

Report of Director of Resources

Report to Executive Board

Date: 12th October 2011

Subject: Welfare Reform Update

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. Some of the Housing Benefit changes introduced from April 2011 were accompanied by transitional protection arrangements that deferred these changes for the majority of claims already in payment. That transitional protection comes to an end in January 2012 and over a period of 12 months reductions in Housing Benefit will be applied to around 9,500 households in the private rented sector;
2. Regulations were laid in July 2011 that extend the Shared Accommodation Rate rules to cover single people aged between 25 and 35 renting in the private rented sector. This change also comes into effect from January 2012 and over a period of 12 months will see in excess of 1300 single people with reductions in Housing Benefit;
3. The Government has recently launched a consultation process on proposals for local schemes of council tax support to replace Council Tax Benefit which is to be abolished from April 2013. Funding for the local scheme will reduce by 10% from that provided for Council Tax Benefit and the proposals ensure that pensioners are protected from reductions in Council Tax support. However, the proposals carry risks for the council in relation to delivery of a scheme in time for April 2013, the impact on collection rates and financial pressures that may arise from unexpected or unplanned demand.

4. The Government is also progressing with Universal Credit proposals and more information is available around administration of the scheme and payment of benefit. It is proposed to pay Universal Credit, including the housing costs element, directly to social sector tenants although there are likely to be some safeguards put in place. Currently £60m annually is rebated directly to ALMO rent accounts for working age tenants,

Recommendations

5. Executive Board is asked:
 - a) to note the updated information in this report;
 - b) note the proposed response on localisation of support for Council Tax;
 - c) approve officer-level discussions with West Yorkshire councils to explore the scope for commonality in scheme design in relation to localisation of support for Council Tax; and
 - d) receive a further report on the welfare reform programme in January 2012 with a strategic plan for preparing for and dealing with the welfare reforms.

1 Purpose of this report

- 1.1 The report provides an update on the Government's Welfare Reform proposals with information on arising policy developments and implications for the council. Up to date information is also provided on the potential impact of the proposals on Leeds' citizens.
- 1.2 The report also provides information on the consultation process launched by the Department for Communities and Local Government on proposals for replacing the current Council Tax Benefit scheme with a new localised scheme of support from April 2013.

2 Background information

- 2.1 The Government has embarked on a major programme of Welfare Reform. The programme of change has developed from the Emergency Budget in June 2010 - which announced a wide ranging programme of changes affecting Child Benefit, Housing Benefit and Tax Credits – with further changes announced in the Comprehensive Spending Review 2010. The programme of reform was consolidated in the Welfare Reform Bill which was published in February 2011 and is currently passing through Parliament.
- 2.2 The programme of reform sees major changes happening in each year of the next three years. Appendix 1 provides information on the most significant changes over the next 3 years.

3 Main issues

Housing Benefit changes

- 3.1 The key changes to Housing Benefit coming into effect in April 2011 mainly affect tenants renting in the private rented sector in the first instance and the impacts of the changes are staggered due to transitional protection arrangements that run until January 2012. The main impact of the changes that took effect from April 2011 has seen, up to the end of August 2011, over 6,100 households in Leeds lose up to £15 a week as a result of 'excess' benefit being removed. A further 3,500 households will lose their 'excess benefit' of up to £15 a week between September 2011 and March 2012.
- 3.2 Due to transitional protection arrangements the majority of private-rented sector claimants will not be affected by the caps on Local Housing Allowance or the changes to the way Local Housing Allowance rates are calculated until January 2012. However following the removal of transitional protection from January 2012 around 9,500 households will start to be faced with reductions in their Housing Benefit because of the following changes

a) Capping LHA at 4-bed rate for families previously entitled to 5-bed rate of LHA:

Following the loss of transitional protection, which starts to run out from January 2012, 60 families in Leeds requiring 5-bed accommodation will see their Housing Benefit reduce by between £9.87 a week and £161.92 a week with the average

reduction for these families being £86.55 a week. A programme of home visits was undertaken in April and May to explain the changes and options to householders. Further visits are planned as benefit falls to be reduced.

b) Reductions in local housing allowance rates following changes to the way LHA rates are calculated.

