



House of Commons
Communities and Local
Government Committee

**Localisation issues in
welfare reform**

Fifth Report of Session 2010–12

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minutes, oral and written evidence*

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The Communities and Local Government Committee

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Committee staff

The current staff of the Committee are Glenn McKee (Clerk), Judith Boyce (Second Clerk), Josephine Willows (Inquiry Manager), Kevin Maddison (Committee Specialist), Emily Gregory (Senior Committee Assistant), Mandy Sullivan (Committee Assistant), Stewart McIlvenna, (Committee Support Assistant) and Hannah Pearce (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Communities and Local Government Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1234; the Committee's email address is clgcom@parliament.uk

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Summary

This report sets out to examine the implications of the Government's welfare reform proposals from the point of view of local government and the decentralisation agenda. The Welfare Reform Bill, if passed, would abolish elements of the discretionary Social Fund and Council Tax Benefit, replacing both with localised schemes run by local authorities, and would see Housing Benefit, a current local authority responsibility, centralised within the Universal Credit.

We support the Government's proposal to devolve the discretionary Social Fund so that local authorities can innovate and tailor this facility to local needs, although there is legitimate debate about whether localisation will in itself be an adequate remedy for the long-standing problems of the Social Fund. In order to realise the benefits of localisation, administration of the new schemes must be adequately funded, and the difficulty of predicting demand must be taken into account. We agree with the Government that the funding for disbursement should not be ringfenced, but information should be published about how local authorities are using the funds so that they can be held to account, for a period of five years.

Similarly, we welcome the Government's intention to replace Council Tax Benefit with localised schemes of support for council tax. However, the Government is committed to protecting the work incentives of the Universal Credit, and to protecting pensioners from any reduction in their council tax support. In combination with a 10% cut in funding from the present spend on Council Tax Benefit, these national policies will combine to leave only the illusion of local discretion. Funding through a fixed grant—as opposed to the current demand-led funding for CTB—will constitute a significant financial risk for councils and a disincentive to improving take-up of the benefit. The timing and timescale of the proposed changes are a cause for substantial concern, especially given the amount of detail about the Government's plans that remains unknown and subject to consultation, and the comprehensive nature of reforms elsewhere in the welfare system. The Government should consider delaying implementation to ensure that the new schemes are robust.

The incorporation of housing costs support within the Universal Credit will remove from local government a function which it is discharging well, and which has vital policy and operational links with other council responsibilities, notably housing and homelessness strategy. The split of functions will cause confusion for customers used to dealing with one agency for both Council Tax Benefit and Housing Benefit. We recommend that local authorities should retain administrative responsibility for housing costs support. It is planned that the Universal Credit will be a single payment made to recipients; there are concerns that the costs of arrears and evictions, and the cost of borrowing for new development, will rise if it is not possible for landlords to receive the replacement for Housing Benefit directly. The Government must investigate seriously whether this change could adversely impact the supply of social housing before deciding on the final implementation of the Universal Credit.

As a case study in localism, therefore, welfare reform presents a very mixed picture. It highlights many of the key issues—funding, service integration, accountability—that have to be addressed to ensure that localised functions are successful rather than burdensome or risky. It also demonstrates the importance of consistent policy-making across government departments, an issue whose implications we intend to monitor throughout this Parliament.

1 Introduction

1. The Government has set in train a major overhaul of the welfare reform system. In November 2010 the Department for Work and Pensions (DWP) published a White Paper, *Universal Credit: welfare that works*, which set out the Government's plans for a 'Universal Credit' (UC) to replace most in-work and out of-work benefits for people of working age.¹ The intention is to introduce the Universal Credit for new claims from October 2013, with the aim of completing the transfer of all existing claimants to the new system by October 2017. A Welfare Reform Bill was introduced to Parliament in February 2011 to give effect to these changes.

2. Housing Benefit and Council Tax Benefit—both currently administered by unitary and lower-tier local authorities—would effectively be abolished by the introduction of the Universal Credit, which will include a housing costs component. The Government's intention to 'localise' Council Tax Benefit had previously been announced in the October 2010 Spending Review, along with a commitment to reduce spending on support for council tax by 10%, or £490 million each year. Also to be abolished were the discretionary elements of the Social Fund, to be replaced by local schemes run by councils.

3. Our colleagues on the Work and Pensions Committee held a short inquiry into the Universal Credit in January and February 2011.² In its passage through the House, the Welfare Reform Bill has been subject to line-by-line scrutiny in committee. However, we felt that there remained scope for our committee to examine the welfare reform proposals from the perspective of localism and local government. The localisation of Council Tax Benefit and elements of the Social Fund on the one hand, and the centralisation of Housing Benefit on the other, will clearly have financial and administrative implications for those councils who are gaining or losing responsibilities. In the light of our recent inquiry into the Government's localism and decentralisation agenda, we also wished to explore to what extent local authorities would be given the necessary flexibility and support to make a success of these changes. The reforms also entail changes to the responsibilities of the Department of Communities and Local Government, and we have been interested to observe this as an example of policy-making which demands close collaboration between DCLG and the Department for Work and Pensions.

4. We received twenty-one submissions of written evidence on this topic and held one oral evidence session, in July 2011. We are very grateful to all those who participated and provided memoranda. In August 2011 the Government published its consultation paper on localising support for council tax, and we have endeavoured to take this into account in the preparation of our report; the consultation closes in October. **In addition to its formal response to our report, DCLG should take into account the chapter about council tax support when collating responses to its consultation on that subject.**

1 Department for Work & Pensions, *Universal Credit: welfare that works*, Cm 7957, November 2010

2 Work & Pensions Committee, *White Paper on Universal Credit: oral and written evidence*, March 2011, HC 743

2 The discretionary Social Fund

The Government's proposals

5. The Social Fund, introduced fully in 1998, has two components: payments made according to regulations (such as Sure Start Maternity Grant, Funeral Payments, Winter Fuel Payments and Cold Weather Payments) and the discretionary Social Fund, which is cash-limited and provides grants and loans. The discretionary Social Fund is currently administered through Jobcentre Plus and comprises:

- Budgeting Loans (BLs): interest-free loans for people who have been on certain means-tested benefits for at least six months, intended to help with occasional items of expenditure;
- Community Care Grants (CCGs): non-repayable awards for people in receipt of means-tested income replacement benefits, to help people move back to or stay in the community, to ease exceptional pressures, or for certain travel expenses. Changes in the Welfare Reform Act 2009 allowed applicants to receive goods and services rather than cash awards;
- Crisis Loans (CLs); interest-free loans for people facing an unforeseen emergency or disaster, where they have no other funds and where they would otherwise face serious damage or serious risk to their health or safety. Crisis Loans are available to anyone, whether receiving benefits or not.

6. The Welfare Reform Bill would, if passed, abolish Community Care Grants and Crisis Loans for living expenses. Funding is to be made available instead to unitary and upper-tier local authorities in England to enable them (under existing powers in the Local Government Act 2000) to provide new locally-administered assistance to vulnerable groups. The new arrangements are to be in place from April 2013. The Universal Credit White Paper argued that discretionary schemes such as these could be run more effectively at local level, where they can be tailored to specific circumstances and linked up with other support services, and where staff should be better able to identify the most vulnerable applicants.³ The White Paper also stated that Crisis Loan awards had almost tripled since 2006, “with little evidence of an underlying increase in need”.⁴ Minister of State for Pensions, Steve Webb MP, explained to us the Government’s thinking in devolving the discretionary Social Fund:

It is important to make clear that we are not asking local government to do what we do; we are saying to them, ‘This is 170 million pounds. We think you can spend it better than we do because we are trying to operate a discretionary system remotely. [...] Can you do better with that money based on what you know of your area?’⁵

3 DWP, *Universal Credit: welfare that works*, Cm 7957, November 2010, p.47; DWP, *Impact assessment: localising Crisis Loans and Community Care Grants*, February 2011

4 DWP, *Universal Credit: welfare that works*, p.47

5 Q 41

Budgeting Loans will be replaced by a new nationally-administered advance of benefit facility.

7. A Call for Evidence on local support to replace CCGs and CLs was issued in February 2011, and the Government's response was published in June. The Call for Evidence document stated that

in line with the decentralisation and localism agendas, the Government is committed to removing burdens and controls from local government. There will therefore be no new statutory duty requiring local authorities to deliver the service. [...] However, to support the transition the Secretary of State will write to local authorities to set out the Government's policy expectations for the new funding.⁶

The document further stated that the Government does not expect local authorities to recreate the current Social Fund, but that local authorities will be given "the funding and flexibility to re-design the emergency provision for vulnerable groups according to local circumstances, in order to meet severe hardship in the way they think best".⁷ Councils are not expected, for example, to offer loan facilities under the new arrangements, and are encouraged to consider granting second-hand furniture or white goods, or using food banks, rather than making cash grants. Local authorities are also encouraged to work together, so that there need not be 150 separate schemes running across the country.⁸ Although there will be no statutory duty to provide it, Steve Webb dismissed the idea that local authorities might choose not to operate any sort of replacement service for the Social Fund:

If [councils] have the best interests of local residents at heart, which I am sure they do, they will want to put in a pattern in provision, which will not mirror what we did. It may be delivered through different agencies, but I cannot see them not wanting to meet the kinds of needs we have met but perhaps in new and creative ways.⁹

Is localisation the right way to reform the discretionary Social Fund?

