Welfare Reform Act

Briefing paper from the
Chartered Institute of Housing

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Background

The Welfare Reform Act received Royal Assent on 8 March 2012, following 18 months of discussion, lobbying, and debate since the publication of the Coalition's "Welfare Reform White Paper: Universal Credit: Welfare that Works" in 2010, which set out the Government's commitments to a radical reform (and simplification) of the welfare system.

The Act sets out in law fundamental changes to the welfare system, aimed at improving the benefits system to reduce dependency on welfare: improve incentives to work, making work pay and reducing overall spend at a time of economic instability in the UK. This includes the introduction of a **single working-age benefit "universal credit**" which draws together the existing elements of means-tested support for employment, housing and childcare into a single award that is paid direct to claimant rather than the landlord, **a total benefits cap, and reduced housing benefit awards for social tenants deemed under-occupying social rented sector properties and LHA rates to be calculated using existing awards uprated by CPI rather than actual market rents.** For pension age claims a new **housing credit** element within the existing **pension credit** will replace housing benefit for pensioners who need help with their rent.

A number of other measures will also affect tenants, local authorities, housing providers in the support given to tenants and residents arising as a result of the Welfare Reform Act although these are not specific to housing:
• Disability living allowance (DLA) is replaced with the personal independence payment for working age people (aged 16-64) from April 2013, and will be focused on the most disabled. The new benefit has many of the same basic features as DLA (non-means tested, flat rate, higher rates for higher severity) but with a higher threshold for qualification and new tougher points based (employment and support allowance style) medical test required to qualify
• The discretionary social fund is abolished. Community care grants and crisis loans are replaced with 'local welfare assistance' administered by top tier authorities. These new payments are available to vulnerable local people but cannot be used for living expenses; otherwise local authorities are free to design their own scheme to meet local priorities. The new payments are funded by a non-ring fenced grant. Budgeting loans for items such as furniture and white goods will be replaced by the payments system for universal credit (in effect an advance award / payment on account of universal credit) and will continue to be administered nationally.
• The national council tax benefit scheme will be abolished from April 2013 and replaced with local council tax rebates based on rules decided by the local authority. Councils will continue to receive central government funding for council tax rebates but funding is to be cut by 10% which provides the incentive for authorities to design their own rules. Local authorities will need to prepare a new scheme by January 2013 for its implementation in April 2013; guidance on this is expected later this summer.

Outside the Welfare Reform Act there are a number of other welfare reforms that are being implemented by Government using its powers under existing legislation that either affect housing directly or otherwise further reduce awards to claimants for help with their non-housing costs.

The net effect of these changes, when combined with all the other changes is that not only will claimants face a shortfall with their rent or mortgage payments but also their other benefit income from which to make up any shortfall is also being reduced.

The other main (non-Welfare Reform Act) measures are:
• changes to the calculation of awards and restrictions in entitlement to tax credits (April 2011 and April 2012)
• deep cuts to housing benefit for private tenants through changes to the calculation of the local housing allowance (April 2011 for new claims, and unwinding throughout 2012 for existing claims) (see 'LHA changes' section at the end of this briefing)
• the end of temporary measures for support for mortgage interest that were designed to help stabilise the owner occupied market during the credit crunch (January 2013)
• the transfer of incapacity benefit, severe disablement allowance and income support (made on the grounds incapacity for work) claims onto ESA (employment and support allowance), or if the claimant fails the tougher medical test, JSA (jobseeker's allowance)
• the gradual raising of state pension credit age to 66 by September 2020
• future annual uprating of benefits to be linked to Consumer Price Index (CPI) rather than Retail Price Index (RPI)

This briefing sets out the main welfare reform changes affecting the housing sector over the next five years.

Particular elements relevant to housing

Universal credit

Phased in from October 2013, universal credit will provide support for those of working age both in and out of work. From October 2013, **new claims** for those out of work will receive universal credit and from April 2014, new claimants who are working will receive universal credit. This means that regardless of tenure, universal credit will replace:
• housing benefit for working age claims
• income based jobseeker's allowance
• income support
• income-related employment and support allowance
• working tax credit
• child tax credits

These separate benefits will no longer exist for new claims and all existing claims will be converted to the new universal credit by October 2017. Consequently, universal credit will cover housing and support costs for income and children in one stand alone single benefit depending upon the claimant's income level and family circumstances; there will be no separately identifiable payment made exclusively for housing costs.

These reforms are designed to provide an improved incentive to work whereby the loss of universal credit (compared with existing benefits) as earnings rise is less steep than currently. Changes are also made to the earnings disregards but these are complex and the net effect for most claims is that their value will be roughly the same as it is at present with some improvement for lone parents and disabled people.

Existing claimants' will move from housing benefit to universal credit from October 2013 – October 2017 through one of two distinct processes: 'natural migration' and 'block transfer'. Until this takes place, existing claimants will continue to receive housing benefit, their basic out of work benefits (JSA/ESA/IS) and child tax credits as separate benefits as now.

