Briefing Paper: Update - Welfare Reforms

To Elected Members

Date: 08 March 2017

1. The Government remains committed to their policy of reducing public expenditure through transforming the social security system. This briefing note provides an update on the progress to implement the key welfare reforms and their impacts.

Annual Uprating of Social Security Benefits and Tax Credits

2. The Welfare Reform and Work Act 2016 introduced legislation for working age, non-disability welfare benefits/tax credits be frozen at their 2015/16 payment rates for a period of four tax years from the 6 April 2016. The Institute for Fiscal Studies estimates that the uprating freeze will affect 13 million families, who will lose £280 a year on average.

3. The four-year freeze on the annual uprating of welfare benefits payment levels is the latest in a series of reforms, which has restricted the uprating of working age benefits since 2011. A report[1], published in February 2017, by the Joseph Rowntree Foundation concludes that the restrictions on uprating working-age benefits has resulted in around nineteen million households living on incomes below their 'Minimum Income Standard'. Eleven million households now have incomes, which are below 75% of their Minimum Income Standard and are at a high risk of being in poverty, while the remaining eight million are 'just about managing at best'.

4. In addition, the research finds that families with children, even those working full time, have the highest risk of having incomes that are below their Minimum Income Standards. The growth of in-work poverty is concerning. In 2015[2], it was reported that around 300,000 Welsh households were experiencing in-work poverty. At that time, around 8% of working households in Flintshire were in poverty. The abolition of the Universal Credit work allowances (see below) has the potential to increase in-work poverty.

Housing Benefit[3] - Capping Awards for Social Housing Tenants

5. Over the last fifteen years, expenditure on Housing Benefit has been constantly increasing. In 2015, the expenditure was £21 billion; this was a 50% increase on the expenditure in 2000. To try to prevent Housing Benefit

[1] https://www.jrf.org.uk/press/just-about-managing-four-million-more-living-britain

[2] https://www.jrf.org.uk/blog/work-poverty-keeping-poverty-rates-wales-high

[3] This reform is mirrored in the maximum 'housing cost element' available to social housing tenants claiming Universal Credit.

expenditure completely spiralling out of control, a series of reforms have been introduced since 2011.

6. The latest reform aims to constraint Housing Benefit expenditure within the social housing sector. The Government is introducing a 'cap' on the amount of rent that Housing Benefit will cover to a tenant's relevant Local Housing Allowance (the maximum amount of Housing Benefit paid to a private sector tenant). This reform will affect working-age and pension-age social housing tenants.

7. The Government planned to introduce the cap on all social housing tenancies signed (or renewed) on, or after 1 April 2016, with a tenant's Housing Benefit entitlement reducing from 1 April 2018. However, on 15 September 2016, the Work and Pensions Secretary for State confirmed that tenants in Supported Accommodation and in Sheltered Housing schemes would be exempt from the cap until April 2019. In a further statement, issued on the 21 November 2016, the Secretary for State confirmed, the Government would defer the application of the Housing Benefit cap for social housing tenants in General Needs housing until April 2019.

8. To protect the Supported Housing sector from the negative financial impacts of tenants' Housing Benefit awards being capped, the Government intends to introduce a new funding model from April 2019. When launching a consultation exercise on the funding model, the Secretary of State said, "the *model will be based on accurate projections of future need and will give local authorities' greater flexibility to commission services in line with local needs*". The consultation period ended on the 13 February 2017, and the Government will publish their recommendations in due course.

<u>Household Benefit Cap</u>

9. The household benefit cap was introduced in 2013 to increase work incentives for workless households and to promote fairness between the taxpayer and welfare benefit recipient. In 2013, legislation was in place that ensured that the cap was set at a level equal to average weekly earnings. The legal requirement for the benefit cap to be set at average earnings was repealed in 2016 and a lower household benefit cap was introduced, in a phased approach across the United Kingdom, during a 12-week period commencing on the 7 November 2016.

10. The benefit cap affects households where an adult is expected to be actively seeking work. A household is protected from having their welfare benefit income restricted by the benefit cap, if someone in the household (claimant, partner, and a child under 18) receives a disability benefit. From November 2016, a household is also exempted if an adult receives Carer's Allowance, or they are a foster carer.

