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# bulletin

## Responding to Welfare Reform

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### Introduction

The Coalition Government has made tackling the welfare reform agenda one of their key policy priorities; the changes to welfare which are now being brought in build on the changes instigated during the previous Labour administration. The welfare reforms constitute the biggest shake up of the UK's welfare system in over fifty years and consequently are expected to result in significant changes to the lives of those receiving welfare benefits. All those who work closely with people in receipt of welfare benefits are also being affected by the changes, with local authorities and housing associations in particular facing considerable challenges due to welfare reform.

As the welfare reforms are beginning to be implemented, it is an important moment to assess how welfare reform is already affecting people, places and economies. This Bulletin provides:

- a review of why the Government is making changes to the welfare system and the latest welfare policy developments;
- an overview of the work which CLES has recently undertaken regarding the potential impact of welfare reform on local economies, local authorities and housing associations;
- how these organisations are responding to the changes.

We conclude with some thoughts about how the underlying problems of unemployment and low wages need to be addressed in order for people to be able to lead more prosperous lives, independent of the welfare system.

### Why reform the welfare system?

In the eyes of the Government, the welfare system has become mired in complexity, subject to fraud and operating to maintain people on benefits rather than in employment. Consequently, the Government has resolved to radically reform the system so that it encourages people to move back into work and be able to support themselves. We have identified four key reasons driving the Government's determination to reform the welfare system:

- 1) the welfare system is very complicated; there are a range of benefits which each have different payment mechanisms and connotations for individuals. The welfare reforms aim to simplify the system so that it is clearer who is entitled to welfare support, why and how much they receive;
- 2) the Government is determined to make savings to public expenditure in order to reduce the national debt. Reducing benefit payments is a key component of the Government's austerity drive;
- 3) the Government is focused on generating economic growth. A vibrant, growing economy is predicated upon a productive, efficient workforce, for which more people must move off out-of-work benefits and into paid employment;

- 4) there is a recognised link between worklessness and poverty; those who are dependent on welfare benefits live on a very low income which can prevent them from accessing opportunities which would enable them to improve their standard of living. Poverty is also strongly associated with ill-health, a key barrier to an individual being economically active and having a satisfactory income. By changing the welfare system to move more people into employment, the Government aims to reduce poverty and reverse the vicious cycle of poverty, ill-health and claiming out-of-work benefits.

The overarching aim of the system should therefore be to get people back into work and be self sustaining as much as possible. There is also little argument that public expenditure is stretched and less resource is available within the benefit system, thus assisting people into paid employment should relieve the pressure on the radically reduced public spending budget. However, whether the welfare reforms devised by the Government will achieve these aims is a highly contentious issue.

## The latest welfare policy

The Welfare Reform Act 2012<sup>1</sup> is now in force and, through a series of legislative measures contained within it, the Government is seeking to reduce the UK's welfare benefit costs by £18 billion over the next five years (further savings to the value of £3.75 billion were announced in the 2012 Autumn Statement<sup>2</sup>); and promote work as more beneficial than claiming benefit. Embedded in the Act are a range of measures designed to simplify, streamline and reform the payment of out of work, income, housing, and disability related benefits; re-assess the fitness or otherwise of claimants to work; and provide employment related support.

There are four key elements to the welfare reform programme, which follow on from reforms that were introduced under the previous government:

- 1) to replace the complex mix of out of work and housing benefits and working tax credits with a single Universal Credit;
- 2) to introduce a single welfare to work programme (the Work Programme), designed to support longer term unemployed people back to work;
- 3) to reassess claims of disability and incapacity related benefit, particularly individuals' capability to work;
- 4) to cap the total amount of benefit that working age people can receive at £500 per week for couples and lone parents and £350 per week for single adults. This is being introduced across all local authorities throughout summer 2013.

