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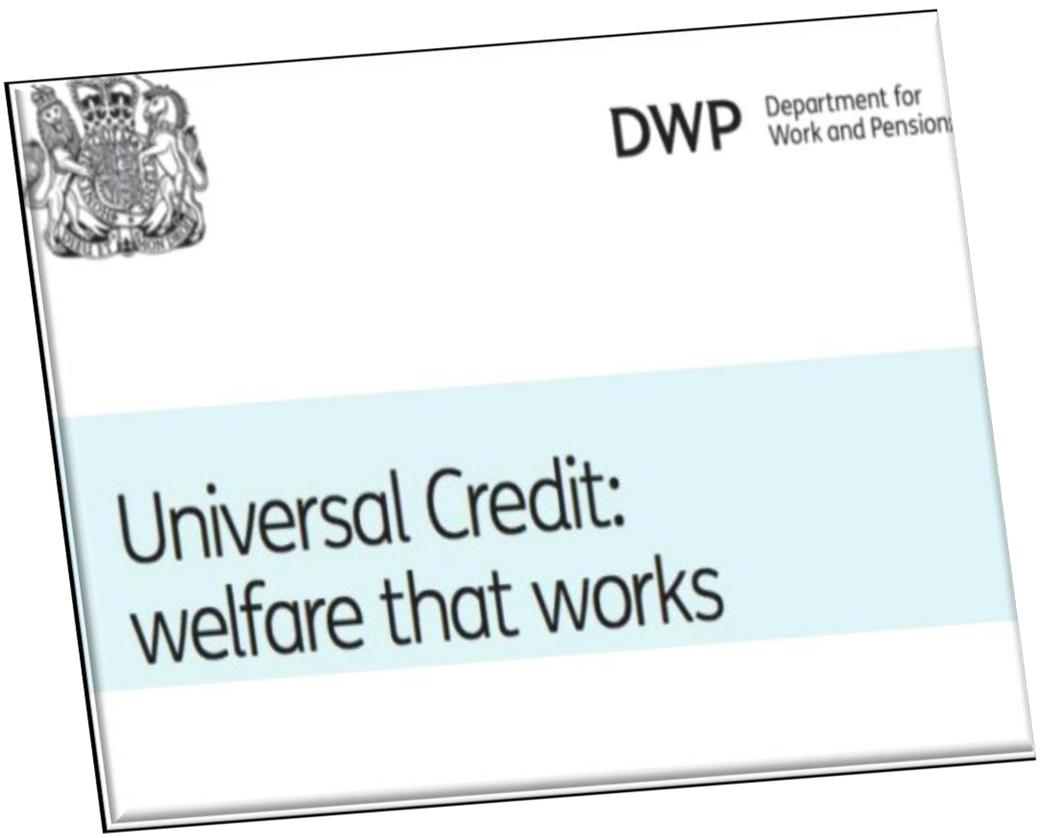
Universal Credit: A Summary of Key Changes & Implications for Housing



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With the draft Universal Credit Regulations laid before parliament on 10th December 2012, and subsequent further guidance provided on service charge eligibility on 21st December 2012, here we round up the key changes within Universal Credit, and the key implications in preparing for it.

Universal Credit Regulations

The draft regulations were laid before parliament on 10th December 2012, alongside an impact assessment and guidance notes from the DWP. The regulations will be debated before being approved in the next couple of months.

Instead of income-related Jobseeker's Allowance, Housing Benefit, Child Tax Credit, Income Support, Working Tax Credit, and income-related Employment and Support Allowance as separate benefits, Universal Credit (UC) will be a single means-tested benefit for people both in and out of work. Claims will be paid for single claimants or jointly for couples.

Universal Credit - Key Changes

Housing Costs

The amount of housing costs paid as part of any UC claim will be based on actual housing costs less any under-occupancy, non dependent or ineligible service charge deductions.

