Cabinet

30 May 2012

Welfare Reform

Report of Corporate Management Team
Report of Lorraine O' Donnell, Assistant Chief Executive and Cllr Simon Henig, Leader of the Council

Purpose of Report

1 To inform Members of the Government's welfare reform agenda and consider the implications for County Durham and the Council.

Executive Summary

2 The Welfare Reform Act 2012 is one of the largest policy changes to be introduced by the current Government.

3 The Act has been designed to deliver £18 billion savings from the welfare budget as announced in the budget and spending review 2010. It does not address the further £10 billion savings expected from welfare spending that was announced in the budget of March 2012.

4 One of the aims of welfare reform is to simplify a very complex array of benefits available to people who are unemployed, disabled, unable to work, have childcare responsibilities or who are on low incomes. The complexity of both the current arrangements and the proposed changes makes it very difficult to forecast the implications and outcomes of the Act. This report draws on the stated aims of the Act, the impact assessments prepared by the Department of Work and Pensions (DWP); statistical information for Durham and analysis carried out by bodies such as the Institute for Fiscal Studies (IFS) to anticipate potential implications for the county.

5 The main changes to welfare as a result of the Act are:

a) the introduction of Universal Credit (UC) with effect from October 2013, a single benefit to be paid on a monthly basis. UC replaces Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Child Tax Credit, and Working Tax Credit;

b) the Act abolishes both Housing Benefit (HB) and Council Tax Benefit (CTB) that are currently administered by local authorities on behalf of the DWP. The Act replaces centralised support for CTB with a localised support mechanism, with funding coming from un-ringfenced grants paid directly to local authorities. There will be 10% less Government funding available in the localised scheme which equates to an estimated reduction in grant of £5.5m in 2013/14;

c) changes to Housing Benefit will require social-sector houses to have a size criterion applied, with any working-age household deemed to be under-occupying their home to have part of their Housing Benefit removed. Most working-age claimants will also no longer be able to have their Housing Benefit paid directly to their landlord;

d) the Act abolishes the Social Fund from April 2013 which comprises 'last resort' benefits such as Crisis Loans, and replaces it with a non-ring fenced grant which will be paid to local authorities in England. Local authorities will be responsible for distributing this money;

e) the Disability Living Allowance (DLA) is to be replaced for all working-age claimants by a Personal Independence Payment;

f) the Act empowers the government to put a cap on the total benefits to which an individual or couple is entitled. This cap is expected to be introduced in April 2013, and will be set at a working household's average net earnings – currently expected to be £26,000 a year (a maximum of £500 per week) for lone parents and couples with or without children; and around £18,000 a year (a maximum of £350 per week) for single people without children or whose children for whom they have responsibility do not live with them. The cap will apply to the combined income from out of work benefits, Housing Benefit, Child Benefit and Child Tax Credit, Universal Credit from October 2013 and other benefits such as Carer's allowance and Maternity Allowance;

g) the amount of time that people can receive contribution-based Employment Support Allowance (ESA) will be limited to 365 days for those claimants in a Work Related Activity Group or in the assessment phase;

h) the 'Youth' provision, enabling disabled young people to qualify for the benefit without paying National Insurance contributions is abolished by the Act.

6 The main findings of this analysis are:

a) The Act will affect over half of Durham households who will have to reapply for a new benefit or be reassessed. It is possible that the transition to new arrangements will be difficult with many claimants likely to be confused by the changes or unable to use new online claim processes;

b) The Institute of Fiscal Studies[1] estimates the impact on household incomes of tax and benefit reforms due to be implemented in 2012-13 amounts to a net takeaway of about £4.1 billion (an average of £160 per household) in that year. This they suggest will rise to about £9.8 billion (£370 per household) in 2013-14. The largest average losses from the 2012-13 reforms as a percentage of income will be among those in the bottom half of the income distribution. Households with children are set to lose the most from the reforms, and pensioner households are the one major demographic group who will gain from them, on average;

c) The central premise of welfare reform is that people will move into work and therefore offset any loss of income from benefits. If the loss of benefits is not compensated by an increase in earnings, then there would be significantly less money within the local economy. Analysis in this report suggests an overall loss to the local economy of around £150 million in 13/14;

d) For the first time Council Tax Benefit (and the Social Fund) would be determined locally with the local authority responsible for any increased volume of demand. A 10 percent reduction in (CTB) means a £5.5 million per year loss to the County on top of other public spending restrictions. Local government rather than central government would assume the risks of potential increased costs should there be an increase in benefit take-up. Clearly authorities with a high proportion of people on benefits face higher risks than those serving less deprived areas. This increased risk comes at a time of unprecedented reductions in resources available to local authorities;

e) Administratively, there are changes required to council services in order for the council to deliver new or changed responsibilities in accordance with the Act. These include changes to housing, homelessness, housing and council tax benefits, social care and welfare advice. The need to develop new systems to administer localised benefits, e.g. CTB and Crisis Loans is likely to result in increased administration costs. The timescale for the introduction of the localisation of council tax benefit scheme, considering that final details are still awaited, is extremely tight, which could lead to delivery difficulties for both software suppliers and local authorities;

f) The scale of the change will inevitably mean that the public will contact the council, local members, MPs and partner organisations who will need to be aware of the changes and to assist the public wherever possible.

