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To: Policy and Resources Cabinet Committee – 8 September 2016

Subject: Welfare Reform Update

Classification: Unrestricted

Summary

This report provides an update on the current phase of working age welfare reform in the UK, considering both those major reforms already underway and further forthcoming changes to the benefit system. The report also includes some key issues for the Committee to consider.

Recommendation(s)

The Policy & Resources Cabinet Committee is asked to NOTE and COMMENT on the Welfare Reform Update report.

1. INTRODUCTION

1.1 Major reforms to the benefit system for people of working age have been ongoing since the changes initiated by the Labour Government in the first decade of the century. In brief the reforms have entailed increasing conditionality for benefit claimants with the aim of encouraging all who can, back to work. The underlying drivers are a desire to reduce dependency on state support, a belief that work is the best route out of poverty and an imperative to make significant savings to the welfare budget. Previous reports to the Policy and Resources Cabinet Committee have outlined these reforms in detail, the current data on key indicators and the potential implications for Kent residents and Kent County Council.

1.2 In March this year the latest piece of legislation affecting welfare reform (the Welfare Reform and Work Act 2016) received royal assent. The Act together with related regulations and recent announcements by Government form the context for the latest round of reforms. In addition several major reforms initiated by previous governments (including Universal Credit and Personal Independence Payments) are still only partly implemented. This report summarises the key forthcoming reforms, those already underway and some of the related key issues pertinent to Kent residents and Kent County Council.

1.3 The report follows on from (but does not attempt to replicate) the comprehensive up-date on key indicators presented to the Committee by Business Intelligence on 14th March 2016.

2. OVERVIEW OF KEY CHANGES AND/OR CURRENT ISSUE

BENEFIT	CHANGE or ISSUE
Universal Credit (UC) - introduced in October 2013 to eventually replace and subsume six key means-tested benefits. Currently in all Jobcentres for single, childless, unemployed claimants.	Rollout to full service for all types of new claimant by September 2018; timetable for Kent not yet available but likely to only begin in 2017; transition of those on the "old benefits" to take place between 2019 and 2022. April 2016 – significant cuts to the work allowances (level of earnings after which the UC award starts to be withdrawn). April 2016 – parents on UC can claim back 85% of childcare costs, up from the previous 70%.
Personal Independence Payment (PIP) – since April 2013 DLA for people of working age is being gradually replaced by PIP.	Current award rate for new claims is 47% and for DLA reassessment claims 73% (figures following appeals are being sought). According to DWP official statistics for the South East, it is taking on average 13 weeks from the point of registration to the DWP decision (anecdotally some claims are taking much longer, particularly when a face to face assessment with ATOS, the medical assessor) is required). The 13 weeks is significantly shorter than the peak of 42 weeks in July 2014. People claiming under the special terminally ill rules are having their claims dealt with in six working days on average. Nearly all of these type of cases are found eligible for PIP (100% of reassessed claims so far).[1]
Attendance Allowance (AA) - the main disability benefit paid to people over 65.	The current Business Rates consultation includes a proposal to devolve AA to local authorities, to either administer locally or subsume into the total pot of available funding. Currently the reach of AA is far greater than that of adult social care (in Kent about 38,000 people are currently entitled to AA); receipt of AA (with the knock on impact on other benefits, a person's carers benefits etc) plays a key role in helping people self-manage their condition, thereby keeping these people out of the formal care system; the full financial impact on local authorities also includes the loss of income from charging and the impact on the residential care market (and by extension KCC) who rely on AA from self-funders in their financial planning.
Reductions to the overall Benefit Cap – (exemptions for people with disabilities, carers, other vulnerable groups and those	From 7 November this year the benefit cap will be reduced to £20,000 (£13,400 for single claimants) for those outside London and £23,000 (£15,410) for those in London. Information provided by the DWP (Kent Jobcentre Plus) is that they currently expect 3,063 households to be affected in Kent by the new cap (compared to less than 400

[1] PIP Official Statistics – data to April 2016 (DWP).

