

1.0 Purpose of this report

1.1 The report provides details of the housing benefit changes announced in the Emergency Budget on 22nd June 2010 and the Comprehensive Spending Review in October 2010 and sets out the likely implication of these changes in Leeds as well as detailing the actions being undertaken within the Benefits Service both to ensure people are aware of the changes and, where possible, to mitigate the impact of the changes.

2.0 Background information

2.1 On 22nd June 2010 the Government announced £1.8bn worth of Housing Benefits cuts over the next 4 years. The cuts are aimed at reducing housing benefit expenditure which is currently running at around £21bn a year and is forecast to increase to around £25bn a year over the next few years.

2.2 The cuts affect tenants in both the private rented sector and the social rented sector and the table below shows the extent of the cuts.

HB changes	Impact	11/12	12/13	13/14	14/15
		£m	£m	£m	£m
Capping LHA rates	Private-sector	-55	-65	-70	-65
Change to LHA calculation	Private-sector	-65	-365	-415	-425
Extra room for carers	Private-sector	15	15	15	15
Non dependent deductions	All sectors	-125	-225	-320	-340
DHP increase	All sectors	10	40	40	40
Use of CPI to set LHA rates	Private-sector			-300	-390
Size criteria restrictions in social sector	Social-sector			-490	-490
HB reductions for long-term unemployed	All sectors			-100	-110
Total HB savings		-220	-600	-1640	-1765

2.3 The Comprehensive Spending Review announced a further change to Housing Benefit as well as changes to Council Tax Benefit. Specifically, Local Housing Allowance for single people aged between 25 and 35 will be limited to the shared room rate with effect from April 2012. There will also be a 'localised' Council Tax Benefit scheme from April 2013 with spend reduced by 10% compared to the current scheme.

2.4 The regulations for a number of the Housing Benefit changes were laid on 30th November 2010 and introduced further changes. The regulations:

- brought forward the date for the implementation of reduction in LHA rates from October 2011 to April 2011;
- introduced a transitional scheme to defer the impact of LHA reductions by 9 months for cases live at 1st April 2011; and
- amended the direct payment regulations to allow direct payment to landlords in more instances.

These last minute changes have meant that work undertaken on profiling the impact of the changes and planning the communication timetable for customers and stakeholders has had to be restarted.

2.5 The longer-term changes planned for April 2013, including a localised Council Tax Benefit scheme, are likely to need primarily legislation and a Welfare Reform Bill is expected in January 2011 to enable these changes to be made. The Welfare Reform Bill will also allow for the introduction of Universal Credit which is expected to start in October 2013.

- 2.6 The private-rented sector, which has seen the biggest increase in expenditure, faces the largest cuts initially. Housing Benefit in the private rented sector is called Local Housing Allowance (LHA) and the key features of LHA are:
- The amount of benefit paid is based on standard rates relating to the size of the property required by the claimant. The claimant's requirements are determined by the number, age and relationship of people in the claimant's household. The claimant can rent a property that is larger or smaller than that required by his household circumstances but benefit will still be based on the LHA rate for the size of property required;
 - where tenants pay a rent that exceeds the LHA rate for the property size they require, they need to pay the difference themselves; where tenants pay a rent that is less than the LHA rate for the property size they require, tenants can keep the extra benefit up to a maximum of £15 pw;
 - benefit is normally paid directly to the tenant and there is no right for the tenant to ask for payments to go directly to their landlord. However, there are some limited safeguards built into the system which mean that payment can be sent direct to the landlord if the tenant is deemed 'unlikely to pay their rent' or is deemed to be likely to have difficulty managing their financial affairs.
- 2.7 There are cuts planned to social sector housing from 2013. The main cut relates to the restriction of Housing Benefit where a tenant or a household is deemed to be occupying property that is too large for their needs. This restriction only applies to working age tenants and not to pension-age tenants. Also, the impact of non-dependent deduction changes, which will start in April 2011, will be felt more in the social rented sector than in the private rented sector simply because there are significantly more instances of non-dependents in the social rented sector.
- 2.8 Not all changes have an impact in Leeds.
- From April 2011, a maximum LHA rate of £400 a week will be introduced – no cases in Leeds will be affected by that cap;
 - National caps will be introduced for all LHA rates from April 2011. The national caps are set out below but none of these will impact on cases in Leeds:
 - £400 pw for 4-bed property
 - £340 pw for a 3-bed property
 - £290 pw for a 2-bed property
 - £250 pw for a 1-bed property

3.0 Main issues

- 3.1 The changes that will impact on cases in Leeds are set out below.

April 2011 changes

RESTRICTION TO 4-BED PROPERTY RATE

- 3.2 LHA will be restricted to the 4-bed property rate for all families requiring 5-bed properties or more. Currently, the maximum LHA is restricted to the 5-bed rate.

