COMMUNITY & ENTERPRISE OVERVIEW & SCRUTINY MEETING

Date of Meeting	07 October 2015
Report Subject	Welfare Reform – Phase II
Portfolio Holder	Councillor Helen Brown
Report By	Chief Officer (Community and Enterprise)
Strategic / Operational	Operational

EXECUTIVE SUMMARY

The United Kingdom Government is committed to continue with its programme of austerity measures, which include reducing public expenditure through further reforms of the social security system. The changes to welfare benefits, introduced by the Welfare Reform Act 2012, have already reduced expenditure on working-age benefits by around £19 billion pa.

The next phase of welfare reforms that start to be implemented from April 2016 will also focus upon reducing expenditure on working age benefits. The aim is to reduce expenditure by £8 billion in 2017/18, with a further £4 billion reduction by 2018/19. The specific details of how the reforms will attain this level of savings were announced in the Summer Budget 2015 and the legislation needed to implement some of the reforms contained within the Welfare Reform and Work Bill that was introduced before Parliament in July 2015.

Since 2013, the consequences from the reform of the social security system have been felt across many of Flintshire communities. However, some groups have been harder hit than others, for example, lower income households containing children, particularly households who hold a social housing tenancy. This trend is set to be continued by the next phase of the welfare reforms. For example, the significant reduction of the benefit cap ceiling, from £26,000pa to £20,000pa, will bring an increase in the number of out-of-work households, containing three or more children, facing a reduction in their household income. However, the reforms will also generate an increased impact upon lower income working households as a result of the changes to in-work benefits, such as Universal Credit and Tax Credits.

The report provides a summary of the changes to be introduced to social security benefits, which will be applied over the next three years and, where information is available, the probable impact the reforms will generate.

Recommendations	
(a)	That the Overview and Scrutiny Committee note the report and continue to offer support to the ongoing work that is being undertaken by the Council, together with its partners, to mitigate the full impact of the present, and future welfare reforms from falling upon Flintshire's most vulnerable households.

REPORT DETAILS

1.00	**EXPLAINING THE WELFARE REFORM PHASE II**
1.01	The next phase of the reform of the social security system start to be introduced from April 2016 and it is projected that it will take three years for the reforms to be fully implemented. The information provided below gives an overview of the reforms. However, as the Welfare Reform and Work Bill 2015 progresses through the parliamentary legislative process there may be amendments to some of the reforms.
1.02	**Freeze on Uprating Of Social Security Benefits and Tax Credits – from April 2016**
1.02.1	The current social security legislation requires the Secretary of State for the Department for Work and Pensions to review the payment rates of welfare benefits and Tax Credits, in each tax year, to determine if they have retained their value in relation to 'the general level of prices' and, uprate the payment rates as appropriate.
1.02.2	However, it is proposed that this legislation is amended and from April 2016, the majority of 'working age' social security benefits and Tax Credits will be frozen at their 2015/16 payment rates for a period of four tax years. (For information, since 2012 there has been below inflation uprating of working age benefits and, according to the Bevan Foundation[1], this means that the value of working age benefits will fall by 8% between 2012 and 2020.)
1.02.3	Social security benefits and Tax Credits, which are related to ill health or disability, i.e., Personal Independence Payment, and pensioner benefits are excluded from the freeze and will continue to be uprated on an annual basis.
1.02.4	The freeze on the uprating of welfare benefits/tax credits is projected[2] to save £3.9 billion a year and will affect 13 million households. In Flintshire around 15% of working age households (just under 6,000 households) receive social security benefits or Tax Credits which will be subject to the freeze, with these households losing an average of £260 a year.

