

**POLICY AND RESOURCES SCRUTINY COMMITTEE –  
25TH JANUARY 2011**

**SUBJECT: CHANGES TO HOUSING BENEFIT FROM APRIL 2011 AND OCTOBER  
2011 – OTHER LONGER TERM CHANGES**

**REPORT BY: DEPUTY CHIEF EXECUTIVE**

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**1. PURPOSE OF REPORT**

- 1.1 To provide information to Members on the forthcoming changes to the Housing Benefit scheme and other longer-term reforms to the Welfare System, and to examine the likely impact on benefit claimants.

**2. SUMMARY**

- 2.1 In the emergency budget in June 2010 and then the spending review in October 2010, the Government announced significant changes to the Welfare System, including the Housing Benefit and Council Tax Benefit Schemes. Other longer-term reforms have also been announced spanning the period up to 2017/18.

**3. LINKS TO STRATEGY**

- 3.1 The payment of Housing and Council Tax Benefit is a key element of the Council's anti-poverty and regeneration strategies.

**4. THE REPORT**

- 4.1 Statistics show that housing benefit expenditure has increased from £11 billion in 1999/2000 to £20 billion in 2009/2010 in cash terms, and without reform it is estimated that expenditure would escalate to around £25 billion by 2015/2016.
- 4.2 In Caerphilly CBC, housing benefit expenditure in 1999/2000 was £38 million but by 2009/2010 this has risen to £64 million and the estimate for 2010/2011 is £68 million. Currently we have around 15,000 housing benefit claimants plus just under 21,000 council tax benefit claimants, so a total caseload of just under 36,000. The caseload in 2006/07 was 25,265.
- 4.3 The Government has made it clear that the overall cost of housing and council tax benefit (H&CTB) needs to be controlled and a package of measures to achieve this will be introduced in stages, starting in 2011, but continuing in subsequent years. The report concentrates on the changes for 2011 which impact mainly on the "privately rented sector" (PRS). The impact on all other tenants outside of the 'privately rented sector' will be less severe in 2011, but it is safe to say that large numbers of tenants will be affected to some degree because of the changes to tax credits and the savings credit element of pension credits.

#### 4.4 Changes to be introduced from April 2011:-

- 4.4.1 The top up payments of up to £15 per week enjoyed by some claimants will end. This arrangement allows tenants to keep up to £15 per week of their benefit if their rent is lower than the rate of Local Housing Allowance (LHA). It was supposed to incentivise tenants to find cheaper accommodation but there is little evidence that this has been achieved. The payments will be withdrawn on claim anniversary dates so it is possible that some claimants will be affected immediately if their anniversary date happens to fall shortly after the change takes effect.
- 4.4.2 The top rate of LHA (the 5 bedroom rate) will be removed, so that the maximum rate of LHA will be the 4-bedroom rate. This will have very little impact within Caerphilly CBC. We have identified only three claims in the 5-bedroom category.
- 4.4.3 Absolute caps will be introduced for “new claims” so that LHA rates cannot exceed fixed amounts. As with point 2 above this measure will not impact severely within Caerphilly CBC because rental levels are significantly lower than the proposed caps – the measure is aimed at the high rates of LHA that exist especially in London. This change has been covered in the media in the London area where rates of LHA can reach £2000 per week.
- 4.4.4 There will be staged increases in the rates of “non-dependant” deductions which will affect all claim types. Non-dependant deductions reduce H&CTB by fixed amounts, depending on the number and status of each individual. Usually, non dependants are children who are still living at home with parents and in some cases, we must reduce the entitlement by as much as £50 per week for each one. This may take away all of the parents` entitlement to benefit.
- 4.4.5 There will be changes to the tax credits system that will impact adversely on H&CTB payments. These changes are complex. The government has stated that they will endeavour to keep the impact on H&CTB to a minimum.
- 4.4.6 There will be a freeze on the savings credit element within Pension Credit and this freeze will last for 4 years. The effect of this change is that the annual benefit uprating amounts will be less than they would have been but for the change and this will adversely affect claimant's entitlements.
- 4.4.7 LHA rates for “new claims” will be set at the 30th percentile of rents rather than the median. This measure was initially planned to start in October 2011 but amending Regulations have been laid to bring this change forward for new claims. In effect this means that LHA rates will reduce to lower amounts so that about 3 in every 10 properties in our area would be affordable to people on housing benefit rather than about 5 in every 10 at present. This will likely affect choice, if Landlords do not reduce their rental amounts.

There will then be a period of transitional protection from any other changes of up to 9 months for “existing” LHA claimants. In practice this means that the absolute caps and the 30% percentile changes will not affect “existing cases” until later than originally planned.

#### 4.5 The longer-term changes:-

- 4.5.1 It is proposed that there will be a new benefit called “universal credit” combining all out of work benefits (including housing benefit but excluding council tax benefit). It is anticipated that the new credit will begin with new claims sometime in 2013 and then there will be a prolonged transition period moving existing cases onto the new system probably run by the Department for Work & Pensions (DWP) from 2013 to 2017/18. This is a massive exercise, hence the long period to full implementation. This will take a large part of the housing benefit administration function out of Local Authorities.
- 4.5.2 There will be a new Council Tax Benefit Scheme that will be administered by all Local Authorities. This is potentially the most difficult change that an Authority will have to manage

because the current national set of regulations will be replaced by localised schemes designed and run by individual Local Authorities. As part of the new system, the Chancellor announced proposals to reduce council tax benefit expenditure by 10% from 2013/14 so each Council would need to take this into account when planning and designing operational systems arising from this change. Detailed guidance on this particular change is still awaited, but we anticipate that the scheme will have to operate within certain centrally set parameters, and within a reduced budget.