working at least 16 hours a week).	households under the current rules), although the figure is likely to change by the date of implementation (7.11.16).
Housing Benefit for Social Housing	April 2016 - rents for social housing are to be reduced by at least 1% per year until 2020. This is being done in an attempt to reduce spending on Housing Benefit. It will only benefit those tenants who are not claiming this benefit. April 2018 - the current maximum Housing Benefit rates for private sector accommodation (LHA rates) will apply across the social rented sector from April 2018.
Housing Benefit for Supported and Sheltered Accommodation	The Government is currently reviewing how supported and sheltered housing is funded. The review includes consideration of whether the sector will be exempted from the above reforms or not (i.e. the 1% cut per year and the application of LHA rates to social housing).
Employment Support Allowance (ESA) People on ESA are in one of two groups: 1. The Work Related Activity Group OR 2. The Support Group – for people too ill or disabled to undertake work-related activities.	From April 2017, for new claims, people in the Work Related Activity Group (WRAG) will receive the same rate as those on JSA, losing approximately £30/week (over £1,500 a year). There are corresponding changes being made to Universal Credit. People in the ESA WRAG are not fit for work. They are fit for Work Related Activity in preparation but may not be able to start looking for work for a long time. 60% of people in this group are there for at least 2 years, while 60% of those on JSA move off the benefit within 6 months.
Freezing of working age benefits	Most working-age benefits have been uprated below inflation (1%) since the start of 2013. The Welfare Reform and Work Act introduces a freeze on working age benefits for four years, ending in 2020. It excludes benefits relating to pensioners, disability, carers and statutory payments.
Limiting Child Tax Credit, UC and HB to the first two children	April 2017 – a two child limit will be introduced. Currently 21% of families in receipt of Tax Credits have three or more children. The policy will not be retrospective and will only apply to children born after 6 April 2017.
Benefits for young people	April 2017 - 18-21 year olds claiming Universal Credit will have to either apply for training/apprenticeship or attend a work placement from 6 months after the start of their claim. In addition, from April 2017, Housing Benefit (or housing costs within Universal Credit) will not be available for the vast majority of 18-21 year olds. Certain vulnerable groups will be exempt from this rule. April 2018 - the under 35 shared room rate restrictions will be extended to social housing.
Sanctions for JSA, Universal Credit and Employment Support Allowance	The most recent report to the Committee on key welfare reform indicators (14 March 2016) stated that the number of new JSA sanctions each month fluctuated from a peak of 1,414 in October 2013 to 461 in June 2015. The figure for March 2016 was 333. Regarding new ESA sanctions, the

	figure for June 2015 was 63, with that for March 2016 being 48. As yet there are no statistics available for Universal Credit sanctions and therefore the apparent drop in sanctions for jobseekers should be viewed with caution. In addition there are generally falling numbers of JSA and ESA claimants due to an improving labour market and the figures need to be viewed in this light.

KEY ISSUES FOR THE COMMITTEE TO CONSIDER

3. FINANCIAL IMPACT ON INDIVIDUALS

3.1 Several of the above changes are likely to impact on individuals dependent on benefits, including those in low paid work. Starting with the four year benefit freeze, the Institute of Fiscal Studies has estimated that this will affect 13 million families (including 7.4 million in work) who will lose on average £260 per year.[2]

3.2 With regard to the overall benefit cap, we do not yet have a full breakdown of how much individual families will lose in Kent but, as an example, indicative figures shared by Swale Borough Council show the following:
Swale currently has 45 families affected by the current cap but this is likely to rise to about 275 families when the new cap is introduced (indicative only at this stage). Of the 275 the breakdown is as follows:

- 71 families losing £100 or more per week
- 38 families losing between £80-£100 per week
- 54 families losing between £50-£80 per week
- 58 families losing between £20-£50 per week
- 54 families losing £20 or less.

One way to become exempt from the cap is to move into work of at least 16 hours per week. However, it should be noted that 61% of households affected by the cap are likely to be lone parents, who face the biggest barriers to work.

3.3 The work allowance cuts created an overnight loss for all working Universal Credit claimants, and all new claimants will be affected by the cuts immediately. The amount of the loss will vary, but the Child Poverty Action Group (CPAG) has estimated losses will range from £234 per year (working couple with children who rent), through £554 per year (working single parent who rents) to £852 per year (single childless worker who rents) and £2,628 per year (working single parent who owns their home)[3].

3.4 Transitional protection will be provided for people currently receiving tax credits when they move onto Universal Credit, so this group will not see an immediate cash loss. However this protection is expected to be quickly lost as the total

[2] Benefit changes and distributional analysis (Andrew Hood, IFS).
[3] CPAG – Universal Credit: cuts to work allowances (May 2016)

amount will be frozen at the point of transition, and will remain so regardless of changes in circumstances.

