

WELFARE REFORM

Briefing for Financial Capability Practitioners

From the Financial Capability and Inclusion Advisory Group

January 2012

Headlines

- There will be major changes to the benefits system between now and 2017, affecting many of the people you work with.
- The transition to Universal Credit from a range of current income related benefits, will be a both an opportunity and a challenge for clients and their families.
- The shift to a single monthly payment, including housing costs, made to the family rather than the individual will force a once in a generation change in money management for many and help prepare them for any later transition to work.
- If recipients are well supported through the change, this is a huge opportunity to improve their financial capability. If not, the financial shock may well result in longer term debt problems and other problems.
- Over the next few years, the need for support in budgeting and money management is expected to increase. Overall, there will be pressure on low incomes as a result of inflation, increased VAT rates and benefits being linked to the Consumer Prices Index, rather than the Retail prices index. Many clients will also see reductions in benefits for example linked to housing, disability, child related benefits, while others will see overall gains.

What's happening?

- Universal Credit

New Universal Credit to replace working age benefits (Income related Jobseeker's Allowance, Income related Employment and Support Allowance, Income Support, Child Tax Credits, Working Tax Credits, Housing Benefit, Social Fund budgeting loans).

The aim is to make work pay by increasing the level of benefits paid for those moving into work it will allow people to keep a greater share of their benefits compared to the current system. UC will be administered on line, based on real time information so should mean reduced delays, fraud and error and more efficient administration of changes. Clients will need access to the internet and the necessary skills or support to maintain their record. UC will be paid in a single payment for a whole household, once a month. This means that clients will be coping with larger sums of money than they are used to. They will need to budget for a whole month's expenditure for themselves and others in the family, including paying rent. Payment of Universal Credit will be monthly in arrears which may result in people seeking credit later in the month. For some, the move to Universal Credit will be precipitated by a life event which would already weaken their financial capability e.g. having a baby, a relationship breakdown or a bereavement, making it all the more important for them to be supported.

- Housing Benefit Reform

Housing Benefit will become part of Universal Credit and will be paid direct to the claimant. For many people used to having their house benefit paid directly to their landlord to cover their rent, the new skills and literacy required to manage regular and efficient bill paying will be a great challenge.

Other Housing Benefit changes are largely around reduced levels of benefit, and restrictions on who can apply. For example, the shared accommodation rate will now only be available to over 35 year olds, a move from 25. This may mean a return to the family home for some or increased risk of homelessness.

Other Changes as part of Welfare Reform include:

- Devolution of Council Tax Benefit and the Social Fund

Council tax benefit and the community care grant and crisis loan element of the Social Fund are being devolved to Scotland. The exact terms of the transfer are not yet clear and successor arrangements are under development.

- Sanctions and Conditionality

The new job-seeking regime brings a greater degree of sanction and conditionality where benefits are given on the basis of agreed activity and plans to return to work for example work focused interviews, work preparation. Failure to comply at its most extreme could mean a loss of benefit for 3 years.

- Incapacity Benefit

People on Incapacity Benefit will be re-assessed migrated on to Employment and Support Allowance or Job Seekers Allowance.

Support and Exceptions work by the DWP

The DWP is currently working on the support arrangements to help clients with the transfer to Universal Credit. They are also looking at who might be excepted from some of the system changes for example by receiving their benefit more regularly or by having rent paid directly to the landlord.

Lord Freud made these key points about the new system at the Committee Stage of the Welfare Reform Bill in the Lords:

This is an opportunity to address the poverty premium

- In terms of Support there will be some claimants who just need sign-posting to existing information, others who need more intensive face to face support
- We have begun working with local authorities, housing associations and the relevant third sector organisations to develop guidance
- We are working with the banking sector, credit unions, supermarket financial services and the Post Office to explore the opportunity to create cost-effective budgeting accounts
- Where there is a risk of harm to the claimant or the household, we will of course want to make sure that safeguards for these people are in place.

When Will the Changes Take Effect?

Universal Credit will be implemented between October 2013 and 2017 in three phases. Other changes to benefits are phased depending on the benefit and client group. Glasgow City Council has developed a timeline for the changes which gives a feel for the complexity – see the change table at the end of this briefing.

