



## **Budget & Finance Overview and Scrutiny Committee 7 December 2010**

### **Report from the Director of Finance and Corporate Services**

For Action

Wards Affected:  
ALL

## **Overview of Housing Benefit Changes and Wider Welfare Reform**

### **1.0 Summary**

- 1.1 This report provides an overview and details of the anticipated impact of planned changes to Housing/Council Tax Benefit over the next 3 years and the proposed changes to reform the wider welfare benefit system over the next 7 years.

### **2.0 Recommendations**

- 2.1 That Members note the likely impact of changes to Housing/Council Tax benefit due to take effect in 2011/12 through to 2013/14.
- 2.2 That Members note the details disclosed in the White Paper about the introduction of Universal Credits and the early evaluation of the impact this may have for Brent Council and its community.

### **3.0 Detail**

- 3.1 This report provides Members with details of planned changes to Housing and Council Tax Benefit from April 2010 through to 2013 when the planned introduction of a new Universal Credit benefit commences. The changes to Housing and Council Benefit commence in April 2011 and will result in significant reductions to the levels of benefit currently paid to many Brent claimants. These reductions in benefit will create additional pressures on the Housing Benefit service as they are likely to lead to increased queries, appeals and potentially complaints alongside increases in demand arising from the recession and rising unemployment. They may also cause increased Council Tax and Council rent arrears and potentially increased homelessness and housing applications. Preparations are in progress to implement these

changes and to consider how any impact arising from them can be best managed.

The wider welfare reforms proposed by the coalition government , will fundamentally change the way in which working age benefits are currently paid and administered. The detailed impact of these changes cannot be fully evaluated at this stage however this report provides an early indication of the issues likely to arise.

### **Overview of planned Benefit changes**

- 3.2 Between April 2011 and October 2017 a number of changes to Housing and Council Tax Benefit will be implemented. These can be summarised as follows:

**Table 1: Timetable of Changes to Housing/ Council Tax Benefit**

<b>Details of change</b>	<b>Effective change</b>	<b>Impact</b>
Caps on levels of Housing Benefit payable for private sector rental liabilities	1 April 2010	2000 claims will be faced with shortfall in Housing Benefit against rental liability  Reduction to Housing benefit expenditure of £8,817,844 annually
Cessation of £15 excess above rental liability currently payable as Housing Benefit	1 April 2010	2900 claims will experience reduction in weekly entitlement  Reduction to Housing Benefit expenditure of £1,750,788 annually
Non dependent deductions will increase for the first time in 9 years ( these deductions reduce awards of benefit where other adults live in the same household as the claimant )	1 April 2010 and further increases in deductions in April 2011, April 2012 and April 2013	5749 claims will experience reductions to their weekly entitlement  Reductions to Housing Benefit expenditure of £440,034 annually And £ 104,390 for Council Tax Benefit annually
Further reductions to levels of Housing Benefit payable to private tenants as local Housing Allowance becomes limited to 30 <sup>th</sup> percentile of average	1 October 2011	6270 will experience reduction to weekly entitlement  Reduction to Housing Benefit expenditure of £7,266,755 annually

rents rather than 50 <sup>th</sup> percentile		
Further reductions to levels of Housing Benefit payable to private tenants aged between 26 and 35 which will limit benefit payable to shared room or bedsit rates (single over 25s can currently receive benefit up to the rate of a one bed flat)	1 April 2012	1266 over 25s will experience a reduction in benefit and will be limited to seeking shared rooms or bedsits unless they can fund rent shortfalls themselves.
Proposal that annual benefit upratings and rates of Local Housing Allowance will be based on C.P.I and will no longer be based on R.P.I	1 April 2013	All Housing Benefit and Council Tax claims will be affected (currently 41,1000 claims) . It is likely that C.P.I upratings will result in lower annual increases in benefits
Proposals to time limit receipt of full Housing Benefit for working age claimants with reductions of 10% made after 12 months of unemployment	April 2013	Number of claims affected not yet known. Has been some indication that these proposals may not be implemented
Proposals to restrict levels of Housing Benefit payable to tenants in the social rented sector who occupy properties which are considered too large for their household	April 2013	Number of claims affected not yet known but could potentially affect pensioners who remain in social housing after dependent children have become adults and left home
Proposed localisation of Council Tax Benefit with 10% reduction to amounts payable	April 2013	34327 Council Tax Benefit claims potentially affected  Reduction of £4M annually based on 2010/11 awards
Proposals for Housing Benefit fraud investigation to be transferred to DWP.	April 2013	

