

Report of the Chief Executive and the Director of Customer Business and Support Services

## **Changes to the welfare system and their impact on City of York Council**

### **Summary**

1. This paper outlines the changes that Government has brought in and proposes to bring in to reform the Welfare system.

### **Background**

2. The Coalition government has introduced a wide-ranging programme of changes to the welfare system. Some changes are already in force with more to come as legislation goes through Parliament, under the Localism Bill and the Welfare Reform Bill, that will create further alterations to the current benefits system.
3. Council Tax Benefit is to be replaced and “localised” with local authorities expected to cut expenditure by 10% and there are changes in the pipeline for the benefits of those living in supported accommodation.

### **Initial analysis**

4. This is the biggest shake up of the Welfare system since its inception. Every element of the system is being changed and support reduced. Those people in receipt of multiple benefits face possible reductions in Housing Benefits, Incapacity Benefits and out of work benefits. The cumulative impact of this will be huge for some families and individuals.
5. Just taking into account changes to Housing Benefit and Local Housing Allowance, people in York will be £2.9million a year worse off. Calculating figures for changes to DWP-administered

benefits such as Incapacity Benefit and the cap on the new Universal Benefit is harder, as is working out the impact of the benefits link to the Consumer Prices Index: these will undoubtedly push the £2.9million figure higher.

6. What can be said is that:
  - Residents on lower incomes will face additional financial and housing pressures which will lead to greater pressure on the Housing Options Team, Benefits Team and Customer Contact Centre.
  - The requirements for council housing stock will change with more call for HMOs and smaller properties.
  - These changes will have an impact on the balance of the city, particularly as the impact of Local Housing Allowance (LHA) rates being based on the lowest 30% of rents is felt and people have to move to specific low rent areas rather than being dispersed across the city.

### **The changes and their impact**

7. This report looks at the impact of changes so far, changes to come and possible s in the pipeline. Where CYC is responsible for delivery, Housing Benefit for example, detailed figures are available giving an idea of impact. Where CYC is not responsible, Incapacity Benefit for example, figures are less readily available and so impact is based more on judgement.

### **Changes introduced so far and their impact on York**

8. Some of these changes, to housing benefit in particular, have already been n place and are beginning to take effect. These are:
  - a) An end of the £15 excess Local Housing Allowance (LHA) payment. (Previously if the rent you paid was less than the weekly LHA rate, you could keep up to £15 of the difference.) This will result in further pressure on household budgets.  
**High Impact:** Around 800 customers with average reduction of £9.71 a week. In some cases could lead to rent arrears. TOTAL per year: £413k.
  - b) LHA rates now based on the lowest 30% of rents rather than 50%. This is and will continue to push people into very specific areas of

low rent, rather than spreading lower income households across the city.

**High Impact:** 91% (around 1,950 people) of existing LHA customers will lose on average £12.57 a week. Based on new LHA claims made April – July 2011 827 customers have received on average £11.79 a week less than under the older scheme (around £500k across the city a year) TOTAL per year: £1.28m.

c) Increased levels of non-dependent deductions (NDDs) for Housing Benefit (HB) and Council Tax Benefit (CTB). It is possible that this change, along with the other changes being introduced, will result in an increase in the number of parents asking their children to leave the family home once they reach working age. Youth Homelessness is already an issue in York.

**Medium impact:** affects around 600 existing customers, both in social and private housing sector. NDDs have increased by 26.9%. For CTB this amounts to around £25,000 a year for around 500 customers. (£50 a year average) For HB this amounts to around 400 customers and around £103,000 a year or around £252 a year each. TOTAL per year: £128k.

d) Local Housing Allowance only covers up to 4 bedroom houses. An absolute cap is introduced so that, no matter the rent, the LHA weekly rate cannot exceed set figures.

**Low impact:** The caps are well above LHA rates for CYC and in excess of market rents. This change will have no impact locally. The removal of the 5 –bed rate will adversely affect one customer. TOTAL per year: £5k.

e) Incapacity benefits are going through a re-assessment programme for those claiming incapacity benefits, in an attempt to reduce the numbers of claimants. Initial indications are that the rates of appeal have been high, and the nature of the assessment has failed to recognise the problems of those with mental illness and relapsing conditions such as multiple sclerosis.