Means-Tested Benefits - Limiting Payments for Children

11. The household benefit cap was introduced to restrict the welfare benefit income payable to 'out-of-work' families. However, the Government considers that all families, who receive financial assistance from the social security system, should *"face the same financial choices about having children as those families who are supporting themselves solely through work".*

12. Therefore, from the 6 April 2017, the amount of social security income payable to families will be controlled by introducing a 'two-child limit' when awards of means-tested benefits, e.g., Child Tax Credits or Universal Credit[4] are calculated.

13. During the autumn of 2016, Government consulted on their proposals to limit social security payments to families. The Government's response to the consultation was published on the 20th January 2017[5], Within their consultation response, the Government confirmed that it will introduce regulations, so the two child limit will not be applied to households where:

    - third and subsequent children are born as part of a multiple birth,
    - third and subsequent children are born from a non-consensual conception,
    - when family or friends are caring for a child under informal arrangements.

14. Claimants who are receiving benefit payments in respect of more than two children on the 6 April 2017 will continue to receive their higher benefit payments. 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.

Sickness Benefits - Claimants Assessed as Unfit for Work

15. At present, a claimant who is accepted by the Department for Work and Pensions (DWP) as having a 'limited capability for work' (i.e., they are unfit to work) has an additional amount included the calculation of their Universal Credit or Employment and Support Allowance award.[6] In 2016, the Government expressed concerns that this additional money often acts as an incentive for claimants to strive to remain

[4] Due to problems with the IT system, families with three or more children will not be able to make a new claim for Universal Credit until September 2018 at the earliest.

[5] https://www.gov.uk/government/consultations/universal-credit-and-child-tax-credit-exceptions-to-the-2-child-limit#history

[6] UC claimants have £126.11pcm included and ESA claimants have £29.05pw.

unfit for work and not fully engage with activities intended to improve their employability.

16. Therefore, from the 6 April 2017, the payment rate for a claimant, who has been assessed and accepted by the DWP as being unfit for work, will be the same as the payment rate received by an unemployed claimant who is capable of actively seeking employment.

17. The abolition of the additional benefit payment for a claimant whose health/disability is preventing them from being able to work has been extensively criticised. Many organisations argue that the reform undermines the basic principle of the social security system, i.e., to provide financial security for people who are too ill to work. In a report[7], published on the 3 February 2017 by the House of Commons Work and Pensions Committee, it was noted that the Government's claim that the loss of income will enhance incentives to work is "ambiguous at best".

18. The Government has confirmed that funds will be provided to Jobcentres so they can help claimants who are unfit for work to meet the costs they incur when undertaking work preparation activities. However, the Work and Pensions Committee commented that the additional benefit payment, introduced in the early 1970's, was in recognition of the increased daily living costs, i.e., heating or dietary costs, which are faced by people with a health problem or disability.

19. A claimant, who has been accepted by the DWP as unfit for work on the 05 April 2017, will continue to receive their additional benefit payment for as long as their circumstances do not change.

Universal Credit

20. Universal Credit is the Government's 'flagship welfare reform'. It has been designed to bring fundamental changes to the working age benefit system, making the system fit for purpose in the 21st Century; remove barriers to work that are inherent in the current benefit system; and introduce a new social contract between the welfare state and recipients of support.

21. It has been well documented that the major programme to introduce Universal Credit has been plagued with difficulties. It is now projected that the programme will not be completed until April 2022. This is five-years later than the original completion date.

[7] http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/disability-employment-gap-report-published-16-17/

22. In May 2016, the national rollout of the Universal Credit Full Service commenced. In summary, the Full Service is Universal Credit as the policy maker intended, i.e., an integrated means-tested benefit available to all working-age people and delivered on a digital platform.

23. Opening access to Universal Credit for all working-age claimants has generated an increase in the number of claimants with complex life circumstances, claiming Universal Credit. Managing the challenges, generated by such claimants, is proving problematic. In July 2016, the Secretary for State announced that they would be significantly slowing down the rollout of the Full Service, (from fifty Jobcentres a month to five Jobcentres a month) "*in order to ensure that all claimants receive the support they need in a timely fashion*".

