AGENDA ITEM NO
REPORT NO 244/11

ANGUS COUNCIL

24 MARCH 2011

WELFARE REFORM – OVERVIEW AND IMPACT ASSESSMENT OF CHANGES TO HOUSING AND COUNCIL TAX BENEFITS

REPORT BY DIRECTOR OF CORPORATE SERVICES

ABSTRACT: This report provides the Council with an overview of the major changes to Housing and Council Tax Benefits arising from the UK Government’s Welfare Reform proposals. The report also contains an assessment of the impact of the changes on Angus citizens and the Council.

1. RECOMMENDATION(S)

   It is recommended that the Council
   (i) note the contents of this report
   (ii) note that further update reports will be provided as information becomes available

2. BACKGROUND

   Members will be aware from the media of the significant Welfare Reform Programme being pursued by the UK Government. The intent of these reforms is to support people off welfare benefits and into work and to reduce complexity and administrative burden within the welfare system. The Welfare Reform programme has many facets and will be implemented over the medium term; much of the detail around implementation has still to emerge.

   The purpose of this report is to give members some additional background on those aspects of the Welfare Reform programme related to housing and council tax benefit since the Council administer these at present and also because some of the Welfare Reform changes will affect local citizens in Angus from 1 April 2011. This report complements the Welfare Reform Briefing for elected members being held on 23 March 2011.

   Developments So Far
   The first tranche of changes to the existing Housing Benefit (HB) scheme were announced in the UK government’s emergency budget in June 2010. The Comprehensive Spending Review in October 2010 introduced a number of other changes aimed at modifying the existing HB scheme and reducing overall HB expenditure.

   In addition to the above changes, which start to take effect from April 2011, the following papers outline the UK government’s proposals for a radical reform of the Welfare Benefits system including Housing and Council Tax benefits:

   - “21st Century Welfare” - Iain Duncan Smith, the Secretary of State for Work and Pensions, set out his plans to completely change the benefits system in the paper “21st Century Welfare”, published on 30 July 2010. His proposals aim to help people move into work by letting them keep more of their earnings and to make the advantages of work clearer and easier to understand.
     The paper outlined a major reform of the range of credits and benefits available, and how help from these would reduce bit by bit as people started and progressed in their work.

   - “Tackling fraud and error in the benefits and tax credits systems” – this strategy paper, published in October 2010, outlines a more radical approach to the challenges
posed by fraud and error in the benefits and tax credits systems. It introduces the concept of a single, integrated fraud investigation service which will investigate welfare fraud across DWP, HMRC and local authorities.

- **“Universal Credit: welfare that works”** - this White Paper, published on 11 November 2010, sets out the Coalition Government’s plans to introduce legislation to reform the welfare system by creating a new Universal Credit. The White Paper outlines the need for change, how Universal Credit will work, how it will affect benefit recipients and its broader impact.

- **Welfare Reform Bill** – introduced to parliament on 16 February 2011, the Bill legislates for the biggest change to the welfare system for over 60 years. The main elements of the Bill which impact on the housing and council tax benefit schemes are:
  a) the introduction of Universal Credit to provide a single streamlined benefit inclusive of a housing credit to meet housing related costs
  b) the abolition of council tax benefit (CTB) to be replaced by a new system of council tax support with the funding and arrangements for implementation being devolved to the Scottish government
  c) a stronger approach to reducing fraud and error with tougher penalties for the most serious offences
  a) creating a new approach to meeting Housing Costs with a view to bringing stability to the rental market and improving incentives to work

3. **SUMMARY OF CHANGES**

**Changes to Local Housing Allowance (LHA)**

**Current Position**

Local Housing Allowance was introduced in April 2008 for new HB claims from private sector tenants. The maximum rent payable under LHA is based on LHA room rates set by the rent officer according to the number of bedrooms a household is deemed to need according to their household size and composition up to a maximum of 5 bedrooms. Single persons aged 25 and under have a lower one bedroom shared accommodation rate applied even if they live in self contained accommodation.

If a claimant's actual rent is under the appropriate LHA rate they may keep the excess up to an amount of £15 per week.

LHA rates are set at the median or 50th percentile of rents in the area so that 5 out of 10 properties should be affordable to people on HB.

