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Welfare Reform

A Summary of Key Changes and Implications for Housing

March 2012

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Following its final ping-pong between the House of Commons and House of Lords, Royal Assent and passage onto the statute books is the next stage for the Welfare Reform Bill. Here we round up the key welfare reform issues which will have an impact on housing organisations and their customers over the course of the next year, and the key implications to help in preparing for them

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Welfare Reform Bill

The Bill had a lengthy passage through the House of Lords Grand Committee Stage between November and the end of February, with widely reported debates and Lords amendments proposed on key areas such as the £500 a week overall benefit cap and new underoccuaption rules for housing – now widely referred to as the 'bedroom tax'.

The government did not accept these amendments, but in concession announced

- an extra £30 million a year of extra help to the discretionary housing payments fund from 2013-14 for disabled people living in significantly adapted accommodation and for foster carers (though funded by increasing the average amount per bedroom other underoccupiers will have to contribute towards their rent by £1 to £14) , and
- an extra £5.9m to councils across London to help benefit claimants renting in the private sector

as part of a £49m package for councils to help with the transition to new Housing Benefit rules until 2015. This on top of the £130m Discretionary Housing Payments and £10m for homelessness prevention in London already promised, making a total of £90m a year of discretionary payments available from 2013-14 – with local authorities able to spend up to two and a half times their allocation with funds of their own if they choose.

Lord Freud also made a commitment to the Lords to keep the amounts added to the discretionary housing pot under review to see whether it is meeting levels of demand in different areas.

The Lords did also secure a further concession in a commitment to undertake an independent review on the 'bedroom tax' and benefit cap elements of the bill, and the impact of those provisions on families; the incidence of poverty; the incidence of homelessness, levels of under occupancy; local authority resources; rent arrears, and any other consequences within 6 months of the scheduled April 2013 commencement date.

The government's position on the reforms was outlined by Lord Freud in the final debate, stating that;

'The Government's clear view is that we do not fund spare bedrooms in the social sector or the private sector… This measure is not about making people move. Rather, people living in the social rented sector, like those in the private sector, will have to make informed choices about where they live and what they can afford. Some may choose to move but for people who do not want to do so there are a number of options to help to meet the shortfall, and we have discussed those over the past months. They include the employment option, increasing working hours, asking others in the household or the extended family to contribute, or taking in a lodger'

Welfare Reform – Key Changes

With all the ping-ponging of the bill and media reports of late, it's worth reflecting on what the key changes are as below;

- Private Rental Sector Local Housing Allowance (PRSLHA)

  Limited to the lowest 30% of rents rather than 50% from April 2011 for new claims and from January 2012 or the review of their claim for existing claimants

- PRSLHA capped

  At £250 per week for one-bed, £290 for two-bed, £340 for three-bed , and £400 for a four bed from April 2011 for new claims and from January 2012 or the review of their claim for existing claimants – no allowance available for any property greater than a 4 bed.

- Future PRSLHA increases

  Linked to the consumer prices index (CPI) rather than (RPI), from April 2013 – and with amounts in 2012-13 to be frozen at 2011-12 levels.

- Benefit for single people aged up to 35

  Limited to the rent on a room in shared accommodation in the PRS (at the lowest 30% of rents also) from January 2012

- Non Dependent Deductions

  Significant increases to non dependant deductions from April 2011. All six levels of non dependant deductions are increasing by around 27% each year between 2011 and 2014, so they can catch up, by 2014, with the levels they would have been, without the freeze which was applied in 2001. They will be rolled into Universal Credit by that stage for new claims.

- Cap on total benefits to unemployed working age (i.e. under 64 years) households from April 2013

  At £350 a week for single adults with no children; and £500 a week for couples and lone parent households per week - with any excess taken from housing benefits first.

  The cap will apply to the combined income from the main out-of-work benefits (Jobseeker's Allowance, Income Support, and Employment Support Allowance) and other benefits such as Housing Benefit, Child Benefit and Child Tax Credit, Industrial Injuries Disablement Benefit, Carer's Allowance (unless a member of the household is entitled to Disability Living Allowance, Personal Independence Payment, Attendance Allowance or Constant Attendance Allowance).

  One-off benefits (for example Social Fund Loans) and non-cash benefits (for example Free School Meals) will not be included.

In Work Credit, which can be paid to lone parents, and Return to Work Credit, which can be paid to those leaving incapacity benefits, are intended to act as work incentives so will also not be included when calculating benefit income

The cap initially to be delivered by Local Authorities as part of the administration of Housing Benefit payments - in the longer term to be administered as part of Universal Credit.

