concentrating on awareness and publicity.
- Discussed the changes with landlords through its landlord forums.
- Issued information leaflets with the annual benefit notification letters to advise customers of the changes.
- Issued individual letters to the customers who are affected by the restriction to the 4 bedroom rate explaining the change and offering assistance.

4.4 There is clearly more work that needs to be done in this area to support customers through these changes and therefore the Benefits Service will:

- Update the Benefit Service's web pages to provide more detail of the changes and to offer advice.
- Write to the customers aged under 35 who may be affected by the change to the shared accommodation rate , establish those that may be exempt from the change and offer advice and assistance for those who may need to move.
- The Welsh Assembly Government's Deputy Minister for Housing and Regeneration has announced a new programme of Homelessness Grant for 2011/12. The approved programme includes £700,000 for 2011/12 and 2012/13 to support local authorities in taking action to prevent homelessness as a result of the changes to the housing benefit system. The Housing Options Team is leading the development of the Council's bid for these funds and intends to use part of the funds to procure debt advice services possibly in partnership with another local authority.
- In conjunction with the Housing Options team, the Benefits Service plans to hold an open day in June for Councillors, landlords and interested/relevant staff to discuss these and future benefit changes. Exhibitors will include The Wallich, Wallich Bond Board and V2C's financial inclusion officer. The Rent Officer, Citizens' Advice Bureaux and Credit Union are yet to confirm their attendance. Housing Benefits claimants who will be most affected by the changes will also be invited.

4.5 The Discretionary Housing Payment (DHP) scheme provides local authorities with power to pay discretionary amounts to top up the Housing and Council Tax Benefits statutory schemes. The Government has provided local authorities with additional DHP funds to assist the most vulnerable people with the changes. The additional amount available for Bridgend for 2011/12 is

£18.5k and given the scale of the changes, this amount may prove to be insufficient to provide additional help to those most in need.

## Universal Credit

- 4.6 This is a key element of the Welfare Reform Bill. The government intends to redesign the system of means tested benefits and tax credits for working-age adults by replacing them all with a single benefit known as Universal Credit, to be administered by the Department of Works and Pensions (DWP). Further information about the Universal Credit can be found in Briefing Note 116, entitled “Universal Credit ;A Preliminary Analysis”, published by the Institute of Fiscal Studies.
- 4.7 Universal Credit will combine all out-of-work income-related benefits with tax credits to form one integrated source of help for all households that qualify and includes:
- Income Support;
  - income-based Jobseeker’s Allowance;
  - income-based Employment and Support Allowance;
  - Housing Benefit;
  - Child Tax Credit and Working Tax Credit
- 4.8 New claims for Universal Credit will commence in October 2013 with existing claims transferred over a three-year period from April 2014; the majority of claims are expected to be transferred in 2017.
- 4.9 Local authorities are to retain the administration of Housing Benefit for supported and temporary accommodation. However, the future role, if any, that local authorities will have in assessing and distributing the Universal Credit is unclear.
- 4.10 Assessment of Housing Benefit for pension age claimants will also be removed from local authorities but as yet, details of how and when this will happen are unknown.
- 4.11 The way that Universal Credit is paid could have financial implications for the housing market. For example, because payment will be made direct to the customer there is a risk that tenants will default on their rent payments. Consequently, rental income streams for landlords will suffer. This could destabilise the credit arrangements the social housing sector has with financial institutions and reduce the availability of private sector rented accommodation.
- 4.12 At a local level, the potential increase in rent arrears could result in an increase in homeless cases and locally impact on the Council’s housing and social service functions.
- 4.13 Councils currently administer Housing and Council Tax Benefit and receive £462 million (2011-12) in administration grant. For 2011/12, Bridgend CBC will

receive £1.268m. The transition to Universal Credit will have resource and budget implications in terms of council employees, IT systems and contractual arrangements with private suppliers.

