

PLYMOUTH CITY COUNCIL

Subject: Welfare Reform
Committee: Overview and Scrutiny Management Board
Date: 12 December 2012
Cabinet Member: Councillor Penberthy
CMT Member: Carole Burgoyne (Director for People)
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Ref:
Key Decision: No
Part: I

Purpose of the report:

To provide an update on welfare reform and how this is likely to impact on our customers, staff and services. Also to begin to consider our response(s) to the potential financial implications in the future.

Corporate Plan 2012-2015:

This work has an impact on 3 key areas of the Corporate Plan, specifically:

- Reducing inequality: welfare reforms are likely to impact on child poverty, reducing the gap between already vulnerable families, economic inactivity, narrowing the gap in crime between neighbourhoods
- Delivering growth: the welfare reforms are likely to have an impact on the quality of homes, jobs and local infrastructure
- Providing value for communities: welfare reforms may mean we need to review our approach to maximising resources while still achieving efficiencies

<http://www.plymouth.gov.uk/corporateplan.htm>

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

See attached report

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

- Child Poverty – risks to the achievement of our child poverty targets
- Community Safety – potential for increased criminal and anti social behaviour
- Risk Management – Welfare Reform has been identified as one of our strategic risks

- Equality, Diversity and Community Cohesion – possible risks to our targets for narrowing the gap in deprivation and advancing equality of opportunity.

Recommendations & Reasons for recommended action:

None – this report is for information

Alternative options considered and reasons for recommended action:

Not applicable

Background papers:

EIA's are planned for key policy and service changes as the welfare reform agenda develops. IFS report 'Tax and benefit reforms due in 2012-13, and the outlook for household incomes', sourced at <http://www.ifs.org.uk/bns/bn126.pdf>

Sign off:

Fin		Leg		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Stuart Palmer											
Have you consulted the Cabinet Member(s) named on the report? Yes											

1. Background and Introduction

1.1 The Welfare Reform Act received Royal Assent in March 2012. It introduces fundamental changes to the way welfare assistance is provided. This has followed other changes including the introduction of Employment Support Allowance; changes to Tax Credits and the Local Housing Allowance. The Government says these reforms are motivated by an aspiration for people to become socially mobile and to get back to work to stave off poverty in a sustainable way. In addition it will cut the welfare budget. There has been significant opposition to the changes with concerns that they will simply push some of the poorest people in society in further deprivation.

1.2 The Institute for Fiscal Studies has presented an analysis of the reduction in household income linked to income changes and tax reforms. They say that “the largest average losses...from the modeled tax and benefit reforms to be introduced in 2012–13 are among those in the bottom half of the income distribution. The lowest-income fifth of households will lose about 1.5% of their net income from these reforms, on average.”¹ Work in anticipation of welfare reform in Plymouth indicates that this is a significant risk which is likely to have a negative impact on the achievement of our citywide priorities - raising aspiration, reducing inequality, value for communities and growth - by increasing vulnerability and placing increased demands on already stretched services.

1.3 This comes at a time when the rising cost of living is already having an impact on income across the socio-economic spectrum with many people facing redundancy or finding their work hours reduced. The Institute for Fiscal Studies (IFS) estimates the average household will be £200 a year worse off in 2012/13 as a result of tax rises and benefit cuts.²

1.4 This report provides an updated overview of some of the planned changes to welfare benefits and other associated proposals. It is a high level analysis of the impact for people in Plymouth and the initial financial implications for PCC.

2. Changes and impact

2.1 Many areas of welfare reform have been identified as having an impact on our customers and services. The full range of implications are wide spread and varied. This report therefore focuses on five reforms as key examples of the change and impact, namely:-

- Localisation of Council Tax Benefit
- Replacement of the Social Fund
- Housing Benefit/Local Housing Allowance reforms
- The Benefit Cap
- Universal Credit.

2.2 Council Tax Benefit

2.2.1 In April 2013 National Council Tax Benefit (CTB) will be abolished and funding will be localised. The CTB budget will be transferred to Local Authorities to deliver a Council Tax Support Scheme with a funding cut in the region of 10%. In Plymouth we spent £22.6 million on CTB in 2011/12 and the indicative reduction in our fixed grant for 2013/14 is £2.6 million. Pensioners are a protected group within the new localised schemes; in Plymouth this means that 43% of people in receipt of CTB will receive no changes to the amount of benefit they receive. Unless we choose to

¹ IFS report ‘Tax and benefit reforms due in 2012-13, and the outlook for household incomes – sourced at <http://www.ifs.org.uk/bns/bn126.pdf>

² <http://www.ifs.org.uk/publications/5451>

fund the gap locally, the impact of government cuts will fall on 16,500 working age claimants in Plymouth through a reduction in Council Tax Scheme support they receive.