Universal Credit piloted with some Housing Benefit new applications being phased in during 2013/14 / This new benefit will be administered by DWP	October 2013	Details of the phased transition of benefits to the new Universal Credit are not yet known but details should be clearer over coming months and years
All new applications to Housing Benefit for working age claimants will become part of new Universal Credit.	October 2014	
All remaining working age Housing Benefit claims transferred to Universal credit on a phased basis over 3 years	October 2014 to October 2017	25,000 Housing Benefit claims in total but pensioner claims will remain with Local Authorities in the medium term and other claims may also remain (claims in relation to temporary accommodation and supported housing)

3.3 The above table shows how levels of Housing Benefit and Council Tax Benefit will be reduced or transferred to the new Universal Credit between April 2011 and October 2017. Table 2 shows a summary of the forecast reductions to Housing Benefit and Council Tax Benefit, over the next 2 years.

3.4 **Table 2 : Summary of Number of Households Affected**

<b>Change</b>	<b>Effective date</b>	<b>Number of Households</b>	<b>Reduction to Housing Benefit</b>
Caps on Local Housing Allowance	1 April 2011	1,988	£8,817,844
Removal of £15 excess	1 April 2011	2,900	£1,750,788
Increases to Non dependent deductions	1 April 2011	5,749	£544,424
LHA reduced to 30 <sup>th</sup> percentile	1 October 2011	6,270	£7,266,755
Single room rate extended from up to age 25 to up to age 35	1 April 2012	1,266	£7,238,862
<b>Total 2011-2012/13</b>		<b>18,173</b>	<b>£ 25,618,673</b>

Reduction to Council Tax benefit by 10%	1 April 2013	34,327	£4,000,000
Annual uprating and LHA based on CPI	1 April 2013	41,000	Not yet known
Reductions of 10% to levels of Housing Benefit payable if unemployment lasts for more than 12 months	April 2013	Not yet known	Not yet known
Restrictions to levels of housing Benefit payable to social sector tenants where property is considered to be too large for needs	April 2013	Not yet known	Not yet known
Housing Benefit for working age claimants becomes part of Universal Credit assessment	October 2014-2017	24,293	Not yet known

### **Temporary Accommodation Subsidy**

- 3.5 Changes have already been made to the previous Housing Benefit subsidy system for Temporary Accommodation (TA). Previously for Private Sector Leased (PSL) properties the amount of subsidy per property was capped at a certain level for each local authority, regardless of the number of bedrooms. In early 2009 the DWP announced changes in TA subsidy which were scheduled to take effect in 2010/11. Under these changes, HB subsidy for PSL schemes would be based on Local Housing Allowance rates, and the authority would receive LHA minus 10% plus a £40 per week management fee. In Brent this affected the Brent Direct Leasing and Private Licensing Agreement schemes. Forecasts indicated that this would have a major financial impact in Brent, and a targeted, planned approach was taken to reducing the use of those TA units which would be the most expensive under the new funding regime
- 3.6 On 1<sup>st</sup> April 2010, without any prior notification, the DWP announced further changes to HB subsidy for TA, to take immediate effect. A subsidy cap has been placed on the following types of temporary accommodation used in Brent:
- Hotels, including annexes
  - BDL leasing scheme
  - PLA scheme