[1] Summer Budget 2105: What it means for Wales – Bevan Foundation - July 2015
[2] An analysis of the Summer Budget 2015 – Institute for Fiscal Studies – July 2015

1.03	**<u>Benefit Cap Ceiling Reduced – implementation to be confirmed – expected in the 2015/16 tax year</u>**
1.03.1	The benefit cap was introduced by Welfare Reform Act 2012 in order to prevent social security income, received by out-of-work working age households, exceeding the average income received by working households. Therefore, under the present legislation the cap must be set by reference to average earnings within the United Kingdom. However, the legislation, as laid out in the Welfare Reform and Work Bill 2015, will remove the link between the level of the cap and average earnings. The legislation also permits the benefit cap to be applied in different areas on different dates during a tax year. (This is the same process as was used to implement the cap across the United Kingdom in 2013).
1.03.2	When the Welfare Reform and Work Bill 2015 has received Royal Assent (expected to be by the end of March 2016), the total amount of 'out of work' benefits to which a working age household can be entitled to in a year will be reduced to £20,000 for couples and lone parents and £13,400 for single claimants. (Note: in Greater London the benefit cap will be set at £23,000 for couples and lone parents and £15,410 for single claimants).
1.03.3	Around 1,500 households across Wales are currently subject to the benefit cap at the £26,000pa level - in Flintshire there are only 24 households. However, when the ceiling is lowered to £20,000 the number of Welsh households impacted could be as high as 5,000. The lowering of the benefit cap is projected to save £405 million a year. Further information on the impact of a reduced benefit cap upon Flintshire households is provided in section 4.
1.04	***Reduction in how much claimants can earn before in-work benefits start to be withdrawn - from April 2016*** i) Universal Credit Work Allowances **-** abolished for non-disabled childless claimants and reduced for non-disabled claimants with children ii) Tax Credits Income Threshold - reduced from £6,420pa to £3,850pa
1.04.1	The work allowance and the income threshold figures represent the amount of earnings a claimant may have before their Universal Credit or Tax Credit award starts to be reduced. Therefore, both of these changes appear to be contrary to the main ethos of the Government's welfare reform policy which is to make working households better off than workless households. For example, when Universal Credit was introduced the work allowances were highlighted as the key element of how Universal Credit would make work pay by allowing claimants to 'keep more of their earned income before their award begins to be reduced'. At present, a single claimant can earn £111pm before their Universal Credit award starts to be reduced. However, from April 2016, their Universal Credit award will be reduced by £0.65 for every single pound they earn.
1.04.2	Within Flintshire there are 4,100[3] low income working households, in receipt of Working and Child Tax Credit who, as a result of the reduction in how

3 Child and Working Tax Credits Geographical Statistics – HMRC - April 2015

much they can earn before their award starts to be tapered away, will see a reduction in the 'in-work' financial support provided to them by the Tax Credit system.

1.04.3 The introduction of the £7.20ph 'National Living Wage'[4] from April 2016, will, in part, mitigate the loss of in-work benefits as the average gross earnings for low income working households will be increased by £875pa. However, in their analysis of the Summer Budget 2015, the Institute for Fiscal Studies project that the reduction in how much working households can earn before Tax Credit/ Universal Credit awards start to be withdrawn will result in the households affected losing an average of £1,000 a year each.

1.05 ***Restricting the number of child elements included in the calculation of means-tested benefit entitlement – from April 2017***

1.05.1 The calculation of a Universal Credit or Tax Credit maximum amount includes a 'child element' worth £50pw/£2,600pa, in respect of *'each'* child a claimant is responsible for within their household.

1.05.2 The Government are proposing that the legislation is amended to restrict the number of child elements, included in the calculation of a Universal Credit or Tax Credit award, to a 'maximum of two', regardless of the number of children a claimant has. The restriction on the number of child elements will only apply to new claims made (or for current claims where a third child is born) after 6 April 2017. The restriction will be also be implemented on a "rolling basis" so when an eldest child ceases to be included in the claimant's means-tested calculation, if there is a third child, born on or after 6 April 2017, a child element will then be included for that child.

1.05.3 The restriction will not apply in respect of a child who is disabled. Multiple births will also be protected as will a child born as the 'result of exceptional circumstances'. As this change only affects new claims and new births from April 2017, it is projected to generate savings of around £1.4 billion a year from 2020.