**Changes - 2011**

- the £15 weekly excess is removed
- the maximum LHA room rate is reduced from 5 bedrooms to 4 bedrooms
- maximum weekly LHA rates in any area are capped at prescribed limits. This does not affect Angus tenants as local rents are lower than the caps
- LHA rates are to be set at the 30th percentile of market rents in the area so that about 3 out of 10 properties should be affordable by people on HB instead of 5 out of 10 properties
- new provision for an additional bedroom for a non resident carer in the size criteria

Regulations have been made for the above changes and they start to take effect from 1 April 2011.
Changes 2012

- extension of the shared room LHA rate for single persons from age 25 years to 35 years

Changes 2013

- LHA rates to be uprated annually using Consumer Price Index (CPI) instead of market rents

Regulations have still to be passed for these changes.

Other Changes 2011

- increased non dependant deductions – stepped increases over 3 years from 2011 for both HB and CTB

An assessment of the estimated numbers of households affected by the 2011, 2012 and 2013 changes described above, along with a best estimate of the financial impact where this is possible, is detailed at Appendix1.

4. WIDER IMPACT OF THE ABOVE CHANGES

Issues for HB/CTB Claimants

- many households will see their HB payments reduced which will put pressure on household budgets resulting in a higher risk of non payment of both private sector and council rents, council tax and water charges
- increased risk of rent arrears may lead to evictions and homelessness
- reduced choice of available accommodation – only 3 out of 10 private sector properties will be affordable to HB claimants
- landlords may decide not to rent to tenants on HB if and when LHA rates are cut
- tenants may need to move to cheaper accommodation, perhaps in another area if they cannot negotiate a reduced rent with their landlord
- some tenants may have to ask their adult children to leave home and find alternative accommodation to avoid the loss of benefit caused by increased non dependant deductions

Issues for the Council

- greater demand for Discretionary Housing Payments to top up the shortfall between LHA and rent
- increased requests from landlords requesting HB direct payments due to rising rent arrears
- increased requirement to provide advice and information regarding the changes to claimants and landlords
- HB/CTB caseload may drop as a result of changes and this will affect the administration subsidy paid to the Council
- greater demand on homelessness and housing services
Welfare Reform Bill Changes (from 2013)

- restriction of HB for working age claimants in social sector housing (including council housing) to a size level appropriate to their household needs
- introduction of Universal Credit, a new working age benefit to replace a range of benefits including housing benefit and tax credits
- Universal Credit including housing credit for rent likely to be paid to claimants direct and not to landlords (private or social sector) except in exceptional circumstances
- council tax benefit to be abolished and replaced with a new council tax support scheme with a reduction of 10% in expenditure. Funding and responsibility devolved to Scottish Government
- no new claims for HB after approximately October 2013. Gradual migration of existing HB claims to Universal Credit to take place until approximately 2017 when HB will cease
- new Single Benefit Fraud Investigation Service to be implemented from April 2013 by the Department for Work and Pensions which will include all HB/CTB fraud investigations
- pension age claimants to have their housing costs paid by means of a housing credit administered by the Pension service
- Social Fund and other discretionary payments to be localised with responsibility in Scotland to be devolved to the Scottish government
- the total amount of welfare benefits a claimant or couple can receive to be capped with reference to the average earnings of working households in Great Britain

The radical changes proposed in the Welfare Reform Bill will have a major impact on claimants, private sector and social landlords and council services such as Revenues and Benefits, Housing and Welfare Rights.

The Bill may be subject to amendment during the parliamentary process and a further report including a detailed impact assessment of the legislation will be provided once enacted.

5. HOW WE ARE PREPARING FOR THE CHANGES

The main focus of planning at the moment is related to the imminent legislative changes, effective from 1 April 2011. The Revenues & Benefits Service of the Finance Division has carried out the following actions to date:

- prepared detailed action plans to identify the actions to be undertaken for successful implementation of the changes
- carried out staff briefings on the changes to raise awareness and readiness
- carried out a briefing for private sector landlords
- issued a mailshot to affected tenants and private sector landlords
- issued a news release to publicise the changes
- carried out briefings for other council services such as housing
- organised a briefing session for elected members and senior officers
A communications strategy has been developed which provides for other targeted mailshots, training etc. to be carried out as the legislation is rolled out.

6. **FINANCIAL IMPLICATIONS**

There are no direct material financial implications from the recommendations made in this report.

There will be financial implications when some of the proposed changes are implemented and these will be included in future reports.