Table 1, below, shows the reductions in LHA rates for the different property types and the number of households that will be affected when transitional protection starts to run out in January 2012. In order to encourage landlords to accept lower rents, payment of housing benefit directly to landlords has been offered where landlords reduce rents to more affordable levels. This applies not just to landlords with tenants already getting Housing Benefit prior to the changes coming into effect but also to landlords taking on new tenants at affordable rents. Encouragingly, a number of landlords have taken up this offer. Typically around 25% of cases were paid directly to landlords under the pre-April 11 rules. Analysis shows that 42% of new claims made since April are being paid directly to landlords as a result of rents being set at more affordable levels that take account of the new local housing allowance rates. It is hoped that landlords will take the same approach when their current tenants start to see reductions in benefit starting in January 2012.

Table 1

Type of accommodation required	Pre-April 2011 Local Housing Allowance rates £pw	Latest LHA rates following change in calculation (Sep 11) £pw	Number of households facing a reduction
Shared accom	61.50	61.50	} 4984
1-bed	109.62	99.92	
2-bed	126.22	115.38	3058
3-bed	144.23	132.69	1035
4-bed	206.54	183.46	295
5-bed	335.00	183.46*	60

* 5-bed rate is capped at the 4-bed rate

3.3 In July 2011, the Government laid regulations which extended the Shared Accommodation Rules so that they now cover single people between the age of 25 and 35 renting in the private sector. The new rules come into effect from January 2012. Previously, the Shared Accommodation Rules applied only to people up to the age of 25 and meant that the maximum Housing Benefit they could receive was capped at the Shared Accommodation Rate (£60.00 a week in Leeds). The new rules mean that single private rented sector tenants aged between 25 and 35 will have their Housing Benefit capped at the Shared Accommodation Rate of £61.50 pw instead of the pre-April 11 cap of 1-bed rate of £109.62 a week. There are some

exceptions for disability, tenants re-housed due to homelessness and some tenants on probation.

- 3.4 From January 2012, over 1300 tenants aged between 25 and 35 will see their Housing Benefit reduce and this will result in these tenants having an average weekly shortfall in their rent of £43.33. These are tenants currently living in self-contained accommodation but who will be subject to the shared accommodation rate starting from January 2012.
- 3.5 All tenants affected by these changes have been sent personalised information about the changes, the impact of the changes and, in each case, the date the changes are due to be applied. Landlords and landlord groups have also been provided with information about the changes. The Government has also increased the amount of funding for Discretionary Housing Payments from £20m annually to £30m annually for 11/12 and this will increase further to £60m for 12/13. Leeds allocation based on the £30m figure is £397k and it is expected that this figure will increase at least proportionately. The increased allocation will be used to help those facing the most difficulties.
- 3.6 Leeds is also a partner in a successful West Yorkshire bid to the Department for Work and Pensions for funds to establish a West Yorkshire online service that will help to match Housing Benefit tenants to affordable private sector accommodation. Work is currently underway to deliver this solution.

Fraud and Error sanctions

- 3.7 From April 2012, a new scheme of sanctions and civil penalties applies to deal with fraud and error. The main change for fraud-related overpayments relates to the scheme of administrative penalties which sees the value of the penalty increase from 30% of the value of the overpayment to 50% of the value of the overpayment or £350 whichever is the greater.
- 3.8 For non-fraud overpayments a new civil penalty is to be introduced from April 2012. The civil penalty is expected to be £50 and will apply where an overpayment is caused by negligence, failure or delay by the customer. There is very limited information about the new civil penalty and the Department for Work and Pensions is currently preparing guidance on its application.

Welfare Reform proposals planned for 2013

- 3.9 There are a number of reforms planned to come into effect starting from April 2013. This includes the proposed implementation of a localised scheme of support for Council Tax which is intended to replace Council Tax Benefit from April 2013 and the start of the rollout of Universal Credit from October 2013.