2.2.2 A report has gone to Cabinet Planning around the proposed scheme and will be going to Cabinet on 11 December and Full Council later. The scheme has been designed as part of a Devon-wide framework to deliver a Council Tax Support scheme within the funding grant levels so that there is no financial impact on the Council.

2.2.3 The proposed scheme for working age customers is to:

- Reduce the current level of benefit awarded by the equivalent of 25% (reduced from 30% in the original proposed scheme)
- Limit the level of Support to the equivalent of a band E property for those living in Band F and above (increased from Band D in the original proposed scheme)
- Reduce the level of savings whereby someone is excluded from applying for Council Tax Support from the current £16,000 to £6,000 (an increase from £3,000 in the original proposed scheme)
- Removal of Second Adult Rebate – no reduction if a member of the household's income would not normally qualify for a reduction
- Introduction of an Exceptional Hardship Fund to provide additional help for the most vulnerable customers experiencing exceptional hardship.

2.2.4 The outcomes of these proposals on working age customers are;

- 75% reduction in liability will affect 16,832 households by an average £4.00 per week or £208 per year, and is the only option in the scheme which delivers the required savings
- Restriction to Band E affects 15 households by an average £6.29 per week or £327 per year.
- Restricting savings to £6,000 will affect 112 households by an average £13.00 per week of £676 per year. If savings drop below this level there would be an entitlement to claim support.
- Removal of Second adult Rebate will affect 116 household by an average £4.50 per week or £234 per year.

2.3 Social Fund replacement

2.3.1 In April 2013 funds previously administered by the Department for Work and Pensions under the national Social Fund, for Crisis Loans (e.g. for white goods or due to loss of money) and Community Care Grants (e.g. costs of moving from care to the community) will transfer to Local Authorities (LA). LA's can use this fund as they see fit to deliver welfare assistance to the most vulnerable. This money is not ring-fenced and there is no duty placed on LA's to deliver any specific type of service. An indicative funding announcement suggests that we will get £878,000 per annum to run this scheme (plus an allocation for administration) which represents a 26% cut on the previous year's spend by DWP in Plymouth.

2.3.2 This topic has been considered in detail by a task and finish group established by the Customer & communities Overview & Scrutiny Panel. Recommendations subsequently made by the Overview & Scrutiny Management Board are now being considered along-side the results of consultation, and this will inform recommendations for our local scheme, to go to Cabinet in January.

2.3.3 The decisions we take on the precise nature of our new scheme will be crucial – if we do not effectively target need the impact may include:

- More households with no electricity/food

- Increased pressure on Adult/Children's Social Care and homelessness services
- Increased demands for support from other discretionary pots (Discretionary Housing Payments, Section 17 etc)
- An increase in crime
- Not achieving our child poverty targets.

2.4 Housing Benefit

2.4.1 Since April 2011 there have been a series of changes to Housing Benefit and Local Housing Allowance (HLA). These are continuing and will be staggered over the next 3-5 years. From 2012 the rate of HB we pay to customers is being reduced. This is because the calculation that works out the amount of benefit is changing. Approximately 6,371 Plymouth residents will be affected, each losing an average of £12 per week, depending on property size. For a family living in a 3 bedroom house this will mean a reduction of up to £24 a week.

2.4.2 In January 2012 the shared accommodation rate, currently reserved for those under 25, was extended to all aged under 35. This means that 580 people in Plymouth aged 25-35 who have been living alone have received a reduction in their HB. Some of these are likely to opt to move to shared accommodation due to the cost implications of the rent shortfall. It is uncertain whether there is capacity within current shared housing, the majority of which is dedicated to the more lucrative student market. There are potential implications for homelessness and potential pressure on families as some 25-35 year olds move in with their parents.

2.4.3 In April 2013 a HB cap will be implemented which means we will no longer provide HB for 5 bedroom houses. At present 39 families are claiming the 5 bedroom rate. Due to the cap they will each lose over £100 per week in HB from next year. Additionally there will be a 'bedroom tax' introduced meaning that tenants who are of working age, living in social housing will have their HB limited to so it only covers the size of the property they are assessed to need. Any additional bedrooms will result in a penalty being applied to HB payments at a rate of £15 per week for one "spare" room and £25 per week for two "spare" rooms. Pensioners (over 61 years) and disabled tenants/partners who require non-residential overnight care will be exempt.