- 3.7 The circular states that the same regime will apply to properties used under the Housing Association Lease Schemes. At the moment it is not known whether this will be applied to all properties in management as at 1<sup>st</sup> April 2011, or to new properties brought into the scheme after this date. However it seems reasonable to assume that it will be applied to all properties – new and existing.
- 3.8 Given that the subsidy arrangements for all temporary accommodation will be based on the Local Housing Allowance, there is concern that subsidy will follow these rates downwards: firstly, with the planned reduction to the 30<sup>th</sup> percentile in October 2011, and secondly the link to CPI in subsequent years. Following lobbying there does seem to have been a change of position from DWP. In particular the 30<sup>th</sup> percentile change will not be applied, and there will be certainty around subsidy for a two year period

### **Fraud Investigation**

- 3.9 The DWP also announced a new anti-fraud strategy on 18<sup>th</sup> October 2010 which proposes a fundamental change to the structure of fraud investigation. Essentially, the DWP will be taking over the investigation of housing benefit fraud from 2013. This was announced with no consultation with the local authority associations and has potentially serious ramifications for the future of anti-fraud work in local government.

Brent has, historically, been highly effective in investigating and prosecuting benefit fraud and experience shows that these frauds are often linked to fraud against other council services. It is unclear how this will be undertaken by DWP officers who will have no access to council benefit systems and little knowledge of housing benefit fraud. The exact details of how this policy will be rolled out are not known and local authority fraud teams are currently preparing a response to the strategy. The policy has no regard for the potential impact on other frauds currently investigated as part of a benefit fraud investigation, such as social housing fraud or other benefits issued by councils. Any dilution of the benefit fraud function will have serious implications for the Council's anti-fraud efforts more generally.

### **Universal Credit**

- 3.10 The Government published its White Paper on the introduction of the Universal Credit (UC) on Thursday 11<sup>th</sup> November. The white paper outlines the proposed time table for implementing this and the gradual cessation of the existing benefits that this will replace. This includes a pilot of UCs from October 2013, with all new claims starting from 2014 and the transfer of existing benefits to have been completed by October 2017.
- 3.11 The Universal Credit is a single benefit that will incorporate Income Support, Job Seekers Allowance (income based), Housing Benefit (working age claimants), Child Tax Credit and Working Tax Credit. The design of the Universal Credit is intended to ensure that this operates as both an in and out of work benefit that incorporates financial assistance with living costs and housing costs into one single assessment and payment. The level of benefit payable to those in work will be calculated so as to ensure that these

claimants will be financially better off for every additional pound earned, when compared to out of work benefits. This calculation will broadly mean that for every pound earned, they will be £0.35 better off. A maximum level of Universal credit will be payable to those who are unemployed, where they have no other income. This maximum amount will be determined with reference to average national earnings (estimated to be circa £500 per week).

- 3.12 The White Paper indicates that Universal Credits will be administered by the Department for Work and Pensions although it is possible that Local Authorities may continue to have a role in providing arrangements for dealing with face to face enquiries. The DWP intend that the majority of claims will be made, assessed and delivered electronically using phone and internet access channels.
- 3.13 The spending review provided £2bn for the implementation and roll out of Universal Credits. The implementation costs will include development of two IT systems, one for the assessment of the UC and a second to obtain real time HMRC PAYE data. The DWP has indicated that it believes that the systems can be delivered on time and on budget, but even without IT delays, the implementation timescales are extremely ambitious.
- 3.14 As the Universal Credits is intended to be both an in and out of work benefit, working age customers will not need to submit new applications if their circumstances change. The initial application will be assessed on the basis of the household's combined income, with the income and capital of both members of a couple taken into account. It is intended that automatic links to PAYE tax systems will ensure that any fluctuations or changes to earnings, will automatically result in the Universal Credit being recalculated. Other changes in circumstance will need to be reported in much the same way as they are now for existing benefits. Payment will be made to one member of the household via monthly BACs payments.
- 3.15 Another key element of Universal Credits will be the introduction of more rigorous conditionality tests that customers will need to comply with in order to receive full Universal Credit entitlement. There will be four broad conditionality types that will be applied to different customer groups dependent on their circumstances. For example, those with health issues that limit their ability to work will have different conditionality tests to those who do not have the same limitations. Job seekers will be required to actively seek and be available for work and DWP will carry out regular checks to ensure that conditionality requirements are being met. Sanctions will apply to claimants where they fail to do so which will result in cessation of Universal Credits for a fixed period of time. The fixed periods will span from one week (where for example a claimant fails to prepare for job seeking up to a period of 3 years (where a claimant repeatedly refuses to accept reasonable job offers). Mandatory work activity will also be required for periods of up to four weeks to help jobseekers experience the routines and habits of working life.
- 3.16 Although Universal Credit will replace most income related benefits for working age claimants, it will not replace any of the following benefits:

