

Report of Assistant Chief Executive (Citizens and Communities)

Report to Citizens & Communities Scrutiny Board

Date: 14th September 2015

Subject: Summer Budget Welfare Reforms

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Government's Summer Budget included announcements about a number of welfare reforms aimed at delivering £12bn in welfare savings. The majority of the savings are to be achieved by reducing Working Tax Credit entitlement for in-work claimants. Some of the impact of this is expected to be offset by the announcement of a National Living Wage that is expected to be £9.35 an hour by 2020.
2. The proposed reforms include changes to support for families with more than 2 children as well as the removal of the Family Premium which is available to all families on benefit irrespective of the number of children.
3. The proposed reforms to Tax Credits have implications for the Council's Council Tax Support scheme. There are also significant implications for the Housing Revenue Account arising from the proposals to reduce rents by 1% for each of the next 4 years – this change is expected to contribute £0.91bn to the overall £12bn welfare savings.

Recommendations:

4. That the information supplied in this report is noted.
5. That Scrutiny Board include the impact of these changes on Universal Credit entitlement as part of the inquiry into Universal Credit in Leeds.

Purpose of this report

- 1.1 The report provides more detailed information about the welfare reforms announced in the Government's Summer Budget. The report also sets out some of the implications for the Council arising from the reforms.

2 Key messages

- 2.1 The welfare reforms outlined in this report are due to be implemented by April 2017 and have implications for both in-work and out-of-work claimants. Changes to in-work benefits make by far the largest contribution to the Government's projection of £12bn of welfare savings by 2018.

- 2.2 The full timeline for implementation as we understand it is as follows:

- April 2016:
 - o freeze on working age benefits
 - o 1% reduction in social sector rents
 - o reduction of backdating from 26 weeks to 4 weeks for HB (may come in this year)
 - o lone parent where youngest child is 3 to claim JSA
 - o lower Benefit Cap
 - o increased DHP funding
- May 2016:
 - o Removal of Family Premium from HB
- April 2017:
 - o Working Tax Credit changes (and related Universal Credit changes)
 - o Removal of additional Child Element for 3rd and subsequent child
 - o ESA (WRAG) rates to match JSA rates
 - o Removal of automatic entitlement to housing costs support for 18 – 21 year olds

3 Background information

- 3.1 The Government has announced more reforms to the welfare and benefits system that build on reforms introduced by the last Government through, amongst other things, the Welfare Reform Act 2012. Among the reforms introduced by the earlier programme of reforms were the following:

- o Changes to Local Housing Allowances for private rented sector tenants that saw LHA rates reduced, the Single Room Rate extended to cover single tenants up to the age of 35 and the removal of excess amounts where tenants occupied properties below the LHA rate;
- o Under-occupancy rules for social sector tenants that see tenants' Housing Benefit entitlement reduced by 14% if they are under-occupying by one bedroom or 25% if under-occupying by 2 bedrooms or more;
- o A Benefit Cap that limits benefit entitlement to £26k a year and is delivered by reducing Housing Benefit levels;

- Changes to Council Tax support that saw Council Tax Benefit replaced by local Council Tax Support schemes with Government funding reduced by 10%;
- The replacement of key elements of the Jobcentre Plus's Crisis Loans and Community Care Grants scheme with Local Welfare Support schemes. These were funded by Government for the first 2 years but funding was not made available subsequently;
- The introduction of a programme to replace Disability Living Allowance with Personal Independence Payments; and
- Changes to Tax Credits for couples and the removal of Child Benefit from higher earning individuals.

3.2 The Government also set out to introduce Universal Credit and a more robust Claimant Commitment requirement for those claiming Jobseekers Allowance or Employment & Support Allowance (for the work-related activity group). This change has seen a growth in the number of benefit sanctions applied by Jobcentre Plus.

4 Main issues

4.1 The welfare reforms announced in the Government's Summer Budget are intended to achieve £12bn reductions in welfare spend by **31/3/2018**. This is a slightly longer timescale than initially planned.

