

# Introduction to the Welfare Reform Act 2012

Briefing from NCVYS  
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## About This Briefing

This briefing is provided on behalf of the Department for Education's overarching strategic partnership for voluntary, community and social enterprise sector organisations that serve children, young people and families. Led by Children England, and working with Community Matters, NAVCA, NCVYS, the Race Equality Foundation and Social Enterprise UK, the programme includes information, learning resources and opportunities, and peer support networks. Find out more about the [Department for Education's overarching strategic partnership](#).

This briefing has been produced by NCVYS, the independent voice of the voluntary youth sector in England, and includes information on the Government's Welfare Reform Act as well as the details outlining the terms of the Universal Credit. This will replace most existing benefits and limits the total amount of benefit a person can claim.

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## 1. Welfare Reform

### 1.1 The Welfare Reform Act 2012

The Welfare Reform Act introduces a wide range of reforms which the Government states are to make the benefits and tax credits system fairer and simpler. It received Royal Assent on 8 March 2012. The Act has three key aims<sup>1</sup>:

1. Creating sustainable incentives to encourage more people into work.
2. Protecting the most vulnerable in our society.
3. Delivering fairness to the tax payer and those claiming benefit.

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For an overview of the Reform:

<sup>1</sup> <http://services.parliament.uk/bills/2010-11/welfarereform.html>

The Act and accompanying welfare measures intend to create total welfare savings of £18 billion per year by 2014-15. The June 2010 Budget announced that welfare reforms would save £11 billion per annum from welfare spending by 2014-15, before the Spending Review later that year announced further savings of £7 billion.<sup>2</sup>

## 1.2 Main elements of the Act

Measure	The Government's intention for the measure
Introduction of Universal Credit – a single benefit payment	To improve work incentives
A new approach on fraud	To reduce fraud and error with tougher penalties for the more serious offences
A new claimant commitment	To clearly display what is expected of claimants and give protection to those with the greatest needs
Reform Disability Living Allowance, through the introduction of the Personal Independence Payment	To better meet the needs of disabled people <sup>3</sup>
Introduce a new approach to Housing Benefit	To bring stability to the market and improve incentives to work
Refine the Social Fund System	To give greater power to local authorities so that necessary decisions can be made swiftly
Reform Employment and Support Allowance	To make benefits fairer and go to those with greatest need
Localisation of Council Tax Benefit	To make local authorities responsible for developing local schemes
A new system of Child Support	To put the interest of the child first

## 1.3 Next steps in welfare reform

In the March 2012 Budget, the Chancellor suggested a further £10 billion of welfare savings could be made by 2016/17.<sup>4</sup> In a speech in June 2012, Prime Minister David Cameron called for a national debate about further reform to the welfare benefit system. He said that the debate should look at the fundamental questions of what working age welfare is for and who should receive it. He said that the current benefits system is unaffordable, traps people in poverty and encourages irresponsibility. He put forward a wide range of proposals for consideration, including removing access to housing benefit for anyone aged 16-24; banning school leavers from going straight on to benefit; and paying more welfare benefits in kind, such as free school

<sup>2</sup> [http://cdn.hm-treasury.gov.uk/sr2010\\_pressnotices.pdf](http://cdn.hm-treasury.gov.uk/sr2010_pressnotices.pdf)

For further information on the Personal Independence Payment:

<sup>3</sup> <http://www.dwp.gov.uk/policy/disability/personal-independence-payment/>

<sup>4</sup> [http://www.hm-treasury.gov.uk/budget2012\\_statement.htm](http://www.hm-treasury.gov.uk/budget2012_statement.htm)

meals, as opposed to cash.<sup>5</sup> The proposals are expected to influence the Conservative Party's next election manifesto rather than current government thinking.