There are additional costs associated with communicating the changes and their impact to affected claimants, landlords and others. To date expenditure on this has amounted to £1,100. This expense has been offset by funding of £2,100 from the Department for Work and Pensions. There will be additional software costs which are still to be clarified but DWP have announced funding of £1,600 towards these costs.

7. **HUMAN RIGHTS IMPLICATIONS**

There are no Human Rights implications arising from this Report.

8. **EQUALITIES IMPLICATIONS**

The issues dealt with in this report have been the subject of consideration from an equalities perspective. An equalities impact assessment is not required.

9. **CONSULTATION**

The Chief Executive, Head of Finance, Director of Neighbourhood Services, Director of Social Work and Health and Head of Law and Administration have been consulted in the preparation of this report.

10. **CONCLUSION**

The UK government’s Welfare Reform proposals if implemented will result in the biggest changes to the state benefits system for 60 years. Many Angus citizens will be affected by the changes and there will be a major impact on council services.

**DIRECTOR OF CORPORATE SERVICES**

**NOTE:** No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

Finance/AB/7.03.11
### Appendix 1

**Estimated Impact on Claimants of Changes to HB/CTB (Annual Reduction)**

<table>
<thead>
<tr>
<th>Details of Change</th>
<th>Arbroath</th>
<th>Brechin</th>
<th>Carnoustie / Monifieth</th>
<th>Forfar</th>
<th>Kirriemuir</th>
<th>Montrose</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loss of £15 Excess</strong></td>
<td>109</td>
<td>56,383</td>
<td>56</td>
<td>31,021</td>
<td>34</td>
<td>20,108</td>
<td>78</td>
</tr>
<tr>
<td><strong>Average Weekly Reduction</strong></td>
<td>9.95</td>
<td>10.65</td>
<td>11.37</td>
<td>9.72</td>
<td>11.13</td>
<td>9.97</td>
<td>10.25</td>
</tr>
<tr>
<td><strong>Room Rate reduced from 5 to 4</strong></td>
<td>3</td>
<td>7,199</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2,399</td>
<td>1</td>
</tr>
<tr>
<td><strong>Average Weekly Reduction</strong></td>
<td>46.14</td>
<td>0</td>
<td>46.14</td>
<td>46.14</td>
<td>0</td>
<td>0</td>
<td>46.14</td>
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<tr>
<td><strong>50th percentile to 30th percentile</strong></td>
<td>357</td>
<td>181,401</td>
<td>153</td>
<td>74,619</td>
<td>181</td>
<td>108,463</td>
<td>255</td>
</tr>
<tr>
<td><strong>Average Weekly Reduction</strong></td>
<td>9.77</td>
<td>9.38</td>
<td>11.52</td>
<td>10.15</td>
<td>10.62</td>
<td>9.54</td>
<td>10.07</td>
</tr>
<tr>
<td><strong>HB -Increased non dependant deductions for 2011.12</strong></td>
<td>80</td>
<td>17,101</td>
<td>18</td>
<td>3,848</td>
<td>19</td>
<td>4,061</td>
<td>31</td>
</tr>
<tr>
<td><strong>Average Weekly Reduction</strong></td>
<td>4.11</td>
<td>4.11</td>
<td>4.11</td>
<td>4.11</td>
<td>4.11</td>
<td>4.11</td>
<td>4.11</td>
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<tr>
<td><strong>CTB -Increased non dependant deductions for 2011.12</strong></td>
<td>90</td>
<td>2,969</td>
<td>18</td>
<td>594</td>
<td>23</td>
<td>759</td>
<td>39</td>
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<tr>
<td>Average Weekly Reduction</td>
<td></td>
<td>0.63</td>
<td></td>
<td>0.63</td>
<td></td>
<td>0.63</td>
<td></td>
</tr>
<tr>
<td>Shared room rate extended to under 35's from under 25's</td>
<td>6</td>
<td>8,280</td>
<td>3</td>
<td>4,140</td>
<td>5</td>
<td>6,900</td>
<td>4</td>
</tr>
<tr>
<td>Average Weekly Reduction</td>
<td></td>
<td>26.54</td>
<td></td>
<td>26.54</td>
<td></td>
<td>26.54</td>
<td></td>
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<tr>
<td>Totals</td>
<td>645</td>
<td>273,333</td>
<td>248</td>
<td>114,222</td>
<td>263</td>
<td>142,690</td>
<td>408</td>
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