8. The Social Fund is perceived as a vital 'safety net' for some of the most vulnerable people in society.¹⁰ It can prevent more acute and costly interventions, and is heavily used by people who are often not eligible for other grants or assistance.¹¹ The prospect of significant changes in the way this support is delivered has therefore raised many concerns. Should assistance become more difficult to access as a result of these changes, many voluntary organisations warn that substantial additional pressure will be felt on charity grant

6 DWP, *Local support to replace Community Care Grants and Crisis Loans for living expenses: a call for evidence*, February 2011, para 3.2

7 *Ibid.*, para 4.1

8 Q 49

9 Q 43

10 Ev w2

11 Ev w1, w44

schemes, and rejected applicants may resort to loans from ‘doorstep’ lenders at extortionate rates of interest.¹²

9. The way in which the discretionary Social Fund is managed has long been subject to criticism, not least from parliamentary select committees.¹³ Among the identified problems are high levels of administrative error and poor standards of decision-making in the CCG scheme (in 2009/10, around half of reviews of CCG decisions resulted in the decision being revised);¹⁴ the ‘postcode and calendar lottery’ faced by applicants due to the cash-limited nature of the Fund; low awareness of the facility among the public, particularly ethnic minority communities; long processing times for applications for some payments; confusion about qualifying arrangements and eligibility criteria; and the reactive nature of the Fund, meaning little attempt is made to address underlying problems and a degree of Social Fund ‘dependency’ arises.¹⁵

10. There was, however, much doubt expressed by our witnesses that localisation in itself would remedy these known problems, or that the process of change had been based on a thorough assessment of how the Social Fund could be made more effective.¹⁶ Alan Barton of Citizens Advice told us:

We accept that there are problems with the Social Fund at the moment and welcome a thorough review involving all the stakeholders, but that is not what has happened. We have just been told that this arrangement with local authorities is the way ahead, and it is very unclear what local authorities will do following the handover.¹⁷

Family Action argued that the Call for Evidence did not make a clear business case

for why more localised discretion would improve the accessibility of the Social Fund from the service user’s point of view, or its costs and sustainability from the taxpayer’s. Our view is that the present review is being driven by a desire to transfer the costs of administering the Social Fund to local government. This is what is hidden between the lines of strengthening a commitment to localism.¹⁸

The National Housing Federation stated its belief that:

localisation is not the most effective way to improve the way the system operates. A localised service is likely to be less efficient in terms of running costs and less consistent in terms of standards of provision. Localisation of the discretionary Social Fund is likely to result in both fragmented and inadequate provision for vulnerable

12 Ev 23–4; Ev w5, w7, w9, w10, w38, w39

13 Social Security Committee, Third Report of Session 2000–01, *The Social Fund*, HC 232; Work & Pensions Committee, Sixth Report of Session 2006–07, *The Social Fund*, HC 464; Public Accounts Committee, Twelfth Report of Session 2005–06, *Helping those in financial hardship: the running of the Social Fund*, HC 601

14 Ev w11

15 DWP, *Social Fund Reform: debt, credit and low-income households*, March 2010

16 Ev w8, w37; Ev 54

17 Q 2

18 Ev w38

individuals and families, and great additional demands being placed on local authority resources that cannot be adequately met.¹⁹

11. Witnesses from the voluntary sector were unconvinced by the argument that a localised Social Fund scheme would benefit from greater flexibility and responsiveness to local circumstances. The main concern was a proliferation of different criteria and processes, leading to a ‘postcode lottery’ for those seeking assistance.²⁰ The Government’s intention to reduce reporting burdens on local authorities, to remove ring-fences around funding, and to allow councils to respond to the distinct needs of their communities were seen to be in tension with the effective operation of fair, clear, accountable local schemes.²¹ With no requirements being put on local authorities as to which services they provide to which groups of people, Helen Williams told us that the National Housing Federation had “real concerns that historically those people who have been able to access support from the Social Fund will not be able to do so in future.”²² The Social Fund Commissioner commented that

With over 150 local authorities in England, there is a high risk that a scheme providing unbounded discretion in each of those areas could result in geographical inequities that do not correlate with local needs. I appreciate there is a policy intention to allow different areas to respond to the distinct needs of their particular communities, but in the absence of any guidelines or criteria that set parameters for local discretion, it will be difficult to achieve some broad consistency of purpose and approach. The relationship between local discretion and other local and national policy programmes needs to be clear.²³

12. Other witnesses were more optimistic about the improvements that could be achieved by localisation. Kerry Macdermott of the Institute of Revenues Rating and Valuation (IRRV) argued that lower tier and unitary authorities could join up the discretionary Social Fund with many other services and areas of policy, and “are very much pro-customer”.²⁴ Lynne Hutton, Chair of BenX, a group of local authorities with a particular interest in benefits reform, emphasised the advantages of local knowledge, accessibility and existing partnerships:

We have spent a lot of time and effort getting to know our demography and our caseload make-ups; we know what our citizens want and we know how to help them. We think we are best placed to help them locally. [...] People who apply for Crisis Loans need it now; they need money to get to an interview, to buy food, to get a cooker and a bed. I think that local authorities are ideally based to do that as an emergency function.²⁵

19 Ev 37

20 Ev w1, w2; Ev 24; Q 5

21 Ev w11, w12

22 Q 2

23 Ev w11

24 Q 25

25 Q 22

13. Nonetheless, local authorities were anxious about taking on the problems of the Social Fund as it operates at present, particularly if they do not receive sufficient support to deliver it. Kerry Macdermott described the Fund as being “in disrepair”; “we will deliver it but we do not want the poisoned chalice passed our way”.²⁶ Cllr Peter Fleming, representing the Local Government Association (LGA), argued that “unless the funding comes it will be no better than the situation we have at the moment. But we are best placed in localities to make sure the right people get the right funds at the right time”.²⁷

14. The Government’s response to the Call for Evidence describes CCGs and CLs as “essentially a social care package”, and the impact assessment for the Welfare Reform Bill suggested that assessments for Crisis Loans might be incorporated into social services functions.²⁸ There is some concern, however, about the suitability of social services as a conduit for this service.²⁹ Citizens Advice told us that a high proportion of those who access CCGs (including large numbers of disabled people and lone parents) do not have high enough needs to be social services clients. Alan Barton suggested that “people who are already in touch with social services for either children or adults might do quite well out of a system that is locally administered, but the rest will not.”³⁰

15. More generally, some argue that upper-tier authorities are not the best place for this new responsibility to sit.³¹ Kerry Macdermott of IRRV reasoned that district councils, having responsibility for housing and homelessness, have a more direct interest in offering a service that might make the difference to people being able to secure or remain in a home.³² Cllr Peter Fleming agreed that district authorities had more day-to-day, face-to-face contact with those most likely to need access to the Social Fund in its new form.³³

16. We acknowledge the concerns of those who fear that localisation of the discretionary Social Fund will result in a ‘postcode lottery’ of support, or that it will be a ‘poisoned chalice’ for local authorities. However, we consider that councils’ local knowledge, broad responsibilities and experience of benefits administration put them in an ideal position to refine and deliver the successor schemes to Community Care Grants and Crisis Loans.

17. We urge the Department to reconsider, however, whether social services functions in upper-tier authorities are the most appropriate channel for this service, given that many current recipients of CCGs and CLs are not social services clients. The service should be delivered by teams that are able to make contact with the widest possible range of people who might need support, including through partnership with other organisations and other relevant local authority functions.