There is still much to be decided about the implementation and detail of the Act and the Department for Work and Pensions (DWP) has recently published draft regulations, including on the Universal Credit and the Housing Benefit cap, which are open for consultation.<sup>6</sup>

## 2. Universal Credit

### 2.1 Introduction to Universal Credit

Universal Credit will replace means-tested benefits and tax credits for those who are out of education, over the age of 18 and under pensionable age. It will be paid to people in or out of work. It is made up of personal amounts and additional support (for children, rent, carers etc.) The changes will come into place between October 2013 and April 2014.<sup>7</sup>

The Government's key aims for Universal Credit are:

1. Improved work incentives.
2. A simplified benefits system.
3. A single system of disregards and one taper.<sup>8</sup> A taper is the rate at which benefit is reduced to take account of earnings and it aims to ensure that no one is worse off when they find paid employment. The earnings disregard is the money that can be earned before it has any impact on the amount of Universal Credit received. (Different amounts will be disregarded from earnings to reflect the needs of different types of household and to support the aim that work pays.)
4. Mimicking work and receipt of salary – i.e. there will be a monthly payment period – this intends to better prepare people for salary payments.

The Department for Work and Pensions and Local Government Association have named a list of 15 local authorities who could be potential pilot sites for Universal Credit. Pilots will be focused on delivering face to face support for people claiming Universal Credit and online support to help with budgeting and searching for work.<sup>9</sup>

### 2.2 Which benefits will be included?

Due to the introduction of Universal Credit, there will be a number of benefits that will end or be significantly affected:

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<sup>5</sup> <http://www.number10.gov.uk/news/welfare-speech/>

<sup>6</sup> <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-act-2012/welfare-reform-draft-regulations/>

<sup>7</sup> <http://www.dwp.gov.uk/local-authority-staff/universal-credit-information/>

<sup>8</sup> <http://www.dwp.gov.uk/docs/ucpbn-14-disregards-tapers.pdf>

<sup>9</sup> <http://www.dwp.gov.uk/newsroom/press-releases/2012/jul-2012/dwp082-12.shtml>

- Income support
- Income- based job seekers allowance (JSA)
- Income-related employment support allowance (ESA) (see 2.6 for further information)
- Housing benefit
- Council tax benefit
- Child tax credit and working tax credit
- Disability Living Allowance

A number of benefits will be unaffected:

- Contribution- based Job Seekers Allowance
- Contributory Employment Support Allowance
- Child benefit
- Carer's allowance
- Bereavement allowance
- Maternity allowance
- Statutory sick pay
- Statutory maternity/paternity pay

### 2.3 How will Universal Credit be calculated?

Universal Credit will be made up of:

- Personal amounts for a single claimant or couple.
- Additional amounts for:
  - Children or a qualifying young person (additional for disabled children).
  - Rent/Mortgage.
  - Limited capability to work.
  - Limited capability for work-related activity.
  - Regular caring responsibilities for a severely disabled person.

### 2.4 Benefit Cap

The maximum award will be subject to the 'benefit cap'. The cap limits the total benefit an individual or couple is entitled to. The cap will be set in accordance with the average net earnings of a working household.<sup>10</sup> This has been set to £500 per week (£26,000 per year) for lone parents and couples with or without children, and £350 per week (£18,200 per year) for single people without children. Some benefits are not included in the cap, including: council tax benefit, free school meals and statutory maternity, paternity and sick pay.<sup>11</sup>

The receipt of other benefits exempts the recipient and anyone in their household from the cap. This includes: Working Tax Credit, Attendance Allowance, the support component of

<sup>10</sup>[http://www.housing.org.uk/publications/find\\_a\\_publication/legislation/welfare\\_reform\\_act\\_2012.aspx](http://www.housing.org.uk/publications/find_a_publication/legislation/welfare_reform_act_2012.aspx)

<sup>11</sup><http://www.disabilityrightsuk.org/f8.htm>

Employment Support Allowance (i.e. people with a long term incapacity for work due to ill health), War Widow/Widower's Pension, Disability Living Allowance (to be replaced by Personal Independence Payment), Industrial Injuries Benefits, Armed Forces Compensation Scheme, War Pension Scheme payments.<sup>12</sup>

The Department for Work and Pensions estimates that affected households will lose an average of £83 a week – nearly £4,500 per year - with 17% of those affected losing more than £150 a week.<sup>13</sup> (See the housing section below for further details.)

## 2.5 Other points on Universal Credit

- Transitional protection is to be put in place, aimed at supporting the move to Universal Credit.<sup>14</sup>
- Applications will normally be made on-line.<sup>15</sup>
- Couples will make a joint claim.