There are a number of significant changes and clarifications from existing HB payments:

1. Flat-rate deductions will be applied for non-dependants - replacing the current differential rates which apply according to the nondependent's gross income. These are expected to be about £68 a month and applied to most non-dependants aged 21 or over regardless of whether they are working or not.
2. No rooms will be allocated for boarders or lodgers in calculating the appropriate size of accommodation, but any income from them will be disregarded.
3. A couple where one person is a pensioner and the other of working age will be subject to under occupancy deductions. This replaces the current HB position where they would not be regarded as a working age couple and not subject to under occupancy deductions.
4. Backdating of claims will be limited to one calendar month only, with limited eligible circumstances.

Service Charges

The DWP helpfully published amended draft guidance on service charges earlier this month, which has allayed fears of reduced eligibility of service charges under UC Housing costs.

The guidance makes clear that charges for areas such as external window cleaning, grounds maintenance & cleaning, refuse collection, CCTV, parking, laundry facilities, play areas, lifts, communal entrances & hallways, and TV aerials/satellite dishes will all remain eligible costs under UC, subject to correct apportionment and reasonable charges. Where charges or apportionments appear incorrect, DWP will review and attempt to resolve the issues with the landlord or claimant, but where they appear excessive, the DWP will refer the case for independent consideration.

The guidance has also clarified that basic furniture or essential domestic appliances for tenants in the accommodation they occupy will remain eligible, but **only** where the items being rented remain the property of the original owner and do not form part of a purchase or part-ownership agreement.

This clears the way for furnished accommodation charges to remain viable – particularly those aimed at vulnerable families in the social housing sector.

Payments Direct to tenants

Early findings from the 6 DWP Direct Payment Pilots have shown that despite intensive support for those tenants taking part, rent collection rates dropped on average to 92%, with significant regional variations, and rent arrears on average doubling. The consensus from the pilots is that significant additional resources to support tenants through UC will be required.

There is still debate about when to stop paying benefits directly to tenants and switch them back to the old system of paying their landlord if they are failing to pay their rent. Some landlords are testing switchbacks in the event of underpayment of rent. The vast majority of switchbacks in both Wakefield and Wales have been due to underpayment, rather than non-payment. Bron Afon in Wales believes this could be an 'essential safeguard'.

It is not clear whether landlords will be notified of a suspension of a tenant's benefit in the event of a change of circumstances as is currently the case. The DWP says it is looking at how to ensure data can be shared.

Payments calendar monthly in arrears

Existing income-related benefits are assessed weekly and paid weekly, fortnightly or four weekly. A key difference with UC is that it will be assessed and paid monthly. This approach is intended to help smooth the transition into monthly paid work, and dovetail with the collection of earnings details via the new Real Time Information system being implemented by HMRC to ensure appropriate deductions are made and minimise overpayments.

Much has been written of late on the significant impact monthly payments will have – with claimants used to weekly budgeting, and sometimes doing so of necessity. With the HMRC system apparently still working correctly in only 75% of cases in December, there remains uncertainty over how effective this system will be too.

The Benefit Cap

The cap in UC will mirror that being introduced through HB with the main differences being:

1. The cap will be applied on a monthly basis and set at £2167 for lone parents and couples and £1517 for single people. These are the monthly equivalents of the £500 and £350 a week caps being established through HB.
2. The exemption for being in-work will no longer be based on entitlement to Working Tax Credit, but instead a household meeting an earnings threshold of, on introduction, £430 a month - based on 16 hours work at the National Minimum Wage.

Underoccupation

Definitions for be used for working age households across the social housing sector from April 2013:

- one bedroom being allowed for each person or couple living as part of the household,
- a child aged 15 or under being expected to share with one other child of the same gender; and
- a child age 9 or under being expected to share with one other child aged 9 or under, regardless of gender.

Deductions are to be made from HB from April 2013 and from UC Housing costs when the claim moves over to UC. The relevant amounts will be 14% of housing costs in the case of one excess bedroom, and 25% in the case of two or more excess bedrooms.

Conditionality

All UC claimants will be required to agree to a '*Claimant Commitment'*, which will record all activities they are required to undertake, including doing all that can reasonably be expected of them to find work or prepare for work. All claimants will be allocated to one of four work-related conditionality groups, according to their individual circumstances. Any work related requirements will be tailored according to the claimant's capability and circumstances, and recorded on the Claimant Commitment, which will clearly set out what is expected.