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[1] Tax and benefit reforms due in 2012-13, and the outlook for household incomes. IFS March 2012

Background

7 Welfare reform has been a major policy priority for successive governments. At their heart, the reforms have sought to ensure that work incentives mean a life of employment is always more attractive and viable than seeking support from the state, whilst continuing to provide a safety net for people in need. The previous Government was of the view that the existing welfare system was ‘failing to provide security for those who cannot work’, ‘failing to encourage work for those who can’ and ‘failing to ensure support goes to the right people’.

8 The current Government identifies that there are two fundamental problems with the current welfare system: poor work incentives and complexity. As a result they suggest that the current system hinders rather than helps millions of individuals who are in poverty and facing welfare dependency. The key themes in the welfare reform debate have been reducing worklessness, combating poverty, benefit recipients recognising their rights and responsibilities, with certain benefit recipients such as single parents, the disabled and older people encouraged into work rather than remaining on benefits.

9 The Government’s stated aim of welfare reform is to make the system of benefits and tax credits systems fairer and simpler; creating the incentives to get more people into work by ensuring ‘work always pays’; protecting the most vulnerable in our society; and delivering fairness to those claiming benefit and to the taxpayer. A significant driver for reform is that more than £100 billion[2] will be spent in 2014/15 on the main benefits excluding state pension and pension credit and reform is expected to deliver significant reductions in public spending. The largest benefits (excluding state pension and pension credit) are:

a) Tax credits (£28.5bn)

b) Housing Benefit (£23.7bn)

c) Child Benefit

d) Disability Living Allowance (£13.8bn)

e) Employment Support Allowance (£10.9bn)

f) Attendance Allowance (£6.3bn)

g) Jobseeker’s Allowance (£5.9bn)

h) Council Tax Benefit (£4.5bn)

i) Income Support (£2.7bn)

j) Statutory Maternity Pay (£2.4bn)

k) Winter Fuel Payments (£2.1bn).

10 The announcements made in the Spending Review 2010 (which also include the announcements introduced in the June budget of the same year) require savings from welfare reform of £18 billion over the current spending review. The Chancellor’s spring budget of this year

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[2] Small changes this parliament; more big welfare cuts next ? IFS 2012

announced that to maintain current spending reduction targets, a further £10 billion would need to be saved through welfare reform. In addition to making savings, the Government's aim is that by simplifying and integrating the existing set of means-tested benefits and tax credits for working-age adults, Universal Credit will make it easier for claimants to claim the benefits to which they are entitled, make the financial gains to work more transparent, and reduce the amount the Government spends on administration and wastes through payments incorrectly paid out due to claimant fraud or to claimant or official error.

11 The Institute of Fiscal Studies[3] estimates the impact on household incomes of tax and benefit reforms due to be implemented in 2012-13 amounts to a net takeaway of about £4.1 billion (an average of £160 per household) in that year. This they suggest will rise to about £9.8 billion (£370 per household) in 2013-14 once all revenue from tax liabilities accruing in 2012-13 has been collected and once the full year effects of changes to fuel duties and Child Benefit (August 2012 and January 2013 respectively) are felt. This comes on top of the effect of indirect tax rises (in particular the rise in the main rate of VAT from 17.5% to 20%) in January 2011, totalling about £12.8 billion per year (£480 per household), and a net takeaway of about £3.9 billion (£150 per household) in 2011-12 from tax and benefit reforms introduced during this year. The largest average losses from the 2012-13 reforms as a percentage of income will be among those in the bottom half of the income distribution. Households with children are set to lose the most from the reforms, and pensioner households are the one major demographic group who will gain from them, on average.

12 In the current economic climate the policy focus to get people off benefits and into work is even more of a challenge with current economic forecasts indicating slow growth and higher unemployment. The highest rates of unemployment are in the North East (12.0 percent) and Yorkshire and the Humber (10.1 percent) (September-November 2011). Over the last year the greatest rise in the unemployment rate was in the North East (up 2.3 percentage points).[4]

13 A significant challenge for County Durham is that we have an average workless household rate of 19.6 percent, which is just below the regional average (20 percent) but significantly higher than the national average (16 percent). This is compounded by the fact that almost half of the resident population in County Durham (45.4 percent) live in relatively deprived areas (IMD 2010). Former district areas of Sedgefield (51.9 percent) and Easington (72.4 percent) have more than half of the population living in the 30 percent most deprived areas of the county. Furthermore, 21,000 children and 27,000 people aged 60+ are living in poverty.

14 In this context, with higher levels of unemployment in the North East, the implications of the Act are very dependent on what happens to the local economy. The Centre for Regional Economic and Social

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[3] Tax and benefit reforms due in 2012-13, and the outlook for household incomes. IFS March 2012
[4] House of Commons Research paper 12/04 Jan 2012

Research[5] report that the highly skewed distribution of incapacity claimants across the country means that the older industrial areas of the North, Scotland and Wales, in particular, will be most affected by the reforms. They conclude that the reform's impact on the most prosperous parts of southern England will be negligible.

15 The government has published details of how councils can test run the introduction of universal credit. A prospectus[6] for 12 pilot areas to provide face-to-face support for benefit claimants was published jointly last month (April 2012) by the LGA and welfare minister Lord Freud. DWP have stated that no decision would be made on the future role, or future funding, of councils on universal credit until after the pilots had finished and been assessed in September 2013. It should be noted however that this would be just one month ahead of the planned national roll-out of universal credit.