26 Q 23

27 Q 24

28 DWP, *Local support to replace Community Care Grants and Crisis Loans for living expenses in England: Government response to the call for evidence*, June 2011, para 56

29 Ev w13

30 Q 2

31 Q 5

32 Q 26

33 Q 26

Funding

18. The resources available to support localised schemes are a major concern of many organisations, on three counts: fears that the funds will be inadequate to meet legitimate demand, that they will be further diminished by the administration costs of localised schemes, and that they will prove vulnerable to pressures in local authority budgets more generally, in the absence of a ring fence.³⁴ Currently, CLs and CCGs cost £178 million annually. The Government has said that localisation “is not a cost-cutting measure and any new burdens on local authorities will be funded”.³⁵

19. Minister Steve Webb acknowledged that in the past there had been criticism of the way in which Social Fund funding had been allocated. He explained that, before the transition to local authority management, the DWP would be moving towards allocating funding on the basis of ‘legitimate demand’, in other words taking into account the numbers of applicants whose applications currently fail simply because there is not sufficient funding, rather than because they do not have a good case. By the time that the transfer to local authorities is made, therefore, they expect to make the allocations based on what has been spent on legitimate demand in the final quarter of 2012–13.³⁶ There are doubts, however, about how accurate such measurements of demand are likely to be. The Social Fund Commissioner commented that it will be very difficult to predict demand levels for any new localised support replacing CCGs and CLs: financial pressures on local government, third sector organisations and individuals, as well as proposed changes to health and social care, disability benefits, Housing Benefit and legal aid may all have an impact.³⁷ The Local Government Association has argued that localisation of the Social Fund “transfers significant financial risk to councils” because of the likelihood of higher demand.³⁸

20. The difficulty of predicting demand is not the only concern. Kirklees Council warned that “any scheme, regardless of how transparent or simple it might be in design, will bring with it an administrative burden.”³⁹ Ensuring that applicants have access to face-to-face support and access to some form of review system would be particularly expensive.⁴⁰ Cllr Peter Fleming, speaking on behalf of the LGA, told us that

If the Government are to fund it properly then we are willing to take on the management of the scheme. [...] There must be a clear link between the risk and the responsibility. You cannot just pass down the responsibility without the funding to carry it through.⁴¹

The Government has stated clearly that the administration cost of the localised Social Fund elements will be met separately to the allocations of funding.⁴² Mr Webb told us that the

34 Ev w4, w7, w9, w13, w17, w39; Ev 24

35 DWP, *Government response to the call for evidence*, para 60

36 Q 46

37 Ev w10

38 Communities and Local Government Committee, Third Report of Session 2010–12, *Localism*, HC 547, Ev 261

39 Ev w55

40 Ev 37

41 Q 28

42 Q 48

calculation of administration costs was still to be decided upon: “I cannot give you a figure, but our intention in good faith is to work out what we spend currently, to disentangle it and hand over that cash.”⁴³ He suggested, however, that the localised system may be cheaper overall to administer, because the Government was not expecting each council to replicate in miniature the processes that currently operate at national level.⁴⁴

21. We welcome the Government’s assurances that the allocation of funds for disbursement will be calibrated against legitimate demand, and that administration costs will be separately and fully funded. However, we have doubts about how accurately demand in the last quarter of next year will predict demand in the longer term. We also caution against assumptions that a localised system will be cheaper to administer, at least in the short term. The level of resource given to councils must accurately reflect the costs of setting up and running new local schemes, rather than the cost of administering the discretionary Social Fund in its current form.

Accountability

22. The Minister also confirmed in oral evidence that local authorities will have freedom to decide what they do with the funds they receive: “It is not ring-fenced; they could spend it on other things.”⁴⁵ Helen Williams of the National Housing Federation told us,

we would be looking for some safeguards about the actual level of funding available for those groups and accountability of how that money is being spent locally [...] We are really concerned that, if local authorities do not have to account for the expenditure and there is no ring fence, it may go to plugging holes in other budgets.⁴⁶

Homeless Link, Shelter and Citizens Advice all cited cuts to Supporting People services in some parts of the country as evidence that unringfenced funds may be deployed to support statutory client groups instead of for their intended purpose.⁴⁷ Citizens Advice recalled that the vulnerability of unringfenced funds

was a point of considerable discussion at the Welfare Reform Bill Committee’s oral sessions in March. Committee members asked why witnesses believed that local authorities would not consider it a priority to support people in emergency need. This seems to us to show a lack of appreciation of just how difficult local authority decisions will be as they manage their greatly reduced spending allocations. We have no doubt that local authorities will indeed prioritise support for people in greatest need, but in practice, the definition of ‘greatest need’ is being narrowed and tightened in order to focus diminishing funds – as illustrated, for example, by trends in criteria for social care. [...] We are concerned that many people who are highly vulnerable but perhaps not the *most* vulnerable, will not be given support. The irony

43 Q 49

44 Q 49

45 Q 44

46 Qq 2, 3

47 Ev w2, w44; Ev 24, 34

is that very vulnerable people will quickly become the most vulnerable if they are not supported to avoid their situations becoming even worse.⁴⁸

The Social Fund Commissioner suggested that “a ring-fenced budget for an initial period would provide some transitional protection”.⁴⁹

23. The Minister indicated to us that the Government would principally rely on the ballot box as the means of holding local authorities to account for their use of the Social Fund monies:

Andrew Stunell [Parliamentary Under-Secretary of State, DCLG] and I have jointly met the LGA on two occasions, and we are talking through with them how much reporting they would want to do and how much they would feel was appropriate, but fundamentally we see accountability as being local [...]. we would expect local people would know the money had come down and the kinds of needs to be met and would challenge the local authority and hold it to account. We think that is the best mechanism for accountability.⁵⁰

The Government’s response to the Call for Evidence states that

We believe that setting out the purpose of the funding in a settlement letter from the Secretary of State for Work and Pensions will provide sufficient clarity of purpose for local authorities to act. This may be supplemented with a requirement to report on how the funding has been used.⁵¹

24. This would fall some way short of the accountability mechanisms suggested by some stakeholders. Family Action argued that:

Each local authority should be required to account for how the money is spent, and for a set of outcomes of that spending. Simultaneously, an annual review should be undertaken compiling national data on the local authority spending, in order to address differing levels and forms of provision in different areas of the country. This would help for two reasons. Firstly, it would allow comparison with current levels of provision under the existing Social Fund. Secondly, it would allow assessment of the extent to which localisation had created a postcode lottery of provision with some areas performing better than others.⁵²

Kerry Macdermott argued that, to guard against allegations of postcode lotteries, localisation of the Social Fund needs to be accompanied by “some form of regulatory framework, if it is only at a very high level”.⁵³ Lynne Hutton agreed that some sort of parameters for consistency would be desirable.⁵⁴

48 Ev 24

49 Ev w12

50 Q 42

51 DWP, *Government response to the call for evidence*, para 136

52 Ev w38

53 Q 23

54 Qq 27, 28

25. The Government's decision not to ring-fence the funds that will be devolved for this purpose may carry some risks at a time of difficult financial circumstances for councils. Nonetheless, we accept that it is desirable that local authorities have autonomy to use the resource in innovative ways. However, we recommend that central government identifies clearly the amounts that are being allocated to local authorities, and collects information about their use, until the new arrangements have bedded in—we suggest a period of five years. This would provide some reassurance about the effectiveness of the new system in helping those in need, and provide clearer information to local voters about whether their local authority was choosing to spend less than the allocated amount.

3 Council Tax Benefit

The Government's proposals

26. Council Tax Benefit (CTB) is an income-related social security benefit designed to help people on low incomes pay their council tax. It is paid whether or not the claimant is available for, or in, full-time paid work, and it can be claimed by owner-occupiers. Currently, local authorities administer CTB in accordance with national criteria set by DWP, and are fully reimbursed by the Department for the rebates made. Spending on CTB in 2009/10 amounted to some 2.5% of total spending on benefits, tax credits and pensions; however, only the state pension and universal benefits like Child Benefit have more recipients. At May 2011 there were 5.85 million recipients of Council Tax Benefit in England, Wales and Scotland, of whom 62% were aged under 65.⁵⁵

27. Clause 34 of the Welfare Reform Bill provides for the abolition of Council Tax Benefit among other benefits. While others will be replaced by the Universal Credit, Council Tax Benefit will not. Instead the Government intends to devolve responsibility for assessment and payment of council tax support to local authorities, with responsibility for this policy area being passed from DWP to DCLG and a duty to be placed on local authorities to run such a scheme.⁵⁶ The White Paper argued that

The introduction of Universal Credit provides the opportunity to sweep away some of the centrally-imposed complexities of Council Tax Benefit that make it difficult for people to understand. [...] Local authorities will be better able to provide a joined-up system of support for people on low incomes that dovetails with the various rebate and discount schemes which are already part of the Council Tax regime, while at the same time protecting vulnerable groups.⁵⁷

The Minister for Housing and Local Government, Rt Hon Grant Shapps MP, further explained the Government's rationale for the change:

To local authorities I think the big advantage is that they will have a stake for the first time in what people who live in those homes are doing; in other words, an incentive to help get the person back into work, and so on. [...] For individuals], there is a real problem where, if you are living in a situation where no-one appears to care about your situation, it makes it harder to get back into a job. Clearly, having that local knowledge will be helpful. The other point to make is that council tax is a local tax set by the local authority. Somewhat bizarrely, the benefit against that tax comes straight from central government, wham, into the middle of it all. Of course, it makes perfect sense to tie together these two ends so that the local authority has a proper picture and control over it, and can assist people finding their way back into work.⁵⁸

55 DWP, *Quarterly Statistical Summary*, 17 August 2011

56 DCLG, *Localising support for council tax in England: consultation*, August 2011, para 5.2

57 DWP, *Universal Credit: welfare that works*, para 36

58 Qq 51–2

The localisation proposals are part of the Local Government Resource Review, which is also exploring local retention of business rates and integrated ‘community’ budgets. A local government finance bill will be introduced later in this parliamentary session to establish a framework for local council tax support schemes.⁵⁹