In exceptional circumstances, where a claimant is unable to accept a Claimant Commitment, for example where they lack capacity to do so, the requirement to accept the Commitment may be removed.

If a claimant disagrees with the work search or availability requirements imposed they can ask for these to be reconsidered. If a claimant refuses to accept their Claimant Commitment then they will not be entitled to Universal Credit. As Universal Credit is a household benefit, if either eligible adult in a couple refuses to accept their Claimant Commitment, the claim for the other eligible adult will also end. Where a claimant does refuse to accept their Claimant Commitment, a short 'cooling off' period will be allowed to give them the opportunity to reconsider their decision and the impact on the household claim.

In a case of joint tenancies and rent arrears, the impact on the household's rent payments and arrears may be significant.

Sanctions for non compliance will be imposed on fixed or variable period, on a sliding scale of high, medium or low, ranging from 7 days to 3 years. All claimants subject to higher, medium and low-level sanctions will by default be sanctioned an amount equivalent to 100% of their standard allowance amount for UC. Lower level sanctions and those for 16/17 year olds will be at an amount equivalent to 40% of their standard allowance.

In – Work conditionality

Part time workers reliant on benefits to top up their income or pay for housing will have to demonstrate they are seeking to earn more or face a sliding scale of cuts to their income. This will be defined by an earnings threshold, the equivalent of a 35-hour week on the national minimum wage

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(currently £216.65). Workers who fall below this threshold will have to demonstrate they are actively looking for additional hours, and either an additional or new job.

The threshold for single parents with a child under 13 will be about 20 hours with gross pay of £120. With children over 12 they will be expected to work full time within 90 minutes of their home.

Mothers and fathers will also be treated as separate individuals. With a child under 13, one parent will be designated as the carer who will be under the same conditionality as a single parent. The other will be treated as a single worker. A couple with children over 12 will both be expected to work 35 hours.

Self-employed claimants will be subject to the 'Minimum Income Floor' – the same as the earnings threshold for part time workers of a 35 hour week on the national minimum wage. Expectations of self-employed claimants will mirror those expected of other 'in work' claimants, with the exception of a one year 'Start-Up Period' in which the Minimum Income Floor will not be applied.

Hardship Payments

Claimants (Except 16-17 year olds) subject to a sanction can apply for *recoverable* hardship payments paid at a daily rate of 60% of the sanction reduction from the date the claimant meets the conditions to be in hardship to the day before their next Universal Credit payment is due.

To receive these, they must meet a number of conditions, including that they have complied with their labour market conditions (if applicable) and can show their household is unable to meet their immediate basic and essential accommodation, food, heating or hygiene needs. A claimant must re-apply for a hardship payment each assessment period to demonstrate their continuing need for support, that they are making reasonable efforts to reduce non-essential costs and are not seeking any alternative sources of support.

Transitional Protection

The government has made a commitment to ensuring there will be no cash losers as a direct result of the migration to UC where circumstances remain the same. Cash protection will be provided to claimants whose UC award would be less than under the old system, in the form of an extra amount to make up the difference between the old and the new. The maximum amount will be fixed at the point of change and cash protection will continue to be paid until the value of the award under the new system overtakes the levels of the pre-Universal Credit entitlement.

Claimants who were previously receiving existing benefits can also request a *recoverable* advance payment of Universal Credit during their first assessment period. The intention is to ease the transition from existing benefits that are paid weekly, fortnightly or four weekly, to monthly payments of UC. However, any current sanctions and fraud penalties that have been applied to existing benefit awards will be transferred to the award of Universal Credit.

Childcare

An additional childcare element will be available to all lone parents and couples where both members are in work (with certain exceptions), and is not dependent on a claimant working a specific number of hours. Where a child is in registered childcare, families will be able to recover 70% of actual childcare costs in UC up to a limit set in the Regulations.

Carer Element

A carer element will be available where an eligible adult in the household provides regular and substantial care for a person with a long-term health condition or disability, and that person satisfies the conditions of entitlement of Carer's Allowance, or would do so but for their earnings exceeding the limit prescribed for receipt of an allowance.