- Contributory Jobseeker's Allowance and Contributory Employment and Support Allowance. These will continue to exist but will be separately administered by DWP and with the treatment of earnings aligned with the way earnings are treated within universal Credit
  - Disability Living Allowance
  - Child Benefit
  - Bereavement Benefits, Statutory Sick Pay, Statutory Maternity Pay, Maternity Allowance and Industrial Disablement Benefit
- 3.17 Council Tax Benefits will not form part of the Universal Credit but will be administered locally by Local authorities, with some discretion as to how this should be awarded. The proposed reduction of 10% to Council Tax Benefits expenditure may be implemented by limiting subsidy on such awards to 90% of Council Tax liability however the detailed arrangements surrounding this are not yet known.
- 3.18 Housing Benefit for pensioners will continue to be administered and paid by Local Authorities although it has been suggested that this may eventually form part of pension credit assessments and payments, which are also administered by DWP. There are circa 9,700 pensioners currently claiming Housing and Council Tax Benefit. There are also indications that Housing Benefit for some working age claimants may continue to be administered by Local Authorities. These relate to rental liabilities for those living in temporary accommodation and supported accommodation. Finally some benefits currently administered by the DWP seem likely to transfer to Local Authorities, these include Community Care grants and Crisis Loans.

### **Impact of planned and proposed changes**

- 3.19 The impact of the changes will be experienced from 2011 right through to 2017 and beyond, as current levels of Housing and Council Tax Benefit are reduced steadily and Universal Credit is implemented. The following paragraphs provide a summary of these impacts in the short , medium and long term.

### **Short term impacts 2011-2012/13**

- 3.20 There will be a significant financial impact arising from the capping of Local Housing Allowance, the removal of the £15 excess , the lowering of LHA to the 30<sup>th</sup> per centile and the limit to single room rates for under 35' s. These changes will adversely affect levels of Housing Benefit payable to approximately 12,000 private tenants, which represents over 80% of all private tenants currently claiming in Brent. All of these customers will experience a reduction to the level of help they receive to meet their rental liability and thus potential debt and rent arrears. These tenants will either have to renegotiate rents with their landlord/ lady, move to cheaper accommodation or find ways of funding the shortfall in rent arising from the reduction to their benefit.