28. A consultation on the proposals opened in August, and will close in October 2011. The consultation document proposes that billing authorities—unitary and lower-tier authorities who currently administer the Council Tax Benefit regime on behalf of the DWP—should lead on the design and administration of localised council tax support schemes.⁶⁰ Collaboration between local authorities is suggested and encouraged as a potential way to “help to reduce administrative costs, manage financial risks by enabling local authorities to manage funding over a broader area, and ensure local schemes support wider local priorities for growth”.⁶¹ The consultation acknowledges that some people may end up paying more council tax than they currently do, “if your local authority does not think that you are among those who need most support”.⁶²

The limitations on localisation

29. It will not be possible, under the new regime, for a local authority simply to opt out of providing some form of council tax support entirely.⁶³ Beyond that basic level, however, there is sharp disagreement about how much discretion local authorities should have in designing their own schemes. Citizens Advice stated that it could see no advantages to localisation of Council Tax Benefit,

However, if [it] must be localised, we believe that local authorities should be bound by clear and rigorous rules of accountability, where spending is justified in terms of wider principles such as reducing child poverty, preventing homelessness, promoting equality, and ensuring that everyone has the basic needs, as well as due consideration of further costs to government if people are not supported to manage their immediate needs. [...] We believe that these proposals will create an intractable problem by localising provision on the basis of minimal control, as it is hard to see how consistent standards can be maintained without direction from central government.⁶⁴

Birmingham City Council set out the contrary case:

If the scheme is to be localised it must in our view be with the minimum amount of central regulation. It would seem illogical to be otherwise, [to] localise scheme design and delivery but impose a large degree of central directives.⁶⁵

59 DCLG, *Localising support for council tax in England: consultation*, para 1.5

60 *Ibid.*, para 7.1

61 *Ibid.*, para 7.2

62 *Ibid.*, para 4.5

63 Q 58

64 Ev 23

65 Ev w47

Kerry Macdermott of IRRV predicted that consortia would emerge among English local authorities for the administration of council tax support, so that differences between schemes would in the end be quite peripheral.⁶⁶ He drew a parallel with the local administration of discretionary housing payments: “That comes with a very high-level policy statement of expectations from the DWP, which gives the parameters for the award of discretionary housing payments. I think you will find that that works very well in local government. We would be realistic, pragmatic and responsible”.⁶⁷

30. Grant Shapps told us that “there certainly will be some central direction”, although he was unable to give any details of what form this might take, because “the exact scheme design on which you are pressing me needs to come out of the consultation rather than the other way round.”⁶⁸ The consultation states that, while “Government wants to give local authorities as much freedom as possible, within certain parameters, to design their schemes”,

there may be some elements of administration where it may be desirable to: provide for a degree of consistency between authorities to support data sharing and minimise the complexity for tax payers moving between areas; [and] remove disincentives to entering into temporary work by avoiding some of the potential administrative complexity of claiming local support for council tax.⁶⁹

The consultation invites views on the desirable minimal level of consistency between schemes, though does state that the Government is minded to give local authorities freedom to set their own income and capital thresholds for working-age claimants.⁷⁰

31. It is already clear, however, that local authorities will be operating under some substantial constraints when designing their schemes, because of three policy aims which will take precedence: protection of work incentives, protection of pensioners from any reduction in support, and reductions of 10% in the overall budget for council tax support.

32. In its inquiry into the Universal Credit, the Work and Pensions Committee encountered a substantial body of opinion that a separate system of support for council tax is inimical to the aim of welfare simplification through the Universal Credit, and, if genuinely ‘local’, threatens to undermine the work incentives that are a central plank of the Government’s welfare reforms.⁷¹ The rate at which benefit is withdrawn as a claimant starts to earn or increases their earnings is known as the ‘taper’. Currently different benefits have different taper rates, but the Government’s intention is for Universal Credit to have a single taper of 65%—meaning that, as earnings rise, the Universal Credit is to be withdrawn at a constant rate of 65 pence for each pound of net earnings. This will produce a Marginal Deduction Rate (the impact on income of the combined effect of benefits being withdrawn and tax) significantly lower than the current maximum. Together with ‘earnings

66 Q 29

67 Q 29

68 Q 61

69 DCLG, *Localising support for council tax in England: consultation*, para 9.4

70 *Ibid.*, para 9.8

71 Work & Pensions Committee, *White Paper on Universal Credit: oral and written evidence*, March 2011, HC 743, Ev 48, 85, 106

disregards', this is intended to ensure a predictable and consistent financial gain for people coming off benefits and starting work.

33. Minister Grant Shapps told us that DCLG is “100% signed up to the principle that work should always pay. [...] a smooth, tapered Universal Credit is something of which DCLG is every bit as supportive as DWP”.⁷² We heard scepticism from some witnesses that both policies could be achieved. Dr Peter Kenway told us that policy development on Council Tax Benefit betrayed “a fundamental clash of objectives”:

Are we trying to save money, which is the Treasury objective; are we trying to localise, which I think is the objective of the Department for Communities and Local Government; or are we trying to make sure that work pays and welfare reform works, which is a DWP objective? I do not think they can square all three.⁷³

34. Some have argued that the solution is simply to incorporate support for council tax into the Universal Credit. The BenX Review Group countered that, were this to be done, either a complex mechanism for paying the benefit amount directly to local authorities would need to be put in place, or, if paid direct to the customer, local authorities would be put in the position of having to collect 100% of council tax, which would likely lead to soaring arrears.⁷⁴ Any difficulties in collecting council tax would result in “disastrous” financial pressures on local authorities.⁷⁵

35. The analyses of marginal deduction rates in the White Paper assume that individuals are receiving help with council tax, which may not always be the case under varying criteria of local schemes.⁷⁶ Dr Peter Kenway argued that, if localised council tax support schemes have to preserve the 65% withdrawal rate of Universal Credit, this would “require in a sense the thing to be designed by DWP and [...] designed top down.”⁷⁷ The consultation document states that:

to help local authorities to develop schemes which support the work incentives that Universal Credit is intended to deliver, the Government invites views on proposed national guidelines, guidance and model schemes for the design of local support schemes so that the two systems work effectively together to provide strong, transparent work incentives for individuals.⁷⁸

However, the document invites views rather than giving details about what the national framework might be that would ensure this.

36. The Government has committed to maintaining the current level of council tax support given to pensioners. The consultation document proposes that “the criteria, allowances and awards for council tax support to pensioners which local authorities will need to provide

72 Q 93

73 Q 15

74 Ev 21

75 Ev 33; Q 29

76 *Welfare Reform Bill: Universal Credit provisions*, Research Paper 11/24, House of Commons Library, March 2011, p. 40

77 Q 12

78 DCLG, *Localising support for council tax in England: consultation*, para 5.10

for in their local schemes” will be prescribed nationally.⁷⁹ This means that councils will essentially only be designing schemes for working-age claimants, although support for both working-age and pensioner claimants will be paid locally. The document suggests that councils might consider guarantees of protection to other vulnerable groups in addition to pensioners, and asks for views on the best way to balance protection for such groups with local authority flexibility.⁸⁰

37. The announcement in the 2010 Spending Review that support for council tax would be localised was accompanied by an announcement that the Government intended to reduce spending on Council Tax Benefit by 10%.⁸¹ Local authorities will have a reduced grant to pay for CTB, and make their own decisions to determine eligibility. The reduction in spending is projected to save £490m each year from 2013–14.⁸² The prospect of this reduction has caused considerable concern, both in terms of its impact on claimants and potential claimants, and the consequences for local authority finances more generally.⁸³ London Councils stated that

the cuts to CTB funding will come into force at a time when overall funding available to local authorities is vastly reduced. [...] Against this backdrop, CTB paid in England has been steadily increasing in all regions over the 13 years up to 2009–10. This data is supported by the overall increase in the numbers of CTB claimants receiving 100% benefit. [...] The 10% funding reduction has clear implications for the amount of CTB paid in local areas—it is likely that some CTB claimants (existing and new) will see a reduction in the amount of benefit that they are paid.⁸⁴

Cllr Peter Fleming told us that

if you look at the people who receive Council Tax Benefit at the moment and take out of the process those who get 100% Council Tax Benefit and older people, you are left with only 9% of people not within those two groups. [...] If you are then talking about a 10% reduction in the total, those 9% will carry an awfully large weight of expectation of picking up that cut in CTB funding.⁸⁵

79 Ibid.

80 Ibid., para 5.6, question 5b

81 HM Treasury, *Spending Review 2010*, Cm 7942, October 2010, para 2.42

82 Ibid.

83 Ev w6; Ev 21; Ev w48

84 Ev w41

85 Q 29

Table 1

Approximate impact of 10% cut to CTB if over 65s protected

This simplified illustration is based on the average of monthly 2010–11 figures and assumes no changes to recipient numbers:

Annual CTB bill of £4.817 billion, with 5.8 million recipients:

- CTB recipients over 65: 2.2 million at average claim £835.33 per year = £1.857 billion
- CTB recipients under 65: 3.6 million at average claim £825.33 per year = £2.960 billion

If total CTB bill to be cut by 10% to £4.335 billion:

- CTB recipients over 65: 2.2 million at average claim £835.33 per year = £1.857 billion
- CTB recipients under 65: 3.6 million at average claim £691.02 per year = £2.478 billion

Non-pensioners would therefore face an average cut of 16% in their council tax support. Protection for other vulnerable groups, for example those who currently receive 100% Council Tax Benefit, would exacerbate this effect.