The main changes arising from welfare reform

16 The central change is the introduction of Universal Credit (UC), a single benefit to be paid both in and out of work on a monthly basis which was introduced under the Welfare Reform Act 2012. Universal Credit replaces Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Child Tax Credit, and Working Tax Credit. To receive Universal Credit an individual or couple will have to sign a new claimant commitment, which sets out the expectations and requirements placed upon the claimant, as well as outlining the sanctions should they fail to fulfil them. New claims will begin from Oct 2013 with full migration to UC by October 2017. Furthermore the Act empowers the Government to place a cap on the total benefits an individual or couple can receive (£26,000) which is expected to be introduced in April 2013.

17 The Act abolishes both Housing Benefit (HB) and Council Tax Benefit (CTB) that are currently administered by local authorities on behalf of the Department of Works and Pensions (DWP). The Government's intention is to localise CTB (previously announced in the October 2010 Comprehensive Spending Review), along with a commitment to reduce spending on support for Council Tax by 10 percent or £5 billion each year. A report[7] on the Council's approach to localisation of Council Tax support scheme has been considered by Cabinet at its meeting on 18 April 2012.

18 The reform of housing benefit covers five key changes:

a) as from October 2013 payments for housing benefit will be made directly to the tenant in both the social and private rented sectors;

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[5] Centre for Regional Economic and Social Research, "Incapacity Benefit Reform, The local, regional and national impact". C Beatty and S Fothergill Nov 2011

[6] DWP April 2012

[7] Cabinet report 18th April 2012 – Council's Approach to Localisation of Council Tax

b) in April 2013 a size criterion will be introduced for payment of housing benefit in the social sector which means that those tenants under occupying their homes will have their benefit reduced;

c) a number of changes to payment of housing benefit (Local Housing Allowance) in the private rented sector will be introduced resulting in reductions for a number of client groups in particular single people under 35;

d) charges for non dependants living in a property will increase and the amount of housing benefit therefore will be reduced;

e) The integration of housing benefit into Universal Credit.

19 The Act abolishes the Social Fund, to be replaced with a non-ring fenced grant which will be paid to local authorities in England. Local authorities will then decide how to distribute this money, which replaces 'last-resort' lifelines such as Crisis Loans, in line with local circumstances. Similarly, the Act replaces centralised support for Council Tax Benefit with a localised support mechanism, with funding coming from un-ringfenced grants paid directly to local authorities. Local authorities will be responsible for developing their own schemes for this provision.

20 The Disability Living Allowance (DLA) is to be replaced for all working-age claimants by a Personal Independence Payment. There will be no automatic transfer from one benefit to the other, so people currently receiving DLA will have to make a fresh claim for the new benefit, and will be re-assessed in line with its new assessment criteria. The details of these criteria are currently being consulted upon.

21 There are also important changes to contribution-based Employment Support Allowance. The amount of time claimants in the work-related activity group or assessment phase can claim it will be limited to 365 days. The 'Youth' provision enabling disabled young people to qualify for the benefit without paying National Insurance contributions is abolished by the Act.

Government assessment of the impact of the Act

22. There are more than 40 changes to the welfare system listed in the Treasury Red Book and Spending Review for 2010. Together these identify how the Government expects to reduce the welfare budget by £18 billion by 2015. The Welfare Reform Act comprises the legislative changes that are required to deliver this saving.

23. Much of the consultation[8] and the consequent white paper[9] on reform of the benefits system focuses on the introduction of Universal Credit. However it is important to clarify that whilst very important, Universal Credit is not the only change to the welfare system. Whilst there has

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[8] 21st Century Welfare, DWP, July 2012
[9] Universal Credit: Welfare that works, DWP Nov 2012

been much analysis and debate on Universal Credit, it is much more difficult to understand the implications of the wider Act. In its overall impact assessment of the Act[10], the DWP concludes that a cumulative impact assessment [of the Act] would be likely to obscure the impacts of individual policies rather than aid understanding of those considering the Welfare Reform Bill in parliament and the wider public'. Eighteen separate impact assessments are then provided, each one ignoring, by definition, the impact of all of the others.

24. It might therefore at first glance appear contradictory given the scale of savings to be made that the government has analysed the impact of Universal Credit to be[11]:

    a) The move to a simpler system will change the level of entitlements for some householders. Transitional protection arrangements will mean that there will be no cash losers as a direct result of the move to Universal Credit where circumstances remain the same;

    b) In the steady state, once all existing claims have been migrated to Universal Credit, it is estimated that some 2.8 million households will have higher entitlements than they would have done under the current system, while 2 million would be entitled to less. In some cases the notional reduction in entitlement will be offset by the fact that people are taking up their entitlement for the first time;

    c) Universal Credit will have substantial positive impact on poverty in the steady state. The Department of Work and Pensions estimates that the combined impact of take up and higher entitlement will reduce poverty by around 900,000 individuals, including over 350,000 children and around 550,000 working age adults.

25. The Institute for Fiscal Studies[12] is broadly in agreement with this impact analysis: 'more households will see entitlements rise from the move to Universal Credit *considered in isolation* than will see entitlements fall; in aggregate entitlements will rise by nearly £1.1 billion a year. Low income families will see their entitlement rise by more than high income families, on average, and couples will gain more from the reform, on average, than single adult families especially if there are also children in the family'.

26. The IFS analysis of Universal Credit in isolation concludes that the reform will give rise to both winners and in the long run losers. It also finds that in general the impact on incomes is progressive, with the bottom decile gaining the most as a fraction of income.