- 3.21 The caps will impact more severely on London than other areas of the country because levels of rent are typically higher in the capital. Approximately 13% of Brent private tenants will be affected however in other London Boroughs such as Kensington and Chelsea , almost all private tenant claims are affected. Tenants may be forced to move out of Inner London to find more affordable accommodation and thus increasing demand in Outer London Boroughs such as Brent. This is alongside caseload increases of circa 10% already forecast in 2011/12 for Brent because of rising unemployment and the effects of the recession. It is possible that some parts of London may become inaccessible to Housing Benefit tenants and this may have a ripple effect on other London Boroughs as demand for affordable private tenancies increases and tenants have to look further afield to secure these.
- 3.22 There will almost certainly be an increase in the number of tenants moving within Brent, creating additional workloads related to the reassessment of claims at new tenancies. There is also likely to be a significant increase in customer enquiries, complaints, appeals and requests for Discretionary Housing Payments to help meet rental shortfalls. Discretionary Housing Payments do not form part of the Housing Benefit Scheme but are available on a discretionary basis to help meet rental and Council Tax liability cost, where HB/CTB does not meet these in full. The Government is increasing the amount of funding available to make Discretionary Housing awards however it is clear that the funding available will only be sufficient to assist a small minority of cases. Discretionary awards are also subject to overall cash limits which represent a small proportion of overall benefit expenditure each year. It is estimated that the Housing Benefit caseload will increase by a further 10% in 2011/12 ( having increased by 20% between 2009/10 and 2010/11 ) and this in itself will place pressures on the service. This increased demand will be further exacerbated by the demand arising from benefit changes, which are estimated to be in the region of an additional 750 enquiries per month.
- 3.23 There is also likely to be increased demand placed on the Housing Service arising from rising homeless applications and a potentially reduced supply of private sector accommodation available to mitigate this. Over the last few years Housing Services have been able to help prevent homelessness and the use of expensive bed and breakfast accommodation by being able to facilitate placings in private sector tenancies. Landlords' may decide that tenants on Housing Benefit are too great a financial risk to take on or may decide to convert larger family homes to bedsits to maximise rental income. There will undoubtedly be less affordable properties available to rent for Housing Benefit claimants and this will be particularly the case for family sized accommodation, where overall caps are restricted to 4 bed room rates.
- 3.24 Increases to non dependent deductions will take effect from 1 April 2011 and these represent the first increases since 2001. Over 5,000 Housing / Council Tax Benefit claimants will experience reductions to the levels of assistance they receive to help meet rental and Council Tax liabilities. These reductions are likely to result in increased rent and Council tax arrears and the need for greater levels of recovery and enforcement activities. It is possible therefore that Council Tax in-year and rent collection levels will dip as a result. Whilst

every effort will be made to ensure that arrears are tackled, the cost of collection could increase as debts become harder to collect. This issue will be further exacerbated in 2013 when levels of Council Tax Benefit are reduced by 10%.

### **Medium Term Impact 2013/14**

- 3.25 The proposed changes from 2013 are still at a relatively early stage and as such it is difficult to evaluate the full impact of these should they go ahead as planned. However it is clear that levels of Housing / Council Benefit will continue to be reduced through the move to CPI upratings, further planned non-dependent increases and other reductions to benefit as shown in tables 1 and 2.
- 3.26 The localisation of Council Tax Benefit in 2013 has not yet been fully clarified but it would seem that Local Authorities will have to decide how to award this in line with local priorities. This may mean changes to the existing computer system, staff training, redesign of forms and letters and potentially some elements of awards being funded directly by the Local Authority.
- 3.27 The proposed changes to welfare benefits must also be considered in the context of proposed changes for social housing. There are currently indications that Council Tenancies could be granted for short term fixed periods only, with restrictions on the level of benefit payable. Council tenants currently receive help with their rental liability by way of a rent rebate that is automatically credited to their rent account. Initial proposals for Universal Credit indicated that this arrangement would no longer continue and that claimants would receive one global credit payment direct into their bank account, including their rental assistance. More recently there have been indications that some provision made be made for paying rental assistance elements direct to landlords however this remains uncertain at the moment.

### **Longer term Impact 2014 to 2017**

- 3.28 In the longer term, Local Authorities role in the administration and payment of welfare benefit will fundamentally change. We will continue to provide assistance with Council Tax liabilities and also with housing costs for tenants in temporary accommodation, supported accommodation and those who are of pensionable age. The administration of working age benefits for all other customer groups will be carried out remotely from Local Authorities and will not be designed to meet our local priorities or with the knowledge of the Brent community. The degree to which DWP administer Universal Credits efficiently and effectively will however, have a critical impact on the Brent Community and overall Council finances.
- 3.29 Although called a Universal Credit, there will still be fragmentation of welfare benefits with separate administration arrangements for a number of working benefits, benefits for pensioners, Council tax benefits and benefits for those living in temporary or supported accommodation.

