Briefing Paper: WELFARE REFORMS – PHASE II

To Elected Members

Date: 08 June 2016

INTRODUCTION

1. In 2015, the Government announced that it was committed to continue with the programme of austerity measures, which include reducing public expenditure through further transformation of United Kingdom social security system. Throughout the period April 2016 to March 2021, the focus of the ongoing welfare reforms will be upon the continued implementation of Universal Credit across Wales and on reducing expenditure by £12 billion pa on the welfare benefits and tax credits available to working-age claimants.

2. The specific details of the welfare reforms were announced in the 2015 Summer Budget and Spending Review and Autumn Statement. The legislation needed to implement the majority of the reforms is contained within the Welfare Reform and Work Act 2016, which received Royal Assent on the 16 March 2016.

THE WELFARE REFORMS

Freeze on Uprating of Social Security Benefits and Tax Credits

3. The Welfare Reform and Work Act 2016 (section 11 & 12) has introduced new legislation which removed the Secretary of State from undertaking an annual review of the payment rates of non-disability related working age social security benefits and tax credits. The legislation also orders that these benefits/tax credits will be frozen at their 2015/16 payment rates for a period of four tax years from the 6 April 2016.

4. The Institute for Fiscal Studies estimates that the uprating freeze will affect 13 million families, 7.4 million of whom are in work, losing £280 a year on average.

5. The four year freeze is the latest reform of the annual uprating of the majority of working age welfare benefits and tax credits payments, which has been introduced during the last five years. For example, there were two significant developments under the previous coalition Government. Firstly, from April 2011, the measure of price inflation used for uprating benefits and tax credits changed from the Retail Price Index to the Consumer Prices Index (CPI) which tends to rise more slowly. Secondly, from April 2013, most working-age benefits were limited to 1% a year increase – regardless of the CPI figure. It is projected that by 2020, the value of the benefits affected by the uprating changes will have been cut by 8% as compared to their value in 2012.

6. A long-running research project funded by the Joseph Rowntree Foundation produces regular estimates of “Minimum Income Standards” (MIS) for different household types. The latest report was published on 1 July 2015[1] . The analysis suggests that most people reliant on out-of-work benefits do not reach the Minimum Income Standard. For example, single people, receive benefit income less than 50% of their MIS (net of rent and Council Tax). For families with children, their out-of-work benefits cover around 60% of the MIS. However, a pensioner couple in receipt of Pension Credit, has benefit income which is just short of their MIS (96%).

7. In total, the benefit uprating freeze will save £3.9 billion per year from 2016.

Benefit Cap

8. When the benefit cap was introduced in 2013, the law required that the cap had to be set at a figure aligned to ‘average net earnings’. The Welfare Reform and Work Act 2016, has now removed the legal requirement for the benefit cap ceiling to relate to average earnings. Thus, when the new benefit cap ceiling is introduced, in a phased approach across the United Kingdom from the autumn of 2016, the total amount of annual ‘out-of –work’ benefit incometo which a ‘working-age’ household, outside of Greater London, can be entitled to is

   - £20,000[2] for couples and lone parents (£383.56pw)
   - £13,400 for single claimants (£256.99pw)

9. A cap of £20,000 is equivalent to typical pre-tax earnings of around £25,000.

10. The Welsh Government have projected that around 5,000 households across Wales will be impacted when the new benefit cap is introduced. This is a 300% increase on the number of households impacted by the benefit cap at its current ceiling of £26,000pa.

11. The lowering of the benefit cap will have a significant impact upon households with three or more children who are renting in the private sector. This has the potential to weaken one of the key aim of the Welsh Government’s new homelessness legislation in the Housing Act (Wales) 2014, i.e., power given to a local authority to discharge a statutory homelessness duty by offering a

[1] Donald Hirsch, A minimum income standard for the UK in 2015 - JRF, July 2015
[2] For information - in Greater London area the benefit cap is set at £23,000 for couples/lone parents and £15,410 for single claimants.

household a suitable private rented property. Simply because some out-of-work households will not be able to afford private rented properties.