1.06 ***Removing the 'family elements' in the calculation of means-tested benefit entitlement – from April 2016 (HB) and April 2017 (UC & TC)***

1.06.1 All claimants, responsible for at least one child, have an additional amount included in their Housing Benefit, Universal Credit, and Tax Credits calculation. These payments can be grouped together under the generic term of 'family elements'. The Government are proposing that these additional payments to low income families are abolished.

1.06.2 The changes will remove the family element from the calculation of a claimants Housing Benefit applicable amount for children born, or new claims made, after April 2016. From April 2017, the equivalent family elements (called the first child premium) will not be include in the calculation of the Universal Credit or Tax Credit maximum amounts for claimants who are only responsible for a first child born on or after 6 April 2017.

[4] The National Living Wage will only apply to employees aged 25 and over. The National Minimum Wage currently covers employees from the age of 16 with different rates payable for 16 – 17 year olds, 18 – 21 year olds and those aged 21 and over. Confirmation is awaited that the NMW will still apply to employees aged 16 to 24 years old.

1.06.3 It is projected that, over time, the change will affect around 4 million low income families who will lose, on average, £590 a year.

1.07 ***Restricting the inclusion of the Universal Credit housing cost element - from April 2017***

1.07.1 As Universal Credit is replacing Housing Benefit an amount may be included in a Universal Credit award in respect of the claimant's eligible housing costs, e.g., rent. However, the Government are concerned that the welfare benefit system encourages young people to leave their parental home and rent a property funded through benefit payments. Therefore, the Universal Credit regulations will be amended so an unemployed claimant, aged 18 to 21 years old, making a new claim for Universal Credit on or after the 6 April 2017 will no longer be 'automatically' entitled to the have an amount in respect of their eligible housing costs included in their UC award.

1.07.2 The removal of automatic rights to welfare benefits for young people is an established principle within the social security system. For example, Income Support and Jobseekers Allowance cannot be claimed by most 16 & 17 year olds. However, within the regulations there are a series of exemptions which permit vulnerable 16/17 year olds the legal right to claim both of these benefits. For example, young people who are without parental support. It is to be assumed that similar exemptions will apply within the Universal Credit regulations to allow vulnerable unemployed young people to have a housing cost payment included in the calculation of their Universal Credit award.

1.07.3 In addition, it has been announced that a claimant who has their child living them is exempt from this measure and a young person who has been living independently and working continuously for the preceding six months before making a Universal Credit claim, will be exempt from this measure for up to 6 months while they look for work.

1.07.4 This change is projected to save around £40 million a year from 2020 and the Welsh Government estimate that across Wales 1,200 young people will be affected by this change. For information, there are 167 Flintshire residents aged 18-21 years old who are currently receiving an award of Housing Benefit to help them to pay their rent.

1.08 ***Abolishing additional benefit payments for claimants assessed as incapable for work – from April 2017***

1.08.1 Currently, a working age claimant with poor health and/or a disability who has been assessed by the Department for Work and Pensions as having a limited capability for work (this means that they do not have to be actively seeking work but do have to undertake reasonable work preparation activities) will have an additional £126.11pcm included the calculation of their Universal Credit award or, £29.10pw if they are claiming Employment and Support Allowance.

1.08.2 The Government believe the extra payment acts as a financial incentive which 'encourages' some claimants to strive to be assessed as incapable for work as they receive a higher level of benefit income than received by an unemployed claimant. Therefore, it is proposed that this additional payment is abolished for claimants who are assessed as incapable for work and make a new claim for Universal Credit or Employment and Support Allowance on, or after 06 April 2017. This change will also save around £445 million a year.

1.09 ***Housing Benefit backdating – from April 2016***

1.09.1 At present, a person who has continuous good cause for not claiming at an early time, may have their Housing Benefit award backdated for a maximum period of six months if they are of working age, or three months if they are a pensioner. However, from April 2016, to align Housing Benefit with Universal Credit, the maximum period that a Housing Benefit claim can be backdated for, is reduced to a maximum of four weeks.