27. Because Universal Credit is only one of the many changes to social security benefits and taxes introduced since 2010, the IFS carried out a companion analysis[13] to that of Universal Credit and concluded that 'the changes *altogether* will substantially reduce government spending on

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10 Welfare Reform 2011 assessment of impacts, DWP June 2011
11 Welfare Reform Bill Universal Credit , EIA, DWP Nov 2011
12 Universal Credit: A preliminary analysis of its impact on incomes and work incentives, IFS 2012
13 Child and working age poverty from 2012 to 2020, IFS, Oct 2011

social security benefits and tax credits and will act to increase relative and absolute measures of income poverty over the next decade'.

28. Considered in isolation, Universal Credit should reduce poverty significantly (by 450,000 children and 600,000 working age adults) but this reduction is more than offset by the poverty-increasing impact of the government's other changes to personal taxes and state benefits. The most important of these other changes for poverty is that benefits, including the Local Housing Allowance from April 2013, will now be indexed in line with the consumer price index (CPI) measure of inflation, rather than one derived from the retail price index (RPI).

29. The wider analysis which includes Universal Credit and other changes announced but not yet implemented, in late 2011 suggests that the overall impact to changes to personal tax and benefit policy announced since 2010 is to increase absolute child poverty by 200,000 in 2015/16 and 300,000 in 2020/2021 and to increase absolute working age poverty by 300,000 in 2015/2016 and 700,000 in 2020/2021.

<u>The Government's Equality Impact Assessments</u>

30 Equality impact assessments were undertaken on the Welfare Reform Bill's provisions carried out by the DWP. In total the DWP carried out 20 equality impact assessments in relation to welfare reform. The assessments are limited in some respects because of the lack of detail on some provisions and the lack of data that was available at the time on all groups covered by the new Public Sector Equality Duty. The Department is currently exploring what information it can collect on the additional protected characteristics of sexual orientation, religion or belief, marriage and civil partnership, and pregnancy and maternity.

31 The assessments highlight that some provisions will have a disproportionate impact on the protected characteristics, including women, disabled people, certain ethnic minority groups and children in larger families or single parent families. The DWP has provided some justification for this and mitigation of negative impact however this is limited. Mitigation generally includes being helped to find work. The assessments focus more on implementation mechanisms e.g. communication support and reasonable adjustments than on the policy decision and impact of the change. The impact on carers has not been considered and organisations such as Carers UK have raised concerns about this.

32 The Department for Communities and Local Government (DCLG) has published an EIA about localising council tax. Low income pensioners (65+) are to be protected from any reductions in support as they cannot be expected to seek paid employment to increase their income. The greatest impact will therefore be for working aged people. The assessment recognises that 48 percent of CTB recipient households have at least one child or adult who is disabled. As councils should seek to protect customers who receive some form of disability income (such as DLA) this compounds the impact for low income working age groups. There is no further analysis of impact for this group and mitigation includes the degree of control authorities have in

implementing the 10 percent reduction in expenditure and incentivising people to find work.

Implications of the Act for County Durham

33 Given the detail of the Act, the main implications are expected to be on:

a) individuals and families: this will vary according to individual circumstances. There are two types of impact: of change so that people have to re-claim, over time, against new eligibility criteria on assessments, and, more importantly, families finding that their household income has been reduced unless this is replaced by moving into paid employment;

b) the local economy: as households have less income there is a cumulative impact on the local economy;

c) council services: there are new and changed responsibilities for local authorities. In addition, the implementation of the Act is expected to increase demand in certain services e.g. housing.

Impact on individuals and families

34 To analyse the impact of the Act on individuals and families, the numbers of people currently claiming the main types of benefit to be subsumed within Universal Credit (UC) were sought. These are presented in the tables below at county and parliamentary constituency level.

35 This analysis suggests that over half of Durham households (around 119,600 in total) will be affected by UC changes [14].

36 In order to provide some context for UC affected benefits and tax credits the total amount claimed by Durham residents has been estimated using latest data. Overall, UC benefits and Tax Credits accounts for around £659.6 million per year. This equates to an average of £5,500 per year per family.

37 Other key changes, outside of UC have also been quantified. Changes to Disability Living Allowance could reduce the total amount claimed by a fifth, around £31 million overall for Durham. Latest data indicates that around £156.7 million is claimed in total through DLA, £88 million of which is claimed by working age people.

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[14] Reasonable assumptions have been made that remove the double counting which arises from the fact that households may claim more than one type of benefit.

Selected Benefits subject to reform	Estimated Number of claims	Estimated amount claimed (£million)
Universal Credit		
Tax Credits (families[15])	**53,200**	**221.3**
Out-of-work benefits[16]	**56,690**	**223.4**
of which; JSA (ib)	11,700	40.3
ESA (ir)	4,300	19.1
Income Support	16,500	69.5
Incapacity benefits/SDA	24,100	94.5
Housing Benefit[17]	**47,600**	**214.9**
Total Universal Credit Claims[18]	**157,470[19]**	**659.6**
Estimated Households affected by UC	**119,600**	**-**
Other Key Impacts		
Disability Living Allowance;	40,200	156.7
of which working age	*23,130*	*88.0*
Localisation of Council Tax Benefits	62,700	55
Total Other Key Impacts	***55,100***	***211.7***
Grand Total	**212,600**	**871.3**

38 Within County Durham the impacts are not evenly distributed. In terms of UC Easington has the highest rate of claims of all six Parliamentary Constituencies with around 357 claims per 1000 people. City of Durham has almost half that rate with 190 claims per 1000 people. The distribution of impacts from the localisation of Council Tax Benefits and changes to DLA show a similar pattern. Easington has both the highest number of CTB claimants (12,280) and the highest DLA claimant rate (10.6% of all residents). Conversely, City of Durham has the lowest number of CTB claimants (7,910) and the lowest rate DLA claimant rate (5.0% of all residents).