2.4.4 Changes to HB rates are likely to have a larger impact on some claimants than others. There is the potential for a weekly loss of up to £92.30 or a 34% reduction in their benefit income for large families. The implications of these changes are that people will have less money to pay their rent and are likely to build up debt to landlords, increasing the risk of homelessness. There is likely to be increased pressure on social housing providers from ex-private sector tenants and increases in the number of people who do not pay other debts e.g. Council Tax.

2.5 The Benefit Cap

2.5.1 A Benefit Cap will be introduced in April 2013 meaning no household can receive more in benefits than an average working family (currently rated at £350 per week for a single person and £500 for a couple). Any excess will be taken back through HB payments. The cap will apply to the combined income from benefits such as Jobseekers Allowance, HB and CTB. Some households will be exempt including those in receipt of disability benefits, those with limited work capability, working families and newly unemployed people (if deemed this is due to no fault of their own). HB is due to move to the Department of Work and Pensions (DWP) in 2013 but as this migration is likely to last for 5-6 years PCC will be implementing the cap in the interim.

2.5.2 Data from DWP indicates that there are 150 families in Plymouth who are going to be subject to the cap. There are 706 children living in these families, 75 of which are currently in social housing. The 150 households claim a total of 621 different benefits, an average of 4 per household. 104 of the 150 families have 4 or more children living in the home and 57 are lone parents. The impact of the cap means that:

- 75 households will lose up to £50 per week
- 27 households will lose between £51 and £100 per week
- 24 households will lose between £101 and £150 per week
- 21 households will lose over £150 per week
- 3 households unknown tenancy therefore unknown amount

2.5.3 Likely impacts of the application of the benefit cap to our services are: an increase in pressure on front line services such as Adult/Children's Social care and homelessness; more demand on information and advice services in the city; a negative impact on child poverty and lower levels of revenue collection/income generation for our services.

2.5.4 Additional resources have been allocated to support families affected by these changes and provide advice on the changes.

2.6 Universal Credit (UC)

2.6.1 This is expected to be rolled out in October 2013 and continue until 2017. It abolishes several benefits including: income support, income-based jobseekers allowance, income-based employment and support allowance, housing benefit, council tax benefit, child and working tax credits, crisis loans and community care grants. Other benefits will remain outside of the remit of UC such as contributions based jobseekers allowance/employment and support allowance, child benefit, carer's allowance, bereavement allowance, statutory maternity/paternity/adoption/sick pay, maternity grants, funeral payment and cold weather payments.

2.6.2 There will be new eligibility criteria, sanctions and penalties attached to UC, e.g. to claim the jobseekers element a claimant must evidence they have been job-hunting for 35 hours per week or they could face reductions in benefit under sanctioning powers.

2.6.3 It is expected that in the Plymouth area, up to 50,000 existing claims for benefits included in UC will be migrated over 4 years, with 30% of claimants requiring in-depth information and advice to support that process.

2.7 Other changes

2.7.1 In total approximately 20% of Plymouth's population will be affected by the reforms above and other changes to benefits such as:-

- Working Tax Credit(s) for people over 50
- Child benefit
- Disability Living Allowance/Personal Independence Payments
- Incapacity Benefit/Employment and Support Allowance
- Income Support
- Pension Credit

3. Loss to the economy in Plymouth

3.1 When assessing the overall loss of benefit income in the city from 2012-13 some assumptions have to be made about where the cuts will fall and which groups of claimants will have benefits restricted. The table below shows that during this time period the amount of benefit income lost to the city is estimated at between £13 and £27million. This calculation does not include changes associated with Universal Credit, Council Tax Scheme, Social Fund replacement, or other factors like increasing levels of sanctions for those claiming out of work benefits. The calculation is based on current levels of benefit claims and does not take into account any potential rise in claimants due to loss of work etc.