Replacement scheme for Council Tax Benefit

- 3.10 The Welfare Reform Bill proposes the abolition of Council Tax Benefit with effect from April 2013. In its place will be localised schemes of support designed and operated by councils with funding for the scheme reduced by 10%. The Department for Communities and Local Government is leading on the localised schemes of

support for Council Tax and has launched a formal consultation with responses due by 14th October 2011.

3.11 The key features of the consultation proposals are:

- a) Local authorities will have as much freedom as possible, within certain parameters, to design their schemes. The parameters are likely to include requirements to protect certain groups, especially pensioners, from reductions in Council Tax support as well as requirements to ensure that local schemes do not create disincentives for people to move into work. It is likely that central Government will prescribe the scheme for pensioners and local authorities will have to fund the cost of the prescribed scheme for pensioners, and any other central Government requirements, from the fixed grant provided for the localised scheme.

- b) Local authorities will need to design schemes which take account of:
 - The framework set by central govt (e.g. pensioners)
 - Local priorities
 - Forecasts of demand
 - Assumptions around take-up; and
 - Impact on council tax yield, for example, as a result of non-payment

- c) The consultation paper recognises that schemes will need to be designed based on a fixed grant allocation. Local authorities will need to consider what additional contingency arrangements should be put in place within their local schemes to take account of unplanned increases in demand or take-up. The suggestions are that local authorities can manage this risk by:
 - Putting in place contingency for increases in take-up or demand; and
 - Creating a safety valve by sharing financial pressures caused by increased demand or collection problems with police and fire and rescue services.

- d) The consultation paper is keen to explore the options for joint working between councils both in terms of collaboration in designing schemes and in relation to administration of schemes. The paper makes clear that the Government will take into account the scope for councils to minimise administrative costs through collaboration in its assessment of the level of administration grant that local authorities should receive.

3.12 The consultation document is keen to explore the degree to which common schemes of support can be designed across regions and the Executive Board is asked to approve officer-led discussions to gauge the scope for commonality in scheme designs across West Yorkshire with the outcomes feeding into a future report to Executive Board.

3.13 The localised scheme of support is expected to be in place by April 2013. However, it is not envisaged that the necessary primary legislation will be available until

summer 2012 with regulations arriving later still. There are also requirements to consult on local schemes.

- 3.14 The proposed response to the Government's consultation paper is attached at appendix 2 for noting by the Executive Board.

Universal Credit

- 3.15 Universal Credit is the cornerstone of the Government's reforms aimed at making work pay. It is also the most ambitious of the changes bringing together IS, JSA, ESA, HB and Tax Credits into a single payment. Nationally, this will see 19m different benefit claims (including 5m HB claims) being migrated into 8.5m claims for Universal Credit. Universal Credit is intended to simplify the benefits system and ensure that people are always better off in work than on benefits. This is achieved by firstly having a single working age benefit accessed through a single claim form and administered by a single agency and secondly by allowing people to keep more of their benefits when they move into work than is currently the case. It is expected that the rate at which Universal Credit will be withdrawn when people move into work will be 65%. The current range of benefits can see people who move into work having their benefits withdrawn by rates in excess of 90% in some instances.

- 3.16 Although the design work and underpinning policies are still being developed by the Department for Work and Pensions, a number of aspects of Universal Credit are now known and these have implications for the council and for people receiving benefits in Leeds.

- Universal Credit will be delivered in the first instance by teams formed from Jobcentre Plus and HMRC Tax Credits teams with local authority responsibility for Housing Benefit being removed by 2017. A decision on the longer term operating models will be taken in 2015. This may result in opportunities for local councils to become involved in Universal Credit delivery once the transition programme is completed in 2017;
- Access to Universal Credit is expected to be through an electronic claims process with support provided for people who may struggle with this process. Jobcentre Plus will provide face-to-face support in the first instance although discussions are underway with the Department for Work and Pensions on the role of local councils in providing face-to-face support;
- From October 2013 all new claims for Housing Benefit, Income Support, Employment Support Allowance and Jobseekers Allowance will be treated as claims for Universal Credit and will be administered by the new Jobcentre Plus/HMRC teams;
- From 2014 there will be a transition programme to transfer all existing HB, IS, ESA, JSA and Tax Credit claims to Universal Credit with the transition period expected to be completed by 2017. Details of the transition arrangements are expected in November this year;
- It is intended that Universal Credit will be paid monthly in arrears and will be paid, in most instances, directly to claimants.