3.5 Lone parents are particularly affected by the cuts to work allowances, yet they are the group who find it hardest to start work or increase hours. A related forthcoming development is that from April 2017 lone parents will be expected to be available and search for work once their youngest child is three. Currently the relevant age is five.

3.6 The recent introduction of the National Living Wage (NLW) will help low income families to some extent. However a Resolution Foundation report[4] states that this "is unlikely to do enough to offset poorer work incentives". The impact of the NLW and higher income tax thresholds will only really be significantly felt by those earning enough to move off Universal Credit altogether.

3.7 The loss of approximately £30 per week for those on ESA WRAG is likely to cause financial uncertainty for some people in this group which may undermine their ability to prepare for eventually returning to work. It is also likely to have a significant impact on clients eligible for KCC social care – it may undermine the recovery process and may have a knock-on effect on KCC budgets (together with the changes to DLA/PIP) including through loss of charging income.

3.8 With regard to sanctions, concerns have been raised by many commentators (including Frank Field, the Chair of the Work and Pensions Select Committee[5]) about the way they are being implemented, with many recipients getting into debt, being forced to use pay day lenders, loan sharks and use food banks. The Social Security Advisory Committee has also raised concerns about the operation of sanctions including their actual effectiveness in getting people into work.[6] Their concerns include the fact that, under Universal Credit, sanctions are being extended to people already in part-time work, to persuade them to increase their hours.

4. HOUSING

4.1 There is a concern that various reforms will have a significant impact on the affordability and future provision of social housing. This risks further restricting the housing available to families on low incomes, with a potential associated rise in people living in unsuitable accommodation and homelessness presentations.

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[4] Resolution Foundation – A budget for families? The impact of the summer budget on work incentives in Universal Credit (2015)

[5] Fixing Broken Britain? An audit of working age welfare reform since 2010, Frank Field and Andrew Forsey, Civitas January 2016

[6] Universal Credit: priorities for action (SSAC 2015).

4.2 The Kent Housing Group[7] has projected that the new overall benefit cap will bite far more deeply than the existing cap, hitting a much larger number of tenants and children than before, and its impact will not be confined to larger families. In some parts of Kent it is expected to make smaller sized units (2 and 3 bed homes) unaffordable to households affected by the cap; 4 bed homes are already affected by the existing arrangements. A major concern is the impact that this will subsequently have on evictions and homelessness and the knock on effect of an increase in the use of temporary accommodation. If social housing becomes unaffordable then there is no other tenure available to respond to the unmet housing need arising from the implementation of this policy (private sector accommodation is significantly more expensive).

4.3 Housing Associations across the country, including in Kent, have expressed serious concerns about the 1% per year reductions in social housing rents. The Kent Housing Group[8] estimate that for Kent & Medway Associations' rental income in the period 2016/17 to 2019/20 could drop by around £148 million and Local Authorities' income by over £68 million. They have stated that, whilst there may be room for some efficiency savings to offset this loss of income, the main impact will be reducing the delivery of new housing, with possibly 600 fewer new homes each year. They also predict that more homes are likely to be provided for outright sale and shared ownership at the expense of a significant reduction in much needed rented homes. This will adversely impact on Local Authorities' ability to meet the housing need of low income households on their housing registers, who cannot afford any form of home ownership, as the provision of rented homes dwindles.

4.4 The current maximum Housing Benefit rates for private sector accommodation (LHA rates) will apply across the social rented sector from April 2018. Many social tenants will be unaffected as rents tend to be significantly lower than private sector rents. However supported and sheltered accommodation, being more expensive will be affected if the reform is extended to this sector (as yet unclear). Also under 35s will be affected as, according to Shelter, about 90% of shared room rates in the social housing sector are currently above the LHA shared room rate (60% are £20 or more above).

4.5 Unless Supported Accommodation is given clear exemption from the current wave of reforms affecting housing, this will clearly impact on a whole range of supported and sheltered housing schemes as such schemes are more expensive to build and make financially viable. This includes Older Persons Extra Care Housing, sheltered accommodation, various Supporting People schemes (including for domestic violence, homelessness), specialist schemes for people with learning disabilities or mental health problems. Such schemes play a key role in keeping people safe and well in their own communities, a fundamental element of KCC's current Accommodation Strategy, supporting in

[7] Impact of the proposals in the Budget and housing and welfare legislation on housing delivery, especially affordable housing (Briefing paper by Kent Housing Group and Kent Developers Group – October 2015).

