

## Welfare Reform – Impact on local government and the communities they serve

### Purpose of report

For discussion and direction.

### Summary

The Government's welfare reform agenda will potentially have a significant impact on local government and local communities. This paper and its **Appendices** aim to summarise the key issues, including possible new burdens and proposes possible mitigating actions councils and the LGA could take.

### Recommendations

That we:

- pursue the new burdens conversation with the government;
- support councils to take the necessary mitigating actions in order to manage the issues they, claimants and landlords face.

### Action

Officers to implement the recommendations.

**Contact officer:** John Wright  
**Position:** Senior Adviser  
**Phone no:** 020 7664 3146  
**E-mail:** john.wright@local.gov.uk

## **Welfare Reform – Impact on local government and the communities they serve**

### **Background**

1. The Government's Welfare Reform Bill, currently in its final Parliamentary stages, introduces a wide range of reforms with the objective of making the benefit and tax credits system simpler by:
  - 1.1 Creating the right incentives to get more people into work by ensuring that work always pays.
  - 1.2 Merging out of work benefits and tax credits to create a single Universal Credit (UC).
  - 1.3 Reforms to other benefits aimed at reducing the cost of the benefits system.
2. Views differ over how the proposals will affect people's behaviour and much of the analysis of its distributional impact has relied on an assumption of unchanged behaviour. This potential impact has become a matter of significant national political debate. Councils will be crucial in influencing the dynamic/behavioural change the Government is seeking, particularly in the housing market. For example, the strategic housing role could allow councils to influence landlords and tenants, driving rent adjustment rather than reductions in families' disposable income; or councils could remain in a backstop role.

### **The issues**

3. The main measures in the Bill with potential impacts on councils are:
  - 3.1 The introduction of UC to provide a single streamlined benefit subsuming amongst others, housing benefit (HB), and the introduction of an overall benefits cap, which will be delivered through HB pending the full introduction of UC by 2017. The cap is likely to include child tax credit (prior to the introduction of UC) and child benefit. (Child benefit was specifically excluded from the cap by an amendment adopted in the House of Lords, which may be rescinded in the Commons.)
  - 3.2 An expectation that at least 80% of UC applications or changes will take place online, with benefit payments paid monthly direct to bank accounts. Rent will only be paid directly to landlords in exceptional circumstances.

**Item 5**

- 3.3 Reforms to Disability Living Allowance, through the introduction of the Personal Independence Payment.
  - 3.4 Replacement of community care grants and crisis loans with local welfare assistance funded by a non ring fenced grant to top tier authorities.
  - 3.5 Abolition of Council Tax Benefit (CTB). This is replaced by a measure in the Local Government Finance Bill providing for localised council tax support to be delivered by councils with a cash limited non ring-fenced Department of Communities and Local Government (DCLG) grant. The grant will reflect a 10 per cent saving on the current CTB bill.
  - 3.6 Linking the up-rating of local housing allowance (LHA) to the lower of either rent officer determination or CPI in order to remove a rent officer's power to increase LHA by amount above CPI.
4. These will have an impact on councils in the following ways:
- 4.1 Direct operational consequences (eg the subsuming of HB into UC; the localisation of CTB), which will include new burdens.
  - 4.2 Potential transfers of cost pressures from central Government, which may include both transfers (social fund and council tax support) and new burdens (scrapping of full costs of specialist housing support in HB, and passing the assessment of additional costs to councils).
  - 4.3 Indirect consequences, including dynamic effects, which may or may not increase councils' costs and may also transfer costs between councils (eg movement of families using council services from an affluent to a less affluent neighbourhood).

**Issues and their impact**

5. The matrix at **Appendix A** sets out officers' assessment of the issues deriving from the proposed legislation and suggests mitigating actions for both the LGA and councils to consider. It is intended to be a living document that will evolve as the final shape of the Bill emerges and as the associated regulations are drawn up. As with any assessment of this type it is a management tool to assess the possibility of something happening and the impact if no mitigating actions are taken. It is not a forecast of what will happen.
6. As mentioned above, a key measure in the Bill is the benefit cap, which will restrict the amount of benefit a household can receive to broadly the average earned income of a working household after tax and national insurance. It will only apply to workless households and the proposal is to set it at £500/week for

**Item 5**

couples and lone parent households and £350/week for single person households. According to the DWP, if there were no behavioural changes, around 67,000 households would have their benefits reduced, losing on average around £83/week. The cap will, on current plans and pending full implementation of UC in 2017, be enforced by councils reducing HB payments. The cap does not take account of household size and will therefore mainly affect large families (approx 40% of affected households will consist of 5 or more children and 80% will consist of 3 or more children). Shelter's research suggests that the cap may lead to families with three children losing housing benefit in more than a third of local authority areas nationally.

7. Many commentators question whether the capping of LHA, through its up-rating by CPI rather than RPI, will keep rents in check. However as indicated above this is clearly an area where councils, through their strategic housing role, can have an influence.

**Implementation**

8. It had been envisaged that UC would be delivered by Job Centre Plus without the engagement of local authorities. DWP however, following discussions with the LGA, has acknowledged the experience councils have in working with local people in the delivery of housing and council tax benefit and is open to councils playing a role in the delivery of the new benefit. As such, we are working with DWP to identify between 6 and 12 authorities to pilot the face to face delivery of UC.
9. As far as localised support for council tax is concerned, the Government has indicated that billing authorities, which will be the default lead authorities, need to have schemes adopted by the end of January 2013 and by 31 January of the preceding financial year each year thereafter. It will not be possible to change or adjust schemes mid year. With necessary guidance still to be issued by CLG and both consultation with major precepting authorities and the public being required, the timescale for achieving this is tight. Where a billing authority fails to adopt a scheme before 31 January 2013, a default scheme, which is likely to retain the criteria and allowances currently in place for Council Tax Benefit, would have to be adopted. Clearly with the Government imposing a 10% cut on the funding for council tax support, the default scheme would impose a significant in year budgetary pressure on councils affected. CLG's position is that this is not a new burden.

**Potential new burdens for local government**

10. It can be seen from **Appendix A** that the proposed legislation potentially presents local government with a significant number of new burdens and pressures. This includes the need to build reserves to cover risks associated with the implementation of the Bill. These potential new burdens are

**Item 5**

summarised at **Appendix B**. Because the summary is based on risks that may or may not come to fruition, it is difficult to quantify actual costs. Since it is highly unlikely that it will be possible to mitigate fully the identified risks, it is almost certain that there will be some residual pressures and new burdens for councils. LGA officers will work with councils to further refine these cost estimates and discuss with CLG to ensure that the new burdens are funded. It should be noted that DWP has undertaken to fund identified new burdens arising from the Bill, such as the localisation of CTB.

**Conclusion and next steps**

11. The issues for local government arising out of the Bill need to be addressed without delay and there is much the LGA can do to help authorities address them. In addition to promulgating suggested mitigating measures for councils, next steps for the LGA include pursuing the new burdens conversation with the Government and supporting councils to take the necessary mitigating actions in order to manage the issues they, claimants and landlords face. We will also, of course, take forward action on councils' role in the delivery of UC.

**Financial Implications**

12. There are no unplanned financial implications for the LGA.