

April 2013 Welfare Reforms and what they mean for Voluntary Organisations

This discussion paper provides a brief overview of some of the planned welfare reforms and policy issues that they raise for the voluntary sector. This note is not intended to be comprehensive: we recognise that a great number of organisations, coalitions and consortia have been working on the issues surrounding welfare reform, and organisations will have different experiences and areas of expertise.

1. Welfare reforms - Overview

The Coalition Government has embarked on ambitious welfare reforms, aimed at simplifying the complex landscape of benefits and tax credits. A key objective of the reforms is to ensure that 'work pays', removing perverse incentives that currently mean it can cost people more to work than to remain on benefits.

Significant changes to working-age welfare benefits are coming into force from April 2013:

- New claimants will be able to apply for Universal Credit (UC) (in pilot areas initially, then across the country from Oct 2013) and existing claimants will be migrated across to UC from April 2014. Existing claimants reporting changes to circumstances after October 2013 may be migrated across to UC earlier.
- Personal Independence Payment (PIP) will replace Disability Living Allowance (DLA) for new claimants. Existing claimants will not be automatically transferred onto PIP and will have to apply from October 2013.
- The overall £26,000 cap on benefits will apply.

These changes will affect millions of people, many of whom will have to transition to these new benefits over the next year. Although the Government estimates suggest that many people will be the same or better off under the new arrangements, there is a significant number that are likely to be worse off or who it is expected will no longer be able to access benefits.

The voluntary sector plays a number of vital roles at this time: influencing policy and implementation, supporting people through transition to the new systems, supporting people who may lose out under the new systems, providing emergency support for those in crisis, and providing advocacy. As many voluntary organisations are on the frontline, they will be able to report on the impact of changes and highlight issues. In the event of any of the reforms running into significant difficulty, charities will have a responsibility to speak out, as well as provide support and constructive solutions where possible.

2. Key issues

Cumulative Impact

- The cumulative impact of tax and benefit changes has not been assessed fully by the Government, and to some extent, will not become known until implementation. New Policy Institute research published in April 2013 suggests that this could mean the Government has underestimated the impact on around half a million households who will be affected by more than one of the welfare changes simultaneously. Some households will also be hit by other spending cuts at the same time e.g. social care, health provision and Legal Aid.

Housing problems

- Housing benefit changes are expected to have significant impacts – see details below. Changes to housing benefit are poorly calibrated for differences in local areas: families that face high rental prices and limited social housing availability may need to move.

Universal credit systems

- The combining of several benefits into a single monthly payment will be difficult for some households to manage – see details below.
- Not all claimants will have easy access to the UC online application and support system. The Office for National Statistics (ONS) estimate that 14.5 million people have virtually no IT skills, 8.5 million have never used the internet, 5.7 million households lack internet access. This suggests that some claimants will struggle to access and understand the new UC system.

3. Challenges for the voluntary sector

Increased demand for support

- There is concern among our members that many benefit claimants are not yet aware of the implications of the benefit changes. The shift from face-to-face to online support from the Department for Work and Pensions (DWP) could also cause confusion.
- Voluntary and community organisations (VCOs) anticipate that there will be an increase in demand for support, advice, information and emergency relief from benefit claimants. In Scotland, an SCVO survey found that three quarters of charities expect demand for services to increase significantly over the next year.
- VCOs will need local knowledge and expertise in order to support people effectively. Particularly in relation to housing benefit changes, where the impact will vary significantly depending on local housing costs and availability.

- Some local and regional VCOs have been running training sessions to prepare staff and have started planning services. In other areas, VCOs may be less well prepared.
- Already evidence of increasing demand for emergency relief from VCOs, such as food banks.

Knowledge of universal credit systems

- VCOs are likely to experience demands for support specific to the new UC system. So will need to be trained in the new systems in order to provide advocacy and support to benefit claimants.
- VCOs will need to be aware of the interaction between the different elements of UC, or between UC and other benefits.
- VCOs will also have a role to help increase benefit claimants' digital access and skills. Particularly an issue in rural areas.

Complex cases

- VCOs are concerned that they may encounter more complex cases, requiring intensive and specialist support.
- VCOs which are specialised in providing support in one particular area- such as housing or employment- may find it difficult to deal with issues around the combined UC payment. They may need to develop new partnerships with local Government and other VCOs to support people effectively.