The Timetable For Change

The timetable for UC implementation remains in place, with a pilot expected to take place in the North West of England from April 2013 to September 2013 – the main priority of that being to address IT solutions, and take into account lessons from the Direct Payment Pilots currently running.

All social housing landlords will, however, be hit with underoccuaption deductions from HB in April 2013, alongside the creation of a single, integrated and national fraud investigation service at some point pre October 2013.

The benefit cap will be implemented from April 2013, starting in four LAs in London – Bromley, Croydon, Enfield and Haringey. This will be a phased roll-out with the remaining LAs implementing the benefit cap over the summer. All households identified as appropriate to be capped will therefore have been capped by the end of September 2013.

The main tranche of UC changes will be during the 6 month period from October 2013 to April 2014, when about half a million new claimants will begin receiving UC instead of Jobseeker's Allowance, Employment Support Allowance, Housing Benefit, Working Tax Credit and Child Tax Credit. At the same time, another half a million existing claimants and their families will be transferred to UC when their family circumstances change significantly, for instance if they get a job or have another child.

Key Implications

The DWP's own impact assessment makes clear that in the long run around 2.8 million households will have notionally lower benefit receipt under UC than in the current system, and that since these individuals are typically on lower than average incomes the impact on individuals may be proportionately higher, though *'in many cases these households will be able to increase their income because of the improved gains to work provided by Universal Credit'*

Until UC begins to be rolled out via the North West pilots in April 2013, there will remain a lot of uncertainty over the actual impact. A recent CIH report claimed many will be worse off, though this was discounted by the DWP for failing to take into account transitional protection, work incentives and changes to earnings disregard tapers to a flat rate of 65%.

However, If you're a social landlord who doesn't yet know how many of your customers will be affected by underoccupation, and hasn't yet got plans and strategies in place to deal with that, you'll soon begin to feel the impact on income, operational costs, and operational time required to resolve the impacts on your business and customers. Some £0.5bn of additional rent payments per year are expected to be made by underoccupying tenants in the social sector based on DWP data on the numbers of tenants who will be affected.

Landlord's revised plans to deal with the perfect storm of rent payments going directly to tenants via an online UC system while the real incomes of working age tenants are significantly diminishing will need to be in place by October 2013 - to ensure income is maximised, arrears are minimised, and financial viability is not jeopardised.

Included in that will be making strategic links with local authorities over Discretionary Housing Payments (DHP's) to assist tenant's in hardship with their rent. As the welfare reform bill passed through parliament, the government committed an extra £30 million a year for the DHP fund from 2013-14 for disabled people living in significantly adapted accommodation and for foster carers. This on top of the £130m DHP's and £10m for homelessness prevention in London already promised – with local authorities able to spend up to two and a half times their allocation with funds of their own if they choose. The recent CIH Guide to making the most of DHP's should be useful reading.

The Single Fraud Investigation Service will combine existing resources across Local Authorities, HMRC, and DWP, and be focussed on UC and Tax Fraud. Given the close working relationships many landlords have developed with their local authority fraud investigation teams in areas such as tenancy fraud, there will be significant changes in relationships and information sharing to build.

Summing Up

The uncertainty around Universal Credit is beginning to be removed, and together with other aspects of welfare reform, it is set to deliver a significant impact on the way that landlords and tenants both interact with and react to each other.

Shelter recently found that that over a million households have taken out payday loans to fund rent and other bills, and the Direct Payment Pilots are revealing more resources being required to address yawning gaps opening in rent collection rates.

One thing's for certain. Landlords will have to work much harder to collect rent and take priority in the queue of bills or debts tenants will have each month. Working smarter too, by using all the technology, incentives and support available may well be the difference between those landlords who become adept at it, and those who fail to adapt.

About PHHS

Since 2007 we have undertaken a range of strategic work for organisations, and since 2011 have been at the forefront of proving strategic and operational advice, assistance, insight and training for landlords in preparing for welfare reform.

For further details of what we do, who we are and what we have done , and for free advice or a discussion on how we could help your organisation, visit www.phhsl.co.uk, or call us on 01202 233214.

About this article

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