The savings have been achieved as follows:

- £1.03bn: freeze on working age benefits
- £8.86bn: changes to Tax Credits and Universal Credit for in-work claimants
- £0.59bn: limiting to 2 the number of children eligible for additional support
- £0.93bn: reducing social sector rents by 1% over next 4 years
- £0.41bn: reducing the benefit cap to £23k in London and £20k elsewhere
- £0.03bn: removing auto entitlement to housing costs for 18-21 year olds
- £0.06bn: ESA (Work Related Group) getting same rate as JSA claimants
- **£12.0bn**

Freeze on working age benefits

4.2 There will be a freeze on **Working Age** benefits from April 2016 to March 2020. This includes Tax Credits and Local Housing Allowance rates as well as the premiums and applicable amounts that are used to calculate entitlement in all the major income-based benefits. The main implications for this are:

- Working age claimants will not see a rise in their benefits over the next 4 years;
- The freeze on LHA rates, which follows a period where increases were limited to 1%, will mean that private tenants will see no increase in their housing costs support over the next 4 years. LHA rates as at April 2015 will be applied for the next 4 years unless there is evidence to show that rents have decreased. The LHA rates for Leeds as at April 2015 are set out below:

Shared accommodation.....	£64.60
1 Bedroom.....	£100.05
2 Bedrooms.....	£122.36
3 Bedrooms.....	£151.50
4 Bedrooms.....	£199.94

Changes to Tax Credits/Universal Credit for in-work claimants

4.3 Tax Credits form part of Universal Credit so as Universal Credit rolls out, more Tax Credit cases will become Universal Credit cases.

- The amount that in-work claimants can earn before they start to lose Tax Credits is reduced from £6,420 pa (approx. £123 pw) to £3,850 pa (approx. £74 pw) from April 2016. The rate at which Tax Credits is withdrawn once this lower threshold is reached is increased from 41% to 48%.
- Work allowances in Universal Credit are the equivalent of Income-thresholds in Tax Credits and represent the amount that can be earned before Universal Credit starts to be withdrawn. There are reductions in work allowances as set out below.

		Pre-budget		Post-budget	
		No hsg costs £ pa	Hsg costs £ pa	No hsg costs £ pa	Hsg costs £ pa
Single	No children	1332	1332	-	-
	Children	8808	3156	4764	2304
	Ltd capacity	7764	2304	4764	2304
Jt clmts	No children	1332	1332	-	-
	Children	6432	2664	4764	2304
	Ltd capacity	7764	2304	4764	2304

4.4 The rate at which Universal Credit is withdrawn is 65% (65p in the £) for every £ above the work allowance. The impact of these changes is as follows:

- The Tax Credit changes mean that someone earning £6,420 a year will lose Tax Credits of around £24 a week;

- Tenants moving onto Universal Credit will see their work allowances reduce further
 - Tenants with no children will see the amount they can earn before they start to lose benefit reduce further from £3850 pa to £0 and will see the rate of withdrawal increase further from 48% to 65%
 - Tenants with children will see the amount they can earn before they start to lose benefit reduce further from £3850 pa to £2304 and will also see the rate of withdrawal increase further from 48% to 65%
- Non-householders will be able to earn more under Universal Credit following these changes but will still face an increased withdrawal rate of 65%