- <u>Working families – conditional benefits</u>

  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 (currently £212.80). Workers who fall below this threshold will have to demonstrate they are actively looking for additional hours, 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.

- <u>Underoccuaption</u>
  DWP eligibility criteria definitions used across the PRS from October 2011 and social housing sector from April 2013 – i.e.
  - 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.

  Based on these criteria, households that are under occupying accommodation will have their HB or Universal Credit reduced by a given percentage of the rent – which could be as low as £4 per week, or as much as £37, but on average £14.

- <u>Housing benefit to become part of the Universal Credit</u>

  For working age households and Pension Credit for pensioners

  - From October 2013 to April 2014 about half a million new claimants will receive Universal Credit 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 the new credit when their family circumstances change significantly, for instance if they get a job or have another child.
  - From April 2014 a further 3.5 million claimants and their families will move to Universal Credit.
  - And from the end of 2015 to the end of 2017 a further 3 million people will be moved over, focusing on Housing Benefit claimants

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Other key changes

Our previous briefing in November 2011 highlighted key changes taking place in relation to Incapacity benefit, Legal Aid, Supported Housing and the implementation of a Single Fraud Investigation service across the country which all will have a significant impact on tenants and landlords from April 2013.

Personal Independence Payments are also replacing the existing Disability Living Allowance scheme from April 2013 for all working age claimants – a helpful briefing on this from the DWP is available here.

Changes are also taking place to the social fund and council tax benefit which may have significant impacts.

Social Fund

Community Care Grants provide support for people on low incomes facing exceptional problems or who need help to live independently in the community, such as people moving out of residential care. Budgeting Loans help people who can't afford important one-off costs like clothing or a fridge. Crisis Loans help people deal with an emergency or disaster – like families whose house has burned down. They are also used to help people who haven't any money at all and are waiting for their benefits – sometimes called 'alignment loans'.

Clause 69 of the Bill says that all three are going to be abolished from 2013.

Budgeting Loans and alignment loans will be replaced by payment of universal credits on account.

Community Care Grants and Crisis Loans will be devolved from April 2013 to local authorities. The exact way LAs will administer the funds is not known - the DWP Impact Assessment simply says that the funding for Community Care Grants "will be transferred to local authorities and the devolved administrations".

The Social Fund Commissioner who oversaw standards and monitored consistency across the country will also be abolished.

Council Tax

Clause 34 of the Welfare Reform Bill provides for the abolition of Council Tax Benefit among other benefits. While others will be replaced by the Universal Credit, Council Tax Benefit will not. Instead the Government intends to devolve responsibility for assessment and payment of council tax support to local authorities, with responsibility for this policy area being passed from DWP to DCLG and a duty to be placed on local authorities to run such a scheme from April 2013.

It will be for Local Authorities to decide and run eligibility criteria for council tax benefit in policies they must publish by December 2012. The Government is clear that final decisions about the level of support to be offered to working age claimants would be for local authorities, and it has no plans to prescribe how schemes should operate – except that it is reducing central funding for it by 10%, and specifying that support for pensioners will be set centrally.

A summary of responses to a recent consultation was recently published by the government – outlining steps to be taken over the course of the next year before the changes materialise in 2013.

Key Implications

Underoccuaption

As our recent article highlights there will be a clear need to develop a strategic response towards overcrowding and underoccuaption in partnership with others.

Lord Freud in recent debates on the welfare reform bill has suggested two key areas which housing organisations should explore to resolve potential issues of underoccuaption. Clarifying and setting out the ability of tenants to take in lodgers being one – if your policy or practice doesn't already contain this, there is scope for review of that to clarify expectations and requirements. Given that Lord Freud has outlined that the first £20 per week of income would be disregarded, this could be an effective way for some to sustain their tenancy, and tenancy sustainment support could creatively be widened to support tenants in finding and making arrangements with lodgers?

Lord Freud's other suggestion related to reclassifying properties which may have 'box rooms' into smaller properties – for example a 2 bed house or flat with a box room becoming a 1 bed. He has suggested landlords might reconsider *'whether to count that room when deciding on the number of bedrooms that should be written into the tenancy, as well as on the rent associated with it. The designation of property size is another area where there may be flexibility. We are exploring this with social landlords as part of our implementation work.'*

A mass downsizing on this basis by landlords seems unlikely given the potential effect on rental incomes, property valuations and loan agreements, but there may be scope for some creative thinking in relation to this– particularly in hard to let areas or in cases of vulnerability.