Natural migration will start from October 2013 and will apply to individual claimants as and when they experience a major change of circumstance (e.g. move home, change in household size, start work). Block transfer will start in 2015 and will convert all remaining cases in blocks (probably on a local authority basis with all remaining cases transferred at once). The final block transfers are expected to take place in October 2017.

The implementation of universal credit will be administered via a centralised IT system (which is still in design phase). This means that the majority of claims will be dealt with online, with a back-up national telephone call centre for all other cases. DWP has an initial target of 50% of claims to be dealt with on-line rising to 80% by 2017. The result is that local authorities will no longer administer support for help with housing costs although the intention is that local authorities will eventually provide face to face support for some claimants with complex needs, but this is still to be determined.

Pension credit

Where claimants are over pension age, pension credit is also changing so rather than claiming housing benefit, help with rent will be incorporated into a new element of pension credit called housing credit (which will also replace existing support for mortgage interest). **New claimants** will claim pension credit with housing credit from October 2014; **existing** housing benefit customers over pension credit age (with or without pension credit) will be transferred to a modified pension credit (including housing credit) between October 2014 and October 2017. (New claims prior to October 2014 will be dealt with in the same manner as now). Draft regulations on how the pension credit and housing credit will work are expected in the summer.

Direct Payments

Once in receipt of universal credit, payment will be calculated and paid directly to the claimant on a calendar monthly basis in arrears, which means the current practice of housing benefit payments to the landlord will end. This moves the receipt of benefit to be similar to a 'salary' received in work, with the aim that this will aid recipients in the transition to and maintenance of work and to promote claimants' effective budgeting. Those deemed 'vulnerable' will still be able to have their payments paid direct to the landlord – how this mechanism will work or how vulnerable is defined are yet to be announced. Pension credit claimants will be able to opt to have their housing credit paid directly to their landlord (similar to housing association tenants on housing benefit at present).

The movement onto a direct payment will only occur as the claimant is phased onto universal credit (so new claimants from October 2013 and existing claimants from April 2015-17). Prior to the implementation of direct payments, DWP has announced a number of demonstration projects, which will begin in June 2012. These aim to look at a range of topics to aid implementation from October 2013.

Household benefit cap

From April 2013, a total cap will be introduced on the amount of benefits any individual or couple is entitled to. The total cap is set at £26,000 per annum per household (£500 a week) for couples with children and lone parents; and £18,200 (or around £350 per week) for single people and couples without children. Regulations anticipated in summer 2012 will set out these amounts in due course.

The household benefits cap will apply to:

- housing benefit
- income based jobseeker's allowance
- income support
- income related employment and support allowance
- child tax credits
- child benefit
- council tax benefit

A number of exemptions apply to the household benefits cap if a person is in receipt of:

- working tax credits;
- disability living allowance (personal independence payments)
- employment support allowance (support element) but not DLA
- attendance allowance
- war widow's pension or war widower's pension

A further exemption will apply to claimants who have been in work for the preceding 12 months, should they lose their job through no fault of their own; a nine-month grace period will apply from when they lose their job during which the cap will not apply.

Prior to the introduction of universal credit in October 2013, the household benefits cap for **new and existing claims** from April 2013, will be administered by local authorities through housing benefit deductions. Once households are transferred to universal credit, the cap will apply directly to the whole universal credit award.

Size criteria / under occupancy

The size criteria is the only element of the current welfare reforms which will apply to the social rented sector alone. It will apply to **new and existing** working age housing benefit claimants from April 2013 (regulations on this are expected in May 2012); existing claimants will have their accommodation assessed from the anniversary date of when their claim was first assessed. This means that claimants will be assessed to establish the size of accommodation they reasonably need. Housing benefit will be restricted according to the number of bedrooms each person/family requires; those who are assessed as under-occupying their home, will have their housing benefit reduced by a percentage rate set at 14% for a tenant with one extra bedroom and 25% for two or more extra bedrooms. An estimated 670,000 households in the social rented sector will be affected losing around £676 per year. The measure means:

- one bedroom will be allocated for the tenant and their partner if they have one living as part of the household
- two children under 10 expected to share regardless of gender
- two children under 16 of the same gender will be expected to share
- one bedroom will be awarded for anyone else not included above
- for disabled tenants requiring a non-resident carer to stay overnight, the tenant will be allowed one extra room
- as the qualifying age for state pension credit will be 61 years from April 2013, tenants that age and over will not be subject to the size criteria.

Apart from claimants over pensionable age, there are no exceptions to this measure regardless of the claimant's circumstances. This has implications for a number of tenants:

- separated parents sharing care (the 'main carer' receives the HB)
- parents whose children visit but are not part of the household
- couples using a spare bedroom when recovering from illness
- families with disabled children
- disabled people, including people living in adapted or specially designated properties
- foster children are not counted as part of the 'benefit' household

Housing benefit assessors will rely on information provided by the claimant and on the landlord to advise on how many bedrooms their property contains. Therefore, how a bedroom is defined (whether it will be of sufficient size for children to share) and who determines how many bedrooms a property may have will be locally determined.

