Citizens Advice Parliamentary Briefing

Welfare Reform and Work Bill 2015/16

House of Commons, Second Reading, 20 July 2015

Introduction

This briefing explains the likely impact of some of the welfare benefits measures in the Bill and provides some important questions.

The briefing considers the following clauses:

- **Clause 7:** Benefits Cap
- **Clauses 9 and 10:** Freeze of certain social security benefits and tax credits for four tax years
- **Clauses 11 and 12**: Removal of entitlement to the child element in Child Tax Credits and Universal Credit for the third and subsequent children born after April 2017
- **Clauses 13 and 14**: Employment and Support Allowance: work-related activity component and Universal Credit: limited capability for work element
- **Clause 16:** Loans for mortgage interest

Overview

Citizens Advice welcomes the Government's commitment to protect the vulnerable as reforms are made to the welfare system. However, Ministers need to fully understand the impact these reforms will have on many people's ability to meet day to day costs.

- Citizens Advice helps people with two million problems relating to the tax credit and benefit system each year - it is the largest area of advice we deliver.
- Cuts to welfare - including freezing benefits for four years, lowering income disregards and work allowances, and cutting tax credits - will all have a very serious impact on many people's ability to meet day to day costs.

- We welcome the Government's commitment to protect the vulnerable when reforms are made to the welfare system.
- However, these changes will affect people and put suitable support in place to make sure they are not driven into very difficult circumstances.
- The human impact of cuts also risks translating into increased pressure on other public services.
- For this reason, we want the Government to understand the impact of the welfare benefit measures in the Bill as clearly as possible; to make sure that those affected have the advice, tools and support they need to move forward; and to ensure that implementation proceeds at a safe pace.

Citizens Advice questions the effectiveness of spending cuts without broader reform.

- In the long run, the only way to sustainably reduce welfare spending is to relieve wider pressures in the housing, labour and childcare markets.
- Citizens Advice also wants to see a modernised welfare system which is more responsive to people's needs, with better digital service design and an intelligent front line with greater local discretion.

Clause 7: Benefit cap

Key questions:

- What analysis has the Government done to understand how local authorities will respond to the lower cap, especially in high rent areas where a larger proportion of families will be affected, and to ensure the resources available are appropriate?
- What advice and support will be put in place to help those affected?

Our impact assessment:

This clause would reduce the level of the household benefit cap to £20,000 pa for a family (or £23,000 pa in Greater London). Citizens Advice has helped nearly 3,000 clients with issues relating to the current benefit cap, set at £26,000, since its introduction in April 2013. There has been a small positive labour market effect as a result of the current cap. After one year, those affected are 4.7 percentage points more likely to be in work with a Working Tax Credit claim than their counterparts claiming out-of-work benefits at a level just below the cap.[1]

However there are significant limitations to the benefit cap as a means of moving large numbers of households into work. The cap has the effect of extending the reach of the conditionality system to those usually not expected to work, such as lone parents of very young children. It also raises significant challenges for parents struggling to find affordable childcare, those who have caring responsibilities for elderly relatives and those affected by poor health. These households are much more likely to attempt to cut back on essentials such as food or heating, and many will fall into debt.[2]

Citizens Advice client statistics suggest the benefit cap disproportionately affects women, ethnic minorities and children; over 400,000 children are likely to be affected by the reduced cap. The biggest impacts will fall on the c. 22,000 families who have been unable to escape the existing cap and who are now set to lose up to another £6,000 per year (or 23% of their income before housing costs) in addition to previous reductions.

While the current rate mainly affects larger households in high rent areas, the reduction will see smaller families being capped all over the country, and even very small families in high-rent areas. Families who need four bedrooms to be adequately housed will find that their housing benefit will no longer cover the cost of private sector rent in any part of the country.[3]

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[1] *Benefit Cap: Analysis of outcomes of capped claimants*, DWP, December 2014. A Working Tax Credit may be opened in a lone parent family if the parent is in work for 16 hours or more or in a couple is the parents are working 24 hours between them, with one working at least 16.

[2] *Post-implementation effects of the Benefit Cap* (Wave 2 survey), DWP, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386198/rr894-post-implementation-effects-of-benefit-cap-wave-2.pdf. This research found that found that the most common response to the cap was spending less on households essentials (35% of households affected). Families with three or more dependents, lone parent households and those those who have a self-defined limiting health problem or disability were more likely than the cohort overall to have spent less on essentials.

[3] Rent at the 30th percentile of market rates in each local area (which is the LHA rate set by the Department for Work and Pensions for housing benefit).

A lower cap makes it vital that sufficient and proportionate Discretionary Housing Payment (DHP) funds are made available to local authorities. This will allow households the time they need to take action or adapt to their reduced income. We would suggest that local authorities should look to learn from best practice in use of DHPs and supporting households who are affected.

Our fuller pre-Budget analysis on lowering the cap is available here.

Clauses 9 and 10: Freeze of certain social security benefits and tax credits for four tax years

Key questions:

- What assessment has the Government made of the cumulative impact of an extended freeze in benefit rates on lower income families?
- What advice and support will be put in place to help those affected?

Impact assessment:

Benefits have been uprated below inflation since the start of 2013. This has placed significant financial pressure on millions of low income households. We are already seeing the results; over the last four years, there has been a sharp increase in Citizens Advice clients seeking advice on debt. The composition of debt is also changing, with a shift away from consumer credit issues towards problems in meeting basic household bills.

The uprating freeze would therefore take effect at a point when many households are already financially vulnerable. Of clients coming to Citizens Advice regarding benefits and tax credits included in the freeze, 74 per cent had an income of less than £1000 per month - around the average salary for someone working full time on the minimum wage. A survey of 200 advisers in local Citizens Advice found that two-thirds believed their clients were in a worse position to cope with the impacts of a freeze, in comparison to circumstances in 2012.