### **Council Tax Rebate**

- 4.14 The Government has announced plans to localise the allocation and administration of Council Tax Benefit from 2013–14, with the intention of giving Councils the discretion to target benefits on local priorities, while protecting the most vulnerable.
- 4.15 The Government remains committed to retaining council tax support for the most vulnerable in society and it will be taking forward plans to develop local rebate schemes. This is part of a wider decentralisation agenda which will give councils a greater stake in the economic development of their area.
- 4.16 Work on the establishment of local schemes will be led by the Department for Communities and Local Government (DCLG) and the Government will discuss the devolved implications with the Welsh Assembly Government.
- 4.17 The spending review made a commitment to reduce expenditure on Council Tax Benefit by the equivalent of 10%. Presently there is limited information available to establish the financial and administrative impact this will have on the Council. Further legislation will follow to establish the new system from 2013–14.
- 4.18 However, localising Council Tax Benefit brings with it a number of financial risks, for example, an increase in the number of claimants or an increase in council tax levels will result in an increase in the Council's budget requirement to fund Council Tax Rebate. There are also potential issues nationally about how to distribute the funding for Council Tax Benefit between Councils with different demographic make-ups.

### **The single integrated fraud investigation service (SFIS)**

- 4.19 The Government's paper 'Tackling fraud and error in the benefits and tax credit systems' published in October 2010 announced that over the period 2013-15 the Government intends to create a single fraud service with statutory powers to investigate and sanction all benefit and tax credit offences combining the resources across DWP, HMRC and local authorities. This change is intended to improve efficiency, ensure all offences are taken into account and increase the number of investigations and sanctions
- 4.20 The Welsh Benefits Investigation Group (WBIG) has expressed concerns about the fact that local authorities were excluded from the pre-publication consultation process on the proposed changes and whilst it is evident that the changes have far reaching consequences for local authorities they have been treated as a minor player. The reality is that local authority fraud investigation units have played a significant part in the detection of fraud and error and the

safeguarding of public funds over the years. There is a risk that local intelligence and knowledge, over time, will be come diluted.

- 4.21 There are extensive implications for local authorities with regard to the future arrangements for the detection and prevention of fraud with regard to the proposals for the introduction of the Council tax Rebate as local authorities will no longer have local fraud units and there are no current plans for this work to be carried out by the SFIS.
- 4.22 There are TUPE implications for staff involved, and accommodation and administrative issues which still need to be resolved. As yet there is insufficient information available to quantify the impact of these changes in terms of future staffing levels, financial resources and performance.
- 4.23 The WBIG is committed to moving forward in a positive and constructive manner to ensure that the SFIS is effective and successful but this needs to be on an equal footing.

## **5. Effect upon Policy Framework and Procedure Rules**

- 5.1 This is an information report and has no implications for the Council's policy framework or procedure rules.

## **6. Equalities Impact Assessment**

- 6.1 The DWP have published equality impact assessments on its Welfare reform Bill and these can be found on their website (web address detailed below).

## **7. Financial Implications**

- 7.1 The proposed changes will impact on the Council financially but at this stage it is not possible to quantify these because of the limited detail available. In particular, the DWP and Central Government have not yet clarified or quantified many of the practical aspects and implications associated with the proposals.

## **8. Recommendation**

- 8.1 The Committee is asked to consider and note this report and in particular the current lack of detailed information being provided by Central Government on how the proposals will work in practise. A further report will be provided once more details are available.

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### **Background Documents**

Tackling fraud and error in the benefits and tax credit systems – October 2010

The White Paper *Universal Credit: Welfare that Works* – 11 November 2010

Welfare Reform Bill – February 2011

Institute for Fiscal Studies – Universal Credit: A Preliminary Analysis ( IFS Briefing Note 116)

DWP equalities impact assessments:

<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/#wrbill>

## Financial impact upon benefit recipients in Bridgend County Borough

### From April 2011

#### LHA levels restricted to the 4 bedroom rate

LHA rates originally were based on the number of bedrooms determined to be required by the customer's household. From April 2011, the maximum number of bedrooms on which LHA can be calculated is restricted to 4.

10 customers have their Housing Benefit (HB) based on the 5 bed rate which was £173.08 per week in March 2011. These cases will be restricted to the 4 bed rate currently £150.00 which means a potential maximum loss of £23.08 per week. For this change there is a transitional protection scheme in place which means that the reduction will not usually occur until 9 months after the anniversary of the claim. The first customers will see the reduction commence in January 2012.

