TACKLING POVERTY TOGETHER
CHURCH URBAN FUND

GUIDE TO WELFARE REFORMS 2010–2017

Since coming to power in 2010, the coalition government has undertaken a radical reform of our welfare system; introducing measures to cut overall welfare expenditure and to change the way particular benefits are structured and administered. This paper provides a short guide to the most significant changes made over recent years, many of which will come into effect in April 2013.

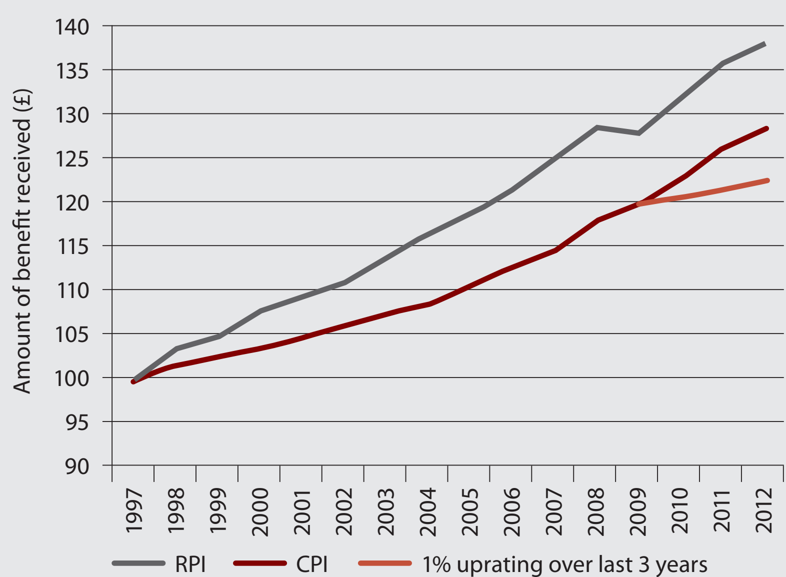
BENEFIT UPRATING

In April 2011, the Chancellor announced that in future, benefits would be uprated according to the Consumer Price Index (CPI) instead of the Retail Price Index (RPI). As the CPI tends to rise more slowly than the RPI, this change will gradually reduce the amount people receive in benefits, representing a real-terms cut. The graph below shows that if a household were receiving £100 per week in 1997, RPI uprating would have raised this to £138 per week by 2012. If instead, uprating had been in line with CPI, the household would receive just £128 per week.

This policy change has gone largely unnoticed, as its direct effects will accumulate gradually over time. However, this single reform is projected to cut welfare spending by £7.5 billion a year by 2014/2015.

In addition to this indexation change, from April 2013, most working-age benefits and tax credits will be uprated by just 1% each year for the next three years. As inflation is likely to be higher than 1% in this period (the Bank of England forecasts 2.3% on average and inflation has regularly overshot its forecasts in recent years), this measure will result in further cuts to benefits (as illustrated in the graph) and is forecast to reduce spending by an additional £1.5 billion by 2015.

Figure 1: Comparative effect of uprating benefits according to RPI and CPI



BENEFIT CAP

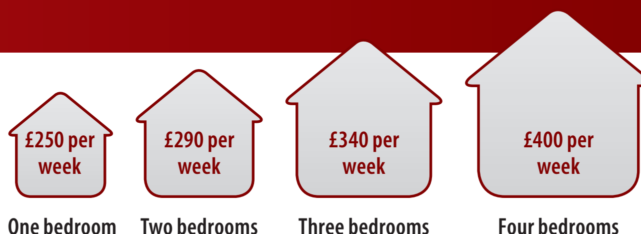
From April 2013, no out-of-work family of working age will be able to receive more than £500 per week in total benefit payments and no single adult household will receive more than £350. The government has argued that this cap 'promotes fairness between those in work and those receiving benefits', by making sure that no household receiving benefits can earn more than a working household (Household Benefit Cap Impact Assessment, DWP, 2011).