- 3.17 There are implications for the council arising from these intentions. The Housing Benefit Service and related services such as the Contact Centre will need to respond to the reduction in service demand following the implementation of Universal Credit in October 2013 and throughout the transition of Housing Benefit cases to Universal Credit from 2014 to 2017. There may also be implications for One Stop Centres depending on the role that local council may have in supporting the delivery of Universal Credit at a local level.
- 3.18 The transition of Housing Benefit into Universal Credit and the intention to pay Universal Credit monthly in arrears directly to claimants will have implications for ALMOs and Social Sector landlords. Currently, ALMO tenants have their Housing Benefit paid directly to their rent accounts on a weekly basis. In 10/11, £60m was rebated directly to rent accounts for working age tenants and by 2017 much of this may be being paid directly to tenants. The Department for Work and Pensions recognises the need for financial stability within the social rented sector and is likely to make arrangements that see some rents continuing to be paid directly to rent accounts. However, it is seen as a central aspect of Universal Credit that claimants take responsibility for managing their finances including taking responsibility for paying utility bills and rent and so it is expected that the majority of tenants will receive the benefit directly.
- 3.19 Leeds City Council, in line with Government legislation, is offering direct payments to private landlords if they are willing to reduce rents to more affordable levels that reflect the reduced local housing allowance rates. It is hoped that landlords respond positively to this initiative. It is not clear how DWP will deal with the issue of direct payment once these claims transfer to Universal Credit.
- 3.20 Pensioner claims will transfer to the Pension Service starting in October 2014 and housing costs will be paid as a housing credit with Pension Credit. The Pension Service has recently stated that it expects to continue to pay housing costs elements directly to landlords where this is currently the case.

Other changes

- 3.21 The programme of welfare reform also sees further changes coming into effect from April 2013. These changes include:
- a) *Cap on Housing Benefit for social sector tenants who live in accommodation that is too large for their needs:*
Tenants who live in social sector housing that is larger than they need will see their Housing Benefit reduced by a percentage. The change applies only to working age tenants and not to pension-age tenants. There is little information available from the Department for Work and Pensions about how the scheme will work. Activity is underway to identify the extent of under-occupied homes in the social sector in Leeds and further activity will follow to address arising issues.
 - b) *Use of Consumer Price Index to up-rate Local Housing Allowance rates*

Currently local housing allowance rates are up-rated on a monthly basis by the Valuation Office Agency using evidence collected from landlords in the private rented sector. From April 2013 local housing allowance rates will be up-rated by reference to the consumer price index and will be up-rated by the lower of the consumer price index or the evidence collected by the Valuation Office Agency. The Departments for Work and Pension's analysis suggests that this change will save the Government £225m.

c) *Benefit caps*

The Welfare Reform Bill contains proposals to cap the total amount of benefit a household can receive to around £500 a week for a family and £350 a week for a single person. The cap will only apply to out of work working age claimants. The key factors that will determine the number of cases affected by the cap are a) the amount of housing benefit that is paid and b) the size of the family.

The cap will be applied by local councils and will be achieved by reducing Housing Benefit until the overall amount of benefit is no more than the £500/£350 cap. Further work will be undertaken shortly to identify cases likely to be affected by the cap.

d) *Social Fund*

From April 2013 Jobcentre Plus will no longer run a scheme of Community Care Grants and Crisis Loans for General Living Expenses and emergency situations. Instead, an amount of funding will be transferred to local councils for councils to consider running schemes to support citizens.

It is expected that Councils will be free to decide whether they wish to run a scheme and, if so, what type of scheme they wish to provide. If a council chooses not to run a scheme, it is expected that it will need to state what the funding has been used for. The reasoning for transferring the scheme to local councils is that Community Care Grants and Crisis Loans applications are more suitably dealt with in a face-to-face setting and that is not the direction of travel for Jobcentre Plus; it also enables councils to design schemes that better reflect local situations.