12. Concerns have been raised to the potential impact of the benefit cap on Local Authority expenditure in respect of their statutory homelessness duties, e.g., provision of temporary accommodation, etc. However, when challenged on the issue of ‘savings versus costs’, the Government said that the wider ramifications of the cap had been considered and that the message the Government was sending “is a behavioural one much more than a cost-based one”.

13. Some households are protected from having their out-of-work benefit income restricted by the benefit cap. For example, the cap will not apply if someone in the ‘benefit household’ (claimant, partner, and a child under 18) receives a disability benefit. A household is also exempted from the benefit cap for a period of 39 weeks if the claimant, or their partner has worked for 50 weeks out of the 52 weeks preceding their last day of work.

14. Following a High Court decision in January 2016, which found that the failure to exempt those on Carer's Allowance, looking after a disabled adult, amounted to unlawful discrimination, the Government has announced that it intends to exempt households in receipt of Carer’s Allowance from the benefit cap. The Government has decided to exempt Carer households when the new benefit cap ceiling is introduced in the autumn of 2016. In the meantime, the Government has said it has amended the ‘Discretionary Housing Payments Local Authority Good Practice Guide’ to reflect that carers shouldbe considered as a priority group for an award of a Discretionary Housing Payment, ahead of the exemption being introduced.

15. The lower of the benefit cap ceiling is projected to saving £405m a year.

BENEFITS FOR THE LOW PAID AND FAMILIES

16. The United Kingdom social security system has provided financial support to low paid working households since 1971, when Family Income Supplement was introduced. Over the last 46 years, the social security payments available to low paid working households have gone through numerous transformations - the latest payments being delivered through the Universal Credit scheme.

17. However, the Government are now of the opinion that addressing the root cause of low pay is no longer a role for the social security system. They maintain that low pay will be more effectively eradicated through the promotion of a ‘higher wage’ economy (i.e., the introduction of the National Living Wage in April 2016 is the commencement of a move to higher wage for employees aged 25 or over) and a more generous tax system.

Universal Credit – Work Allowances

18. From the commencement of the programme to introduce Universal Credit the Government made it clear that, along with the unified, responsive benefit structure and single taper, the work allowances, set at a more generous level than the existing earnings disregards in legacy benefits, were integral to the offer under Universal Credit that "work pays" by allowing claimants to keep more of their earned income before their award begins to be reduced.

19. However, from the 11 April 2016[3] the range of work allowances, available to Universal Credit claimants was reduced from seven to two, with the remaining two work allowances being reduced (as compared to their pre-April 2016 amounts).

20. A Universal Credit work allowance is now only available where the claimant is responsible for a child, or has a Limited Capability for Work (LCW).

21. The abolition of the working disregards for childless, non-disabled, claimants mean all their (net) earnings will be taken into account when their Universal Credit award is calculated. Previously, they could earn £111 pcm before their award started to be tapered away by £0.65 for every single pound they earned. There is no transitional protection for people in employment who were receiving Universal Credit prior to April 2016.

22. The Department for Work and Pensions has not produced an Impact Assessment on the work allowance changes. However, analysis by the Resolution Foundation[4] suggests that, taking into account the broader package of tax and benefit changes and the introduction of the National Living Wage, from 2020, working households receiving Universal Credit are set to lose between £1,000pa and £1,300pa.

23. The reduction/abolition of the work allowances are projected to achieve savings of £3.1bn a year from 2020.

Universal Credit & Child Tax Credit – Child Elements

24. Since its introduction in 2013, the benefit cap has restricted the social security benefit income payable to some 'out-of-work' families. However, the Government believe all families, who receive financial assistance from the social security

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[3] The change was introduced by the Universal Credit (Work Allowance) Amendment Regulations 2015

[4] Resolution Foundation - Low-income working families on Universal Credit set to lose income – press release – 26/11/2015

system, should “face the same financial choices about having children as those supporting themselves solely through work”.