**Impact unknown in York:** The removal of incapacity benefit reduces the income of the recipient from a current level of £94.25 (for the long-term disability) to (up to) £67.50 for those over 25, in other words a drop of roughly £30 a week. TOTAL per year: not yet known.

## Changes still to come and their impact on York

9. Other changes take full effect in April 2013, including more changes to Housing Benefit, that will mean:

a) In April 2013 the new Universal Credit will be introduced, rolling employment support allowances, incapacity allowances, child tax credits and housing benefit into one credit. Universal credit will be subject to much more stringent caps than previously. The maximum amount of credit will be capped at £500 per week for all benefits, including housing benefit.

**Medium impact:** likely to affect larger families in high cost homeless accommodation. However, there are individual customers resident in high rent hostel and supported accommodation who may be affected by this dependent on rent level, total benefit income and the actual amount of the cap in 2013. Government figures say it will affect 50,000 households saving £225m in 2013/14 with average loss at £93 per week.

b) The cumulative effect on disabled people could be significant. Coupled with potential reductions in housing benefit, many disabled people will lose a large percentage of their current income. There is a potential risk that those in receipt of personal budgets for social care may resort to using such individual budgets simply to meet basic living costs rather than their social care needs. TOTAL per year: not yet known.

c) For tenants of social landlords, HB will only cover the size of property a tenant is judged to need using the current LHA size criteria (pensioners protected from this). People in properties deemed too big for their need will have to either find the extra money to top up the HB or move, so there is a risk of rent arrears and homelessness. Families are likely to have to move out of the family home once children leave. All of this will put pressure on Council Housing Team and on housing stock.

**High impact:** CYC has 2,948 LA tenants of working age on HB, 715 would be under occupied applying the LHA room criteria. We are more limited in gauging its effect on tenants of Registered Social Landlords (RSLs) but there would be an impact. Unlike with other changes, there seems to be no transitional protection. This will have implications for the types of housing stock required, and this could lead to an undersupply of one and two-bedroom properties in the social rented sector.

DWP estimate savings of £440m nationally in 2013/14 with some 70,000 tenants being affected in Yorkshire and Humber, with average loss of £11 a week. TOTAL per year: at least £409k for CYC tenants with an unknown amount for RSL tenants.

- d) Increases in LHA rates from 2013 are to be linked to Consumer Price Index rather than the higher Retail Price Index. This sounds like a technicality but it is far more than that. In the last 10 years CPI has been 20% lower than RPI, and this link will lead to an increasing gap between LHA rates and market rents. Figures from Shelter suggest that York is likely to become unaffordable for people on benefits by 2026.

**High impact:** The precise impact of this change is not known yet. Nationally, savings are expected to be £255m by 2014/15 affecting 1.4m customers. Government estimates rents will rise by 4% a year with CPI at 2% a year.

Based on historic trends since 1999 to 2007 the CPI increased by 15% whereas average private rents have increased by 44% which leaves a significant gap. TOTAL per year: not yet known.

- e) Single people under 35 in the private sector will be expected to share a house ( it was 25), and their benefit entitlement will reduce to reflect this. This is likely to increase the number of people seeking a house in multiple occupation and reduce the ability of people in this age group to access affordable accommodation. For those already in larger properties they will have to find the difference themselves, move or face rent arrears.
- High impact:** The difference between the current shared room LHA and a 1-bed self-contained is just over £30 a week but individual losses will be as high as £51.61 a week depending on the single room rate. Current estimates indicate 122 LHA and 11 pre-LHA customers would face reduced HB. TOTAL per year: £295k.

### **Replacement of Council Tax Benefit**

- 10 The government has announced that Council Tax Benefit will not become part of the Universal Credit but will be replaced from April 2013 by fundamentally different local 'support' schemes to be administered by local authorities. These schemes have to find a 10% reduction based on 2011/12 expenditure.

11. How LAs might find this 10% reduction is unclear and there seems to be no flexibility on the 10% if circumstances in an area change rapidly – population growth for example.
12. In York more than 13,000 people get CTB; however pensioners will be protected from these changes. In York around half of CTB recipients are pensioners and therefore the 10% will have to be found from fewer people. This will have an impact on the council tax collection rate. For CYC the 10% reduction is £1.04m based on 2010/11.