24. When giving evidence to the Work and Pensions Committee on the 8th February 2017[8], the, (now retired) Minister for Welfare Reform, Lord Freud, conceded that administrative problems and design issues are causing problems for those households who are claiming Universal Credit. Lord Freud commented, "*when I left, I was looking at figures that said there was a problem, a proportion of people – probably around a quarter – where Universal Credit was having an effect on their rent arrears*". Lord Freud also accepted that, *"it may take decades for Universal Credit to be fully optimised*".

25. On the 22nd February 2017, the Work and Pensions Committee announced that due to the "*compelling evidence*" it has received about the problems, which are being experienced as the Full Service rolls out across the United Kingdom, it has re-launched its inquiry[9] into Universal Credit.

<u>Universal Credit – Work Allowances</u>

26. From the beginning of the programme to introduce Universal Credit, the Government made it clear that the work allowances, set at a more generous level than the existing earnings disregards in available in the current means-tested benefits, were integral to the offer under Universal Credit that *"work pays*". This is because they allowed claimants to keep more of their earned income before their Universal Credit award began to be reduced.

27. However, from the April 2016 the range of work allowances, available to Universal Credit claimants, reduced from seven to two, with the remaining two work allowances being reduced - as compared to their pre April 2016 amounts. A work

[8] http://www.parliamentlive.tv/Event/Index/6911af5e-eb1c-478e-b3fb-d26b28ab5997

[9] http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/universal-credit-re-launch-16-17/

allowance is now only available where the claimant is responsible for a child, or has a Limited Capability for Work.

28. The Department for Work and Pensions has decided not to publish an impact assessment on the work allowance changes. However, the changes have been subject to significant criticism from a wide range of organisations who all agree they undermining the fundamental principal within Universal Credit, i.e., of making work pay.

29. A report published in October 2016, by the Centre for Social Justice[10]', chaired by former Secretary of State for Work and Pensions Iain Duncan-Smith (also one of the original architects of Universal Credit), concluded that by March 2022, the work allowance cuts will affect more than three million working households, reducing their income by more than £1,000 per year.

Universal Credit - Restricting the Housing Cost Element

30. From 6th April 2017, a single claimant, aged 18 to 21 years old, who is unemployed, and making a new claim for Universal Credit will no longer be automatically entitled to the have an amount, in respect of their housing costs (rent) included in the calculation of their Universal Credit award. The Government has confirmed that young people will be exempted if they:

- are vulnerable
- estranged from parents. This is a complicated area of social welfare legislation and many young people, who present to the local authority as homeless, are estranged.
- have their child living with them.
- have been living independently & working continuously for six months before making UC claim (will only have their housing costs included for six months.)

Universal Credit – Youth Obligation

31. From 06 April 2017, unemployed Universal Credit claimants aged 18 to 21 years old and living within a 'Full Service' area, will participate in an intensive regime of support from day one of their claim. This is known as the Youth Obligation. If the young person is still unemployed after six months, they will be expected to apply

[10] http://www.centreforsocialjustice.org.uk/library/case-strengthening-universal-credit-work-allowances

for an apprenticeship; traineeship; gain work based skills; or go on a mandatory work placement.

32. Whilst Flintshire has a low rate of youth unemployment, the County will become a Universal Credit Full Service area from April 2017. To date little information has been made available by the Department for Work and Pensions on the framework for the Youth Obligation.

33. Therefore, even at this late stage, many questions remain unanswered, including, what will the mandatory work placements entail, and are sanctions imposed if a young person does not engage with a mandatory work placement?

34. Having these questions answered is important. It is a reasonable assumption that it will be the more vulnerable young people who reach the end of the six-month intensive support period without securing employment and face the prospect of undertaking a mandatory work placement. Agencies, who work with vulnerable young people, do require full details of the mandatory work placements, etc, in order to support young people and help them to make informed decisions.

Conclusion

35. For further information on the reforms covered within this briefing note, please contact: jen.griffiths@flintshire.gov.uk or sian.humphreys@flintshire.gov.uk