Sources: House of Commons Scrutiny Unit based on DWP figures at http://research.dwp.gov.uk/las/dlasd1/hb_ctb/hbctb_release_jul11.xls

38. The consultancy Navigant has commented that the point at which this reduction will take effect—2013-14—is the point in the Spending Review cycle at which local authorities had been expecting some respite from overall budget cuts. Navigant argued that, rather than the average council grant reductions of 0.8% for 2013-14 already announced, the Council Tax Benefit changes could result in average reductions in funding for councils of 2.8% and because the benefit is means-tested, more deprived parts of the country would be likely to be the most affected.⁸⁶ The New Policy Institute estimated that “the most affected [would lose] more than four times as much per dwelling as the least affected”—figures which Grant Shapps told us assumes a uniform 10% cut across all authorities, which may not be the case.⁸⁷ Local authorities could not simply pass on the reduction to claimants without risking increases in council tax arrears, and Alan Barton of Citizens Advice commented that if local authorities decided that all residents needed to pay *some* council tax, questions would arise about the practicality of collecting many very small amounts.⁸⁸

39. Kirklees Council summarised what it saw as the combined impact all of these constraints would have on its development of a local council tax support scheme:

Regardless of any decision the authority makes about eligibility criteria, a sum equivalent to that 10% must be collected to preserve the revenue stream. That 10% amounts to £3.5 million in this borough and at the lowest council tax payable would amount to a sum of £70 per year. If certain groups (for example pensioners) are protected from any increased liability arising out of localisation then the burden of the 10% cannot be evenly spread. If the intention is that the additional burden becomes part of the incentive to find work, then the inference is that those not in work will shoulder the burden. If we were to assume that the burden for those out of

86 ‘£500m black hole looms over 2013 benefit change’, *Municipal Journal*, 2 June 2011

87 Dan Paskins, *Council Tax Benefit: the effect of a 10% cut*, New Policy Institute 2010, p.5; Q 76; Ev 40

88 Qq 9, 30, 32

work will approach 20% because of the uneven spread, the risks identified around collection and impact on the revenue stream will be amplified. Council tax is not as progressive as income tax and shifting the cost of welfare benefits on to council taxpayers will increase this. Without further information it is very difficult to see how a localised scheme might operate any differently to the current system of support. Means testing of additional financial support appears to be the only option. If the system operates as a means test then it is conceivable that local decisions about eligibility criteria could operate to undermine the intent of Universal Credit. That fear might be unfounded if local authorities are prevented from increasing the burden for those starting work. In summary it would appear that the 10% saving could increase the burden on those least able to pay and in so doing could compromise local authority revenue streams.⁸⁹

40. The Government's intention to reduce the overall budget for Council Tax Benefit by 10% while preserving work incentives and protecting pensioners from increased council tax bills gives local authorities very little room for manoeuvre in designing their own council tax support schemes. It seems almost inevitable that the impact of the 10% reduction will fall disproportionately on some claimants, and is more likely to be felt in more deprived parts of the country, unless local authorities decide to dip into other funds.

41. The Government has a different view of this issue. Asked whether he expected local authorities to pass on the 10% reduction to claimants, or to dip into other budgets to protect support for those claiming at the moment, Grant Shapps argued that

that is old-school thinking in a sense, because it says that a local authority has no control over what happens in its authority boundaries, what economic activity is like, whether there is growth in the area, whether those business rates are kept, and the New Homes Bonus and the rest of it. [...] What we propose here is a way of achieving a 10% reduction and, at the same time, through giving local authorities a stake in the economic activity, and therefore in the welfare of their citizens, the opportunity to reduce that bill, not by unfairly not paying people who are vulnerable and need it—the White Paper makes very clear that they will be protected—but ensuring that there is a definite interest in starting up that new industrial estate, business park and getting economic activity going so there are jobs [...] if somebody is in work they will not be receiving the [CT] benefit because they will not need to.⁹⁰ [...] The culture of 'Let them rot in the houses while we pay them benefit' must come to an end. We have to do this more intelligently and involve the local authorities in the economic activity and success of their areas. Bluntly, I do not think that is worth 10%; it is actually worth a lot more to local authorities, because suddenly they get something back for making sure they are looking after their residents.⁹¹

42. The 10% saving would, therefore, come from "better management, administration and economic growth".⁹² Steve Webb added that the DWP's Work Programme will be targeted

89 Ev w55

90 Q 62-3

91 Q 65

92 Q 68

at the most deprived areas; “Every person that the Work Programme gets back to work will be less expenditure that the local authority needs to make on Council Tax Benefit.”⁹³ Mr Shapps stated that, at present, any local authorities that are trying to create jobs, wealth and enterprise in their areas “are almost just doing that through the goodness of their own hearts”.⁹⁴ It seems to us unfair, as well as dismissive of electoral accountability, to categorise local authorities as uninterested in economic growth unless they see pay-offs in their own balance sheet.

43. We agree that it is desirable for local authorities to be able to—in the Minister’s phrase—“control their destiny”, but the Government should not pretend that control over diminished resources, within centrally-imposed constraints, is unproblematic. Nor can it be considered a great advance for the policy of localism. The proposals for the localisation of council tax support seem to us to provide an illusion of delegation with a minimum of real discretion, virtually guaranteeing that the funds available to support working-age unemployed people will be squeezed.

44. The Government believes the answer to this criticism is economic growth, incentivised by local authorities having to find a 10% saving and wanting to achieve still greater savings. **We have seen little evidence to support the hope that new and better-paying jobs for individuals, immediately sufficient to off-set the 10% reduction in the benefit budget, will inevitably follow from these incentives; the means of economic growth are never solely in the gift of individual local authorities. We have commented in a previous report that councils would have welcomed more involvement in the development of the Work Programme to improve their capacity to tackle worklessness. It is not at all clear that the supposed incentives of the new council tax support system will make local authorities feel that they are partners with central government in the achievement of economic development.**

Financial risk and management

45. While the Government’s intention to achieve 10% savings relies at least to some extent on reductions in the numbers of claimants, other witnesses were concerned about what would happen should there be an *increase* either in the numbers eligible, or the numbers of eligible people who make claims.⁹⁵ CTB has the lowest level of take-up of any means-tested benefit.⁹⁶ Council Tax Benefit take-up for 2008–09 was in the range 63% to 70%; the number of people estimated to be entitled to but not claiming Council Tax Benefit was between 2.13 and 2.93 million people. The take-up rate is substantially lower among pensioners than non-pensioners.⁹⁷ Cllr Peter Fleming noted that the funding cut could depress efforts to encourage eligible non-claimants, particularly pensioners, to claim: “How much will we be able to encourage them with less money to go round? We can reduce the amount on admin, if it is localised; we can make that money go further, but you cannot

93 Q 69

94 Q 68

95 Q 31

96 Communities & Local Government Committee, Eighth Report of Session 2006–07, *Local Government Finance: Council Tax Benefit*, HC 718-I, para 8

97 DWP, Statistical First Release, *Income-related benefits: estimates of take-up in 2008–09*, 10 June 2010

start cutting the cash already.”⁹⁸ It is not known whether the budgets passed on to local authorities will take account of current under-claiming.⁹⁹

46. Council Tax Benefit is currently demand-led, the cost being met by DWP out of Annually Managed Expenditure, the source for expenditure considered volatile and therefore not subject to firm multi-year limits. Localised schemes will instead involve an unringfenced, fixed grant paid to local authorities from DCLG Departmental Expenditure Limits. London Councils explained the challenges it expected local authorities to face in the financial management of local schemes as a result of the fixed and reduced funding:

Should CTB be fully localised, it is unclear how an authority would meet growth in its CTB expenditure. Current regulations would prevent local authorities from borrowing to meet its spending requirements and reduced funding levels will limit the capacity for local authorities to respond to growth through its own resources. Any response by the local authority to do so could have a significant impact on frontline services or council tax levels. The ability of a local authority to manage a demand based benefit from a fixed (and smaller) cash funding pot will be a significant challenge going forward. London Councils officers would suggest that the localisation of Council Tax Benefits could represent a significant financial risk to local authorities should there be no recourse to a more flexible and buoyant funding source.¹⁰⁰

47. The consultation states that local authorities themselves will need to plan to manage financial risks locally, including contingency arrangements to provide for increased take-up or demand or difficulties with collection. DCLG does not wish schemes to be changed or withdrawn part way through a billing year, or support to be rationed. Collaboration with major precepting authorities (for example, by sharing any shortfall in council tax revenue) is suggested as the default way of managing such risks.¹⁰¹ Steve Webb told us that

in designing the system the local authority will have to make a realistic assessment of take-up. If it can design a simpler system it will have to allow for the fact that take-up will be higher. That might mean it narrows the scope of what it does but spends that money better, which is the goal of the exercise.¹⁰²

Pressed on whether achieving better take-up among pensioners without disadvantage to existing claimants would entail councils using funding from other budgets, Mr Webb told us that councils “will decide locally what their priorities are”.¹⁰³

48. We are concerned about the financial risk to local authorities from assuming responsibility, within a fixed budget, for a means-tested benefit for which demand could increase as well as decrease. Collaboration between councils may share but not remove the risk, at a time when most council budgets will already be stretched to their

98 Q 32

99 Q 9

100 Ev w42

101 DCLG, *Localising support for council tax in England: consultation*, para 8.7

102 Q 72

103 Q 73

limit. We recommend that the Government provide some means to access flexible funding to ensure that increased take-up does not result in local authorities either rationing support or raiding other budgets in-year to fulfil the terms of their council tax support scheme. Furthermore, a fixed grant will disincentivise efforts by local authorities to improve take-up among those groups who at present under-claim Council Tax Benefit.