Changes to specific welfare benefits are also being brought in and these are detailed below:

- **Housing Benefit reforms** – the spare room subsidy for social housing will be removed and new size criteria introduced in a move known as the 'bedroom tax'. The new size criteria allow one bedroom for each person or couple living as part of the household. Tenants who occupy accommodation which is larger than this lose a percentage of the money they receive for housing costs. This is 14% for those with one spare bedroom and 25% for those with two or more spare bedrooms:
  - on 12 March 2013, the Government announced that an additional bedroom is allowed where the claimant or their partner is caring for a foster child. An additional bedroom is also allowed for adult children who are in the armed forces and continue to live with their parents, even when they are deployed on operations. Guidance was also provided to local authorities recommending that they allow a room for a disabled child who is unable to share a bedroom;
  - on 20 June 2013, the Government issued a warning to local authorities that redesignating properties without a justification and without reducing rent to reflect a loss of a bedroom is inappropriate and could result in penalties.
- **Incapacity Benefit and Employment Support Allowance** – on 27 October 2008, pre-existing benefits paid on grounds of incapacity and disability, that is Incapacity Benefit, Severe Disablement Allowance and Income Support, were replaced with Employment Support Allowance (ESA) for all new claimants. An individual applying for ESA undergoes a medical assessment which either categorises them as 'fit to work' or places them within the 'support group' or 'work related activity group'. ESA places a greater emphasis on individuals moving back into work.

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<sup>1</sup> HM Government (2012) Welfare Reform Act <http://services.parliament.uk/bills/2010-11/welfarereform.html>

<sup>2</sup> HM Government (2012) Autumn Statement [http://www.hm-treasury.gov.uk/as2012\\_documents.htm](http://www.hm-treasury.gov.uk/as2012_documents.htm)

- **Disability Living Allowance and the Personal Independence Payment** – Disability Living Allowance (DLA) was replaced with a Personal Independence Payment (PIP) from April 2013 for working age claimants only. From October 2013, the Government intends to invite other individuals to claim PIP and, from October 2015, the Government will begin to invite all other DLA claimants to claim PIP instead:
  - on 5 March 2013, the Government announced amendments to the PIP regulations to emphasise that when assessing whether an individual can carry out an activity, the assessor must examine whether they can carry out that activity safely, to an acceptable standard, repeatedly, and within a reasonable time period. In June 2013, the Government also announced that there will be a further consultation on the mobility component of PIP in late June.

It is important to note that not all the welfare reforms have been implemented yet. The Housing Benefit changes went live from April 2013 but the changes around Universal Credit are subject to a pilot being carried out in North West England. Universal Credit was due to be piloted from April 2013 in four local authorities in the North West: Tameside; Wigan; Warrington; and Oldham. However, thus far only Tameside has begun the pilot and only claimants with the simplest circumstances are included. The three other areas are due to begin the pilot in July 2013, with further pilots beginning between October 2013 and March 2014. From April 2014, all new claims will gradually be administered through Universal Credit and from 2015 people on existing benefits will be moved onto Universal Credit.

There are also other pilots testing the direct payment of Housing Benefit to social housing tenants. These are running in six areas:

- 1) Dunedin Canmore Housing Association in Edinburgh, working in association with The City of Edinburgh Council;
- 2) Oxford City Council and Oxford Citizens, (part of the) Greensquare Group, Southern England;
- 3) Shropshire Unitary County Council and Bromford Group, Sanctuary Housing and The Wrekin Housing Trust, West Midlands;
- 4) Southwark Council and Family Mosaic, London;
- 5) Torfaen County Borough Council and Bron Afon Community Housing and Charter Housing, Wales;
- 6) Wakefield Metropolitan District Council and Wakefield and District Housing, Northern England.

The English and Welsh pilots went live in June and July 2012 and the Edinburgh pilot went live at the end of August 2012. The pilot projects are testing the different levels of support social sector tenants may need to move to direct payments; the exemptions that need to be in place; payment switch-backs to landlords if a tenant falls into arrears; supporting tenants to pay back their arrears; and early intervention switch-backs before arrears reach trigger points.

Reports on the pilots are mixed, with the Government reporting that the pilots show *'the majority of claimants are managing their own rent, even through Christmas when budgets can be tight'*<sup>3</sup> while a report by law firm Winckworth Sherwood claims that tenants in Southwark who started the pilot with no rent arrears found themselves on average £180 in debt at the end of the pilot<sup>4</sup>. It is still too early for findings from the Universal Credit pilot in Tameside.

There are ongoing campaigns from a large number of organisations against many of the measures being brought in by the Welfare Reform Act. The 'bedroom tax' and the ESA medical assessments have come under heavy criticism in particular, and a number of court cases have been brought against the Government related to how the changes to Housing Benefit affect particular groups.

