

CABINET (HOUSING) COMMITTEE

19 SEPTEMBER 2012

WELFARE REFORM UPDATE

REPORT OF HEAD OF HOUSING SERVICES

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

The Welfare Reform Act 2012 sets out fundamental changes to the welfare system, aimed at improving the benefits system to reduce dependency on welfare through improving incentives to work, making work pay and reducing overall spend at a time of economic instability in the UK.

Many of the proposals contained in the Act will have a direct impact on Council tenants and this report highlights some of those potential impacts.

Work on preparing for Reform is underway and officers are currently reviewing a range of options aimed at mitigating the impact or at least assisting tenants affected where possible and a further report on proposals for change will be brought to this Committee in January 2013.

RECOMMENDATIONS:

- 1 That the Committee notes the potential impact of Welfare Reform on City Council tenants as detailed in the report.
- 2 That the Committee notes the range of measures proposed to mitigate the impact on Council tenants as detailed in paragraph 4.10 of the report and comment on any additional measures they wish to considered and reviewed
- 3 That a further report detailing actions and resource requirements be brought to the January 2013 meeting of the Committee.

CABINET (HOUSING) COMMITTEE

19 SEPTEMBER 2012

REVIEW OF DESIGNATION OF SHELTERED HOUSING

REPORT OF HEAD OF HOUSING SERVICES

1. INTRODUCTION

- 1.1 The Welfare Reform Act 2012 received Royal Assent on 8 March 2012, following 18 months of intense debate and scrutiny 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.
- 1.2 The Act sets out fundamental changes to the welfare system, aimed at improving the benefits system to reduce dependency on welfare through improving incentives to work, making work pay and reducing overall spend at a time of economic instability in the UK.
- 1.3 It introduces a number of changes specific to housing:
 - A total household **benefits cap** which will apply on the amount of benefits any individual or couple is entitled to (from April 2013)
 - A **size criteria** for those in social housing deemed to be under-occupying their home (from April 2013)
 - A single working age benefit, **universal credit** which replaces current benefits for employment, housing and childcare support (from October 2013)
 - **Direct payments** for those moved onto universal credit. This will be paid as a single payment direct to the claimant rather than the landlord (from October 2013)
 - 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 (from October 2014)
- 1.4 A number of other measures will also affect tenants as a result of the Welfare Reform Act although these are not specific to housing. They include:
 - Disability Living Allowance (DLA) is replaced with the **Personal Independence Payment (PIP)** for working age people, 16-64 years (from April 2013)
 - The discretionary social fund is abolished. Community care grants and crisis loans are replaced with **local welfare assistance**.

- The national Council Tax benefit scheme will be abolished (from April 2013) and is replaced with **local Council Tax rebates** based on the local authority scheme.
- 1.5 Outside of the Welfare Reform Act there are a number of other welfare reforms that are being implemented by the 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. These include:
- Changes to the calculation of awards and restrictions in entitlement to **tax credits** (from April 2011 and April 2012);
 - Cuts to housing benefit for private tenants through changes to the calculation of the **Local Housing Allowance**, LHA (from April 2011 and throughout 2012);
 - The end of temporary measures for support for mortgage interest (January 2013);
 - The transfer of Incapacity Benefit, Severe Disablement Allowance and Income Support (made on the grounds incapacity for work) claims onto **Employment and Support Allowance**, ESA or if the claimant fails the tougher medical test, **Job Seekers Allowance**. JSA (from February 2011 to March 2014);
 - Gradual rising 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).
- 1.6 The net effect of these changes is that not only will claimants face a shortfall with their rent payments but also their other benefit income from which to make up any shortfall is also being reduced.
- 1.7 The Council currently has an above-average performance for rent collection with 99% of rent and charges due being recovered for 2011/12. There will be an associated financial impact as a result of the above changes which has been identified in report CAB2386 which is discussed elsewhere on this agenda. The risk assessment for the HRA budget recommends retaining a higher level of balances in the short term to cover the potential for an increase in rent arrears. It is expected that most tenants will pay their revised rent charge. However, it is anticipated that there will be an increased need to support and assist tenants with the changes to minimise arrears cases. This will include prior to changes being implemented and will be ongoing once in place.
- 1.8 This report will provide further detail on the three key changes specific to housing, benefit cap, size criteria and universal credit/direct payments, highlighting the potential impacts for the Council and the proposed responses to minimise these.