25. Therefore, the Government has introduced a series of provisions within the Welfare Reform and Work Act 2016, which from April 2017, will reduce the amount of social security income payable to some families. These provisions will:

i) limit the number of child elements included for **each** child or qualifying young person[5] included in the calculation of a Universal Credit (UC) or Child Tax Credit (CTC) award to a maximum of two (see ‘important note’ below)

ii) remove the family element from the calculation of CTC awards in new claims (continues to be included for families entitled to CTC who are responsible for a child born before that date)

iii) remove the higher child element rate payable for the first child in new UC claims (in essence, echoing the abolition of the CTC family element)

26. In the debate on the Summer Budget 2015, the Secretary of State for Work and Pensions, stated the changes to the financial help available to families from CTC and UC were “about getting fairness back into the system”. However, the National Institute of Economic and Social Research, said, “while there is some evidence of (limited) incentive effects (that is to say, generous child tax credits did indeed raise the birth rate slightly) we shouldn't delude ourselves that poor people will stop having children, or that the living standards of low income families, and children in particular, won't suffer”.

27. The limiting of the child element will apply to new claims for Universal Credit or Child Tax Credit made on, or after, the 6 April 2017. However, the restriction will not apply in respect of a child who is recognised by the social security system as being disabled[6]. Multiple births will also be protected, as will a child born as the ‘result of exceptional circumstances’.

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[5] A qualifying young person is a person who is aged 16 or over but under 20 years old and is in full time non advanced education or undertaking approved training which is not provided by means of a contract of employment. Where ‘child’ is noted in the main text, it also includes a qualifying young person.

[6] Child in receipt of DLA middle/higher care component, PIP standard/enhanced daily living component or registered blind.

28. Existing claimants[7], who are already receiving child elements in respect of more than two children on the 6 April 2017, will continue to receive a child element in respect of each child they are responsible for. However, they will not be entitled to any further child elements in their award for children for whom they become responsible for after the 6 April 2017. Also, if their current benefit claim ends, and at a later date (at least six months later) they make a new claim for Universal Credit, they will only have two child elements included in this claim.

29. The restriction will be on a "rolling basis" so when the eldest child ceases to be included in the claimant's benefit household, if there is a third child, born on or after 6 April 2017, a child element will then be included for that child.

Extending Work Conditionality – Responsible Carers

30. Universal Credit (UC) is underpinned by a 'conditionality framework' that sets out the responsibilities for claimants to engage in reasonable activities which increase their chances of obtaining paid work, or more/better paid work. Claimants are placed in one of four "conditionality groups" depending on their individual circumstances, such as, any disabilities or health problems they have, or whether they are responsible for children, etc. The four UC conditionality groups are:

    i) No Work-Related Requirement

    ii) Work-Focused Interview

    iii) Work Preparation

    iv) All Work-Related Requirements

31. The UC conditionality framework is backed up by a sanction regime for claimants, who, without good reason, have not complied with their reasonable activities.

32. Currently, a "responsible carer[8]" in receipt of UC is not subject to "work preparation" requirements until their youngest child reaches three, and they do not have to be available for and actively seeking work until the youngest child reaches five.

33. In the Summer Budget 2015, the Government announced that from September 2017, free childcare entitlement will be doubled from 15 hours to 30 hours a week

[7] At April 2015, just under 900,000 families (of whom 590,000 were in work) were receiving tax credits for three or more children.

[8] A "responsible carer" is a lone parent or, in the case of a couple with children, the partner who has been nominated as the carer of the child/children (couples can agree between themselves who should be the nominated carer).

for working parents of 3 and 4 year olds. It is estimated that the free childcare is worth around £5,000 a year per child. The Government went on to announce that, 'in the context of the extensive free childcare for parents of 3 and 4 year olds, the conditionality for a responsible carer claiming UC will change'.

34. Therefore, from April 2017, a responsible carer (including a lone parent) will be expected to prepare for work from when their youngest child is aged two years old and to actively seek and be available for work when their youngest child turns three years old[9].

BENEFITS FOR CLAIMANTS UNFIT FOR WORK

Universal Credit/Employment & Support Allowance

35. Until 1971, the weekly benefit rates for claimants were the same, regardless of the reason they were out-of-work, e.g., unemployed, incapacitated or retired. With the introduction of Supplementary Benefit the benefit rates for different categories of claimant began to differ with weekly benefits paid at significantly higher rates, for disabled claimants than for unemployed claimants. Whilst numerous changes to welfare benefits have occurred since Supplementary Benefit was abolished in 1988, the basic principle of disabled claimants receiving higher basic rates of benefits has remained.