This cap will predominantly impact large families living in high rent areas of London. The Department for Work and Pensions (DWP) estimates that 56,000 households will be affected, losing an average of £93 per week. It forecasts that this cap will reduce spending by £330 million a year (Benefit Cap Impact Assessment, DWP, 2012).

HOUSING BENEFIT

Cap on Local Housing Allowance introduced

In April 2011, Local Housing Allowance was capped for properties of different sizes.



This reform will mostly affect families living in central London, where rent often exceeds these new limits. In 2010, the DWP estimated that of the 160,000 households claiming Housing Benefit in London, approximately 17,500 will lose an average of £81 per week as a result of this cap (Impact of Housing Benefit Proposals, DWP, 2010). Those families affected will either have to make up the shortfall in rent themselves or move to a more affordable property.

On top of this cap, an additional limit has been placed on Local Housing Allowance (LHA). Previously, rates had been set at the 50th percentile of local rents, but this was reduced to the 30th percentile in April 2011. The DWP estimate that 775,000 households will have their LHA cut as a result of this change (Impact of Housing Benefit Proposals, DWP, 2010).

Additionally, the up to £15 weekly excess which could be paid to claimants with rents below the LHA rate was removed.

New penalties for under-occupancy

In April 2013 a new size criterion for Housing Benefit will come into effect. This change has been coined the 'bedroom tax' and effectively means that the amount of rent eligible to be paid by Housing Benefit will now be tied to the size and composition of a claimant's household.

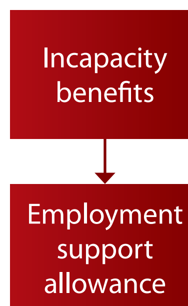
As a result of this change, working-age claimants (pensioners are exempt) living in social rented accommodation who are found to be under-occupying by one room will have their eligible rent reduced by 14% a week. Those under-occupying their property by two or more bedrooms will have their eligible rent reduced by 25%.

The government has estimated that at the time of its introduction, this policy is likely to affect 660,000 working-age claimants living in the social rented sector - approximately 31% of all working-age claimants (Housing Benefit: size criteria, DWP, 2012). It forecasts that this reform will reduce spending by £500 million a year (Housing Benefit Impact Assessment, DWP, 2012).

In order to make up shortfalls in rent that occur as a result of Housing Benefit changes, an additional £30 million will be added to the Discretionary Housing Payment fund per year from 2013/14.

DISABILITY-RELATED BENEFITS

Moving to Employment Support Allowance



In 2008, Employment Support Allowance (ESA) was introduced to replace both Incapacity Benefit and Income Support for new claimants judged incapable of work. There are two types of ESA: contributory (for those who have made sufficient national insurance contributions) and income-related (for those whose income and capital is low enough).

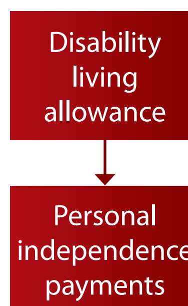
Between 2011 and 2014, all existing claimants of incapacity benefits will be reassessed for ESA under the Work Capability Assessment. Claimants that do not satisfy the requirements of this test will not qualify for ESA and will be expected to apply for Jobseeker's Allowance (JSA). Claimants who pass this test will be allocated to one of two ESA groups: the 'support group' for people with severe disabilities who are entitled to unconditional support, or the 'work-related activity group' for people judged capable of work-related activity.

Claimants in this second group will have to engage in activities such as voluntary work or work trials that will help to make them 'work-ready'. If they do not comply with this requirement, they may be sanctioned by having their benefits stopped. Additionally, people in this group will only be able to claim contributory ESA for one year, on the assumption that at the end of this year they will be ready to enter employment. If an individual is still out of work at the end of this period, they may apply for means-tested benefits or JSA.