2. THE BENEFIT CAP

- 2.1 From April 2013, a total cap will be introduced on the amount of benefits any individual or couple is entitled to. The cap is expected to be set at £26, 000 per annum per household (£500 a week) for couples with children and lone parents; and £18, 200 (£350 a week) for single people and couples without children.
- 2.2 The cap will apply to a number of benefits including Housing Benefit, JSA, ESA, Income Support, child tax credits, child benefit and council tax benefit but there will also be exemptions including working tax credits.
- 2.3 The cap will initially be applied through deductions in Housing Benefit payments. Claimants who are affected will have a reduction in their Housing Benefit to ensure their total amount of benefit is not more than the cap level. These tenants will then have to use money from their other benefits to pay the rent due for their home. Once households are transferred to Universal Credit (from October 2013), the cap will apply directly to the whole universal credit award.
- 2.4 Two Council tenants have currently been identified as being affected by the benefit cap. These households have 4 or 5 children and will have a significant decrease in their Housing Benefit entitlement.
- 2.5 The Department for Work and Pensions (DWP) has already sent a letter to those claimants who could be affected. The DWP will help those claimants to get information about the changes and to think about what they can do now to get ready for the change. We propose to write to the tenants in October 2012, offering them assistance with their finances and if appropriate, refer them for support and signposting to other agencies that can help.

3. SIZE CRITERIA

- 3.1 The size criteria is the only element of the current welfare reforms which will apply to the social rented sector alone. It will replicate the size criteria that applies in the private rented sector whose claims are assessed in accordance with the LHA.
- 3.2 From April 2013, all new and existing 'working age' housing benefit claimants will have their accommodation assessed to establish the size of property they reasonably require. Those who are identified 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.
- 3.3 The size criteria allows one bedroom for:
 - Every adult couple
 - Any other adult aged 16 or over (1 bedroom if live alone)
 - Any 2 children of the same sex under 16

- Any 2 children regardless of sex under 10
 - Any other child that can't be paired up
 - An extra room allowed for a carer if the tenant/household member requires overnight care
- 3.4 Limited protection is available for some groups such as disabled people where extensive adaptations have been made to their property and also foster carers. Also, as a result of a recent Court of Appeal case concerning severely disabled sharing a room, more exceptions are expected.
- 3.5 The size criteria means that anyone of working age who is under-occupying will need to either move to more suitable accommodation or face a reduction in their Housing Benefit. This system will be replicated in awards for Universal Credit once this is in place.
- 3.6 Over 300 Council tenants have been identified as potentially being affected by the size criteria. However, this number is not fixed and is constantly changing as tenants become eligible and ineligible for Housing Benefit as a result of their changing circumstances. We propose to write to the tenants affected, informing them of the changes and asking them to confirm their household and property details and whether they require assistance to downsize to a smaller property or financial help to determine whether they can afford the additional room/s. If appropriate, tenants will be referred for support and signposting to other agencies for help. A number of these identified tenants already have a current Housing Application and a Band 2 for requiring smaller accommodation. Their ability to move relies on the availability of suitable alternative accommodation and personal preferences and choices.
- 3.7 The Hampshire Home Choice Allocations Framework and Winchester Choice Based Lettings Scheme are to be reviewed in light of the size criteria changes and other changes as set out in the recent DCLG guidance 'Allocation of accommodation' in relation to changes to Part 6 of the 1996 Housing Act brought about by the Localism Act 2011. A separate report will be brought to Cabinet on this issue.
- 3.8 We propose to advise applicants on the waiting list of the implications of the size criteria through placing a message on Hampshire Home Choice and also sending information with renewal letters. We will also be advising potential tenants of the changes when they are nominated for our properties and also completing financial viability checks at sign ups. All new applicants will be notified as part of their application verification process.
- 3.9 An increase in rent arrears is anticipated as a result of the introduction of size criteria, as there will be cases where the tenant is unable to meet their new rent obligation. The arrears policy will need to be reviewed to incorporate how particular cases are dealt with, for example where the tenant wishes to downsize but cannot do so due to the lack of availability

of suitable alternative accommodation. Also, consideration will need to be given to how such cases are dealt with under the Allocations Framework, which currently places tenants with arrears in Band 5.

- 3.10 Increased transfers will also carry an associated increase in the costs of repairs works to void properties. We will continue to encourage tenants to complete mutual exchanges as this is a more cost effective way for tenants to move and can be quicker than transferring.