Changes to additional support for children and families

- 4.5 There are two changes to the support provided for children: support is limited to 2 children only and the Family Element will no longer be paid for families. More details about these changes are provided below.
- 4.6 From April 2017, support will be limited to 2 children only. This means that families with 2 children or more who have a further child after April 2017 will not receive the additional £2780 pa in Tax Credits or Universal Credit. Child Allowances are £3478pa in Housing Benefit and this will not be paid for 3rd and subsequent children after April 2017.
- 4.7 Full details of this change are awaited but it appears that families already getting the Child Element for 3 or more children as at 31st March 2017 will continue to get the Child Element for all their children but will not get any additional Child Elements for any new children born after April 2017. It is also expected that there will be linking rules which mean that families who were getting the Child Element for 3 or more children but who have subsequently come off benefits, will retain entitlement to the Child Element for the same number of children if they reclaim within 6 months.
- 4.8 Families are also recognised in the benefit system through the payment of a Family Element (called Family Premium in Housing Benefit). Claimants starting a family from April 2017 will not get the Family Element of £545.34 pa in either Tax Credits or Universal Credit.
- 4.9 The Family Premium is £907pa in Housing Benefit and this is removed from May 2016. Out of work claimants will continue to get 100% Housing Benefit (subject to Benefit Cap and Under-occupancy rules) but *in-work* claimants who start a family after May 2016 will get less Housing Benefit as a result of this change than they would have done previously.

Tax Credits and impact on Housing Benefit and Council Tax Support

- 4.10 There is a complex relationship between Tax Credits and Housing Benefit/Council Tax Support. Tax Credits are treated as an income for HB and CTS purposes. The more Tax Credits a claimant has, the less HB/CTS they will get. The changes in Tax Credits will mean the following:
- The changes to income thresholds will mean that a number of in-work claimants will get less Tax Credits income. This, in turn, means that they will be entitled to more Housing Benefit and Council Tax Support. A £1 reduction in Tax Credits will generate an extra 65p of HB entitlement and 20p of CTS entitlement. The cost of extra HB entitlement is picked up by the Government but the cost of extra Council Tax Support entitlement is picked up by the Council.
 - The changes to Child Elements and Family Premiums also have implications for Housing Benefit and Council Tax Support.
 - o The removal of the £907 Family Premium from May 16 for HB claims means that new claims from *in-work* families will get £590 pa less in Housing Benefit than families who claimed before May 16 – out of work families are not affected by this change. This will have no impact on CTS.
 - o The removal of the £545 Family Element from Tax Credits from April 2017 will mean that *in-work* families will get back £345 of the £590 they lost in Housing Benefit payments. Housing Benefit payments for out of work claimants will not be affected but they will have lost the £545 Family Element from their Child Tax Credit.
 - o The removal of the Child Elements and Family Premiums from Tax Credits from 2017 will see additional costs fall on the Council Tax Support scheme. These could be significant and more work is needed to clarify the likely impact

Changes for claimants aged 18 - 21

- 4.11 From April 2017, a new Youth Obligation will be introduced for 18-21 year olds claiming Universal Credits. There is no detail available about how this would work at this time. Also from April 2017, automatic entitlement to housing costs support will end for new Universal Credit claims for 18-21 year olds out of work with some exceptions for vulnerable people. It is expected that young people leaving care will be exempt from these changes but there is little else known at this stage about this change.
- 4.12 For information, in Leeds there are currently 2,038 claimants aged 21 or less getting Housing Benefit and they would be at risk under the proposed scheme:
- 125 claims are from couples, of which 77 couples have children
 - 1913 claims are from single people, of which 735 have children

Changes to the Benefit Cap

- 4.13 The Government has reduced the benefit cap from £26k to £23k in London and £20k elsewhere. The savings assume that the cap is implemented by April 2016.
- 4.14 The cap criteria remain the same in that it is applied only to working age claimants who are:
- Out of work (means working enough hours to be able to claim WTC i.e. 16hrs or 21hrs); and
 - Not disabled (means entitled to specific disability benefits)
- 4.15 The reduction to £20k is likely to mean that many couples with 2 children living in the private sector and some couples in the social rented sector will be affected by the cap in Leeds – at £26k the impact of the cap was limited to families with 4 or more children. There are currently 307 families in Leeds affected by the Benefit Cap. Early analysis indicates that b

	Income type	2 children families	3+ children families	Total
Housing Leeds	ESA	-	304	304
	IS	-	265	265
	JSA	-	234	234
				803
Housing Assoc	ESA	6	55	61
	IS	17	65	82
	JSA	7	46	53
				196
Private rented	ESA	84	221	305
	IS	50	640	690
	JSA	83	228	311
				1306
Total		247	2058	2305

- 4.16 Although, in the main, it will fall on local Councils to apply the Benefit Cap by reducing Housing Benefit levels, DWP take responsibility for identifying Benefit Cap cases. Because of this, we cannot be certain about the numbers affected until DWP has done its analysis.