- 3.3 The 4-bed property rate in Leeds is around £206 pw and there are currently around 60 families getting LHA who will be affected by the change. The change will take effect at different times for different families:
- for new claims made from 1st April the change will apply straightaway;
 - for claims live at 1st April, the change will be deferred for 9 months and will then take place on the next anniversary of the clam for benefit; except
 - for claimants who move or have a significant change after 1st April the change will take place straightaway.

3.4 We will visit all families likely to be affected in January 2011 and then write to them around 3 months before the change is due to take effect

REMOVAL OF EXCESS BENEFIT

3.5 The current LHA rules allow tenants whose rent is *below* their LHA rate to keep the difference up to a maximum of £15 pw. This is known as the ‘excess’. From April 2011, this excess payment will be removed and tenants whose rent is below LHA levels will get LHA only up to the level of their rent.

3.6 The removal of the £15 excess was proposed by the previous Government but its implementation was deferred. Currently there are 9938 families in Leeds getting excess LHA and they will all be affected by this change. Not all receive the full £15 excess – the average excess is around £11 pw. The excess will be removed at the anniversary of the claim for benefit and the table below provides details of the numbers affected each month from April 2011 to March 2012. We will be writing to each tenant in January 2011 and again 3 months before the change will impact on them

Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
2647	586	746	914	839	843	871	738	315	408	429	502

3.7 It should be noted that the savings anticipated from this change may not materialise if landlords simply increase their rents up to the LHA levels.

REDUCTIONS IN LHA RATES

3.8 The way that LHA rates in the private rented sector are calculated will change from April 2011 resulting in lower LHA rates across the board and meaning that most tenants will get less benefit. This change was initially planned for October 2011 but was brought forward to April 2011 when the regulations were laid at the end of November 2010. Although the change will be deferred for 9 months for existing claims, all new claims from April 2011 will be subject to the lower rates.

3.9 LHA rates are set by the Valuation Office Agency who collects evidence of rents charged on the open market for each property size. Currently LHA rate are set at the 50th percentile (or mid point) along the range of rents. In theory this means that at least half the market is available to tenants relying on Housing Benefit. From April 2011 LHA rates will be set at the 30th percentile point along the range of rents used by the Valuation Office Agency meaning that less than a third of the market will be affordable to people claiming housing benefit.

3.10 Based on the December 2010 LHA rates, this change would affect LHA rates in Leeds as follows:

Rate	Current	30 Percentile	Reduction
Shared	£ 61.50	£ 59.00	£ 2.50
1 Bed	£ 109.62	£ 98.08	£ 11.54
2 Bed	£ 126.92	£ 114.23	£ 12.69
3 Bed	£ 144.23	£ 132.69	£ 11.54
4 Bed	£ 206.54	£ 170.20	£ 36.34
5 Bed	£ 335.00	£ 170.20	£ 164.80

3.11 This is probably the biggest change affecting the private-rented sector. Currently, there are 10,567 families getting LHA in Leeds who would be affected by this change. The new rates will apply as follows:

- For new claims from April 2011, the new rates will apply straightaway;
- For cases live at 1st April, the change will be deferred for 9 months and will then apply from the next anniversary date of the claim for benefit; except
- For claimants who move home or have another significant change, the new rates will apply straightaway

The table below profiles the number of existing claims likely to be affected in each month.

Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
1580	739	825	1146	874	1291	1258	937	311	422	525	659

3.12 The options for tenants are limited. They can:

- pay the difference themselves from a limited budget;
- negotiate with the landlord to reduce the rent;
- move to cheaper accommodation (albeit with less than third of the properties being affordable).

3.13 The regulations around direct payment to landlords will be changed with effect from April 2011. The change expands the limited circumstances in which benefit can be paid directly to a landlord and allows for direct payment where this would enable a tenant to secure or retain a tenancy.. Early discussions with landlords suggest that this change is welcome and may have some success in supporting tenants to negotiate lower rents.

3.14 We will be writing to people in January 2011 about this change and again 3 months before the change is scheduled to affect individual tenants.

NON-DEPENDENT DEDUCTIONS

3.15 There will be staged increases in non-dependent deductions each year from April 2011 which are intended to bring the deductions up to the level they would have been had they been fully up-rated since 2001. Currently the top non-dependent deduction is £47.75 pw and it is expected that this will rise to over £95 pw over the next 3 years.

3.16 Non-dependent deductions apply where there is another adult in the household other than a spouse or partner. There are varying rates of non-dependent deductions ranging from no deduction in some circumstances to the current top deduction of £47.75 a week (see table below) will increase on £60.60 in April 2011, and possibly reach £95.00 by 2014.