A Claimant commitment sets out a commitment that each claimant must have accepted in order to receive Universal Credit – this introduces more conditionality and tougher sanctions for those claimants that fail to meet the requirements.<sup>16</sup> 'Higher level sanctions' may be imposed on claimants subject to all work-related requirements. This may result in a reduction of benefits for up to a maximum of three years, depending on the number and regularity of such failures. The reduction will be the value of the adult personal allowance (i.e. it will not include additional amounts such as for children or housing). Other sanctions may be imposed on claimants subject to work preparation requirements for failure to undertake work-related activity, or for those in the work-focused interview group for failure to attend an interview.

Claimants will be placed in one of four groups:

1. Claimants subject to no work-related requirements. A claimant will fall into this group if they have limited capability to work due to a mental or physical condition.
2. Claimants subject to the work-focused interview requirement only. A claimant will fall into this group if they are the carer of a child who is at least one but below a prescribed age which may not be less than three.
3. Claimants subject to the work preparation requirement. A claimant will fall into this group if it is determined that they have limited capability for work due to a mental or physical condition.

<sup>12</sup> <http://www.dwp.gov.uk/docs/benefit-cap-faqs.pdf>

<sup>13</sup> <http://www.housing.org.uk/idoc.ashx?docid=190794f8-20da-4d36-ab0f-8efb12d19a88&version=-1>

<sup>14</sup> <http://www.dwp.gov.uk/docs/ucpbn-6-transitional-protection.pdf>

<sup>15</sup> The equality Impact Assessment for Universal Credit notes, "To mitigate the risk that some disabled people may not be able to make claims online, alternative access routes will be offered, predominantly by phone but also face to face for those who really need it." <http://www.dwp.gov.uk/docs/eia-universal-credit-wr2011.pdf>

<sup>16</sup> Details of sanctions are available at: <http://www.dwp.gov.uk/docs/universal-credit-chapter3.pdf>

4. Claimants subject to all work-related requirements. Claimants will fall into this group if they do not meet the requirements for the previous groups.<sup>17</sup>

## 2.5 Timescale for Universal Credit

It is estimated that Universal Credit will be rolled out in three phases from October 2013 until the end of 2017:

Phase 1: **(October 2013 to April 2014)** will see new claims to the current benefits and credits system phased out. New claims to Housing Benefits and Tax Credits will be the last to end in April 2014. Existing claimants who experience a change in circumstance, such as the birth of a child, will also be migrated to the Universal Credit in this period.

Phase 2: **(April 2014 until the end of 2015)** will see existing claimants whose circumstances have not changed begin to be migrated. It is expected that the majority of these households will either have people in part-time work or be economically inactive.

Phase 3: **(end of 2015 to end of 2017)** will see all remaining households transferred to Universal Credit. This will be phased geographically, allowing each local authority to withdraw from housing benefit administration at a set point, rather than continuing to manage a handful of claims until the end of 2017.<sup>18</sup>

## 2.6 Differences between Universal Credit and the current welfare system

The differences between the current welfare system and the new system of Universal Credit include:

- The introduction of Universal Credit means that both those who are in work and on a low income and those who are unemployed will be able to access a single benefit – the Universal Credit.
- Most people will be in a position to apply online. (See footnote 9 above.)
- Two main changes surrounding the Employment and Support Allowance took effect on 30 April 2012:
  - Limiting the time that people can receive contribution-based Employment and Support Allowance to one year if the claimant is in the Work Related Activity Group or assessment phase.
  - Removing the special contribution conditions (the ‘youth provisions’). These allowed young people from 16-20 (or under 25 and in education or training at least three months immediately before turning 20) to qualify for contribution-based

<sup>17</sup> <http://www.legislation.gov.uk/ukpga/2012/5/part/1/chapter/2/enacted>

<sup>18</sup> [http://www.housing.org.uk/publications/find\\_a\\_publication/legislation/welfare\\_reform\\_act\\_2012.aspx](http://www.housing.org.uk/publications/find_a_publication/legislation/welfare_reform_act_2012.aspx)