- 4.5.3 There will be an overall cap on benefit payments to a household, based upon median earnings (net of tax) for working households. This cap is estimated to be around £500 per week by 2013. The DWP has said they need to further discuss what role Local Authorities will have in administering this.
- 4.5.4 There will be a new limit on the length of time a customer can claim Jobseekers Allowance and still get full housing benefit. If someone has been in receipt of JSA for a period of 12 months, their housing benefit will be reduced by 10% and they will continue to be ineligible for the full out of work housing benefit rate until they have left the benefit system. This is due to start in April 2013.
- 4.5.5 The LHA shared room rate (the lowest rate of LHA) which is applied to most single people under 25 in privately rented accommodation will be extended to anyone up to 35. This is planned to start in April 2012.
- 4.5.6 There will be a new Fraud and Error Strategy. The DWP has published their outline plans and certain initiatives are to start from April 2011 but the main implementation will be phased in over the period 2012 to 2015.
- 4.5.7 From April 2013, housing benefit for working age tenants who live within the Social Rented Sector (Council tenants and RSL tenants) will be restricted for anyone occupying a larger property than their household size and structure would warrant.
- 4.5.8 The way that LHA rates are set will change from 2013/14. At the moment they are based upon local market rents but from 2013/14 they will be uprated by reference to the Consumer Prices Index.
- 4.6 The Government has acknowledged that this package of measures will adversely affect large numbers of claims and has gone some way to address the issue. For instance there is a scheme called the Discretionary Housing Payments scheme (DHP's) that operates throughout the UK and this allows individual Local Authorities to award additional money to the most deserving cases. Almost all awards under the scheme are to help with rental shortfalls but the scheme is cash limited and we cannot spend more than what is called the "permitted total". DHP's are not actually payments of housing benefit, they are a stand-alone system of extra payments to mitigate hardship. Caerphilly CBC's DHP allocation for 2010/11 is £18,121.
- 4.7 It has been agreed that the overall budget for DHP's will increase by £10 million to £30 million in 2011/2012 and by a further £30 million to £60 million from 2012/2013. At this point in time, the DWP has not released details of each Local Authorities' cash allocation. We can update Members on this at a later date if necessary. Members are reminded that this allocation is currently relatively small. A threefold increase would still give little flexibility.
- 4.8 A further positive announcement is the inclusion of an extra bedroom within the size criteria used within the PRS, where a disabled person or someone with a long term health condition has a proven need for overnight care that is provided by a non resident carer. This measure is not likely to affect many claims and hence it will not be expensive to introduce.
- 4.9 To conclude the impact of the 2011 changes are:-
- Housing benefit reductions arising from the changes will affect just about every claimant in

some way or other and this will significantly reduce the affordability and availability\* of rented accommodation in the private sector and the ability of social housing tenants to pay their rent. The expected outcome will be an increase in financial hardship, a possibility of rising levels of homelessness and more pressure on services.

- As stated earlier in the report, the changes will impact most severely on tenants in the PRS who we estimate will lose anything between £5.00\* and £20.00\* per week in housing benefit from 2011 onwards. Many tenants in the PRS could find their rent becomes unaffordable during 2011 and will have to draw upon any other income they have to avoid rent arrears, or some may be forced to move to cheaper accommodation. This in itself is not easy because moving home incurs up front costs such as bonds or deposits, agent's fees and removal costs. Of course market pressures may lead to a reduction in rents charged by the PRS.
- It is anticipated that the higher DHP's allocation will be severely stretched to meet the inevitable increase in applications requiring help to mitigate the reductions in housing benefit and this will be difficult to control, within such a small financial allocation. Fair, realistic and robust criteria will need to be established to control and allocate this relatively small sum.
- Finally, Members are advised that it is difficult to accurately predict the effects of some of the longer-term changes and further reports will be presented as and when more details are known. Some of the changes will require primary legislation.

\* Source – DWP impact assessments.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 The housing benefit service including the benefits paid to residents and the administration of the function is funded via a grant received from the DWP. The administration grant has reduced, and it is anticipated that there could be further significant reductions if the proposals to introduce the universal credit go ahead.
- 5.2 Ultimately if all the proposals are implemented the housing benefit function in the Authority will reduce in size quite dramatically.

## **6. PERSONNEL IMPLICATIONS**

- 6.1 The DWP administration grant supports just over 50 staff in the Housing Benefit Section, housing benefit related work is also undertaken by Customer First and the Contact Centre. Therefore any reduction in this service will lead to staffing implications. The long lead in period will hopefully give opportunities to redeploy staff to ensure continuation of employment with the Authority.

## **7. CONSULTATIONS**

- 7.1 There are no consultation responses which have not been reflected in this report.

## **8. RECOMMENDATIONS**

- 8.1 Members are requested to note the contents of this report.

## **9. REASONS FOR THE RECOMMENDATIONS**

- 9.1 To ensure that Members are aware of the impact on residents and the potential impact on the Authority of the Government proposals and changes.

## **10. STATUTORY POWER**

- 10.1 The Welfare Reform Bill 2011.

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