[8] Ibid

the process the Council's Strategic Statement.[9] The consequence is likely to be higher costs for the local authority in the long run.

4.6 If the reforms do impact on social housing, as outlined above, this is likely to be counterproductive in terms of reducing the long-term benefit bill, if more people are forced to rent from the private sector. As a recent National Housing Federation report points out, in the last seven years the number of private renters on Housing Benefit has increased by 42%. Throughout the UK private sector rents are significantly higher than rents for social housing. This is particularly the case in London and the South East. In the South East the average difference is approximately £30 per week.[10]

5. EMPLOYMENT

5.1 Universal Credit was originally conceived to provide a smoother transition into and out of work and to make work pay for the majority of claimants. However its efficacy in respect of work incentives is now being seriously questioned, including in a report by Frank Field, Chair of the Work and Pensions Select Committee.[11] Concerns include the fact that the new single benefit withdrawal rate of 65p in the pound will actually lead to higher marginal tax rates for some claimants than under the current system. This is compounded by the fact that Council Tax Support and Free School Meals are not included in the new benefit. In addition reductions in, or cessation of, the work allowances[12], (that is the level of earnings after which a household's Universal Credit award starts to be withdrawn) have significantly exacerbated the situation since April 2016.

5.2 Unemployment rates in Kent do appear to be falling, in line with national trends[13]. Whilst there is information (from the ONS Business Register and Employment Survey) on the proportion of jobs that are full-time (approximately 65% since 2009), there is no data on the proportion of jobs that are at minimum wage levels and whether this has changed over recent years. In this regard it is noteworthy that of people reliant on working age benefits, an increasing proportion are in employment. For example, according to the National Housing Federation, 47% of private renters on Housing Benefit are in work. This is a significant increase from 2008 when the figure was 25%.[14] The Child Poverty Action Group has calculated that 64% of children in poverty are in working families compared with 55% in 2009.[15]

5.3 Whether or not unemployment continues to fall will depend on several factors. Of relevance is the design and implementation of the support given to those looking to enter the job market, particularly the long-term unemployed, those

[9] Increasing Opportunities, Improving Outcomes – KCC's Strategic Statement 2015-2020.
[10] Briefing: The growing Housing Benefit spend in the private rented sector (NHF – 20.8.16).
[11] Fixing Broken Britain? An audit of working age welfare reform since 2010, Frank Field and Andrew Forsey, Civitas January 2016
[12] Universal Credit (Work Allowance) Amendment Regulations 2015
[13] KCC Business Intelligence Statistical Bulletin on Unemployment in Kent (August 2016)
[14] Ibid.
[15] CPAG response to the All Party Parliamentary Group Inquiry into Child Poverty and Health.

with health problems, disabilities and people over 50. The Spending Review (November 2015) announced changes to the way claimants are to be supported into work. A new specialist Work and Health Programme (WHP) for claimants with health conditions or disabilities and those unemployed for over two years, will replace the national Work Programme and Work Choice once contracts expire on 31st March 2017.

5.4 The budget for WHP is likely to be £130 million per year for England and Wales and the devolved budget for Scotland may also have to come out of this. It is unclear how many claimants this is intended to support, but using the same unit price as the Work Programme this would support around 110,000 per annum. This would be a much lower level of funding compared to the existing Work Programme (only a fifth of the current scheme) and could result in either too few claimants benefitting from support or inadequate interventions.

5.5 Through devolution deals, the Government has committed to co-commission or co-design the new WHP with local authorities. However, recent reports in the sector press suggest that local authority influence may be limited by the DWP's desire to let contracts over large areas that cover a number of devolution deals. In addition it appears areas with devolution deals will be asked to use some of their own money to 'top-up' the available resources for the WHP. Further information will be sought on these issues.