The freeze will also affect some of the most vulnerable in society. Of Citizens Advice clients claiming the affected benefits and tax credits, nearly half have a health condition or disability and over 40 per cent have dependent children. These groups may have fewer options to increase their incomes in the workplace. The complete freeze of the coming four years will compound many of these existing pressures.

With inflation projected to increase over the next four years, risks should be considered against the savings intended; growth in problem debt entails very significant costs, both for those affected and the Exchequer. Reduced means for already vulnerable households can also increase demands on other public services. Up-front advice and support for those affected will be vital if sustainable savings are to be realised.

Our fuller pre-Budget analysis of the impact of a two year freeze is available here.

Clauses 11 and 12: Removal of entitlement to the child element in Child Tax Credits and Universal Credit for the third and subsequent children born after April 2017

Key questions:

- What are the prescribed exceptions referred to in subsection four and how will they be administered? Will there be prescribed exceptions to this change in Universal Credit?
- How will this legislation affect the additional support that parents of disabled children receive through the disabled and severely disabled child element in Child Tax Credit and Universal Credit?

- How will this legislation affect the additional support that parents with childcare costs receive through Working Tax Credit and Universal Credit childcare elements?

Impact assessment:

Tax credits and Universal Credit top up income for low income families and help to make work pay, including through support for childcare costs. In the last 12 months Citizens Advice has helped people with over 175,000 tax credit issues and over 3,000 people with Universal Credit issues. These clauses would remove entitlement to the child element of tax credits and Universal Credit for the third and subsequent children born after April 2017.

Families with three or more children and families with a disabled member (including disabled children) are more likely to be on a relative low income[4], so this change could have a significant impact on the incidence of child poverty on the low income measures. This change also takes place alongside the freezing of tax credits and changes in secondary legislation to income disregards, work allowances and taper rates, which will mean that the financial benefits of work are significantly reduced for millions of families.

These wider changes to the tax credit system, although not encompassed in the Bill, are significant; £3.5 billion of support is taken away next year, rising further as the limits to two children are imposed in 2017. It is unlikely that losses of this scale can be made up for by the new National Living Wage.

This is particularly relevant to working families who are low paid but paid above the National Living Wage - for example families earning between £14,000 (for one full-time worker) to £25,000 (for one full-time and one part-time earner). The following table gives an idea of the challenges faced and we explore the issue in more detail here. A couple, one working full-time, the other part-time, with two children could well lose over £2,000 per year.

[4] Households Below Average Income: an analysis of the income distribution 1993/94 to 2013/14, DWP, June 2015

At earnings of £8ph	Award based on Current Tax Credit rules	Award based on Tax Credit rule change – income threshold and taper change	Change per annum
Couple with 1 child. 1 working 37 hours pw, 1 working 18.5pw	£646	£0	-£646
Couple with 2 children. 1 working 37 hours pw, 1 working 18.5pw	£2636	£236	-£2400
Single parent with 2 children. Working 37 hours	£5792	£3930	-£1862

Clauses 13 and 14: Employment and Support Allowance; work-related activity component and Universal Credit; limited capability for work element

Key questions:

- What additional advice and support will be put in place for those who are found to have limited capability for work?
- What plans does the Government have to improve the accuracy of decision-making on ESA?

Impact assessment:

The alignment of payment rates for those claiming Employment and Support Allowance (ESA) undertaking work-related activity and those claiming Jobseeker's Allowance places greater importance on getting decisions on work capability right at the earliest possible opportunity.

Citizens Advice has previously highlighted concerns with the decision-making process for the Work Capability Assessment (WCA) and, although the numbers of appeals reaching tribunal stage has fallen since the introduction of mandatory reconsideration, over half of awards are still made in favour of the claimant.

We help clients with over 1,000 ESA related issues every day, and almost 1 in 5 relate to challenging a decision made about their condition. A reduction by £120 per month for clients who have been assessed to require ESA because of a work-limiting health issue or disability must be balanced by better decision-making at the earliest possible stage, and appropriate, sustainable support for those who are found to have limited capability for work.

Clause 16: Loans for mortgage interest

Key question:

- Is there a need for more advice and support for homeowners as a result of these proposals?

Impact assessment:

This clause would transfer liabilities from state to individual by making the support offered on mortgage payments for homeowners claiming certain benefits repayable. While most homes are gaining value, and most homeowners will be able to repay their loan in the medium to long-term, this measure could make it harder for some homeowners on low or fixed incomes to retain their homes.

Citizens Advice research has identified groups of homeowners vulnerable to income shocks. Many of the homeowners we interviewed felt that tenants (private or social) are better protected following redundancy or when facing ill health than homeowners. 15 per cent of all those helped by Citizens Advice last year were homeowners with a mortgage.

Citizens Advice suggests that the Government should work closely with mortgage lenders to understand and monitor the impact of this measure. We have now seen very low interest rates for over six years and some homeowners are still struggling to maintain or retain their homes; the likelihood of imminent interest rate rises risks making this situation worse.

Mortgage lenders have worked with vulnerable homeowners to help them manage difficult circumstances and retain their homes if at all possible; the removal of help for six months could leave vulnerable homeowners facing far greater arrears and increased risk of repossession and homelessness. Not only will struggling homeowners need to repay the support they receive with interest, but they will also be, on average, £887 further in arrears before they get any help at all.[5]

Contact us

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[5] The most recent figures available (DWP's forecast for 2014/15) show £291 million paid in support for mortgage interest to 164,000 customers. The mean amount received by each was, therefore, £1774 per year or £887 over six months.