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<sup>3</sup> <https://www.gov.uk/government/news/direct-payment-projects-extended-for-6-months>

<sup>4</sup> <http://www.wslaw.co.uk/knowledge-centre/industry-news/news-article/1374/universal-credits-will-lead-to-an-average-increase-in-rent-arrears-of-180-says-law-firm-winckworth-sherwood>

## CLÉS' work on the welfare agenda

There is little argument that the previous welfare system was overcomplicated and that public expenditure is stretched, and less resource is available within the benefit system; however it is important that in attempting to improve the welfare system, existing problems and economic and social divides are not made worse. CLÉS has carried out a number of pieces of work researching the likely impact of welfare reform on people, places and local economies, and our findings suggest that welfare reform will damage local communities and economies, and push some people further into poverty.

The likely impacts on places and local economies which our research found are as follows:

- **reduced spending in the local economy due to reduced incomes** – thus threatening the viability of local shops and services. Our research<sup>5</sup> with benefit claimants in five localities in Greater Manchester highlighted that £1 lost in benefit payment would lead to 80 pence being taken out of spend in shops and upon local services;
- **population churn** – people living in unaffordable social homes are likely to want to move to cheaper localities, thus leading to a churn in population with potential issues for cohesion;
- **impact greatest in area with high levels of worklessness** – early data from the outcomes of the Work Capability Assessment suggest that 41% of Incapacity Benefit claimants in Manchester are being assessed as fit for work, for example.

The impacts on groups are as follows:

- disabled groups and carers will lose around £3,000 by 2015/16 as a result of disability reassessment and work capability assessment;
- those with mental health disorders are likely to be adversely affected by the work capability assessment which is overly focused upon physical fitness;
- those with large families are likely to be affected by the cap and the changes around Housing Benefit; this is particularly likely to be the case for BME communities;
- lone parents will be required to move into employment once their youngest child reaches the age of five and be required to work more hours to meet the benefit taper rate;
- we may well see a growth in the informal economy as people remove themselves from the system altogether and rely upon alternative sources of income.

The impacts upon organisations are as follows (this includes local authorities, housing organisations, and voluntary and community sector organisations):

- increased demand for frontline and specialist services such as welfare and debt advice;
- increased demand for emergency everyday living services; we are seeing this in the growth of food banks;
- a need to change processes around the collection of rents and distribution of benefits;
- a whole host of appeals against the outcomes of Work Capability Assessment.

These findings and the research CLÉS has undertaken on the impact of welfare reform are discussed in more detail in the following sections.

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<sup>5</sup> Research commissioned by Northwards Housing, 2012

<sup>6</sup> Source of figures – DEMOS (2010), Destination unknown

## How are local authorities responding to welfare reform?

The role of local government is crucial in the whole process of welfare reform. Local authorities have a key role in identifying where the impacts of welfare reform are likely to be felt greatest, in providing advice and other support services, and in generally mitigating and minimising the consequences of reform.

Although the biggest impact of welfare reform on local authorities will probably come in the forthcoming years as benefits for lone parents, Child Tax Credit, and out of work benefits change, our research has identified numerous challenges to local authorities' work as welfare reforms are being brought in. The following is a summary of these challenges:

- increased demand for frontline and specialist advice services around benefits;
- increased demand for emergency everyday living services;
- a need to restructure revenue and benefit teams;
- a significant number of appeals against Work Capability Assessment outcomes;
- loss of individual and family income, and associated reduction in local spending powers. There may however be increases in spending powers for families where individuals move into employment;
- changing local housing market, with increased reluctance on the part of private sector landlords to let to social tenants;
- population movement due to housing unaffordability both within and outwith the local authority boundary;
- increased claims for Jobseekers Allowance amongst local populations and changing labour market picture. It should be noted that there are a wider range of factors other than welfare reform influencing this, including ongoing challenges around recession.

Some of these challenges require local authorities to respond to an increased demand for their services, such as advice services and housing support, while others require the local authority to mitigate negative impacts on the local economy and housing market.