Non Dependant Deductions	Now	April 2011
Aged 18 or over and not in remunerative work	7.40	9.40
Aged under 25 and on IS/JSA(IB),	Nil	Nil
Aged 25 or over and on IS/JSA(IB),	7.40	9.40
In receipt of main phase ESA(IR)	7.40	9.40
In receipt of Pension Credit	Nil	Nil
Not in receipt of main phase ESA(IR) rate	Nil	Nil
Aged 18 or over and in remunerative work		
-gross income less than £120.00	7.40	9.40
-gross income not less than £120.00 but less than £178.00	17.00	21.55
-gross income not less than £178.00 but less than £231.00	23.35	29.60
-gross income not less than £231.00 but less than £306.00	38.20	48.85
-gross income not less than £306.00 but less than £382.00	43.50	55.20
-gross income not less than £382.00	47.75	60.60

- 3.17 The change, which applies to housing benefit in both the private rented sector and the social rented sector, will have a disproportionate impact in the social sector because there are significantly more non-dependents in the social rented sector. Tenants affected will get less Housing benefit and in some cases will have their benefit wiped out. ALMOs and other landlords will have to collect more rent directly from tenants in receipt of HB. The table below shows the incidence of non-dependent deduction at the present.

Tenure	No. of cases with NDs
ALMOs	1354
Private sector	379
Housing Associations	347
Total	1980

- 3.18 For completeness there are 2 small beneficial changes happening in 2011. From April 2011, an extra room for carers will be allowed in the local housing allowance calculation (subject to the 4-room cap) and this is expected to cost an extra £15m nationally.
- 3.19 Finally, the Government's contribution to the Discretionary Housing Payment scheme will increase by £10m to £30m in 2011 and will be further increased to £60m from 2012. It is expected that the majority of the extra funding will go to London and the South East where the biggest impacts of the LHA changes are expected to be felt.

April 2012 changes

RESTRICTION TO SHARED ROOM RATE

- 3.20 From April 2012 the majority of single people aged between 25 and 35 will have their Local Housing Allowance restricted to the shared room rate of LHA. At present, only people under 25 have their LHA restricted to the shared room rate. This means that single people aged between 25 – 35 will see their LHA reduce from £109 pw to £59 pw. There are around 1400 single people aged between 25 and 35 who will face this reduction in April 2012 – analysis shows that only 19 would receive enough LHA to pay their rent. The change will be implemented as follows:

- For new claims made from April 2012, the shared room rate will apply straightaway;

- For cases live at 1st April the change will apply from the anniversary of the claim; except
- For tenants who move or have another significant change, the new rate will apply straightaway

3.21 The table below profiles the number affected in each month following the implementation of the change

Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
117	90	123	166	148	173	181	144	38	62	61	99

3.22 Attached at appendix A is a table showing the total numbers affected by the changes each month. Appendix B provides an estimate of the impact on overall benefit spend of the changes on Housing Benefit spend in Leeds. The estimate has been produced by looking at the average reduction for each change and the number of people affected by the change.

Longer-term housing benefit reform

3.23 The changes in 2011 and 2012 are expected to be followed by further changes starting in 2013

UPRATING OF LHA RATES

3.24 The first change relates to the way that LHA rates will be up-rated and affects only private sector tenancies. The Government has stated that from 2013/14 the current process of up-rating LHA rates on the basis of the actual cost of rents in the locality will be replaced by a system that up-rates LHA rates annually based on the Consumer Price Index (CPI). The change is expected to achieve savings nationally of £300m from 2013.

OVER-ACCOMMODATION

3.25 From April 2013, working age tenants in the social sector will have their Housing Benefit restricted where they occupy property that is larger than their household size and structure would warrant. There is no detail about how this scheme will work in practice but it is likely that a scheme based around some form of average rent for each property size in the social rented sector would be introduced and would be used to set the rate to which housing benefit would be restricted when a tenant or family is over-accommodated. It should be noted that this change does not apply to pension age tenants.

HB SANCTION

3.26 The final HB change, also proposed to come into effect from April 2013 sees the introductions of a sanction for people on Jobseekers Allowance for more than 12 months. This change affects **all tenure types** but may have a bigger impact in the social sector because the social sector traditionally has provided housing for some of the more disadvantaged tenants.

3.27 Tenants who have been on Jobseekers Allowance for more than 12 months will have their housing benefit reduced by 10% and this reduction will stay in place until they have left the benefit system and been in work for a period. This change affects both the private rented sector and the social rented sector and it is estimated that it will achieve savings of £100m from 13/14.

- 3.28 Currently, there are in excess of 5,000 tenants in Leeds who have been on Jobseekers Allowance for more than 12 months and claiming HB and they would each lose 10% of their Housing Benefit if these new rules were in operation.

LOCALISED COUNCIL TAX BENEFIT SCHEME

- 3.29 The Government announced in the Comprehensive Spending Review that spend on Council Tax Benefit will be cut by 10% from 2013 with the current scheme replaced by a localised Council Tax Benefit scheme run by Local Authorities. The DWP subsequently wrote to Councils to confirm that the scheme would allow for fully localised schemes that reflected local needs. No more detail has been provided and it is hoped that more information will be made available over the next few weeks.