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[15] Tax Credits are claimed by individuals, or jointly by couples, whether or not they have children described as families in data releases. Child and Working Tax Credits Statistics: Geographic analyses: April 2012 (latest monetary finalised award average from 2009-2010 finalised award report May. 2011). The national ratio of beneficiaries was established and used for local authority level to get an accurate proportion of the amount of people claiming and not just family count that was only available at local level.

[16] These benefits include means tested DWP benefits subject to Welfare Reform. Out-of-work contribution based benefits such as JSA (contribution based) will continue unchanged.

[17] Housing Benefit / Council Tax Benefit recipients by Region and Local Authority: January 2012 (National average used for monetary value).

[18] Totals may not sum due to rounding.

[19] Includes double counting i.e. individuals are likely to claim more than one of these certain benefits.

Parliamentary Constituency	Population (ONS2010)	Universal Credit claims	Council Tax Benefit (CTB) claim	Disability Living Allowance Claims
Bishop Auckland	85,732	28,580	11,860	7,120
City of Durham	97,925	20,010	7,910	4,940
Easington	83,398	32,260	12,280	8,800
North Durham	84,883	27,080	10,980	6,350
North West Durham	89,750	25,800	10,950	6,700
Sedgefield	82,586	25,330	10,390	6,860
***Total*[20]**	***524,274***	**159,060**	***64,370***	**40,770**

39 *For people not able to work*

a) County Durham has around 24,000 people claiming Incapacity Benefit (IB) with a claimant rate of 7 percent working age population rate. These claimant rates are higher than the rate for the North East and England.

b) Currently IB claimants are being reassessed with an aim for all to be reassessed by 2014. The reassessment involves a tougher test which is expected to result in around 50% of claimants being moved off IB and designated fit for work. This will mean a drop in income of about £40 a week for claimants no longer eligible for IB. As well as the immediate hardship to claimants, this change will lead to an increased demand for advice services related to appeals;

c) From April 2012 'contribution based' Employment Support Allowance (ESA) (for those who have paid National Insurance) stops after one year and contribution-based ESA for young people will cease. This will result in an income drop by up to £94.25 a week. Currently 4,300 residents in County Durham receive 'contribution-based ESA' of which 1,300 have been claiming for more than one year;[21]

d) IB migration to ESA will involve the retesting of people claiming IB, Severe Disablement Allowance (SDA) and Income Support (IS) on the basis of a disability. The DWP estimates that 20 percent will lose entitlement to ESA. This will lead to increased financial pressures being placed on those affected by the loss of this benefit.

[20] Parliamentary Constituencies include areas in Darlington UA so total figures will not match County totals.

[21] ONS Feb 2011 figure includes claimant counts of both income based ESA and contribution and income based ESA payment type, which can be explained by joint claims.

40 *For people out of work*

a) The implementation of UC and related welfare to work measures will impact on around 56,500 people in County Durham currently receiving out-of-work benefits. This figure comprises 32,500 out-of-work benefit claimants from income based Jobseeker`s Allowance (11,700); income-related Employment Support Allowance (4,300); Income Support (16,500); and a further 24,000 Incapacity Benefit claimants waiting to be transferred to ESA or other DWP benefits;

b) Almost 12,000 people in County Durham are in receipt of Job Seeker`s Allowance (JSA) and may experience a variety of increased sanctions and hardship payments, (that is payments of JSA(IB) made to certain people who do not qualify for JSA under normal rules and would suffer hardship if JSA is not paid), which are being introduced for failure to participate in mandatory work activity schemes. Young people aged 18-24 are most likely to be affected by these changes. They will also be impacted by proposed changes to the Social Fund (SF), when Community Care Grants and Crisis Loans for general living expenses are devolved to councils.

c) In 2009/10, there were some 3,040 Community Care Grant awards totalling £1.23 million. In 2005/6 (last figures available from DWP) 2,990 Crisis Loans (for general living expenses) were made totalling £174,600. The changes to the Social Fund could lead to more people turning to 'loan sharks' due to lack of available grants or loans. It should be noted that the Government is planning to reduce the overall budget for these grants and loans prior to transferring to councils.