1.09.2 In 2014/15, backdated payments of Housing Benefit were awarded to 194 Flintshire residents. For many of these residents their backdated award will have helped them to reduce rent arrears that accrued during the period when they were unable, perhaps due to their poor health, to make their Housing Benefit claim.

1.10 ***Extending Work Conditionality - claimants who are responsible for children – from April 2017***

1.10.1 Conditionality is a core principle of Universal Credit and refers to the requirement for claimants to undertake reasonable activities, which increase their chances of obtaining paid work, or better paid work. A claimant who, without good cause, fails to meet their conditionality requirements will have their Universal Credit award sanctioned.

1.10.2 Claimants with children are exempted from the conditionality requirements until their youngest child reaches a specified age. These changes will mean parents become subject to the conditionality rules when their youngest child is aged two as they will be 'compelled' to prepare for work (currently applies when their youngest child is aged three) and to actively seek work when their youngest child turns three (currently applies when their youngest child is aged five).

1.11 ***Youth Obligation - from April 2017***

1.11.1 To address the concerns around the number of unemployed young people, the Government proposed that unemployed people, aged 18 to 21, will be compelled to participate in an intensive regime of support from day one of their Universal Credit claim. After six months, they will be expected to apply for an apprenticeship or traineeship, gain work-based skills, or go on a mandatory work placement to give them the skills they need to move into sustainable employment.

1.11.2 The Youth Obligation appears to be a very similar concept to the New Deal for Young People introduced in April 1998. This programme successfully helped young people, aged 18 to 24, to move away from dependency on benefits and into sustainable employment.

1.11.3 It is to be assumed that young people, who after six-months are not in

	employment or training, and, who, without good cause, do not take-up their mandatory work placement will have their Universal Credit award sanctioned. It is also probable that the system of hardship payments, which are available for claimants subject to a benefit sanction, will not be available under the Youth Obligation. The Department for Work and Pensions will justify the lack of hardship payments by stating that the young person will be able to get themselves out of financial hardship by taking up the mandatory work placement available to them.
1.12	***Support for mortgage interest***
1.12.1	Owner occupiers claiming specific out-of-work means-tested benefits are able to receive some help towards their mortgage interest payments. From 1 April 2016, the ‘waiting period’, before any help toward mortgage interest can be paid, is increase from 13 to 39 weeks.
1.12.2	A further change will be introduced from April 2018, when all new claims for help with mortgage interest payments will be paid as an interest accruing loan, which will be repaid when claimants return to work, or upon sale of their property.
1.13	***Council Tax Reduction Scheme (CTRS)***
1.13.1	As a devolved benefit, the Welsh CTRS will not be affected by any of the changes to the Department for Work and Pensions social security benefits. However, the Welsh Government will need to consider the impact of these changes on the CTRS. For example: I. Should adjustments be made to the CTRS means-tested calculation to match the changes being introduced to the DWP means-tested benefit calculations, i.e., removing the family element, restricting the inclusion of child elements to a maximum of two, etc? II. Should the local arrangements for backdating CTRS claims be aligned with the new rules for backdating Housing Benefit claims? III. Should eligibility for a CTRS award be removed for 18 to 21 year olds who are not eligible for financial help towards their housing costs from April 2017? IV. What will be the additional financial impact upon the CTRS that will be generated due to residents having less ‘household income’, e.g., when Tax Credits awards reduce from April 2016?