UNIVERSAL CREDIT

- 3.30 Over the summer the Government consulted on proposals to change the current benefit system and announced in the autumn that it intended to press ahead with the implementation of Universal Credit. A Welfare Reform Bill is expected in January 2011 to bring in Universal Credit.
- 3.31 Universal Credit is intended to replace Jobseekers Allowance, Income Support, Employment Support Allowance, Tax Credits and Housing Benefit with a single benefit claimed with a single form and administered by a single agency with payment made directly to customers. The basic premise of Universal Credit is that customers will always be better off in work and this is achieved by having a single payment that is reduced by a lower amount for each extra pound that a customer earns than is currently the case. DWP will administer Universal Credit.
- 3.32 Universal Credit is due to go live with effect from October 2013. From that date any new claims for a benefit that fall within the scope of Universal Credit will be treated as a claim for Universal Credit and will be dealt with by DWP. Local councils will continue to deal with ongoing Housing Benefit claims but will have little, if any, involvement in new claims for Housing Benefit. It is expected to take until 2017 to complete the transition to Universal Credit.
- 3.33 Universal Credit is for working age claimants only. It is expected that from April 2014 Housing Benefit for pensioners will form part of the Pension Credit scheme administered by the Pension and Disability Carer's Service. These changes mean that local councils will have a diminishing benefit caseload to administer from October 2013. There is a considerable amount of work to do by DWP to implement the Universal Credit and Pension Credit changes and there are still many decisions to be made on how these schemes will operate. An implementation forum has been formed by the DWP and Leeds is represented in this forum.

Implementation of the changes

- 3.34 Work is well underway to implement the HB changes from April 2011. Significant activity has taken place to identify customers directly affected by the changes and a communication plan has been developed that will see all customers notified of the changes in January 2011 with further letters to individual tenants around 3 months before the change is due to take place for that tenant.
- 3.35 CAB, Age Concern, Housing Options and Customer Services have been involved in agreeing the guidance to be included in the letters and consideration has been given to the suite of example letters provided by DWP. Meetings have taken place with Landlord Associations to ensure they understand the changes and the potential impact of the changes and to gauge likely reaction to the changes. A number of

landlords have made it clear they would be more sympathetic to tenants facing reductions in Housing Benefit if the landlords were to receive benefit directly.

3.36 Work is underway to review guidance on use of Discretionary Housing Payment scheme and to review the direct payment policy in light of the late changes to the direct payment regulations.

3.37 Information about the changes is also available on the Council's Internet site.

4.0 Implications for council policy and governance

4.1 Housing Benefit is a national scheme and the Council will need to implement the regulations that will introduce these changes. There will be a need to review the policy on use of the Discretionary Housing Payment scheme from 2011 as well as a review of the operational guidance around direct payments to landlords.

5.0 Legal and resource implications

5.1 There are no legal implications arising directly from these changes. There are resource implications relating to system changes, however these are expected to be minimal for the 11/12 and 12/13 changes.

6.0 Conclusions

6.1 These changes will impact adversely on a large number of tenants in both the private rented sector and the social rented sector. Tenants currently getting Local Housing Allowance will not be subject to the lower LHA rates until January 2012 at the earliest but all new claims from April 2011 will have their benefit based on the lower LHA rates. This transitional protection for existing claimants allied to the ability to pay landlords directly in more cases offers the prospect of enabling tenants to negotiate lower rents and retain tenancies. However, there can be no certainty that landlords will not react unfavourably to these changes.

6.2 The longer term impact of uprating LHA rates by Consumer Price Index rates is likely to lead to LHA rates failing to keep up with market rents and this may, over a period of time, erode landlords confidence in letting to tenants on Housing Benefit. Similarly, the inclusion of Housing Benefit within Universal Credit – albeit only initially for new cases from October 2013 – is unlikely to be welcomed by private landlords. This is because there will be little scope for direct payment to landlords in Universal Credit and Jobcentre Plus may be less accessible to landlords wishing to clarify their tenants' benefit position than local councils have been.

6.3 DWP is committed to working with local councils and housing providers to ensure that it understands fully the housing issues and implications. This commitment is essential and there is much work to be done to ensure that the administration of Universal Credit is based on a full understanding of local housing requirements.

7.0 Recommendations

7.1 The Board is asked to note the detail of the changes announced in the Emergency Budget and Comprehensive Spending Review and is recommended to seek annual updates on the implementation of the changes and emerging issues. It is also recommended that a further report on the development and implementation of a localized Council Tax Benefit scheme is requested.

8.0 Background Papers

- HB Regulations;
- HM Treasury Budget report