Responding to these challenges is evidently an enormous task for local authorities, especially in the face of severe cuts to local authorities' budgets. Our research work has identified a number of common ways in which local authorities have responded to welfare reform:

- **developing cross-departmental and cross-agency welfare reform groups** – building up welfare associated governance arrangements, either through the continuation of existing and well established cross-departmental groups, or forming new cross-departmental and cross-agency working groups with partners, such as Jobcentre Plus, health practitioners and social landlords;
- **communicating with communities about what the reforms mean** – identifying those who are most at risk and in need of the greatest levels of support and advice regarding welfare reform; and then communicating, via telephone and advice centres, what the welfare changes mean for those customers;
- **physical development** – undertaking new build housing and bringing unoccupied housing back into use to address the changes to Housing Benefit in particular. Working with housing associations and private landlords to explore how to increase the supply of suitable, affordable housing;
- **providing training for frontline staff** – provide specialist training for staff, including customer services staff, frontline staff, and staff working at partner organisations, such as the voluntary and community sector;
- **developing the capacity and capability of partners to respond** – providing information, referring customers for advice, identifying localities at greatest risk, and commissioning direct advice and support. The purpose of the capacity building has been to make the welfare reform response a place based one as opposed to one just led by the local authority;
- **employment support and job creation** – approaches to facilitate people to secure employment, including: seeking to create jobs through the supply chain; greater partnership work with Jobcentre Plus and Work Programme providers; diversification of employment support advisers to alternative local authority locations; and matching employment support activities with other issues, such as health.

Due to the wide range of impacts of welfare reform on local places, communities and economies, the actions which local authorities could take to minimise these impacts are innumerable; however the key challenge will be to develop interventions which are effective as well as affordable given the limited budget available.

## **How is welfare reform affecting housing associations?**

The potential impact upon the housing organisation sector (encompassing housing associations and registered social landlords) could be particularly profound, both organisationally and for tenants. Organisationally, a significant proportion of income is currently derived through the direct payment of tenants Housing Benefit. Welfare reform changes the distribution of Housing Benefit to become more individual, wrapped up in other forms of benefit through Universal Credit; this presents challenges in terms of rent arrears. For tenants, the welfare reforms introduce an array of changes in the composition of Housing Benefit, with notable reductions for those living in under-occupied social homes. This has potential implications in terms of population churn, individual and family quality of life, and homelessness.

Working in partnership, the Housing Diversity Network and CLES have undertaken research<sup>7</sup> which explores the implications of welfare reform for housing organisations and their tenants; and how housing associations are responding. Our research identified the following impacts of welfare reform on housing associations and their tenants:

- **changes to the housing stock** – positively, the reforms to Housing Benefit may free up certain types of housing stock for which there is significant demand, notably large family homes which are currently under-occupied. However, individuals living in under-occupied homes may be unable to afford their rent due to reduced Housing Benefit and will potentially have to move to a smaller home or could get into rent arrears. Housing associations may struggle to re-house tenants quickly since this relies on suitable housing stock being available;
- **rent arrears** – under welfare reform, housing related benefit will be paid directly to tenants, as opposed to housing organisations. This presents a challenge for tenants in terms of managing their incomes and budgeting, but also for housing organisations in terms of the potential for increased rent arrears. Increased rent arrears could lead to financial issues for housing organisations which may have to divert resource towards more advisory services for tenants around financial inclusion and budgeting;
- **increased demand for advice services** – housing organisations provide a range of wider role services to their tenants, whether that is employment support, services around anti social behaviour, or general advice around income and debt. As a result of welfare reforms and cuts to advisory services provided by local authorities and organisations such as Citizens Advice Bureau, tenants are likely to need advice on how their benefits are changing and what they can do;
- **digital inclusion** – as Universal Credit is brought in, tenants receiving welfare benefits will need to manage their claims online. However, tenants may not be able to easily access the internet or know how to use it, thus housing organisations may have to take more of a direct role in up-skilling tenants on using the internet and provide places where they can access the internet free of charge;
- **population churn** – the make-up of many neighbourhoods characterised by social housing is remarkably stable and this has created a sense of community spirit. The welfare reforms may disrupt these communities if individuals and families move to smaller properties or areas with cheaper rents.