4. UNIVERSAL CREDIT & DIRECT PAYMENTS

- 4.1 Phased in from October 2013, Universal Credit will provide support for those of working age both in and out of work. The roll out will be on a district by district basis, with a full national roll out by April 2014. From April 2014, no new claims can be made for housing benefit, income-based jobseeker's allowance, income support, income-related employment and support allowance and tax credits. All existing claimants of these benefits will be converted to Universal Credit from April 2015 to October 2017.
- 4.2 Consequently, Universal Credit will cover housing and support costs for income and children in one standalone benefit depending on the claimant's income level and family circumstances; there will be no separately identifiable payment made exclusively for housing costs.
- 4.3 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 improvements for lone parents and disabled people.

Direct Payments

- 4.4 Currently Housing Benefit is administered by the Local Authority and is paid directly to the landlord. For Winchester City Council tenants, their Housing Benefit is paid onto their rent account on a weekly basis. Under Universal Credit, payments will be managed by the Department of Work and Pensions (DWP) removing responsibility for some types of benefits from HMRC and LAs.
- 4.5 Universal Credit will normally be paid calendar monthly in arrears and directly to the claimant's bank account. The idea is that the receipt of benefit is 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. If a claimant is considered to be vulnerable, their payments will still be paid directly to the landlord. How this mechanism will work, and how vulnerable is to be defined, has yet to be announced. However, this is being heralded as the exception rather than the rule. Pension credit claimants will be able to opt to having the housing credit paid directly to their landlord.

- 4.6 The normal method for claiming Universal Credit will be through an online application. However, if a person cannot claim this way they will be able to do so by phone or in person. Most communications between the DWP and claimants is intended to take place online including notification of change or circumstances. There are concerns regarding claimants who do not have easy internet access and also waiting times for contacting the DWP by 'phone. At the moment, Winchester City Council tenants can come in and see a Housing Benefit advisor or a home visit can be arranged. These services will be extremely limited under Universal Credit.
- 4.7 The movement onto a direct payment will only occur as the claimant is phased onto Universal Credit. Prior to the implementations, the DWP is currently running a number of direct payment demonstration projects with local authorities and housing providers to see how tenants manage their monthly payment of housing benefit and to seek to address any problems in communication that may arise. More information and guidance will be published this Autumn and Spring 2013 as the pilots run their course.
- 4.8 The issue of direct payments has caused the housing sector as a whole considerable anxiety. There will be an increase in arrears as a result of this system but to what extent is currently unclear. We should have a better understanding once the results of the pilots are published.
- 4.9 Currently, 33.5% of Winchester City Council tenants are in receipt of full Housing Benefit and 23.2% receive partial Housing Benefit. At the current rate, this equates to over £12.4 million annually.
- 4.10 As the impacts of Universal Credit are potentially dramatic and affect nearly 3,000 of our tenants, we are proposing to create a 'task group', led by Amber Russell, Tenancy Services Manager and including key Council Officers and tenants, to manage this process of extreme change. The task group will be looking at issues such as:
- Communication and awareness raising amongst tenants
 - Identifying customer support needs & providing appropriate assistance
 - Encouraging tenants to set up bank accounts that allow direct debits
 - Partnership working with the CAB to provide welfare rights and financial assistance services
 - Partnership working with the Credit Union
 - Promoting Direct Debit and increasing collection dates
 - Helping tenants to gain employment
 - Reviewing our current services and procedures
 - Training for staff
 - Training for tenants on money management and budgeting
- 4.11 There are possible resource implications as a result of the increased commitment and potential new services that will be required as a result

of the introduction of Universal Credit. Further papers will be brought to Cabinet on this issue and to update on the progress made.

OTHER CONSIDERATIONS:

5. SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 5.1. The proposals set out in this report have a direct relationship to the "Active Communities" Change Plan.

6. RESOURCE IMPLICATIONS:

- 6.1. Whilst the proposals in this report have no direct resource implications, some additional resource will be required if the Council is to strive to maintain current levels of rent collection performance. This additional resource requirement will be incorporated into the 2013/14 budget considerations.

7. RISK MANAGEMENT ISSUES

- 7.1. The potential impact of direct payments on rent collection performance has been considered as part of the HRA Working Balance risk analysis as detailed in CAB2386 (HSG) elsewhere on this agenda. The potential impact on the HRA is still unclear. A number of "test" authorities have already trialled the direct payment approach, although actual impact has varied, all reported an immediate increase in rent arrears and some project a very significant increase of around 25%, which for Winchester could be as much as £1m per annum.

8. TACT COMMENT

- 8.1 These changes will no doubt cause real problems from tenants. It is good to see that the Council is reviewing how it can help those that will be affected.
- 8.2 Whilst it is accepted that Govt proposals have some merit, all changes like this have unforeseen consequences and it is important that the Council does all it can to help people cope with the hardship they may face when the changes are introduced.