Funding for voluntary organisations

- Additional strain will be put on VCOs' limited resources when funding is already being cut. In some cases, charities may be turning people away; in others, they may face severe financial pressures.
- Benefits advice has been taken outside scope of Legal Aid, so this support will not attract additional public funding.

Negative perceptions of benefit claimants

- British Social Attitudes Survey has revealed a long-term trend in individualism and decreasing support for spending on welfare.
- VCOs will need to raise awareness of the significant and real impact of welfare reforms on vulnerable people, if we are to counter negative public and media perceptions.
- This will be particularly important if needing to campaign for more support for benefit claimants or for the VCOs serving them.

Dealing with any significant problems that arise

- While DWP is piloting and phasing in changes, there are still significant risks. VCOs may wish to have contingency plans in place for any significant delays or implementation failures.
- In the event of a significant failure, VCOs would need to be equipped with the most up-to-date knowledge, any DWP contingency plans and able to signpost people. They may also need to be prepared for an increase in demand for emergency support.
- VCOs (particularly national VCOs) would need to be ready to campaign and use media leverage and policy influence to help resolve a crisis. VCOs should, where possible, help to develop solutions, as well as meeting immediate needs.

4. Background information

Universal Credit (UC)

The introduction of Universal Credit will be a major structural change that will integrate 6 means-tested working-age benefit payments into one single monthly household payment.

- Shelter and Homeless Link are concerned that this will cause confusion and budgeting difficulties for claimants as, for example, the housing benefit element of UC will be harder to identify from the rest of the payment.
- Joseph Rowntree Foundation (JRF) highlight the fact that those in the bottom 1/5 of income distribution could be doubly hit as UC will include income-related and housing-related benefits.
- The Women's Budget Group are concerned that households on low incomes will struggle with the transition to monthly benefit payments as they will typically be paid and/or receive tax credits on a more frequent basis.
- DWP research found that 1 in 2 people budget on a weekly basis or more frequently.
- UC will be paid into a single nominated account which some VCOs are concerned could undermine the financial independence of one partner and it could be the case that the child benefit element of UC does not go to the main carer.

There will be an overall cap on benefit income for workless, working-age households (excluding PIP) of approx. £500 p/w for couples and £350 p/w for singles.

- The DWP estimates that 58,000 households will have their benefits reduced by 2014/15.

- DWP's own impact assessment shows that lone parents, those in the private rented sector and those living in London will be hit the hardest.
- Citizen's Advice expects that to the cap could lead to increased hardship, debt and homelessness as the policy takes no account of family size or location.

Claimants will be subject to tougher sanctions and more conditionality meaning they could lose up to 100% of the 'standard allowance' element for UC. Claimants will be required to sign a 'claimant commitment' and failure to comply with its work-focused requirements will incur severe sanctions of a maximum period of 3 years.

- JRF and Centre for Economic and Social Inclusion (CESI) claim that this could mean people lose up to 100% of the 'standard allowance' element of UC.
- JRF and CESI found that people in low-paid work and those who experience barriers to work are more likely to be sanctioned.
- Even households 'in work' may still be subject to sanctions if they fall below the 'conditionality earnings threshold' of 35 hours p/w at National Minimum Wage.
- Hardship payments for claimants subject to sanctions will only be available to those who have complied with their tougher work search and preparation requirements in the seven days previous to making their hardship application.

1% cap on annual increases to most working-age benefits for the next 3 years. This will include Jobseeker's Allowance, Employment Support Allowance, Income Support, Housing Benefit, Maternity Allowance, Sick Pay, Maternity Pay, Paternity Pay, Adoption Pay, couple and lone parent elements of working tax credits and child element of the tax credit.

- The impact of this will be to erode the real value of these benefits as costs for essentials such a food, fuel and rent will continue to rise. People may find it increasingly difficult to meet these basic expenses and there are concerns that some will experience increasing debt and potential homelessness.

Housing benefit

Housing benefit will be uprated to the Consumer Price Index (CPI). The change from the Retail Price Index to CPI is likely to mean a 1.5% real terms reduction in the value of the benefit each year, according to ONS.

- JRF claim this would result in an average loss of £6 p/w for claimants whose rent is at or above the Local Housing Allowance rate by 2014/15.
- Shelter and The Chartered Institute for Housing research indicates that after 10 years a third of local authorities would become unaffordable for households on UC.