41 *For people in work, receiving Tax Credits*

a) For people in work receiving Working Tax Credits, the overall message is that most people in receipt of this benefit will receive less, with an average reduction of £1,000 per year for families. In County Durham there are 47,100 families receiving Tax Credits.

b) In particular the following changes apply:

- Baby element has been withdrawn - £545 a year;
- Higher limit £50,000 reduced to £40,000;
- Extra support for under 3-year olds cancelled - £208 a year;
- Help with child care costs cut - up to £1,560 per year less;
- Couples must work more hours to get Working Tax Credits.

c) Whilst the obvious target group for welfare reform is those in receipt of out of work benefits, consideration must also be given to those in employment, where tax credits and child benefit will reduce for many low to middle income families. In most cases families may be able to adjust household budgets to absorb the impact of a reduced income. However, with personal debt levels at a record high and inflation at currently 3.5 percent (March 2012) there is a risk for some families that this erosion of income will significantly reduce their ability to afford their housing costs, or continue to service both secured and non secured debt. The Council's Housing Solutions Service for example, have noted a change in the demographic of its service user group to include those in full time employment facing homelessness due to increased personal debt and mortgage arrears. It is therefore likely that a similar pattern will continue over the coming months.

d) Reforms such as the abolition of the baby element of the Child Tax Credit and the reduction in the generosity of the childcare component of the Working Tax Credit particularly affects families with younger children, and cuts to Local Housing Allowance only affect those in the private rented sector.

42 *For people in receipt of Housing Benefit*

a) The integration of Housing Benefit (HB) into Universal Credit (UC), the end of direct payments to social housing providers and the other proposed reductions in housing benefit will lead to higher arrears and increased rent collection costs. Proposed caps to HB could lead to increased demand for smaller, cheaper properties. Changes to HB will see an average claimant in County Durham potentially face:

- tighter restrictions on help with private rent;
- a 25 percent increase in the 'non-dependent contribution';
- restrictions for single under 25 year-olds extended to under 35 year-olds (April 2012);
- HB limits to family size will be extended to social housing from April 2013;

b) This will mean that those people affected by the changes to HB and UC are faced with the following choices:

- stay in their current accommodation and find the money to pay. This will be difficult as a number of people will not only be affected by a reduction in their HB but could lose council tax benefit and a reduction in personal benefits;
- stay and don't pay which will result in high rent arrears, evictions, increased homelessness, impact on health and well being, increased demands on debt advice and other council services;
- move, but as outlined elsewhere in this report, there is a mismatch of supply of one bedroom properties to meet anticipated demand;
- take in a lodger.

43 *For children and families*

a) Clearly, most of the benefit changes outlined in this paper will impact indirectly on children. In addition there are also changes to the benefits targeted specifically at children. These include a freeze on Child Benefit, which will impact on the poorest families as well as the benefit being withdrawn altogether from higher rate tax payers from 2013. From December 2011, lone parents will receive no Income Support (IS) once their youngest child reaches five years of age. The Government has also cancelled the following children's benefits:

- £190 Pregnancy Grant (and Maternity Grant) will now only be applied to the first child;
- Child Trust Fund;
- Education Maintenance Allowance (EMA) (up to £30 per week) to be replaced by smaller bursaries;

b) The new system is expected to be particularly beneficial to lone parents, including those who wish to work a small number of hours as the Government will now pay support for childcare for those working under 16 hours per week. Evidence suggests that most lone parents looking for work want to fit this in with their children's schooling so are looking predominantly for work that is part-time and preferably within school hours;

c) Overall, low-income households with children, particularly non-working lone parent households, lose more as a percentage of income on average from tax and benefit changes to be introduced over this period than pensioners, those of working age without children and better off households with children.

44 *For disabled people*

a) From April 2013 to March 2016 everyone aged 16 to 64 receiving DLA will be reassessed to see whether they are entitled to the new Personal Independence Payment. People entitled to Personal Independence Payment will have their claims transferred over and their DLA will stop. Those not found to be entitled to Personal Independence Payment will be informed and their DLA will stop. They may be able to claim other benefits. There are no current plans to replace DLA with Personal Independence Payment for children aged under 16 and people over the age of 65 who are already receiving DLA.

b) The biggest impact on disabled people is the introduction of a more restrictive test of DLA from 2013. Approximately 23,130 people of working age receive Disability Living Allowance in County Durham. This could mean 20 percent (about 4,600) of people losing their entitlement as well as related benefits such as extra IS and Carers Allowances and non-dependent deductions on HB and CTB. This could result in greater financial hardship, less independence and reduced mobility for those losing the benefit.

c) The average payment of DLA in County Durham is £70.77 per week. Reductions in this payment could have significant impacts on the Council, e.g. people will have less income to contribute to care costs. There is also likely to be a significant increase in appeals and demand for related advice services.

d) According to the Government's Equality Impact Assessment, Universal Credit will improve financial incentives to work for disabled people to approximately the same degree as for non-disabled households. The Government suggest that households with a disabled person are substantially less likely to see a change in their entitlement compared to non disabled households, 54 percent compared to 71 percent.

45 *For older people*

a) Older people will be significantly impacted by changes to the retirement ages for men and women. Older claimants (but below state pension age) are more likely to be under-occupying accommodation once their children have left home;

b) The Government wants to ensure that low income pensioners ,who would struggle to pay Council tax without additional support ,and whom the Government does not expect to work to increase their income ,will continue to receive the same level of support against their council tax bills.

<u>Impact on the local economy</u>

46 Economic development and regeneration is the most important priority for the Council. Proposals in welfare reform are likely to mean that there is less money in the local economy. Taking the IFS estimates of a total 'takeaway' per household of £680 and ignoring that Durham is likely to have a greater than average household takeaway, the net impact to the local economy could be as high as £151 million by 13/14 with most of this impact yet to be felt as the key changes have not yet been implemented.