The size criteria means that anyone under-occupying will need to either move or face a reduction in their benefit. This new feature will also be replicated in awards of universal credit.

An additional criterion is related to non-dependents; a person over the age of 16 is entitled to a room on their own, however, once that household member reaches 18, they are no longer classed as part of the claimant's family for benefit purposes. Resident adults who therefore share accommodation but are not reliant on the claimant for financial support are classed as non-dependent. Housing benefit is reduced for every non-dependent residing with the claimant (£11.45 per week from April 2012 for non-dependents aged 25 or over and on income support / job seekers allowance (income based) or those aged 18 or over and not in paid work.

Discretionary housing payments

Discretionary housing payments provide financial assistance to tenants in receipt of housing or council tax benefit where the local authority considers the household needs help with their housing costs.

Government has allocated additional support to local authorities to aid households requiring support on a temporary basis due to the potential implications of the size criteria and household cap. In particular, the increased funding for 2013/14 aims to support those who live in properties adapted for disabled people and who may under the size criteria, need additional support to remain in their existing homes; and foster carers who may need an additional room for when they are fostering or are between placements. It is important to note that the increased allocation will not be ring-fenced and so local authorities will be free to allocate the resource locally as they see fit.

Local housing allowance changes

Local authorities administer local housing allowance (LHA) to tenants in the private rented sector who require help with housing costs. LHA rates are based on the size of the household and the area in which a person lives and is normally paid direct to the tenant who then pays the landlord.

- From April 2012, all LHA rates are frozen for the forthcoming year. Prior to this, new claims for LHA rates were set on a monthly basis using real local rental market evidence.
- From April 2013, LHA claims for private tenants will be set using the April 2012 LHA rate increased in line with the consumer price index measure of inflation relevant in September 2012 (rather than the higher retail price index)

Several changes to LHA rates were announced prior to the Welfare Reform Act:

- From January 2012 in the private rented sector, the age limit for single claimants to whom the shared accommodation rate applies rises from 25 to 35 years of age for new claims. DWP estimates 62,000 tenants will be affected losing on average £41 per week. Where the SAR applies, the claimant will have their entitlement calculated based on a room in a shared house (even if they live in self-contained accommodation. Transitional protection applies on the same basis as the 30th percentile measure (i.e. it will run out at the same time)

• From April 2011, LHA rates are set at the 30th percentile in each area (instead of the median or 50th percentile), making roughly 3 in 10 properties affordable in an area for those on housing benefit, rather than the 5 in 10 before. This change affected new claimants from April 2011 and existing claimants are protected for nine months starting with the first anniversary of their claim that falls after 31 March 2011. The DWP estimated that this measure would affect some 83% of the LHA caseload at around 775,000 tenants in the private rented sector, losing £9 per week on average.
• Additional changes from April 2011 for new tenants and phased in for existing tenants from January 2012 - capped the maximum weekly rate at £250 per week for one bed; £290 for two bed; £340 for three bed and £400 for four bed and larger properties with the four bedroom property rate the maximum payable. This measure affects approximately 21,000 properties in the private rented sector (2% of LHA caseload – 17,000 in London at £74 a week)
• From April 2011, LHA recipients were no longer allowed to keep the difference between their rent and the LHA rate. This applies from the first anniversary of their claim that occurs after 31 March 2011

Conclusions

CIH has fought a long and visible campaign against many of the welfare reform measures. Some changes are already here whilst others will be introduced in the coming years. This briefing gives you an overview of the main changes affecting the housing sector and helps you to prepare for these changes. Our policy work on welfare reform will be on-going, for example trying to mitigate some of the impacts of policy changes through influencing the detail of the regulations.

Further resources

Year of Practice:

Over the next 12 months, the housing sector will need to put new policies into practice, whilst getting the basics right and delivering great services. Our Year of Practice services are designed to help you understand these practical implications including those on welfare reform. We have a range of forthcoming resources, which will help you work through these issues:
• Size criteria – practical guidance – May
• Guide to Housing Benefit and Council Tax Benefit 2012 - 13 – May
• The practical implications of welfare reform – June
• How to…develop an under occupation strategy - June
• How to…maximise organisational income - July
• How to…support tenants manage money - July

For information on these resources contact policyandpractice@cih.org

Welfare reform services

Our welfare reform service provides a range of services designed to help housing providers get to grips with the changes arising from welfare reform. The housing benefit calculator is a tool to help organisations assess the impacts of housing benefit changes for tenants and businesses. It enables users to estimate the number of tenants at risk of losing housing benefit; estimate the possible impact on future arrears; support business planning and informed decision making; and is regularly updated to ensure users are kept up to date with latest intelligence. For more information on how our welfare reform service can help your organisation, contact the welfare reform services team on 02476 851779 or by e-mail welfarereform@cih.org