Around 1.5 million existing claimants of incapacity benefits are expected to be reassessed for ESA by 2014. Of these, approximately one quarter are expected to be found fit for work (Monitoring Poverty, JRF and New Policy Institute 2012). The DWP estimates that 50% of those found fit for work will move to JSA, 20% will move to another benefit and 30% will move off benefits altogether (ESA Impact Assessment, DWP, 2010).

Concerns have been raised about the number of successful appeals against the Work Capability Assessments: '40% of decisions have been appealed against and 38% of appeals have been successful' (House of Commons note SN/SP/5850, 2012). Such a high level of successful appeals suggests that these Assessments are not consistently making accurate assessments of people's ability to work. Particular concerns have been raised over the inaccurate assessment of mental health problems and fluctuating conditions.

Moving to Personal Independence Payments



The Welfare Reform Act 2012 replaced the Disability Living Allowance (DLA) with Personal Independence Payments (PIP). Like the DLA, PIP is not a means-tested benefit and so is available for anyone of working age who satisfies specific mobility or daily living requirements.

From June 2013 all new claimants will be placed on PIP and between 2013 and 2017, all existing DLA claimants will be reassessed for PIP. As a result of these reassessments, it is estimated that spending will fall by £1 billion per year by 2014/15. Much of this reduction will occur as a result of the more stringent requirements of PIP and therefore the anticipated drop of 500,000 people claiming the new benefit (DLA Impact Assessment, DWP, 2012).

TAX CREDITS

Tax Credits reduced

In 2011, the rate of withdrawal of Working Tax Credits was increased from 39p to 41p for every pound earned above £6,420. This means that households with slightly higher incomes will no longer qualify for this support. In the same year, the proportion of childcare costs covered by the childcare element of Working Tax Credits was reduced from 80% to 70%.

In 2012, the number of hours a couple with children has to work to become eligible for Working Tax Credit was increased from 16 to 24 hours a week. Additionally, couples that earn over £41,300 (decreased from £50,000) no longer qualified for Child Tax Credit.

The basic element of Working Tax Credit has been frozen. The child element of Child Tax Credit was increased by £150 above CPI in 2011/12 and by £60 in 2012/13, but the 1% uprating of benefits in the next three years will cancel out these real increases by 2015/16.

Council Tax Benefit abolished

From April 2013, Council Tax Benefit is to be replaced by localised Council Tax Support schemes. The central government budget for these support schemes has been reduced by 10%; however, councils are prohibited from passing on any of this cut to pensioner claimants.

It is anticipated that this change will save central government £500 million a year. In order to make up this shortfall, many councils are expected to introduce minimum council tax payments for working-age households, varying between £96 and £255 per year (Resolution Foundation, 2013).

UNIVERSAL CREDIT

Universal Credit became law as part of the Welfare Act 2012. When implemented, the new benefit will amalgamate several existing means-tested benefits: Income Support (IS), Jobseeker's Allowance (JSA), Employment and Support Allowance (ESA), Housing Benefit, Child Tax Credit, Working Tax Credit and social fund budgeting loans. It is hoped that bringing these diverse benefits together will remove much of the current complexity in the system.

Increasing work incentives

One of the stated aims of Universal Credit is to increase work incentives by making sure that 'work always pays'. It is designed to do so in two ways. Firstly, by introducing more generous earnings disregards (the amount of money a household can earn and keep without reducing their benefit payments). The amount of earnings disregarded varies according to the type of household and their particular needs. Secondly, Universal Credit will introduce a lower taper rate of 65% (excluding the impact of Council Tax support). This means that for every £1 a household earns above its disregard, 65p is deducted from its benefit entitlement. However, Universal Credit may weaken work incentives for second earners in couples, as they will see their benefit entitlement withdrawn more quickly (Universal Credit, Institute for Fiscal Studies, 2011).