What you can do:

- You can keep up to date with the welfare reform agenda and make connections with groups which may be lobbying on behalf of your clients. You can also engage in the local debate on provision of

financial capability services to support clients, particularly link to your local CAB or credit union or Community Planning Partnership.

- Think about how the changes will affect your clients and what they will need to do to prepare. Consider whether monthly payments could present any opportunities for clients e.g. move to cheaper billing options for utilities and expensive items.
- Encourage clients to develop the skills they will need to cope with Universal Credit where possible – i.e. budgeting and money management skills including bank accounts and it skills to maintain their UC account online.
- Identify local sources of help for them when they come to the point of making transitions. For example, local partnerships may be developed e.g. with credit unions, banks and landlords to ensure people have access not just to advice but also to budgeting bank accounts and payment products.

DWP Benefit Change Timeline	
Jan-11	
Health In Pregnancy	Grant was abolished (£190)
VAT	VAT rose from 17.5% to 20%.
Feb-11	
IB	IB to ESA migration (2011 to 2014)
Apr-11	
All benefits	CPI used to uprate benefits
Tax Credits	2nd Income threshold for Tax Credits down to £40,000
Tax Credits	41% Taper rate for Tax credits
Tax Credits	Baby Element removed (£545pa)
Tax Credits	Child element increase by £180 above CPI. ??
Tax Credits	Tax Credit 'increased income' disregard down to £10,000
Tax Credits	Over 60s can get WTC if working 16 hours (currently 30)
Child Benefit	Child Benefit will be frozen for three years
Sure Start Grant	Sure Start maternity grant for the first child only Oct 2011
Housing Benefit	Non Dependent Deductions, uprated by 27%
Housing Benefit/ LHA	Extra room rate for non resident carer
LHA	LHA levels capped
LHA	LHA rates tied to 30th Percentile
LHA	Additional £15 LHA abolished
Discretionary Housing Payments	DHP increased by £10 Million nationally for 2011/12
Tax Credits Freeze	TC 30 hour element for 3 years
Tax Credits	Reduce WTC child care costs from 80% to 70%
Tax Credits	Freeze savings credit for 4 years
Oct-11	
JSA/ IS	Lone parents whose youngest child is aged 5 require to claim JSA not Income Support
Apr-12	

Tax Credits	2nd Income threshold for Tax Credits removed
Tax Credits	50+ Element removed for WTC
Tax Credits	Child element increase by £110
Tax Credits	Tax Credits backdating restricted to one month
Housing Benefit (LHA)	Claimants aged 25-35 entitled to shared-room rate rather than 1 bedroom rate.
Tax Credits	Increase number of hours for couple to claim tax credits to 24
Jan-13	
Child Benefit	Higher Tax payers to lose Child benefit
ESA	Contributory ESA restricted to 12 months
Apr-13	
DLA	Objective Medical Assessments will be introduced for all DLA claimants (Replace with new Benefit Independence Payment)
Tax Credits	Tax Credit 'increased income' disregard down to £5,000
Housing Benefit	Social sector rents will have a family size restriction (working age households only)
LHA	LHA rates increased by CPI
Council Tax Benefit	Proposed introduction of a Localised scheme with a 10% funding cut in CTB transferred to Local Authorities
Social Fund	Introduction of a Scottish scheme to replace Community Care Grants and Crisis Loans
All Benefits	Total benefit caps £500/w couple £350/w single person

Sources of More Information

Link to DWP's briefing notes on the changes:

<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/universal-credit-briefing/>

Scrutiny of the Welfare Reform Bill by the Health and Sport Committee – Including evidence from organisations representing individual interest groups and Scottish Government evidence.

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43319.aspx>

Citizens Advice Scotland Briefing on the impact of Welfare Reform

http://www.cas.org.uk/Resources/CAS/Migrated%20Resources/Documents/Politicians%20briefing/ScotlandBillCttee_WelfareReformBill.pdf

SG Website - Housing benefit Reform -

<http://www.scotland.gov.uk/Topics/Built-Environment/Housing/16342/hbreform>

SG Website - Welfare Reform -

<http://www.scotland.gov.uk/Topics/People/welfarereform>

FLO Scotland website – financial capability in Scotland

www.floscotland.org.uk