6. ADULT SOCIAL CARE

6.1 There are a number of reforms to disability benefits (DLA/PIP and AA) and incapacity for work benefits (ESA) that run the risk of undermining the impetus in adult social care towards self-management and independence, keeping people outside the formal social care system for as long as possible. Although a fairly high percentage of DLA reassessment claims do receive an award of PIP, it is important to note that of those who do not, loss of the benefit may undermine the self-management of their condition. The cohort of those receiving DLA/PIP is much larger than the cohort receiving formal care/support from KCC. Receipt of disability benefits (which often then leads to higher levels of means-tested benefits and access to other help) plays an important role in keeping people independent

6.2 Clearly the impetus behind some of these reforms is to encourage claimants into work. However it should be noted that receipt of disability benefits can actually assist a person into work. With regard to ESA it is also arguable that substantially cutting the amount paid to those deemed potentially able to return to work at some stage, risks undermining their recovery and thus their eventual return to work.

7. KCC SUPPORT WITH BENEFIT ISSUES

7.1 Although many KCC staff working with children, families and vulnerable adults may give basic advice and/or signpost people to external agencies, specialist benefit advice within the council has been reduced in recent years given the financial constraints on the authority's budget. From a team of twelve Area Benefit Advisers providing expert advice and representation (including at appeals) to both adults and children, the specialist team now comprises only four advisers. Since May 2015 the service has only worked with adults and there has been no KCC Benefit Service for Specialist Children's Service including the Disabled Children's Service.

7.2 With regard to people affected by the reforms to DLA/PIP and ESA, only individuals who receive a chargeable service from Adult Social Care can receive help from KCC Benefit Advisers. This includes help to appeal adverse decisions. Individuals not receiving chargeable services from KCC must seek help from external agencies such as Citizens Advice but, again due to cutbacks face to face representation at appeal tribunals (and even specialist advice) is not generally available.

8. KENT SUPPORT AND ASSISTANCE SERVICE (KSAS)

8.1 KSAS was set up by KCC in April 2013 following the localisation of certain parts of the DWP Social Fund. For those claimants that are eligible KSAS offers:

- Furniture and equipment
- Food and welfare items
- Energy vouchers
- Emergency cash awards

8.2 Analysis of KSAS applicants show that the vast majority are not otherwise known to KCC (almost 80%). Indeed intervention by KSAS has been proven to alleviate short-term hardship within vulnerable groups, thus preventing the need to call on statutory services (e.g. S.17 funds, Adult Social Care etc.).

8.3 It is difficult to state precisely the relationship between welfare reform and applications to KSAS. Further work is being done in this regard. However it is clear that KSAS provides invaluable short-term support to vulnerable individuals, arguably saving the local authority considerable long term costs in the process.

9. MIGRATION FROM LONDON

9.1 Migration from the Capital to Kent is not a new phenomenon and is an inevitable outcome of being a London-peripheral authority, symptomatic of differentials in London and Kent housing markets and the desirability of living in the county. Whilst this can apply pressure on public services, it remains relatively sustainable whilst movements are well-dispersed.

9.2 Currently, however, London Boroughs are facing a combination of budget cuts, increasing accommodation need and London housing market forces making the sourcing of social housing and temporary accommodation difficult and expensive. Other potentially contributory factors include the Benefit Cap and

1% rent reduction (discussed earlier). All these factors have resulted in Boroughs starting to look outside their areas and London to create capacity.

9.3 The long-term lease of accommodation at Howe Barracks in Canterbury to the London Borough of Redbridge is one of the largest cases to date and presents a serious set of challenges to Kent's public services. Whilst there is no direct link to welfare reform and this could simply be a one-off opportunistic procurement of an unusually large and unique site, Kent Local Authorities need to remain alert and ready to respond should a broader trend start to materialise. This issue will continue to be monitored.

10. NEXT STEPS

10.1 KCC will continue to work with partners to identify the possible impacts of welfare reform, who is most affected and find ways to mitigate any adverse consequences. This includes working with the Joint Kent Chiefs Task and Finish Group on Welfare Reform, one of the five key areas of work prioritised by Kent Chiefs.

10.2 Discussions with Jobcentre Plus and the district/borough councils will continue to develop ways to assist the more vulnerable benefit claimants through the "Universal Support - Delivered Locally" programme.

10.3 Further analysis will be undertaken on the potential opportunities arising from the forthcoming new Work and Health Programme, including the links to devolution deals.

10.4 Monitoring and publication of the key indicators by Business Intelligence will continue.

Recommendation(s)

The Policy & Resources Cabinet Committee is asked to NOTE and COMMENT on the Welfare Reform Update report.

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