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	KEY RISKS AND MITIGATION
4.01	The next phase of welfare reforms will generate similar impacts to those created by the benefit changes introduced by the Welfare Reform Act 2012 which, are presently being mitigated, as much as practical, by a range of activities overseen by the Flintshire Tackling Poverty Partnership.
4.01.1	These activities include, ensuring service resources are being efficiently used in order to meet increased demand for advice and support from residents and helping households to maximise their household income to lessen the impact upon the local economy that the £8 million pa loss of social security income caused by the welfare reforms creates. (Whilst the reforms are reducing public spending upon welfare benefits, some Flintshire households are still failing to access their legal entitlement of welfare benefits and Tax Credits.)
4.01.2	Many of the welfare reforms will not start to impact upon Flintshire households until after April 2017. However, the lowering of the benefit cap, expected to be introduced in the next tax year, will generate a significant financial impact upon the households affected and bring a heightened risk of homelessness, if a household cannot implement strategies to successfully manage the reduction in their Housing Benefit awards.
4.01.3	Given the higher rents within the private rented sector it will be out of work private sector tenants who face losing the most household income and some may find that their accommodation is no longer affordable. Thus, the lowering of the benefit cap will make it more problematic for the Council to use its new powers within the Housing Act (Wales) 2014 and discharge its statutory homelessness duties by offering out of work households a property in the private rented sector.
4.02	**Reduced benefit cap - increase number of households impacted and becoming at risk of homelessness.**
4.02.1	There are twenty-four Flintshire households who are subject to the cap at the current £26,000pa ceiling. For some of these households, the reduction in the cap will not, immediately, mean any further reduction in their household income. This is because they are presently having the cap applied through reducing their Housing Benefit award and, to allow the households to make an application for a discretionary housing payment,

	they have to be left with a minimum award of £0.50pw Housing Benefit. However, it is important to note that these households will lose around £115pw when the benefit cap is applied through their Universal Credit award.
4.02.2	When the benefit cap ceiling is reduced to £20,000pa (£383.56pw) there will be an increase in number of Flintshire households, containing three[5] or more children, who will be impacted. An analysis of the Housing Benefit caseload show that there are (in July 2015) 464 Flintshire households with three or more children receiving out-of-work benefits. Of these households, 301 are Social Housing tenants and 163 are private sector tenants.
4.02.3	Some of these households will be exempted from the benefit cap, because they or, a family member gets a sickness/disability benefit, etc. At present, based upon the information held on their Housing Benefit claim, only seven households have been identified who will be exempted. However, it is to be expected that this number will increase when the Department for Work and Pensions provide Flintshire's Housing Benefit Service with the full benefit claim details of these households and also information on exempted accommodation cases, i.e., supported accommodation.
4.02.3	It has to be assumed though that the majority of these households will face losing some of their current Housing Benefit award when the £20,000 benefit cap is implemented within Flintshire at some point during the next tax year. Whilst, the impact of the benefit cap will be more severe upon the households within the private rented sector, due to higher contractual rents, an increased number of social housing tenants will face having their Housing Benefit award reduced when the benefit cap is lowered to £20,000pa. Appendix 1, provides examples of how the Housing Benefit award of households is reduced as a result of the benefit cap being applied.
4.02.4	To help protect the most vulnerable households from the negative impact generated by lowering the benefit cap, the Government has announced they will provide £800 million of funding for discretionary housing payments during the next five years across the United Kingdom. The amount which will be available for Flintshire is not known. However, it is highly unlikely to be sufficient to provide appropriate help to all the Flintshire households who will be in need of assistance to manage the reduction in their household income and maintain their contractual housing costs.
4.02.5	When the benefit cap was first introduced within Flintshire (July 2013), the Council's Welfare Reform Response Team proactively targeted the households who were to become subjected to the cap and helped them to identify and implement solutions to the financial problems that having their Housing Benefit award reduced generated.
4.02.6	This approach, albeit to a smaller number of households than will be impacted this time, was successful, particularly in helping households to become exempt from the cap and, in doing so, preventing them from becoming homelessness. If appropriate resources are available, it will be useful to adopt the same approach and directly target advice and support at those households who will become subject to the benefit cap during

[5] Some households containing two children may also be impacted - see appendix 1

	2016/17.

5.00	**APPENDICES**
5.01	Appendix 1 - Benefit cap – examples

6.00	**SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972** **List of Background Documents**
6.01	None