The funding that will be transferred to councils is expected to be less than that currently spent on the schemes by Jobcentre Plus. In 2009/10, £70M nationally was spent on Crisis Loans and it is intended that £36m will be distributed to councils from April 2013 along with £136m Community Care Grant funding.

e) *Disability Living Allowance changes*

From April 2013 Disability Living Allowances (DLA) will be replaced by Personal Independence Payments for claimants aged between 16 and 64. A programme of reviews will be undertaken for people already getting DLA and they will be assessed against the criteria for Personal Independence Payments. The Department for Work and Pensions impact assessment states there will be "net costs to individuals of £2.1bn from reduced benefit expenditure from focussing support on disabled people with greatest needs".

3.22 Appendix 3 provides examples of how the proposed reforms affect benefit entitlement.

4 Corporate Considerations

4.1 Consultation and engagement

4.1.1 The report provides an update on the Welfare Reform programme. Discussions are ongoing with ALMOs, Residential Social Landlords and other groups on the implications of the reform programme

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The Department for Work and Pensions has undertaken Equality Impact Assessments on all the proposed reforms. There will be Equality Impact Assessments undertaken locally when there are sufficient details about the changes to support an impact assessment.

4.3 Council Policies and City Priorities

4.3.1 The welfare support system is a contributing factor to priorities around health and well-being and employment in the city.

4.4 Resources and Value for Money

4.4.1 There are no resource implications arising directly from this report. There will, however, be resource implications arising from the implementation of the welfare reform programme itself once the legislation has been laid. A further report will be provided setting out the resource implications once the legislation has been laid.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no legal implications arising from this report

4.6 Risk Management

4.6.1 The programme of reform requires Council services to identify and respond to issues arising from welfare reform. A Welfare Reform Strategy Board is to be established to oversee both the council's and key partners' preparations for the welfare changes. The Board will be chaired by the Chief Officer (Revenues and Benefits) and will involve relevant officers of the council and key partners from the RSLs, voluntary and business sector. The main aim of the Welfare Reform Advisory Board is to ensure that the Leeds is the best prepared city for the challenges presented by the programme of reform. A Strategy for preparing for and implementing the welfare reform programme will be developed by the Welfare Reform Strategy Board and it is intended to present the strategy to Executive Board at a future meeting.

5 Conclusions

5.1 The Welfare Reform programme represents the most wide ranging set of reforms for many years. There are implications for the council both in terms of responding to the challenges presented by the changes and supporting tenants and service users in

making the transition to a reformed welfare system. Among the main issues for the council are:

- the need to prepare for the payment of the housing element of Universal Credit to ALMO tenants and to manage the potential impact of this on rent account income;
- the need to continue to pursue actions around the financial inclusion agenda to help tenants and service users manage the transition to changed schemes of support; and
- the need to continue to work constructively with landlords to support the private rented sector in responding to the changes and in dealing with the potential implications of homelessness and affordability in this sector.

5.2 There is considerable detail still to be developed by both the Department for Work and Pensions and the Department for Communities and Local Government. It is not yet possible to detail the actions required in response to the proposed reforms because of this lack of detail. It will be necessary to bring further reports once more details are known with the intention of more specifically setting out actions and responses. In the meantime, officers remain engaged with both Government Departments in providing a local government perspective on developing proposals.

6 Recommendations

6.1 Executive Board is asked to:

6.1.1 note the updated information in this report;

6.1.2 note the proposed response on localisation of support for Council Tax;

6.1.3 approve officer-level discussions with West Yorkshire councils to explore the scope for commonality in scheme design in relation to localisation of support for Council Tax; and

6.1.4 receive a further report on the welfare reform programme in January 2012 with a strategic plan for preparing for and dealing with the welfare reforms.

7 Background documents

7.1 Welfare Reform Bill

7.2 DCLG consultation paper on localised schemes of support for Council Tax