## Employment and Support Allowance without having to pay National Insurance contributions.<sup>19</sup>

- Universal Credit aims to be more responsive in helping those who are on low incomes, but also those who are not in stable employment. It aims to provide support during transition between jobs. It is hoped this will create incentives for people to take work for any time period that is available. Once claimants decide to begin working, they will receive Universal Credit when they begin a new job or if their part-time hours increase.
- Claimants will receive a single monthly payment, which will be paid directly into a bank account.<sup>20</sup> This will be done in the same way that a monthly salary is paid. If the claimant is receiving support with housing costs then this will be combined with their monthly payment and paid as part of the single monthly credit.<sup>21</sup> Benefits payments are currently often paid every fortnight and sometimes every week.
- Universal Credit will have an impact on second earners in households who are claiming benefits. Universal Credit is designed to help improve work incentives for a household, particularly for the first earner, it is hoped this will help break cycles of worklessness. The majority of existing or potential second earners will not see their work incentives affected by the Universal Credit because their household is already earning too much to be eligible for income related support under Universal Credit. Where second earners are eligible for income related support the impact of the reform on work incentives could be positive or negative, depending on their current benefit combination.<sup>22</sup>
- Changes to the Disability Living Allowance (DLA) are also expected to have an impact on those who find their disability limits their ability to work.<sup>23</sup> DLA will end for everyone of working age (16-64). The new Personal Independence Payment (PIP) is based on an assessment of individual need. The assessment will focus on an individual's ability to carry out a range of key activities necessary to everyday life. Information will be gathered from the individual, as well as healthcare and other professionals. Most people will also be asked to attend a face to face consultation with an independent assessor as part of the claim process. There are no current plans to replace DLA for children under 16 and people aged 65 and over who are already receiving it.

<sup>19</sup> <http://www.dwp.gov.uk/docs/esa-changes-q-and-a.pdf>

<sup>20</sup> Benefits are currently usually paid by direct credit transfer straight into an account, though some people who have difficulties opening or managing an account, they can be paid by cheque instead. From Autumn 2012, cheque payments are being phased out for DWP benefits. Those unwilling or unable to open an account will be paid using the Simple Payment service.

[www.adviceguide.org.uk/england/benefits\\_e/benefits\\_benefits\\_introduction\\_ew/payment\\_of\\_benefits\\_and\\_tax\\_credits.htm](http://www.adviceguide.org.uk/england/benefits_e/benefits_benefits_introduction_ew/payment_of_benefits_and_tax_credits.htm)

<sup>21</sup> <http://www.dwp.gov.uk/docs/universal-credit-faqs.pdf>

<sup>22</sup> <http://www.dwp.gov.uk/docs/ucpbn-5-second-earners.pdf>

<sup>23</sup> <http://www.dwp.gov.uk/policy/disability/personal-independence-payment/>

There is still uncertainty about what will happen to ‘passported’ benefits such as free school meals and free prescriptions. Entitlement to one benefit (e.g. Income Support) currently ‘passports’ a claimant to another type of support (e.g. free school meals), but because Universal Credit will provide financial support for people ranging from no earnings at all up to a level of earnings at which all Universal Credit stops, it is unclear at what level ‘passporting’ to other types of help will be set.

The Government’s response to the Social Security Advisory Committee’s report on passported benefits said, “The provision of free school meals to all recipients of Universal Credit would almost treble the numbers currently eligible. Although the Government is sympathetic to the arguments for extending eligibility to free school meals, this is simply unaffordable in the current economic climate.” The Department for Education will be consulting on new eligibility criteria later this year.<sup>24</sup>

### 3. Housing

#### 3.1 Housing benefit size criteria

The introduction of Universal Credit will make major changes to the Housing Benefit system by introducing size criteria for social housing occupied by working-age households claiming Housing Benefit from 1 April 2013. Size criteria will be a measure of the appropriateness of a social-sector property occupied by a working-age household claiming Housing Benefit. (Similar criteria already apply to housing benefit claimants in the private rental sector.) Households that are deemed to be living in accommodation that is too large for their needs will lose part of their housing benefit. The new size criteria for social housing will be based on the number of bedrooms.<sup>25</sup> The maximum amount of rent eligible to be covered by Housing Benefit will be reduced by a percentage rate for each ‘excess’ bedroom – there will be a 14 per cent reduction for one excess bedroom and a 25 per cent reduction for two or more excess bedrooms.