36. Currently a Universal Credit (UC) or Employment and Support Allowance claimant who is assessed through the Work Capability Assessment as having a 'limited capability for work' (this means that they don't have to be actively seeking work but do have to undertake work preparation activities in readiness for when their health improves) will have an additional amount included the calculation of their UC or ESA award.[10]

37. In the Summer Budget 2015, the Government expressed concern that while the Jobseekers Allowance caseload had fallen by 700,000 since 2010, over the same period the numbers on sickness benefits had fallen by just 90,000. It was also noted that it was a "perverse incentive" that sickness benefit claimants with a limited capability for work received more money than Jobseeker's Allowance claimants "but get nothing like the help to find suitable employment."

38. To address the perceived financial incentive, the Government introduced regulations, within the Welfare Reform and Work Act 2016, which will for new claims from April 2017, align UC/ESA payment rates for claimants assessed as

[9]Until 2008, a lone parent could claim Income Support and not be not required to seek work as a condition of receiving their benefit until their youngest child reached 16 years old. However, from November 2008, the age threshold for the youngest child has been progressively lowered.
[10] UC claimants have £126.11pcm included and ESA claimants have £29.05pw

having a limited capability for work with the rate received by Jobseeker's Allowanceclaimants. The Government have confirmed that "new funding will be made available (£15 million pa) and this will ensure the right incentives and support are in place to help sick/disabled people toreturn to work when they are ready.

39. Claimants who, on the 05 April 2017, are in receipt of the additional payment in their UC/ESA award, due to having a limited capability for work, will continue to receive their additional payment for as long as their circumstances don't change.

40. The abolition of the additional benefit payments to claimants assessed as being incapable for work is projected to save £640pa by 2020

BENEFITS FOR TENANTS & OWNER OCCUPIERS

Housing Benefit

41. Housing Benefit (HB) expenditure has significantly increased from £11 billion in 1999/2000 to around £21 billion in 2014/15. Thus, since 2011, the previous and present Government, have introduced a range of reforms in order to the control and constrain the overall cost of HB,

42. The latest reforms were announced in the Summer Budget 2015 and within the Spending Review and Autumn Statement 2015. The Government maintain these reforms will continue the process of ensure fairness between those receiving HB and those paying for the system; secure behaviour changes amongst social housing tenants; and align the HB system for social and private tenants.

43. The HB reforms are:

a) Capping HB Awards for Social Housing Tenants to LHA levels

44. The reform will cap the amount of rent that HB will cover in the social housing sector to the tenant's relevant Local Housing Allowance (maximum amount of HB paid to private sector tenants). This includes tenants living in specialist 'supported accommodation' and the 'Shared Accommodation Rate' for single claimants aged under 35, who do not have dependent children living with them.

45. It is important to recognise that the Local Housing Allowance rate includes the 'rent' for the property and also any 'eligible service charges'. This reform will also

be mirrored in the maximum ‘housing cost element’ available to social housing tenants claiming Universal Credit[11].

46. **Important Note**: This reform was introduced with the intent of applying to ‘all’ social housing tenancies signed (or renewed) on or after 1 April 2016, with the HB entitlement changing from 1 April 2018.

47. However, on 1 March 2016, the Government announced a ‘delay of one year’ in applying the cap to social housing tenants in ‘supported housing’, whilst they undertook a nationwide review of support accommodation. Therefore, the cap will only apply to a tenancy in supported accommodation that commences (or was renewed) on or after the 01 April 2017. However, the reduction in the tenants HB award will still be implemented on the 01 April 2018.

48. The cap will impact upon all social housing tenants. However, due to the higher rents, it will be more ‘vulnerable’ tenants residing in supported accommodation that will be hardest hit. Since the announcement was made in the Autumn Statement and Spending Review, numerous social housing providers who manage ‘supported accommodation’ schemes have expressed serious concerns that the cap will mean their existing schemes will no longer be financially viable. In addition, some providers reported that they will be forced to make decisions not to proceed with plans to develop new supported accommodation (should the cap be applied in its current format.)