47 The success of the UC element of the welfare reform and the mitigation of the adverse impacts on women, disabled people and so on, depends on the creation of employment opportunities and their take-up by benefit claimants. It will be important that residents are supported into sustainable employment and for the economy to generate employment opportunities. Working age people will need quality jobs as part of a move towards a higher skilled, higher paid economy. As people are encouraged to move off benefits, there is likely to be an increase in demand for entry level employment and employment related support, with a need to focus on workforce development and progression routes.

48 Nationally there has been a reduction in flexible funding provision such as Single Programme Funding, Working Neighbourhood Funding and other Area Based Grants. This has had a direct impact within County Durham, resulting in a number of initiatives to support employability being withdrawn. The current offer of the Work Programme will not totally replace this previous level of provision.

Impact on the Council

49 The Council will need to develop new systems to administer localised benefits, i.e. CTB and Crisis Loans. Cabinet have considered a report that deals with the introduction of the local council tax support scheme (LCTSS).

50 The Social Fund (Community Care Grants and Crisis Loans) is often described as the ultimate safety net in the social security system. The two elements being abolished have helped the neediest people deal with emergencies or traumatic life events, such as a family member being unexpectedly taken into hospital, homelessness or escaping a violent relationship. Claimants include victims of domestic abuse, receiving money to buy furniture and white goods to set up new homes, or clothes for their children, after being forced to flee their partners with few or no possessions. Other beneficiaries include young people leaving children's homes or foster care, and those with chronic health conditions or disabilities who need aids or adaptations to stay in their own homes. The fund is not ring fenced at the moment with a number of charities calling for it to continue in its current form when administered by local authorities.

51 LCTSS and changes to SF are both expected to result in increased administration costs. There is likely to be an increase in demand for debt advice and representation services as a consequence of financial hardship.

52 There is the possibility that collection rates of Council Tax will fall. The Council will need to consider critical policy choices, for example, future eligibility criteria for CTB. This will involve balancing the priorities of tackling inequalities and supporting people most in need, with what is affordable. There are major finance risks associated with the CTB e.g. which year will be used as the baseline, problems that may arise with collection and if demand increases in the future, the Council will be directly responsible.

53 Furthermore, by splitting the administration of Housing and Council Tax Benefit complexity will be built into the system, in contradiction of the simplification aims of Universal Credit. From 2013 onwards the number of HB clients being paid by the Council will reduce as more people move into UC. The Council will have to manage this change.

54 By having a set amount of funding, pressure and risk on Council budgets will increase if demand is greater than originally thought and the Government is predicting an increase in demand as it becomes easier to claim.

55 Amalgamation of several benefits into Universal Credit will simplify administration and understanding in the longer term. However, the transition to new arrangements will be difficult with many claimants confused by the changes or unable to use new online claim processes. This could lead to people not claiming their full entitlement and also increased demand for advice and support. Communicating the changes

to local people will be of paramount importance .This will require the Council working in partnership with DWP and Jobcentre Plus to agree a communication plan, with back up support to assist claimants to understand and be clear about what they are entitled to within the new arrangements.

56 The introduction of the ‘size criterion’ seeks to put ‘under-occupying’ social housing tenants on an equal footing with those in the private sector in receipt of Local Housing Allowance (LHA). One of the key implications placing pressure on the need for one bedroom accommodation is the under occupancy issue in the social sector and the shared room rate[22] changes in the private rented sector. The total number of people in under occupied properties in the county was 8392 in November 2011. This equates to 17.5 percent of the stock that is under occupied. The total number of people, estimated to be affected by the shared room rate is approximately 986. This breaks down by area as: Chester-le-Street 52; Derwentside 204; Durham City 64; Easington 269; Sedgefield 177; Wear Valley / Teesdale 220. This means:

a) future development programmes may need to change as there are currently no plans to build one bedroom properties. The Homes and Communities Agency (HCA) have confirmed that they are currently reluctant to fund new build on this type of property. In any event there would be a time delay between the externally stimulated demand for one bed properties and new build. Furthermore, if this materialised there would be a competing pressure on for example investment in our Decent Homes standard;

b) Asset Management Strategies currently in place for housing providers are recommending demolition/disposal of one bedroom outdated properties. These properties currently are low demand but with the changes to housing benefits there is likely to be an increase in demand for one bedroom properties. The direction is also contrary to our housing strategy of providing decent homes and increasing choice;

c) although the Council can offer priority in letting policies for those people affected by the changes, the Council simply does not have the one bedroom accommodation to move them into. The total stock for one beds in the social sector is under 25 percent. Furthermore there is a likely impact on the Council’s Housing Solutions front line service due to people’s inability to find or afford a home. Coupled with the lack of one bed social stock and restrictions to LHA in the private rented sector, affordable housing options for people will be limited. Linked with this is the potential increase in homelessness, which will place pressure on the existing temporary accommodation, costing about £40 per night. The Council budget is likely to come under pressure by this potential increase and there is great concern that suitable,

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[22] Medium rent for accommodation where a person has shared use of a kitchen and or bathroom

affordable housing options for some people affected by welfare reform are not available in the County so services would therefore struggle to offer a suitable solution;

d) the Housing provisions element of welfare reform means that the Council may need to reconsider its housing strategy in order to respond to demand. Whilst there is a lack of one bedroom properties in the County there is even less shared housing. The Shared Room Rate will limit all people single, under 35 and renting privately to the cost of a shared property. This would be in the range of £45-55 per week.