### **Other possible changes in the pipeline**

13. **Supported living accommodation** - A current consultation on supported housing and Housing Benefit (closes 9 October) may cause further changes and reduced income for vulnerable people. The intention is to assess the cost of supported housing in line with Local Housing Allowance (LHA) levels, which may leave a number of people living in supported housing unable to cover their accommodation costs. See link.  
<http://www.dwp.gov.uk/consultations/2011/supported-housing.shtml>
14. Clearly there is general support for the proposal to separate the rental element of the service so that specialist needs are separate from general market rent. Although the principal is sound the method proposed to implement these changes goes against the personalisation agenda because of its broad brush approach. Having a standard national rate for conventional supported housing also goes against the localism agenda.
15. Officers propose an alternative approach that provides more flexibility, dresses individual needs, simplification and realises local decision making. The approach is set out in the reply to the consultation response question 7 annex D.
16. **The Localism Bill** - once passed will add further complexity to changes that have already taken place:
  - An end to an automatic 'home for life' for council tenants (pensioners are protected). Local authorities will be able to offer new flexible tenancies, with a minimum term of five years.
  - Changes to housing homeless people. Councils will be able to discharge their duty with an offer of suitable private sector

accommodation, without requiring consent. (From April 2012 once the Localism Bill is passed.)

### **Changes to Legal Aid**

17. Changes to the legal aid system mean that those wishing to appeal against benefits decisions will no longer have access to legal aid, and would therefore have to represent themselves in court. The legal profession believe this will lead to longer hearings, and a slower court system. Sources of independent advice, like CABs, are facing a future of reduced funding, so at the point of greatest change, there is the least access to support and advice. The legal aid reforms are likely to take effect from April next year.

### **Consultation**

18. The government is currently consulting on some elements of welfare reform, in particular on changes to the allowances for supported housing, and on changes to council tax benefit. Other elements of change, for example to housing benefit, have already been made under existing legislation. See Annex D for the proposed response to the consultation on supported housing allowances.

### **Options**

19. Given the impact of these changes on City of York Council and its residents, lobbying government to consider changing parts of The Welfare Reform Bill should be considered. Other local authorities in the region are likely to be facing similar and possibly greater impact. Therefore it may be possible to work with them in an approach to government; such a joint approach may prove more successful. CYC will also need to reconsider current strategies, including the existing housing strategy in light of the proposed changes, particularly regarding housing supply (for example, the supply of one and two bedroom homes).

### **Analysis**

20. The analysis of the effect of the changes is set out in the body of the report above.

## **Corporate Priorities**

21. The impact of the government's proposed changes is likely to affect a number of the council's priorities, in particular relating to social inclusion and economic prosperity.

## **Implications**

22. **Financial** – Included in the body of the report, where known.
  - **Human Resources (HR)** – Not currently quantifiable – will be affected by the final legislation.
  - **Equalities** – Included in the body of the report, where known
  - **Legal** - None known.
  - **Crime and Disorder** - None known, but see Annex B.
  - **Information Technology (IT)** - Changes to benefits systems may require changes to the council's existing systems.
  - **Property** - None known.
  - **Other** – See Annex B for impacts by cabinet portfolio.

## **Risk Management**

23. There are no known risks in responding to government consultations and changes in legislation. However, the nature of the changes proposed are substantial, and the Benefits and Housing teams in particular will need to plan to be ready for these changes. See Annex B for potential impacts..

## **Recommendations**

24. The recommendations to the Cabinet are as follows:
  - That they consider the cumulative impact of these changes on CYC and any further mitigating actions that might be needed.
  - That they consider whether to lobby government as part of a regional response.



- That they endorse the response to DWP consultation document on proposals to amend Housing benefit for supported housing in annex E.

Reason: In order to respond to government changes to welfare legislation.

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**Report**  **Date** 22.9.11  
**Approved**

**Wards Affected:** *List wards or tick box to indicate all*

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**For further information please contact the authors of the report**

## Annexes

**Annex A** – Welfare Reform – Housing Stock Context

**Annex B** - Welfare Reform - Cabinet Portfolio Implications

**Annex C** - Welfare Reform – Worked Examples

**Annex D** – Supported Housing – Response to government consultation