- Homeless Link warns that the benefit will bear no relation to actual rents paid, as the use of a national index neglects the vast geographical differences in rental prices.

The 'bedroom tax' will see the housing element of UC reduced for claimants in social housing who are under-occupying. The housing benefit will be cut by 14% (for one spare bedroom) or 25% (for two or more) of the eligible rent. Claimants will be required to make up the shortfall or move out of their homes into a size that is better suited or into the private rental sector.

- JRF estimate that this will impact 660,000 claimants (approx. 32%) at an average £14 p/w.
- Even small cuts could have a serious impact on household finances as approx. 62% of housing benefit claimants are in the poorest 1/5 of income distribution (JRF).
- Homeless Link and National Housing Federation have expressed concerns that this could lead to disabled people leaving their specially adapted homes and increased homelessness.
- The Government has issued guidance to Local Authorities emphasising discretionary funds should be made available for households with significant disability adaptations and long-term medical conditions.
- Two exemptions to the bedroom tax have recently been introduced for approved foster carers and armed services personnel still living with parents. Guidance to Local Authorities has also been issued to emphasise the use of discretionary payments to support 'other priority groups'.

Housing benefit will no longer be paid directly to landlords as it now forms part of UC which is paid directly to claimants. Claimants may struggle with this transition as they are not used to budgeting for rent in this way, especially as UC also means a move to monthly benefit payments.

- The National Housing Federation's impact assessment found that direct payments are expected to have the biggest impact on housing associations with 80% saying it will affect their organisations 'a great deal' or 'a fair amount' as there are concerns about resulting rent arrears.
- DWP have said there will be a mechanism for claimants identified as 'vulnerable' to switch back to direct payments but they have so far failed to clearly define this group or how this will work.

From April 2013 Crisis Loans and Community Care Grants (discretionary social funds) will be replaced by Local Welfare Assistance, administered by Local Authorities.

- Homeless Link is concerned as the new local fund will not be not ring-fenced and Local Authorities will not be subject to any statutory obligations to provide support for homeless people.
- Homeless Link and other charities are also concerned that support will be given in kind (e.g. food banks and furniture) rather than financial support for emergencies.

Due to changes to coming into force in April 2013, many people will have to pay council tax for the first time.

- The amount of money available to fund the new council tax support will be 10% less than council tax benefit.
- Around half of the approximately 5 million households in England who currently claim council tax benefit receive 100% support.
- Resolution Foundation estimated that annual council tax bills will rise by between £100 and £250 a year and some by as much as £600 from April 2013.

Disability benefits

PIP will comprise of 2 components, only 2 levels of support – standard and enhanced- and new assessment criteria. All claimants will be required to undergo a new assessment and the Government expects this to lead to a cut of 20% in the cost of this benefit.

- The Disability Benefits Consortium estimates that there are currently 635,000 working-age low rate care DLA recipients who are likely to lose out with the change to 2 levels.

Incapacity Benefit (IB) will be replaced with the time-limited Contributory Employment Support Allowance (ESA) and claimants will have to undergo the new Work Capability Assessment (WCA).

- The DWP impact assessment estimated that a quarter of the 1.5 million IB claimants will be assessed as 'fit for work' by 2014. Disabled people in work face additional barriers and costs so removing financial support for those 'fit for work' could also be counterproductive in terms of meeting the Government's policy objective to 'make work pay'.
- Other people with disabilities will be moved onto ESA. Joseph Rowntree Foundation expects the majority will be placed into the 'Work Related Activity Group' where ESA payments will be arbitrarily limited to 12 months.

- According to the DWP impact assessment, 700,000 people are expected to be affected by 2015/16 and will experience an average drop in net income of £36 p/w.
- Mind, the mental health charity, has found that new applicants going through the WCA since 2008 have already experienced significant problems with the process.

The Severe Disability Premium (SDP) for disabled people living on their own will be abolished.

- The Children's Society, Citizen's Advice and Disability Right UK say this will mean a loss of between £28 and £58 p/w.
- They estimate that 230,000 severely disabled people without another adult to assist them will be affected. DLA does not cover the extra additional costs of disability to adults living on their own and evidence suggested that they would be unable to meet their most basic needs without this.

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