Housing organisations are responding to these challenges in a variety of ways, a summary of which is provided below:

- **simplifying payment mechanisms for rent** – enabling payment of Housing Benefit over the phone and setting up an online diary system that reminds tenants to pay their rent on time;
- **re-designing stock** – some organisations are seeking to develop new capital schemes with support from the Homes and Communities Agency; whilst others are seeking to re-design existing stock, particularly voids. Housing organisations are seeking to bring empty homes back into use through regenerating them and converting into smaller properties;

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<sup>7</sup> Housing Diversity Network (2013), The equalities impact of welfare reform

- **changing organisation structures to focus on frontline** – this may involve restructuring policy and performance teams and recruiting specialist welfare reform and tenancy support officers;
- **offering a range of advice around employment and under-occupancy** – providing tenants with information around their options, and providing signposting to other support, including targeted face-to-face discussions with those most at risk through visits and telephone calls;
- **bulking up their wider role activities** – developing specialist welfare to work initiatives, becoming sub-contractors for the Work Programme, using word of mouth and newsletters to promote potential employment opportunities, providing debt advice and income management services, and offering support initiatives in filling out online applications for Universal Credit.

## **What is the impact of welfare reform on local economies?**

As welfare reform affects individuals' incomes and housing situation, there is likely to be an impact on local economies as people change how much they spend and where they spend. The Greater Manchester Housing Providers Network commissioned CLES to undertake a piece of research assessing the potential economic and social impacts of welfare reform changes on residents across a range of localities within the city region. To do this, we carried out extensive primary research across five localities in Greater Manchester during autumn 2012.

Overall, our research found that income lost due to reduced welfare benefit payments is likely to significantly reduce spending in local areas which have a high population of people claiming benefits. This may lead to local shops and businesses struggling to remain profitable, meaning the owners and employees of these businesses experience a loss of income, accelerating local economic decline.

A summary of the key findings from this research is provided below:

- spending patterns are highly localised in Greater Manchester amongst disadvantaged communities. Where monies are not spent in these centres, they are still often spent within Greater Manchester, often within the same borough's boundary;
- total anticipated cuts in spending to shopping, socialising and using public and other local transport amounted to approximately 80% of the savings residents said they would make, with other savings coming from cutting back on energy, subscriptions and other elements which are not within Greater Manchester, such as internet shopping;
- much of these anticipated cuts to personal spending are within retail and services; therefore the implications for the economy are likely to be serious, acting as a drag on growth aspirations;
- income may also potentially be lost through cuts in services, such as Welfare Rights and the Citizens Advice Bureau. Bad debts, as residents attempt to make up shortfalls, will increase and this further constrains spending within the economy;
- virtually all the residents consulted conceded that careful budgeting is not enough and are concerned that finances will not be able to cover outgoings, thus their spending will be cut back significantly.

The counterargument to all of this is that employability initiatives (e.g. Work Programme) are successful at getting people into work which will result in local economies improving as spending increases. There is no doubt that more people will come into employment, but it must be recognised that the areas with high numbers of people claiming out-of-work benefits have seen an increase in the number of benefit claimants and have been experiencing major structural labour market issues which have been the 'norm' for years. Unfortunately, it seems unlikely that employability programmes will achieve transformational change for both local communities and economies in deprived areas.

## **Concluding thoughts**

In light of the wide ranging impacts of welfare reform on communities, local authorities, organisations and economies, it is clear that there are large, complex underlying issues which must be addressed. As local economies struggle, and local authorities and voluntary and community organisations face funding cuts, how can we avoid a downward spiral of unemployment, poverty and community tension?

CLES believes that job creation and supporting people into work is fundamental to minimising the negative impacts of welfare reform. However, initiatives aiming to create employment opportunities must be place based, addressing the specific needs and opportunities in communities; and the jobs created must provide an adequate and sustained income. Although there have been improvements in national unemployment levels, these jobs are often low value with poor terms and conditions and may be part time or temporary. If sustainable employment paying a living wage does not increase, the negative economic and social impact of welfare reform highlighted in this Bulletin will be reinforced.

To create sustainable employment opportunities and support people into them requires a concerted effort involving local authorities, communities, the commercial sector, and a range of public bodies. To avoid a two speed recovery, employment support must be focused on the local areas and a joined-up approach must be taken. Given the broad inter-related social and economic issues which prevent individuals from entering employment, forming partnerships between actors such as education institutions, health and social care providers, local employers, community organisations and housing organisations is essential for ensuring people have the skills, confidence and health to take up employment opportunities and sustain themselves without needing welfare payments.

Ultimately, the welfare reforms have made addressing social and economic inequality all the more urgent and have highlighted the importance of developing place based partnerships to tackle poverty, build aspirations, and enable communities to be active in creating their own prosperity. The impacts of welfare reform on specific places and groups must continue to be monitored so that local authorities and their partners can manage and mitigate emerging adverse effects.

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