The timescale and timing of change

49. The consultation paper sets out the timetable for implementing change. The consultation closes on 14 October 2011, with the Government's response to be published in autumn/winter 2011–12. A local government finance bill is to be introduced, also in autumn/winter, which the Government expects it to be passed in summer 2012. Local schemes are to be in operation from spring 2013.¹⁰⁴ The timescale of change is the aspect of the reforms that attracted perhaps the most widespread criticism in the submissions to our inquiry. There has been frustration about the long time lag between the initial announcement about localisation in the Spending Review in October 2010 and the publication of the consultation document.¹⁰⁵

50. Age UK expressed disquiet that the Welfare Reform Bill, which would abolish Council Tax Benefit (and the discretionary Social Fund), was introduced before any detailed proposals for the replacement schemes had been worked out.¹⁰⁶ The New Policy Institute said that it was “rash” to introduce the Bill “before a plausible replacement had been identified”, and that

The delay in producing a consultation document suggests that the seriousness of the situation has still not been properly grasped. The replacement of Council Tax Benefit is not some minor procedure for the out-patients department of welfare reform but a major piece of surgery. We think the operation should just be cancelled.¹⁰⁷

51. Birmingham City Council set out its concerns about the number of tasks that need to be completed for an April 2013 launch:

the design of the local scheme [...] will need to be carefully modelled against both current and predicted expenditure. [...] Proposals will require in-depth impact assessment both for risks and equalities and a significant level of consultation both with elected members and with citizens. Having overcome difficulties in this area there will be work to adapt systems; determine where the work is to be dealt with; training and information to staff; communications with stakeholders and public; and many other tasks. Containing this within an ever-reducing resource will be impossible in our view.¹⁰⁸

104 DCLG, *Localising support for council tax in England: consultation*, p. 47

105 Qq 15, 17

106 Ev w16

107 Ev 28

108 Ev w47

Local authorities also have in mind the need to design specifications for, tender for and thoroughly test new IT systems to support local schemes. Given the limited time available for decisions to be taken, Kirklees Council suggested that many local authorities would purchase a ready-made scheme with associated software, or pool resources with a number of other local authorities, either of which approaches could negate the advantages of local tailoring.¹⁰⁹ London Councils said that April 2013 was “a very challenging target” for the introduction of new council tax support schemes.¹¹⁰ COSLA argued that “the timelines are so tight as to be unworkable”,¹¹¹ and Kirklees concluded that “the localisation of CTB support by April 2013 is unrealistic. [...] it would appear wholly unachievable without significant risk across the sector”.¹¹²

52. Any councils hoping to get a head start on designing their schemes may have been left disappointed by the consultation document, which mostly invites views rather than setting out more details of the proposal. Councils now know that there will be a ‘national framework’ to protect the work incentives of the Universal Credit, and national criteria for support to pensioners, but they do not know what these will be. The consultation offers no firm information about the basis on which grants will be allocated to councils, promising a separate technical consultation on this.¹¹³ Collaboration between local authorities is encouraged, such as a county council or a joint body leading on the design of a single scheme in a given area, arrangements which would require specific legal provisions.¹¹⁴ Collaborative risk-sharing arrangements also need to be worked out. This will be a time-consuming process.

53. For the IRRV, the question of whether a new system could be delivered to the timescale envisaged was dependent on the resources that would be made available to help it happen.¹¹⁵ London Councils pointed out that the administration costs to local authorities of the present Council Tax Benefit regime are combined with the costs of administering Housing Benefit (£370 million across England). The consequent economies of scale will not be possible under the new framework, when housing costs support is incorporated into the Universal Credit. No information has yet been published about how local authorities will receive funding for the costs of implementing and administering localised council tax support.¹¹⁶ The consultation states only that “detailed work will be needed to determine the amount of funding for the administration of local schemes”, and makes the commitment that “the Government does not intend the administration of local schemes to put pressure on local government finances.”¹¹⁷

54. The wisdom of introducing several major changes in a short span of time—the introduction of Universal Credit, changes to the present Housing Benefit regime, reduced

109 Ev w55

110 Ev w42

111 Ev w50

112 Ev w57

113 DCLG, *Localising support for council tax in England: consultation*, para 11.8

114 *Ibid.*, paras 7.7, 7.14

115 Q 34

116 Ev w42

117 DCLG, *Localising support for council tax in England: consultation*, para 12.3–4

local authority budgets, the 10% cut in CTB costs and localisation of both council tax support and the discretionary Social Fund—was questioned by some of our witnesses.¹¹⁸ There is widespread awareness of the fact that new IT and administration systems could take some time to bed in, and that failures or delays in any of these systems could leave some households in a very precarious position.¹¹⁹ The BenX Review Group proposed that Housing Benefit and Council Tax Benefit administration could be left with local authorities until Universal Credit (incorporating the other relevant benefits) and real-time integration of earnings with HMRC is well established.¹²⁰

55. We asked Grant Shapps whether, if the consultation throws up concerns about the timescale for implementation, it might be put back. He responded: “We need to follow the evidence; we need to listen to what people are saying to us about implementation. We need it to work. [...] Let’s find out what is said through the consultation.”¹²¹ However, while the consultation document invites views on the Government’s ideal of a one-off transition rather than a staged transfer, and on what help the Government can give local authorities in the transition period, it does not explicitly invite views on whether the timescale is achievable.¹²²

56. Consultation at a stage in the process where responses are genuinely able to determine outcomes is of course to be welcomed. But it is regrettable that so much time was allowed to pass between the initial announcement about localisation of council tax support and the publication of a document that invites views but gives very little additional detail about the changes ahead. **By the time the Department’s response to the consultation is published, there will be little more than a year for local authorities to design and implement their council tax support schemes, which is an extremely challenging timeframe. Too much time has been lost. The Government needs to consider that, even if local authorities prove technically capable of establishing new schemes to the original timescale, it might not be wise to press ahead so hastily. Reform of Council Tax Benefit will affect a huge number of households, and it is vital that the systems used to deliver it are robust.**

57. Furthermore, it is unnecessarily risky to introduce a new system for council tax support at the same time as the introduction of Universal Credit and localisation of the discretionary Social Fund. Failure or delays in any part of the new welfare system could leave the most vulnerable households in a precarious position. **We recommend that the Government delay the introduction of the new council tax support system by a year or more, if consultation with local authorities indicates that this would reduce the risks inherent in introducing many complex changes concurrently.**

118 Q 9; Ev w56

119 Ev w40

120 Ev 22

121 Q 80

122 DCLG, *Localising support for council tax in England: consultation*, page 49

4 Housing Benefit

The Government's proposals

58. Housing Benefit is an income-related benefit designed to help people on low incomes pay for rented accommodation, whether in work or not. At May 2011 there were 4.88 million recipients of Housing Benefit in England, Wales and Scotland, of whom almost three-quarters were aged under 65.¹²³ The Government intends to replace housing assistance through Housing Benefit with an amount to help meet rent or mortgage costs included in Universal Credit for new claimants from 2013. Existing Housing Benefit customers would be migrated from Housing Benefit onto Universal Credit between 2013 and 2017.