UNIVERSAL CREDIT *(continued)*

Universal Credit will be a real-time system that is fully integrated with HMRC's PAYE system. Consequently, claimants who earn money will have their earnings automatically taken into account in the calculation of their Universal Credit payment. It is hoped that this change will help smooth the way into and out of work as claimants will not have to reapply for benefits as they move in and out of employment.

Conditionality and sanctions tightened

Alongside Universal Credit, a tighter regime of conditionality will also be introduced. Each person claiming Universal Credit will be required to sign and comply with a 'claimant commitment', drawn up jointly by the claimant and their personal adviser from Job Centre Plus. This commitment will set out what an individual is required to do to keep receiving Universal Credit and may include, for example, the requirement to attend the local Job Centre more frequently, broaden a job search or increase the number of job applications made each week.

If claimants do not comply with these conditions, they may be sanctioned by having their benefits stopped for a certain period of time. The duration of sanctions could vary between one week and three years depending on the type of support a claimant is receiving and the way in which they have failed to comply with their commitment. Many organisations have raised concerns about this programme of sanctions, focusing in particular on how it is likely to affect people with mental health problems.

Frequency and method of payment changed

Universal Credit will be paid monthly instead of weekly/fortnightly and will be paid directly into a nominated bank account (rather than to a landlord, as is currently the case for those receiving Housing Benefit). The rationale given for this change is that the experiences and choices of those receiving benefits should mimic as closely as possible the decisions that most people in work have to make i.e. monthly budgeting and paying rent.

However, these two changes have caused a great deal of concern. Research shows that 65% of Housing Benefit claimants say it will be 'a lot' more difficult to manage monthly budgeting, while 35% of claimants in social housing are not confident that they can keep up rental payments if the rent is paid directly into their bank account (Policis 2013).

Phased implementation between 2013 and 2017

According to current plans, new benefit claimants will receive Universal Credit from October 2013. Those already receiving a means-tested benefit will continue to do so until they are transferred across to Universal Credit in a process of managed migration, sometime between 2013 and 2017. Existing claimants who experience a significant change of circumstance will be transferred across from October this year.

The government has pledged to top-up with transitional payments any shortfall in benefits that occur as a result of this transfer to Universal Credit. However, these transitional payments will only apply to those who are moved across to Universal Credit as part of the government's planned migration programme, not to those who experience a significant change of circumstance. Also, these payments will not be uprated and so will lose value over time.

TIMELINE OF REFORMS[1]

Year	Reform	Estimated number of households affected	Average loss per week for those affected
2011	Local Housing Allowance cap introduced for properties of different sizes.	21,000 (80% of these in London)	£74
	Local Housing Allowance rates capped at the 30th percentile of local market rents.	775,000	£9 (larger households will experience greater losses)
	Migration from incapacity benefits to Employment Support Allowance begins.	375,000 expected to lose entitlement by 2014	Not applicable
	Percentage of childcare costs eligible to be paid by tax credits reduces from 80% to 70%.	45,000 (reduction in households claiming, 2011 to 2012)	£69 (average cost covered by tax credits in 2011)
	Rate at which tax credits are withdrawn above a given threshold increases.	3,500,000	Tapered effect.
2012	Couples with children now have to work 24 hours per week to qualify for Working Tax Credit.	212,000	£75 (maximum loss)
	12-month time limit for claiming contributory Employment Support Allowance.	700,000 by 2015/16	£36 (estimate includes those that will move to means-tested ESA)
	Households individually or jointly earning over £41,300 are no longer entitled to Child Tax Credit.	600,000 (reduction in households claiming, 2011 to 2012)	£10.50
2013	Migration from Disability Living Allowance to Personal Independence Payments begins.	500,000 expected to lose their entitlement	£48 per week
	Total household benefits capped for out-of-work, working-age households.	56,000	£93
	Under-occupancy rules mean that social sector tenants will have their benefit tied to the size and composition of their family.	660,000	£14

1 Summary of Appendix. Monitoring Poverty and Social Exclusion, Joseph Rowntree Foundation and New Policy Institute, 2012.

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