Table I – Loss of benefit income to the city 2012-13

Welfare change	Numbers Affected	Individual income reduction weekly	Individual income reduction annual	Citywide income reduction annual
Extension of shared room rate	530 x 25-35 year olds	£25.81	£1,342.12	£711,323.60
New calculation (30th percentile)	6000+ claimants	Average £14.75	Average £766.8	£4,600,800.00
Reduction 5 to 4 bed	30 families	£115.38	£5,999.76	£179,992.80
IB to JSA	4255	Average £16.50	Average £858.00	£3,650,790.00
<i>short term low</i>	1418	£3.80	£197.60	£280,196.80
<i>short term high</i>	1418	£17.55	£912.60	£1,294,066.80
<i>long term basic</i>	1419	£28.15	£1,463.80	£2,077,132.20
IB to other/no benefits	3928	unknown	unknown	potentially £3,370,224.00
Universal Credit	unknown	unknown	unknown	unknown
DLA removed	2,600 (20%)	Average £49.95	Average £2,597.40	£6,753,240.00
<i>highest</i>	867	£77.45	£4,027.40	£3,491,755.80
<i>middle</i>	866	£51.85	£2,696.20	£2,334,909.20
<i>lowest</i>	867	£20.55	£1,068.60	£926,476.20
Benefit Cap	149 families	n/a	n/a	£1,411,800.00
<i>lose up to £50</i>	75 families	£50	£3,750	£195,000
<i>lose £50 - £100</i>	27 families	£100	£5,200	£270,400
<i>lose £101 - £150</i>	24 families	£150	£7,800	£405,600
<i>lose over £150</i>	21 families	Est. £200	£10,400	£540,800
Council Tax Scheme	18,957 working age	unknown	unknown	unknown
Social Fund replacement	6880 successful applicants	unknown	unknown	unknown
Totals				£20,678,170.40 *

* based on averages where applicable. Minimum £13m – Max £27m

4. Preparing a PCC response

4.1 A cross departmental officer group has been meeting since November 2011 to identify the impact of welfare reform and is working on responses. For example: an awareness raising programme has previously been undertaken for Service Managers across the Council and c1,200 front line staff have recently received training on the effects of welfare reform; an information sheet is being prepared for schools; and providing advice on welfare changes is included as a requirement in our newly commissioned advice and support service.

5. Financial Implications

5.1 There are many implications that arise from the changing nature of benefit work Local Authorities are expected to carry out over the coming 3-5 years. Some of these have very clear financial implications, for example the cut in budget for schemes such as the Council Tax and Social Fund replacement. In other areas it is less easy to estimate the costs associated with the rapid change that is occurring, eg the amount of training we need to deliver over a period of 3-5 years to ensure staff have awareness, specialist and technical competence to deliver services.

5.2 Initial analysis shows that financial implications will include:

- Increased customer demand at the front line as we are delivering new services/benefits
- Increased customer demand for support from those most impacted by changes via services in Social Care, customer care, social work, police services, health services and children's centres
- Budgets being changed from our funding pot in the medium to long term e.g. Housing Benefit administration funds which will alter as Council Tax Support moves to the DCLG and HB moves to DWP –there will be some legacy benefits the will continue to be funded
- Supporting more customers who have got into financial difficulty via our financial inclusion advice and information services
- Increased demand on our discretionary pots of funding e.g. Discretionary Housing Payments, Section 17 funding and the new Social Fund replacement
- Income generating services may find they are impacted as customers have less disposable income and have to prioritise their spending
- Potential increases in non-payment to services such as Council Tax and Parking services
- Impact on ICT in updating and potentially creating new systems to support new services
- Communications and consultation with our staff and customers about key changes that affect them.

5.3 The impact of welfare reform is being considered as part of Equality impact assessments, being prepared to support the forthcoming budget-setting process.

6. Conclusion

6.1 The impact of the welfare reform changes on households and services is far reaching and varied. Whilst some of the impacts are apparent and can be calculated, such as reduction in benefit amounts, others are more difficult to identify and quantify and will take some time to filter through to our front line services. There are very clear financial implications for households with reduced incomes and we are likely to see this reduction reflected in our ability to collect debts and generate income for services and an increase in crisis support services such as homelessness.

6.2 More subtle impacts are likely to show in demand for our front line services in areas such as customer support, adult social care and children's social care. We are already seeing an increasing amount of customers coming to our Housing department seeking advice and information about how they can manage the changes. Our commissioned financial inclusion advice and information services have also seen an increase in the number of people attending, but are also showing that increasing numbers of their visitors are not entitled to any kind of financial support under the benefits system. We will continue to monitor trends closely over the coming year to ensure we are responding to this need and being proactive in preventing escalation of crisis for customers who will then need to access expensive intervention services.

6.3 The recently completed training will help equip staff to identify and respond to the training. In addition, crucial decisions will shortly be taken by the council on the type of local schemes it will establish to deliver the Council Tax and Social Fund replacement schemes.