Changes to Discretionary Housing Payments funding

- 4.17 The Government has allocated £800m for Discretionary Housing Payments over the next 5 years. This equates to an average of £160m a year which is an increase on the current years funding but is still less than DHP funding for last year.

- In 14/15, DHP funding was £165m
- In 15/16, DHP funding was reduced to £125m
- From 16/17, DHP funding will average £160m a year

Other changes

- 4.18 From April 2016, backdating of HB will be limited to 4 weeks. Currently, HB can be backdated for up to 26 weeks where there is a good cause for making a late claim. From April 2016, a claim will only be able to be backdated for 4-weeks. This brings HB in line with the backdating rules for Universal Credit.
- 4.19 From April 2017, new claims to ESA (Work Related Activity Group) will get same rate of benefit as those claiming JSA. Currently the ESA rate is £102.15 and this will reduce to the JSA rate of £73.10 from April 2017.
- 4.20 The Government has also stated that lone parents where youngest child is 3 or over will be expected to look for full time work if claiming Universal Credit. Currently, lone parents where youngest child is under 3 are exempt from this requirement. Main implication arising from this change is that these lone parents will now fall under the sanctions regime for Jobseekers.

5 Corporate Considerations

5.1 Consultation and Engagement

- 5.1.1 This report provides more detail on the Government's welfare reform proposals and does not require consultation at this stage.

5.2 Equality and Diversity / Cohesion and Integration

- 5.2.1 The DWP is responsible for carrying out impact assessments as part of its decision-making process.

5.3 Council policies and Best Council Plan

- 5.3.1 A key priority for the council is addressing poverty and deprivation. The proposed welfare reforms, particularly changes to in-work Tax Credits, are likely to have an adverse impact on low paid workers. The announcement of a National Living Wage will help to mitigate some of the loss of income caused by the Tax Credit changes.

5.4 Resources and value for money

- 5.4.1 The main implications for the Council arising from the welfare reforms relate to the additional costs that will fall on the Council Tax Support scheme and the demand for Discretionary Housing Payments as a result of the lowering of the Benefit Cap level. More information is needed from DWP on how the additional DHP funding will be allocated before we can consider potential changes to the Council's current DHP policy. More analysis is also needed to measure the full scale of the impact of the Tax Credit changes on Council Tax Support. However, the impact is expected to be substantial.

5.5 Legal Implications, Access to Information and Call In

5.5.1 There are no legal implications arising from this report

5.6 Risk Management

5.6.1 A clear understanding of the full impact of the proposed reforms is essential to help manage the risks to the Council and to the delivery of the Council's priorities. The work undertaken to date will be further developed as more information becomes available from DWP. The Welfare Reform Board will continue to oversee the development of an effective communications approach to ensure that relevant stakeholders are fully informed about changes that affect them.

6 Conclusions

6.1 The proposed welfare reforms focus mainly on in-work claimants with 74% of the projected savings coming from changes to Working Tax Credits. Many of the other proposed changes also affect in-work claimants as well as out of work claimants.

6.2 The lowering of the Benefit Cap to £20k in Leeds will see some families already affected by the Benefit Cap lose an additional £114 a week and will bring 2 and 3 children families into scope to have their benefit capped. This is likely to mean that a revised DHP policy will be needed to help ensure that funding is targeted to the most vulnerable. Much will depend on how much extra funding is provided to Leeds by DWP.

7 Recommendations

7.1 That the information supplied in this report is noted.

7.2 That Scrutiny Board include the impact of these changes on Universal Credit entitlement as part of the inquiry into Universal Credit in Leeds.

8 Background documents¹

None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.