Consequences of centralisation

59. The National Housing Federation (NHF) expressed concern about certain advantages of the current system being lost with the incorporation of Housing Benefit into Universal Credit. These included “administrative efficiencies”, such as landlords rather than tenants informing the local authority when rents are increased, effective joint working between landlords and administrators, council staff’s knowledge of the local housing market, and the ability to provide claimants with face-to-face meetings and advice.¹²⁴ Cllr Peter Fleming cited research carried out by the District Councils Network which indicated that on average, two-thirds of Housing Benefit claimants require some face-to-face interaction with council staff.¹²⁵ Lynne Hutton of BenX described improvements in service efficiency in local authority benefits services, the skills of their staff, and their caseloads which are small enough to allow staff to keep customers well informed about their application:

If suddenly you have a caseload of 4.9 million, for example, which is the current Housing Benefit caseload [nationally], how do you tell Mr Smith from Colchester what is happening to his claim when he comes into a local office wanting to know when he will get his rent paid?¹²⁶

NHF posed the questions, “Can a centralised benefits system remain knowledgeable about, and responsive to, local claimants? Who or what will replace the local expertise and presence of local authority Housing Benefit staff?”¹²⁷

60. Asked whether he was concerned that the centralisation of Housing Benefit would break an important link with local knowledge of housing markets, Steve Webb responded that “the arithmetic behind the figure [...] is determined locally and paid through a national mechanism. You are still using local knowledge of what is going on in the local market.”¹²⁸

123 DWP, Quarterly Statistical Summary, 17 August 2011

124 Ev 33; Ev w61; Qq 11, 20

125 Q 33

126 Q 33

127 Ev 33

128 Q 83

The need for face-to-face contact would, Mr Webb told us, be met by local Jobcentre Plus services.¹²⁹

61. The loss of local discretion may also be problematic. For example, the Government plans to reduce Housing Benefit for working-age tenants whose homes are deemed to be too large for their needs. NHF pointed out that in some parts of the country, families have been purposefully allocated properties that under the new criteria would be considered too large for them. This may have been in order to prevent a concentration of children on an estate, or because there is a severe shortage of suitable smaller accommodation, and some large properties may have been specifically adapted for residents with disabilities.¹³⁰ Local authorities will retain the ability to make discretionary housing payments, but it is not clear how this will dovetail with a centralised administration system.¹³¹

62. The centralisation of Housing Benefit will pose practical challenges for councils, whose benefits staff will be responsible for implementing major changes in the current Housing Benefit regime right up until the introduction of Universal Credit, when the function will transfer to DWP agencies. The IRRV stated that:

The move to UC will have profound implications for many council employees, council systems, contractual arrangements with private suppliers and support services within councils. No meaningful details as to transitional plans to move to the future delivery arrangements are contained in the Bill. This raises questions as to the extent to which staffing, systems, contractual and transition costs arising from the reform such as will be met.¹³²

63. The decision to take responsibility for Housing Benefit away from councils left our local authority witnesses puzzled. Cllr Peter Fleming told us that “in the current climate of localism I cannot see how any minister can talk about centralisation of a service that is working and delivering well locally for the people in our society who are the most needy”.¹³³ Kerry Macdermott argued that “When you look at our performance, it is exemplary; it is without equal compared with other public service issues”.¹³⁴ The Chartered Institute of Housing (CIH) stated that

The performance improvement achieved by local authorities in the last ten years has been so outstanding that it is now widely accepted that Housing Benefit, despite being the most complex of all benefits to administer, is now consistently the best performing service across the whole benefits system. It would be unwise to lose these skills and knowledge as we embark on the most radical restructuring of welfare for 60 years.¹³⁵

129 Q 57

130 Ev 36

131 Ev 36

132 Ev 30

133 Q 39

134 Q 37

135 Ev w60

CIH also pointed out that, for local authorities, taking on responsibility for assessment and administration of housing costs within the Universal Credit would present only a very manageable increase in caseload, compared to the extra 4.87 million customers DWP would have to deal with under a fully centralised UC.¹³⁶

64. CIH argued that continuity in administration would help to mitigate some of the risks inherent in delivering the very complex Universal Credit to a tight timescale. Maintaining local administration of the housing costs element of Universal Credit would, CIH argued, retain the advantages of localisation—local knowledge of both employment and housing, efficient systems, links with social care and Supporting People services, and a better chance of uncovering fraud—while realising the streamlining and work incentive goals of the Universal Credit. It would allow different elements of a UC claim to be assessed in parallel, cutting down the risk that payment of the whole amount would be delayed until the most complex element—likely to be the housing costs element—had been assessed. CIH argued that, as long as assessment of income according to common rules, and the excess income deduction was applied to the combined elements of the Universal Credit, there was no practical reason why every element of UC had to be delivered through a centralised administration.¹³⁷

65. The BenX Review Group expressed concerns about breaking the link between Housing Benefit and other local authority departments such as those responsible for local housing strategy, homelessness services, and relationships with housing providers.¹³⁸ These links could be particularly important if, as BenX speculated, changes to Housing Benefit entitlement result in a shortfall of suitable accommodation and greater call on homelessness services.¹³⁹ CIH was concerned that, in a fully centralised system, there would be little incentive for landlords to engage with their local authority, which would damage strategic partnership working.¹⁴⁰

66. Cllr Peter Fleming argued that it was problematic to take away Housing Benefit administration from local authorities at the same time as they gain responsibility for the Social Fund, as the former promotes interaction with a great many people in need of the latter.¹⁴¹ Dr Peter Kenway commented that “Council Tax Benefit works really well with Housing Benefit [...] That is being broken and it is a real worry”.¹⁴² The change could also be confusing for customers used to dealing with only one port of call on both of these benefits, one claim form and a combined award notice.¹⁴³ Lynne Hutton told us that the group of local authorities she represented

truly welcomes welfare reform. We know that there needs to be simplification, but we feel that with two very different agendas, one about localism and one about

136 Ev w64

137 Ev w61

138 Ev 21; see also Ev w61.

139 Ev 22

140 Ev w62

141 Q 26

142 Q 20

143 Ev 21

centralisation [...] it makes it extremely hard to administer it across the whole spectrum.¹⁴⁴

67. Asked whether the decisions to localise Council Tax Benefit and at the same time centralise Housing Benefit were in some way at odds, Grant Shapps told us:

I do not think that is right, because housing benefits are set nationally. There is no local discretion in the way this operates, whereas, as I just mentioned, the rate and level of council tax is set by the local authority; they have to manage the budget, so it makes sense for them to manage the benefit side of that as well, because it is supposed to be an entirely local tax.¹⁴⁵

However, the cost to individuals which Housing Benefit alleviates—rent levels—*does* vary across the country, and although rents may not be set by local authorities, councils have a very important stake in the impact that the interaction of Housing Benefit and housing costs has on their local housing market and outcomes for individuals. The Chartered Institute of Housing told us that “it is impossible to completely isolate the issue of housing affordability from other areas of local authority responsibility [...] Housing Benefit is a means by which local authorities can offer a more integrated approach to service delivery”.¹⁴⁶

68. We understand and are sympathetic to the policy intention behind the Universal Credit, but believe that in the case of support for housing costs, councils should retain administrative responsibility. It is incongruous for a Government committed to decentralisation to plan to remove from local authorities a function which they administer well, in which they have irreplaceable expertise, and which greatly affects other areas of local policy-making and service delivery such as housing strategy and homelessness. Furthermore, while Universal Credit aims to make the system simpler, in splitting responsibility for Council Tax Benefit and Housing Benefit it may introduce unnecessary complexity for customers.

Payment to tenants

69. The DWP intends to have a single payment of Universal Credit made to each household, but this will not necessarily therefore go to the person responsible for paying the rent. The National Housing Federation argued that these payment arrangements pose certain risks to individuals, to local authorities and to housing providers. If tenants can no longer choose to have Housing Benefit paid directly to landlords, Helen Williams argued, “the costs of rent arrears management and rent collection will go up significantly”. A pilot study by London and Quadrant Housing Trust suggested that if 90% of all their tenants received their Housing Benefit payments directly, the Trust’s management costs would go up by about £300,000 as staff spent time collecting arrears and helping tenants with budget management.¹⁴⁷ Lynne Hutton similarly predicted that more evictions and rising rates of

144 Q 27

145 Q 54

146 Ev w61

147 Q 20; see also Ev w54

homelessness would result.¹⁴⁸ Alan Barton told us that Citizens Advice was somewhat torn on this issue:

We favour people's autonomy, but in local housing allowance there is already a situation where rent is normally paid to the tenant and that people who find it rather difficult to organise their lives get into all kinds of difficulties. [...] I would hope that when Housing Benefit goes into Universal Credit there will be arrangements to enable the tenant to agree that their Housing Benefit is paid direct to their landlord.¹⁴⁹

70. NHF further argued that “the loss of direct payments would also be likely to have an impact on cash flow-based loan security valuations and will cut future borrowing capacity of housing associations at a time of constrained public spending.”¹⁵⁰ Helen Williams reported that the Council of Mortgage Lenders considered expectation of direct payment to be crucial in ensuring that housing associations have access to competitive loan rates. NHF analysis predicted that the increase in the cost of existing loans to housing associations could be in the region of £30 million.¹⁵¹ The Chartered Institute of Housing pointed out that even direct payment is not a guarantee of income for landlords if there are significant delays in the processing of claims, a scenario they believed to be likely if all elements of the Universal Credit are processed centrally.¹⁵²

71. Grant Shapps told us that the Government remained to some extent open-minded on the issue of direct payment:

We are not proposing to move without evidence and testing out these things, so we are very cautious in our approach to this. Final decisions have not been made in this area at all. [...] but if you believe in Universal Credit [...] you have to find a system of having a single payment in order to support that approach [...] but within an environment where we can reassure the landlords and social landlords that they will not lose out.¹⁵³

However, Mr Shapps was sceptical about the potential impact on the financing of new social housing: “I do not want to pour too much scorn on the NHF evidence to you, but barely a week goes past when it does not announce there will be some catastrophe”.¹⁵⁴ Steve Webb added that

the evidence is that the numbers of landlords renting to private tenants from whom they do not get direct payments is going up every year. What we are looking at with Universal Credit is whether there are ways, for example, of carving up the money

148 Q 38

149 Q 20

150 Ev 35

151 Q 11

152 Ev w63

153 Q 97

154 Q 98

people get, whether it is direct debit, jam jar accounts or whatever it is, so that the rent gets through as painlessly as possible while still treating people like adults.¹⁵⁵

72. We are concerned about the potential negative impact of direct payment arrangements for the Universal Credit on social landlords and the availability of finance for investment in the social housing sector. We are encouraged by the Minister's assurance that final decisions have not yet been made on this point, and recommend that a thorough assessment of the possible impact of direct payment on housing associations' ability to borrow be undertaken before arrangements are finalised.