Significant thought should also be given to the estimated 35,000 potentially affected claimants who are wheelchair users living in accommodation that has been adapted to suit their needs, and the 5,000 foster carers who will potentially be affected by the measures on underoccupation. While the additional £30m of discretionary payments funding from 2013-14 will help– getting an agreed strategic approach and response in place before then with Local Authority partners dispensing the funds would be better than a case by case basis from April 2013.

Developing close links with Local Authority partners on discretionary housing payments across the board will be key – particularly in light of the findings in a recent Landlord Information Network article (*Money to spare: How Local Authorities are failing to award discretionary housing payments*) highlighted that DHP budgets are not being fully utilised in many cases

Allocations

There is also no point storing up future inability to pay rent and all the associated costs then required in arrears and tenancy management by perpetuating existing allocations which allow people to under occupy properties when they may not have the means to pay for it in a year's time.

While consumer's choice to rent larger properties will remain, their economic ability to do so will diminish if they are (or become) reliant on assistance via HB or Universal Credit for their rent, and the default position or 'suitable for' description of properties advertised to let or under choice based lettings schemes should relate to DWP eligibility criteria definitions for HB highlighted above.

Allocation & Lettings policies and particularly any Local Lettings Policies (which over the past two decades have aimed at creating sustainable local communities and allowing families or individual's room to grow) should be reviewed as soon as possible to reflect this.

At the very least, new or transferring tenants should be given enough information to help them make an informed choice over their future accommodation costs – especially with benefit increases generally being pegged at lower inflationary rates than social housing rents are rising by, and when 'affordable' rent rises will depend on what 'market' rents rise by.

There are also some good recent examples of social and private leasing partnerships for shared housing - which many could review and emulate for the under 35's *and* those priced out of social or PRS self contained accommodation.

Preparing for Universal Credit

The two key issues of most concern to social landlords are direct payments to tenants and the intention for Universal Credit to be an online, centrally administered system.

Direct payments

The DWP has announced six key pilot projects to test how claimants can manage housing benefit monthly payments ahead of the introduction of Universal Credit from October 2013. The projects will run from June 2012 to June 2013, and will aim to establish a working definition of vulnerability to be used for cases where payments can be made direct to the landlord, as well as the appropriate level of safeguards needed to help secure landlord income streams if tenants fall behind on their rent.

The local authority and housing association partnerships named for the demonstration projects are:

- Southwark Council and Family Mosaic, London
- Oxford City Council and Oxford Citizens, (part of the Greensquare Group), Southern England
- Shropshire Unitary County Council and Bromford Group, Sanctuary Housing and The Wrekin Housing Trust, West Midlands
- Wakefield Metropolitan Borough Council and Wakefield and District Housing, Northern England
- Torfaen Borough County Council and Bron Afon Community Housing and Charter Housing, Wales.

The CIH has recently published a useful briefing on what the remit and outline of the pilot projects will involve, and how practice will be disseminated across the sector.

Lord Freud also recently called on councils and social landlords to help boost their local credit unions as key to the successful role out of Universal Credit - in advance of a link up which may see credit union accounts made available and accessible in post offices across the country.

Online, central administration of UC

As part of preparations for Universal Credit, the DWP has been undertaking a series of visits to Local Authorities to identify good practice and concerns at a local level about the move towards a centralised and online system.

Earlier this month they published a summary of the outcomes of their visits to local authorities – outlining feedback, issues, and good practice. This is recommended reading - to enable understanding of the implications and how they are being addressed at a local authority and DWP level.

Summing Up

Welfare reform presents significant challenges for all landlords and benefit dependent tenants. The scale and implications of change will continue to unfold as preparations for main implementation take place throughout the next year. As Lord Freud stated in the final House of Lords debate:

'We have more than a year before these changes are due to come in and we recognise how important it is to prepare for them. It is essential that all those affected by this measure, whether directly or indirectly, understand how the change will affect them so that they can take action well before April 2013'

The key will be to use this lead-in time as effectively as possible to plan for the changes and keep abreast of developments – none the least of which being the possibility of the Shared Accommodation Room Rate (SAR) for those aged under 35 being applicable in social housing in the same way that it is in the PRS. DWP are currently considering and will apparently announce shortly whether that will be the case. If that does arise, it will potentially dwarf the impact of underoccupation measures already confirmed across the social housing sector.

How PHHS can help

To help all landlords in preparing for the changes from April 2013, we've teamed up with our partner Landlord Information Network to offer a truly comprehensive package which will help all landlords to calculate *and* prepare for the impact welfare reform will have on their business.

Further details are available here.