49. In response to these concerns, the Government have announced that, when the reform is implemented, they will provide significantly increased funding to Local Authorities (within their Discretionary Housing Payment budgets) so they can protect the most vulnerable social housing tenants, particularly disabled people in supported accommodation through an award of a Discretionary Housing Payments.

b) HB Claim Backdating

50. From the 6 April 2016, a person, who has continuous good cause for not claiming at an early time, may now only have their HB award backdated for a maximum period of four weeks.

***c)* HB Payments & Temporary Absence from UK**

51. At present, claimants can go abroad for up to 13 weeks (as long as they have an intent to return) and continue to receive their HB award. The Government are now of the opinion that the benefit system should not subsidise those on benefits

[11]Please note UC claimants residing within ‘supported accommodation’ will have their housing costs met outside of the UC scheme. In the short term housing costs will be provided under the HB scheme and in the longer term, the Government will develop a localised funding system.

to go abroad for extended periods. Therefore, HB will not be paid, for most claimants, who go abroad for more than 4 weeks at a time. Expected to be introduced in the summer of 2016.

d) HB Calculation

52. From the 6 April 2017, the number of child personal allowances that can be included in the calculation of HB applicable amount will be restricted to a maximum of two unless the child has a disability.

Universal Credit

Restricting the Housing Cost Element

53. The Summer Budget of July 2015 confirmed the introduction of a policy that had been trailed in speeches in different forms for several years - the removal of the automatic entitlement to the welfare benefit system providing financial assistance to help young people pay their rent.

54. From April 2017, a claimant who is unemployed, aged 18 to 21 years old, and making a new claim for Universal Credit will no longer be automatically entitled to the have an amount, in respect of their eligible housing costs, included in the calculation of their UC maximum amount.

55. 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 some 16/17 year olds the legal right to claim both of these benefits.

56. Following the same principle, exemptions have been announced which will protect some young Universal Credit claimants and they will be eligible for help towards their rent liabilities. The exemptions include, vulnerable young people; those who may not be able to return home to live with their parents, and those who have been in work for six months prior to making a claim. It is to be expected, as with enforcing a young person’s right to be allowed to claim Income Support, a young person will require advice and support to ensure their Universal Credit award does include a housing cost element.This reform is projected to save around £40 million a year from 2020.

Mortgage Interest Payments

57. Owner occupiers getting 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 increased from 13 to 39 weeks. A further change is to 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.

OTHER REFORMS

Youth Obligation

58. From April 2017, young people will participate in an intensive regime of support from day one of their Universal Credit claim, and after six months, they will be expected to apply for an apprenticeship or traineeship to gain work based skills, or go on a 'mandatory' work placement to give them the skills they need to move into sustainable employment.

59. It is to be assumed that a young person who, without good reason, does not engage with their mandatory work placement will have their Universal Credit award sanctioned. It is also to be expected that the system of hardship payments, which are available for claimants subject to a benefit sanction, will not be available. The Department for Work and Pensions will justify the lack of hardship payments on the grounds that the young person will be able to get themselves out of financial hardship by taking up the mandatory work placement available to them.

National Living Wage

60. From 1 April 2016, the mandatory National Living Wage[12](NLW) was introduced, but only for employees aged 25 and over. On its introduction, the NLW has been set at a rate of £7.20. This is a rise of 50p per hour as compared to the previous National Minimum Wage rate for employees in this age bracket. The Government's ambition is for the national living wage to rise to 60% of median hourly pay for over-25s by 2020, which is currently projected to be £9.00ph.

61. The Government view the introduction of the NLW as an integral step to their aim to move from a low wage, high tax, and high welfare society to a higher wage, lower tax, and lower welfare society.Employees not eligible for the NLW, i.e., aged under 25 years old, will continue to receive their appropriate National Minimum Wage rate.

[12] The National Living Wage is not the same as the living wage rate. This is a voluntary rate, proposed by the'Living Wage Foundation, which currently recommends employers pay £9.40ph in London and £8.25ph elsewhere.

Conclusion

62. For further information on any of the topics covered within this paper, please contact – paul.neave@flintshire.go.uk