

Welfare Reform Bill – Second Reading Briefing

09 March 2011



Summary

The Bill contains the legislative provisions for the introduction of a universal credit that will replace existing in and out work benefits and credits. The aim is to improve work incentives, simplify the benefits system and make it less costly to administer.

The Bill also makes provision for a new benefit, personal independence payment, which will replace the existing disability living allowance.

This brief focuses on the main implications for local government.

LGA Key Messages

- Councils are interested in helping tackle poverty and unemployment in their local area and the LGA supports the principal objectives of universal credit to simplify the benefits system and improve work incentives. The reforms should have a positive impact in helping people move into work, see the rewards from working and improve their own circumstances and those of their families.
- It will be important that the new system of local council tax rebates, and other arrangements between local and national government allows councils to manage the financial risk that the localisation of council tax benefit may create for councils and council taxpayers.
- Local government has a major interest in the future arrangements for the delivery of universal credit. The costs associated with the benefit reform, including staff, systems, contractual and transition costs, should be fully met by government under the new burdens doctrine.
- Local government can ensure the effective provision of face-to-face support for universal credit alongside other public services that help people into jobs.
- The arrangements for locally administered support to replace community care grants and crisis loans need to be considered alongside the arrangements for the wider delivery of face-to-face support of universal credit.

Briefing

Specific issues in the Bill:

There are four issues related to the introduction of universal credit which have particular implications for local government.

Council tax benefit localisation

Clause 34 of the Bill abolishes council tax benefit. The Secretary of State for Communities and Local Government has said in a written statement that government will localise Council Tax Benefit from 2013-14 and reduce

its costs by 10 per cent. Consultation will follow on a system of local council tax rebate schemes.

LGA View

- Localising council tax brings with it a number of financial risks – if the number of people claiming or the council tax burden increases - and issues about how to distribute the funding for council tax benefit between councils with different demographic make-ups;
- The reforms to council tax benefit should be looked at alongside reforms to council tax as a whole in order to provide the flexibility to manage the financial risk;
- Councils will need as much flexibility as possible to reform council tax discounts to manage the financial risk. A system of local council tax rebates should not constrain that flexibility;
- Total resources given for council tax benefit following 2013 should rise roughly in line with the total estimated council tax burden;
- Government should agree to keep the total sum given for council tax benefit under review. Thresholds could be put into place to trigger more resources if demand rises, in total or in particular authorities. This could be due both to economic circumstances and to people not currently claiming being given access to the new arrangements;
- The government and local government will need to discuss a needs based formula to ensure that resources for council tax benefit go where they are needed given the different demographic make-up of different areas.

The abolition of housing benefit and payment of housing costs through universal credit and pension credit

The Bill abolishes housing benefit (clause 34) – and includes housing costs in the universal credit. Housing costs for pensioners will be included in pension credit (clause 35 and schedule 4). Clause 68 provides for the ‘the appropriate maximum housing benefit ("AMHB") to be determined in accordance with regulations. This will include rent officer determinations but may also include determination by the Secretary of State.

The explanatory notes to the Bill show that this will enable the family size limits for housing costs payments for the social housing sector announced in the 2010 Emergency Budget to be implemented. The explanatory notes also say that, other than this change, in the short to medium term housing costs for social-rented sector tenants (including those who rent properties with the new shorter tenures and affordable rents) will continue to be based on the actual rents in both housing association and local authority properties, including in the new ‘affordable rent’ tenure.

The Bill also provides the primary legislation needed to effect those changes to Housing Benefit which could not be implemented through regulations alone. These are: uprating the Local Housing Allowance by CPI rather than RPI, and increasing the age for the single room rate from 25 to 35.

The Bill also provides for an overall benefits cap to be set at the level of average earnings of working households (Clause 93).

LGA View

- The way universal credit is paid could have important implications for the housing market. For example, if universal credit increases the risk that tenants default on rent, and rental income streams suffer, this could de-stabilise the credit arrangements the social housing sector has with financial institutions.
- Councils currently administer housing benefit and receive £462 million (2011-12) in administration grant for housing and council tax administration. The transition to universal credit will have profound implications for many council employees, councils systems and contractual arrangements with private suppliers.
- The LGA will work closely with government and local councils on the transition to future delivery arrangements. The costs to councils resulting from the reform should be fully met – this could include staffing, systems, contractual and transition costs. These costs would normally be fully met by government under the new burdens doctrine.
- The LGA has concerns regarding the effects of the housing benefit measures on homelessness. We will continue to monitor the situation closely.

The future delivery of face-to-face contact of universal credit

The Bill does not contain provisions relating to the future delivery of universal credit and a debate continues between government and interested parties on the institutional arrangements for supporting delivery of the benefit.

LGA View

- The decision about how universal credit is delivered will be crucial to its success in changing the behaviours of benefit recipients and improving work incentives. People will need to see the gains from work. If through universal credit they receive a single payment, many people will need to develop new skills and behaviours around how they budget and how they relate to welfare support and advice. The quality of the face-to-face support given to people will be of critical importance.
- Many people naturally see the council as the place to go for support on a wide range of issues that bear on their attitude to work – such as housing and childcare.
- In considering the delivery model, there is a strong case for giving councils the role to commission face-to-face support from organisations (some of which will be voluntary sector) who are trusted locally and can have the biggest impact on helping people back into work.
- Many councils, particularly districts, also see a case for councils' benefit processing operations to manage the universal credit back office and would like to see this option given full consideration.

The Social Fund

The Bill includes clauses (69 to 72) to abolish community care grants and crisis loans and replace them with locally administered schemes.

LGA View

- We look forward to the government consultation paper on the arrangements for the locally administered schemes to replace community care grants and crisis loans.
- This localization of aspects of the Social Fund needs to be considered alongside the wider arrangements for providing face-to-face support for local people.
- We need to consider the practicalities carefully with government – to ensure that there is an effective service for people who need this kind of assistance and that the costs for councils are fully met.

Fraud and Error

The Bill confirms that the Government is to go ahead with a single fraud investigation service. Local authorities will no longer be able to prosecute for Housing and Council Tax benefit offences, although there will be some flexibility to cover prosecutions which have already started (Clause 107).

LGA View

- Local government has a good record on prosecuting benefit fraud, and many in local government will need convincing that a central single fraud investigation service is an improvement. LGA officers and advisers are engaging with DWP through the established consultation machinery with a view to ensuring that the implications for local authority fraud staff are fully taken into account.

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