This may have major implications for<sup>26</sup>:

- Separated parents sharing care (the ‘main carer’ receives the Housing Benefit).
- Parents whose children visit but are not part of the household.
- Couples using a spare bedroom when recovering from illness.
- Families with disabled children.
- Families who foster as foster children are not counted as part of the ‘benefit’ household.

How a bedroom is defined and whether it is of sufficient size for children to share will be locally determined.

<sup>24</sup> <http://www.dwp.gov.uk/docs/ssac-rev-of-pass-bens.pdf>

<sup>25</sup> Further details available at

<http://www.wfcap.org/resources/Welfare%20Reform%20Act%20Policy%20Briefing%2020120609.pdf>

### 3.2 Ending direct payment of housing benefit to landlords

Currently Housing Benefit can be paid to the claimant or directly to the landlord. Under the new system introduced by the Act, Housing Benefit will be paid directly to the claimant as part of their Universal Credit payment. The aim is to replicate the wage cycle of those in employment. The Act makes provision for the current system of direct payments to landlords to continue for 'vulnerable' people that would not be able to cope with the new system. The Government has yet to decide the criteria for 'vulnerable' people.

### 3.2 Local Housing Allowance rate

There will be a reduction of the Local Housing Allowance (LHA) rate used to calculate maximum Housing Benefit for private tenants. The rate had been the mid-range of local private sector rents, it will now be the lowest 30% of local rents. LHA will now be calculated using the general Consumer Price Index (from April 2013); previously it had used actual local rent levels. Shelter has warned that this will mean that there is a "considerable risk that the amounts payable under the cap rent will not provide adequate access to the private rented sector".<sup>27</sup> An overall limit on the LHA rate has been introduced, restricting maximum Housing Benefit payable to a 4 bedroom rate (regardless of the size of the household).

Single people up to age 35 are now only entitled to housing benefit (LHA) at the same rate as they would get for renting a single room in a shared house. The 'shared accommodation rate' (SAR) for private rented tenants was previously only applicable up to the age of 25. The Department for Work and Pensions estimates that 62,000 tenants will be affected, losing on average £41 a week. There are some exemptions, for example if you are a care leaver, the SAR doesn't apply until you are aged 22.<sup>28</sup>

### 3.4 The impact of the benefit cap

The Department for Work and Pensions' Impact Assessment estimates that about 67,000 households will be affected by the benefit cap in 2013/14 rising to 75,000 in 2014/15. In 2013/14 this means that 90,000 adults and 220,000 children will be affected. It is expected that 44% of those affected will live in the social rented sector and 56% in the private rented sector.

The National Housing Federation says that larger than average families and those living in high-rent areas are most likely to be affected by the benefit cap. It is estimated that 54% of affected

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<sup>26</sup> <http://www.cih.org/resources/policy/CIH%20briefing%20papers/welfarereformbriefing.pdf>

<sup>27</sup> [http://england.shelter.org.uk/\\_data/assets/pdf\\_file/0007/570499/Universal\\_Credit\\_briefing\\_2012.pdf](http://england.shelter.org.uk/_data/assets/pdf_file/0007/570499/Universal_Credit_briefing_2012.pdf)

<sup>28</sup> [http://england.shelter.org.uk/get\\_advice/housing\\_benefit\\_and\\_local\\_housing\\_allowance/housing\\_benefit\\_if\\_you\\_are\\_under\\_35](http://england.shelter.org.uk/get_advice/housing_benefit_and_local_housing_allowance/housing_benefit_if_you_are_under_35)

households will be in Greater London, 9% in the South East, 6% in the North West and less than 6% in all other English regions.<sup>29</sup>

The Government has confirmed that claimants made homeless by the cap will not be considered intentionally homeless, therefore local authorities will have a statutory duty to house them. An additional £130 million for Discretionary Housing Payments has been announced to help provide short term relief for those who are not able to move immediately after being hit by the cap. This includes an extra £80 million in 2013-14 and an extra £50 million in 2014-15.<sup>30</sup>

## 4. Other elements of the Act

### 4.1 Social Fund

- The current Social Fund provides monetary help to low income families at a time of emergency (funeral payments, maternity grants, crisis loans, budgeting loans, community care grants and cold weather payments).
- The current Social Fund is being abolished and it is to be replaced with local administration of the fund.
- The current Social Fund is a statutory fund - the replacement will not be ringfenced.