#### The removal of the £15 weekly excess provision

The original scheme allowed claimants whose rent was lower than their applicable LHA rate to receive up to £15.00 per week over their rent liability. This provision has been withdrawn for new claims and will be removed from existing claimants upon the anniversary of their claim.

This change affects 718 customers with the average excess payment currently £8.71 per week. 204 of these will lose the maximum £15 per week. The excess will be removed from the anniversary of the claim unless there is a relevant change of circumstances which means that the excess will be removed earlier.

#### LHA set at the 30th percentile of rents in each Broad Rental Market Area (BRMA), rather than the median

LHA rates are set by the Rent Office who collects evidence of rents charged on the open market for each property size. LHA rates were originally set at the 50<sup>th</sup> percentile (or mid point) along the range of rents. In effect this meant that at least half the market was available to tenants relying on Housing Benefit.

From April 2011, LHA rates will be based on the 30<sup>th</sup> percentile point meaning that around a third of the private sector market will be available to tenants reliant on HB. Existing LHA customers will be protected at their current rate for 9 months after the anniversary of their claim unless there is a relevant change of circumstances which means that the excess will be removed earlier.

This will affect all 3,254 LHA customers with a maximum loss (in respect of this change only) of £11.53 per week based on March 2011 figures.



The table below details the maximum loss of HB for LHA customers based on November 2010 figures.

Percentiles:	1 bedroom with shared facilities	1 bedroom self contained	2 bedroom	3 bedroom	4 bedroom
50 <sup>th</sup> – March 2011	£54.00	£87.69	£103.85	£121.15	£160.38
30 <sup>th</sup> – April 2011	£54.00	£80.00	£98.08	£109.62	£150.00
Maximum HB loss	£0.00	-£7.69	-£5.77	-£11.53	-£10.38
Number of potentially affected customers	394	1027	1287	430	116 (includes ten 5 bed LHA)

The 1 bedroom rate with shared facilities remains at £54.00 as the 30<sup>th</sup> percentile figure for April 2011. This is due to the work that the Benefits Service has undertaken with private landlords to improve market rental evidence to the Rent Office for this type of accommodation.

### January 2012

*The LHA shared accommodation rate (and single room rent in the old scheme), which apply to most single people aged under 25, will be extended to people aged 35 and under.*

The maximum amount of benefit that childless, single people aged under 25 can receive is restricted to the shared accommodation rate irrespective of whether they actually occupy that type of accommodation. From January 2012, this provision will be extended to single people aged under 35.

Currently, single people aged between 25 and 35 receive a maximum £80.00 LHA per week (April 2011). This change means that this will be reduced to a maximum of £54.00 per week (based on the April 2011 figure), a reduction of £26.00. There is no transitional protection for those already claiming therefore benefit will reduce on the anniversary in 2012 of the commencement of the claim.

This change also applies to non-LHA private sector tenants; as each maximum Housing Benefit award is determined by the rent officer the effects will be different for each individual, however the figures are likely to be similar to LHA.

Current exemptions, for example for those in receipt of severe disability premium and living in certain types of supported accommodation, will continue to apply. There are over 200 customers who may be affected by this change. Work is underway to establish the extent of how these people are affected and ensure that those who are exempt from the change are identified.

**April 2013**

HB for working age social rented sector customers will be restricted for those who are occupying a larger property than their household size and structure would warrant.

As there is currently no requirement to collect accommodation data for the social sector, the number of customers that may be affected by this change is unknown. Exact details of how this reduction will be calculated are also unknown at present. This change however does not affect customers who have reached pensionable age.

Total household benefit payments capped on the basis of average take-home pay for working households.

This will limit the total amount that households are able to receive in welfare payments to a maximum of £500 per week. Local authorities will be required to calculate a household's total weekly income and, if it exceeds £500, restrict the amount of Housing Benefit that is paid. Large households are expected to be the most affected by this change; it does not affect claimants of Disability Living Allowance, Working Tax Credit or War Widow's Benefit.