- 3.30 The DWP intend that claims to Universal Credit will be made electronically, with one universal payment being made to customers through a BACs payment. Experience of administering benefits in Brent has indicated that many customers struggle to understand lengthy application forms and the correct completion of these. Customers with language difficulties, literacy problems, learning difficulties and mental health issues often need face to face support to guide them through the claim process and to understand how to budget within their benefit awards. DWP have indicated that there may be a role for Local Authorities in providing face to face provision however the detail or arrangements for this are not defined and are uncertain at this stage. Many customers are likely to experience difficulties understanding how to budget within their UC payment, particularly where this has been subject to an overall cap.
- 3.31 Implementation of Universal Credits will gradually replace Housing Benefit between 2014 and 2017. Details of transitional arrangements are not yet available however it is clear that there will need to be a steady reduction to staffing levels over the same period, with potential redundancies arising. There may well be staff retention issues that arise over this period and before as staff seek to find more secure employment prospects.

### **Strategy for dealing with the changes**

- 3.32 The Council has already been involved in a lobbying campaign aimed at raising awareness of the impact of the cuts (which fall disproportionately on London) and influencing the government to reconsider its proposals.
- 3.33 Moving forward the strategy will encompass significant publicity – specifically targeted at affected claimants and landlords; a package of advice and practical measures for customers particularly those at risk of homelessness; and the development of new policies and procedures for the administration of DHP's to enable the fairest distribution of these limited financial resources.
- 3.34 The Housing Benefit Service and the Housing Resource Service are working closely together to ensure that wherever possible, homelessness is prevented. The Government have made some short term funding available to Housing Services to help with this and some of this funding will be used to secure resources to support private tenants renegotiate rents and find affordable accommodation.
- 3.35 The Housing Benefit Service had developed detailed plans to prepare for the pressures faced by the service in 2011/12, and a range of activities that will help to utilise existing resources more efficiently. Even with these actions, there is still a forecast shortfall in the resources required to maintain service stability and as such an unavoidable growth bid has been submitted for consideration as part of the 2011/12 budget process.

## **4.0 Financial Implications**

- 4.1 Levels of Housing Benefit / Council Tax Benefit awards are likely to reduce by

over £25M between 2010/11 and 2011/12, with further reductions from 2013 onwards. These reductions will potentially increase rent arrears for Council tenants and private tenants and Council Tax arrears with increased associated costs arising from recovery and enforcement activities and bad debt provision.

- 4.2 There will be increased financial pressures placed on the Housing Service if homeless applications increase and use of temporary accommodation has to be relied upon to meet housing demand.
- 4.3 Increased customer demand for the Housing Benefit Service will place pressure on the service and potential difficulties in responding to these within existing resources. Unavoidable growth bids may be necessary to prevent destabilisation of the service, if sufficient additional capacity cannot be developed through planned actions or other mitigating actions.
- 4.4 There will be new operational costs arising from the introduction of a localised Council Tax Benefit scheme and the implementation of other planned changes to Housing Benefit. The DWP has not yet indicated whether grant funding will be allocated to assist with these and thus the additional costs arising may need to be funded by Brent.
- 4.5 If the implementation of Universal Credit goes ahead as planned, there will be a need to reduce the level of staffing resource in the Housing Benefit Service between 2014 and 2017, with potential redundancy / severance costs arising.
- 4.6 London Councils have already indicated that levels of Housing Benefit administration grants will reduce by an average of 27% over the next 4 years. The level of reduction for Brent is likely to be closer to 30% , with circa £300,000 being reduced in 2011/12 and again in 2012/13 and similar amounts in the following 2 years.

## **5.0 Legal Implications**

- 5.1 There are no direct legal implications arising for Brent however the changes proposed require fundamental changes to welfare benefits legislation.

## **6.0 Diversity Implications**

- 6.1 At this stage it is not possible to identify the extent to which the proposed changes may adversely affect minority or already disadvantaged groups. The DWP will carry out Equality Impact assessments at a national level and these will be supplemented by more local assessments within Brent, once the detail of changes is clarified.

## **7.0 Staffing / Accommodation Implications**

- 7.1 There is likely to be a need to reduce staffing levels in the Benefits Service between 2014 to 2017 as existing claims to Housing Benefit are transferred to the new Universal Credit.

## **8.0 Background Papers**

### **8.1 White Paper Universal Credits**

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