Developing the Council's response to welfare reform

57 The implications summarised above make the delivery of council services and the Council's priorities more important than ever. In particular, the focus of the council on improving the local economy needs to remain the highest priority. In addition, the council should seek to help more people into work.

58 Welfare reform will bring major change for the Council and its communities at a time when the Council is required to make significant savings of approximately £171.8 million up to 2016/17. In light of these challenges the following early actions have been identified:

a) Introduction of the Local Council Tax Support Scheme from April 2013: a separate report on this subject has already been considered by Cabinet (April 2012). Project management arrangements are in place to develop this scheme;

b) Reform of Housing Benefit (inclusion in Universal Credit): A Housing Welfare Reform group has been established to consider the actions required for County Durham. The group works jointly with housing providers who are developing their own action plans in response to welfare reform. The aim of the group is to co-ordinate communication and training, share ideas and best practice, support housing providers in responding to welfare reform, monitor the impact and assist with establishing the wider economic case. The work of the group also involves communication with private landlords to establish their intentions in relation to the changes. Housing Providers are currently contacting people affected by the changes and general feedback is that people don't want to move. All housing staff have been trained as enquiries are being received. A mapping exercise is now complete which identifies those areas worst affected so that resources can be targeted effectively;

c) Responding to community need: Work has begun to scope a brief that will enable the council to be more joined up in our response to meeting the needs of the most vulnerable in our community. This is intended to bring together the Council's approach to child poverty, financial inclusion, work with credit unions, providing a level of support for those people and families who end up in severe financial hardship, family focused interventions, regeneration initiatives, employment strategies and approaches, and providing the most appropriate, advice, guidance and support for people (face to face services);

d) Helping more people into work: The ongoing effects of the economic downturn, including reductions to public spending continue to impact on the availability of jobs for local residents. However, the Council's focus on the balance between preparing people for employment, strengthening employer engagement, and providing ongoing support for clients who are in work remains crucial to the challenge welfare reform will bring. Responses such as the Durham Apprenticeship Programme and implementing the 'Youth Contract' (launched April 2012) aimed at bringing forward new job opportunities to be filled, primarily, by 18-24 year olds, will be of paramount importance. Ongoing work with Job Centre Plus to help and advise customers to achieve their employment potential using the 'Get Britain Working Measures'. The council has secured £1.5 million from the current ESF Families with Multiple Barriers programme. This will deliver a joined up programme aimed at engaging residents and assisting with their progression into work.

e) Regional collaboration through ANEC: the Council is working with other authorities, facilitated by ANEC to share approaches to welfare reform.

f) Equality Impact Assessments: Equality impact assessments have been planned for all project activity beginning with, for example, the localisation of council tax support scheme.

Conclusion

59 The Government's welfare reform agenda proposes major change to get people into work and off benefits. It is hugely complex and likely to have significant impact on individuals, families, the local economy and Council services.

Recommendations

60 It is recommended that:

a) further analysis of the Government's equality impact assessment is conducted in order to better understand the winners and losers in County Durham to better support a more targeted approach to respond to community needs; and in support of the development of the localisation of council tax support scheme;

b) the potential for collaboration with other local authorities in the North East, via ANEC, is explored;

c) work to identify how the Council can best support local communities is completed;

d) project management arrangements for introducing the housing and localised council tax support scheme elements of welfare reform are completed;

e) the Council’s approach to job and wealth creation as part of the altogether wealthier priority is continued;

f) a communications plan is developed to communicate the change welfare reform will bring for local communities, Members, partners, staff and MPs;

g) arrangements are put in place to deal with the immediate requirements of customers at Council’s customer service points with appropriate staff training;

h) the council continues to analyse and monitor the impact of Welfare Reform on the communities of County Durham.

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Appendix 1: Implications

Finance
A 10 percent reduction in Council Tax Benefit (CTB) means a £5.5 million per year loss to the County on top of other public spending restrictions. Costs of implementation of welfare reform for systems and administration are not yet known, nor is the level of Government support for new localised services. The allocation to support the implementation of the Local Council Tax support scheme (LCTSS) and the Social Fund (SF) is not known at the present time. There are risks associated with the likely increase in costs from the anticipated increased take-up.

Staffing
All staff involved in delivering frontline service will need to have a thorough understanding of welfare reform. Training and development for staff will be necessary.
When housing benefit function is transferred from the Council to the Department for Work and Pensions (DWP) there could be significant implications for staff in the Housing Benefit Service. The legal view at this stage from the Department for Communities and Local Government (DCLG) is that the transfer of undertakings protection of employment (TUPE) will not apply.

Risk
A number of risks associated with implementation of welfare reform will need to be identified, for example the development and financing of a LCTSS and SF scheme.

Equality and Diversity/Public Sector Equality Duty
The Council will need to undertake an EIA of the changes required to meet the statutory requirements that welfare reform will introduce. Developing eligibility criteria for communities/individuals to access the Social Fund and the LCTSS are examples.

Accommodation
None at this stage.

Crime and Disorder
Increased levels of unemployment and possible reductions in benefits could lead to an increase in crime and disorder.

Human Rights
None at this stage.

Consultation
The Council will need to consult with the public, partners and other stakeholders on any future proposals it will be taking forward within the context of welfare reform.

Procurement
None.

Disability Discrimination Act
In line with EIA above. There are specific proposals related to the Disability Living Allowance that will need to be considered as part of the EIA.

Legal Implications
Subject to legislation and associated regulations.