Community Care Grants and Crisis Loans for general living expenses (including rent in advance) will also be abolished from April 2013 and replaced by new local provision.

### 4.2 Child Support

The Government says the Act will introduce a new system of Child Support, but its major proposals for Child Support were contained in a separate White Paper, *Strengthening families, promoting parental responsibility: the future of child maintenance*.<sup>31</sup> In July 2012, the Government published a consultation about transforming the child maintenance system so the emphasis is placed on supporting families to make their own arrangements.<sup>32</sup>

### 4.2 Council Tax Benefit

From April 2013 the national system of Council Tax Benefit will be replaced by local schemes. The Government has said that older people should receive the same level of support that they currently receive under the current Council Tax Benefit system, which means that any reduction in assistance available in the future is most likely to be focussed on people of working age.

<sup>29</sup> <http://www.housing.org.uk/idoc.ashx?docid=190794f8-20da-4d36-ab0f-8efb12d19a88&version=-1>

<sup>30</sup> <http://www.dwp.gov.uk/newsroom/press-releases/2011/feb-2011/dwp013-11.shtml>

<sup>31</sup> A briefing from Gingerbread gives further details, [http://www.gingerbread.org.uk/file\\_download.aspx?id=7154](http://www.gingerbread.org.uk/file_download.aspx?id=7154)

<sup>32</sup> <http://www.dwp.gov.uk/about-dwp/customer-delivery/child-maintenance/>

## 5. Conclusion

The Welfare Reform Act is being introduced with the expectation that it will create incentives for people to get into work. It has some major differences with the current welfare system and the full implications will take time to be realised as the benefit structures around work and welfare are in transition.

NCVYS members are among those who have commented on the changes, with concerns that it will disproportionately affect groups including children and young people and women. During a meeting on the reforms some NCVYS members have commented that the introduction of sanctions is not the right approach in encouraging employment, suggesting that using sanctions can be an expensive and an ineffective tool in steering employment take up.<sup>33</sup>

Platform 51<sup>34</sup> has stated that more women will be affected than men, due to a higher proportion of women claiming benefits. The single payment system into one account could also affect women who are not in stable relationships if the payment is made to their partner's account. The abolishment of the Social Fund, to be replaced by local provision, may impact on domestic violence. Women may struggle to access support in other local authority areas, because new funding could prioritise people based on residency.

Prince's Trust has raised concerns that proposals in the draft regulations for Universal Credit may disadvantage self-employment.<sup>35</sup> Their response to SSAC Universal Credit call for evidence also noted concerns about the Claimant commitment for apprentices and hardship loans for under-18s.

The Children's Society, Citizens Advice and Disability Rights UK are working together in supporting Baroness Tanni Grey-Thompson to produce a review on the impact of the new Universal Credit on disabled children and adults. They "are very concerned that the scale of the cuts in support for some groups of disabled people has not yet been properly understood, because the changes have been viewed in isolation." The Children's Society has also created a Universal Credit Map and calculator to illustrate the extent of these changes to the benefits system when Universal Credit is introduced. The map shows the distribution of these changes across England and the calculator shows what the changes mean for many of the most vulnerable families in England.<sup>36</sup>

<sup>33</sup> [http://www.ncvys.org.uk/UserFiles/Benefit\\_Reforms\\_Masterclass.pdf](http://www.ncvys.org.uk/UserFiles/Benefit_Reforms_Masterclass.pdf)

<sup>34</sup> <http://www.platform51.org/>

<sup>35</sup> <http://www.princes-trust.org.uk/docs/Princes%20Trust%20response%20to%20SSAC%20Universal%20Credit%20call%20for%20evidence.doc>

<sup>36</sup> <http://www.childrensociety.org.uk/news-views/good-childhood-blog/mapping-reduced-childcare-support-under-universal-credit>