5 Conclusion

73. In a previous report in this session, we welcomed the Government's commitment to localism and decentralisation.¹⁵⁶ We also commented that “some policy areas appear to have been granted an exemption from decentralisation”, noting in particular the apparent resistance of the Department for Work and Pensions to the devolution of power to local institutions. If welfare reform is regarded as a case study in localism, the results are decidedly mixed. There will be devolution of unringfenced funds for the delivery of new forms of Social Fund and Council Tax Benefit, but the latter within some very tight policy and financial constraints. On the other hand, Housing Benefit, a local authority function which is working well for customers and which helps councils to manage their other responsibilities, is to be centralised. Some witnesses have told us they believe there is much greater potential for local authorities to be involved in the administration of welfare reform, even under the banner of the Universal Credit.

74. The concerns we have heard about these changes from a variety of organisations emphasise some of the key lessons to be learned about decentralisation: devolved responsibilities must be adequately funded, they have the greatest potential when they enhance service integration, there must be sufficient time for planning, and careful attention must be paid to ways of ensuring that local authorities can be held to account for the outcomes they achieve for the most vulnerable.

75. A further lesson is that inconsistency is profoundly unhelpful—such as seeking to incentivise councils financially to create jobs while excluding them from the early development of the Work Programme. The issues raised in this inquiry illustrate the extent to which reforms to the welfare system can affect other areas of policy, in particular housing. We intend to return to this issue over the course of the Parliament, to assess whether DCLG and DWP policies are in harmony rather than working against each other.

76. We concluded in our report on Localism that “the views of those outside Government about how the policy should be defined have not obviously been taken into account”. We are encouraged by the assurances given by Ministers in this inquiry about consultation and open-mindedness on several points of policy, and we trust that local authorities will be given every opportunity to shape this process of localisation in welfare reform.

156 Communities and Local Government Committee, Third Report of Session 2010–12, *Localism*, HC 547

Conclusions and recommendations

Introduction

1. In addition to its formal response to our report, DCLG should take into account the chapter about council tax support when collating responses to its consultation on that subject. (Paragraph 4)

The discretionary Social Fund

2. We acknowledge the concerns of those who fear that localisation of the discretionary Social Fund will result in a ‘postcode lottery’ of support, or that it will be a ‘poisoned chalice’ for local authorities. However, we consider that councils’ local knowledge, broad responsibilities and experience of benefits administration put them in an ideal position to refine and deliver the successor schemes to Community Care Grants and Crisis Loans. (Paragraph 16)
3. We urge the Department to reconsider, however, whether social services functions in upper-tier authorities are the most appropriate channel for this service, given that many current recipients of CCGs and CLs are not social services clients. The service should be delivered by teams that are able to make contact with the widest possible range of people who might need support, including through partnership with other organisations and other relevant local authority functions. (Paragraph 17)
4. We welcome the Government’s assurances that the allocation of funds for disbursement will be calibrated against legitimate demand, and that administration costs will be separately and fully funded. However, we have doubts about how accurately demand in the last quarter of next year will predict demand in the longer term. We also caution against assumptions that a localised system will be cheaper to administer, at least in the short term. The level of resource given to councils must accurately reflect the costs of setting up and running new local schemes, rather than the cost of administering the discretionary Social Fund in its current form. (Paragraph 21)
5. The Government’s decision not to ring-fence the funds that will be devolved for this purpose may carry some risks at a time of difficult financial circumstances for councils. Nonetheless, we accept that it is desirable that local authorities have autonomy to use the resource in innovative ways. However, we recommend that central government identifies clearly the amounts that are being allocated to local authorities, and collects information about their use, until the new arrangements have bedded in—we suggest a period of five years. This would provide some reassurance about the effectiveness of the new system in helping those in need, and provide clearer information to local voters about whether their local authority was choosing to spend less than the allocated amount. (Paragraph 25)

Council Tax Benefit

6. We agree that it is desirable for local authorities to be able to—in the Minister’s phrase—“control their destiny”, but the Government should not pretend that control over diminished resources, within centrally-imposed constraints, is unproblematic. Nor can it be considered a great advance for the policy of localism. The proposals for the localisation of council tax support seem to us to provide an illusion of delegation with a minimum of real discretion, virtually guaranteeing that the funds available to support working-age unemployed people will be squeezed. (Paragraph 43)
7. We have seen little evidence to support the hope that new and better-paying jobs for individuals, immediately sufficient to off-set the 10% reduction in the benefit budget, will inevitably follow from these incentives; the means of economic growth are never solely in the gift of individual local authorities. We have commented in a previous report that councils would have welcomed more involvement in the development of the Work Programme to improve their capacity to tackle worklessness. It is not at all clear that the supposed incentives of the new council tax support system will make local authorities feel that they are partners with central government in the achievement of economic development. (Paragraph 44)
8. We are concerned about the financial risk to local authorities from assuming responsibility, within a fixed budget, for a means-tested benefit for which demand could increase as well as decrease. Collaboration between councils may share but not remove the risk, at a time when most council budgets will already be stretched to their limit. We recommend that the Government provide some means to access flexible funding to ensure that there is no possibility of local authorities either rationing support or raiding other budgets in-year to fulfil the terms of their council tax support scheme. Furthermore, a fixed grant will disincentivise efforts by local authorities to improve take-up among those groups who at present under-claim Council Tax Benefit. (Paragraph 48)
9. By the time the Department’s response to the consultation is published, there will be little more than a year for local authorities to design and implement their council tax support schemes, which is an extremely challenging timeframe. Too much time has been lost. The Government needs to consider that, even if local authorities prove technically capable of establishing new schemes to the original timescale, it might not be wise to press ahead so hastily. Reform of Council Tax Benefit will affect a huge number of households, and it is vital that the systems used to deliver it are robust. (Paragraph 56)
10. We recommend that the Government delay the introduction of the new council tax support system by a year or more, if consultation with local authorities indicates that this would reduce the risks inherent in introducing many complex changes concurrently. (Paragraph 57)

Housing Benefit

11. We understand and are sympathetic to the policy intention behind the Universal Credit, but believe that in the case of support for housing costs, councils should

retain administrative responsibility. It is incongruous for a Government committed to decentralisation to plan to remove from local authorities a function which they administer well, in which they have irreplaceable expertise, and which greatly affects other areas of local policy-making and service delivery such as housing strategy and homelessness. Furthermore, while Universal Credit aims to make the system simpler, in splitting responsibility for Council Tax Benefit and Housing Benefit it may introduce unnecessary complexity for customers. (Paragraph 68)

12. We are concerned about the potential negative impact of direct payment arrangements for the Universal Credit on social landlords and the availability of finance for investment in the social housing sector. We are encouraged by the Minister's assurance that final decisions have not yet been made on this point, and recommend that a thorough assessment of the possible impact of direct payment on housing associations' ability to borrow be undertaken before arrangements are finalised. (Paragraph 72)

Formal Minutes

Monday 12 September 2011

Members present:

Mr Clive Betts, in the Chair

Heidi Alexander
Bob Blackman

Simon Danczuk
Heather Wheeler

Draft Report (Localisation issues in welfare reform), proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 76 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 27 June, 4 July, 6 July 2011.)

[Adjourned till 4.00pm, Monday 10 October 2011

Witnesses

Wednesday 6 July 2011

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Cllr Peter Fleming , Sevenoaks District Council, Local Government Association, Lynne Hutton , Chair, BenX Review Group and Kerry Macdermott , National President, Institute of Revenues Rating and Valuation	Ev 7
Rt Hon Grant Shapps MP , Minister of State for Housing and Local Government, Department for Communities and Local Government and Steve Webb MP , Minister for Pensions, Department for Work and Pensions	Ev 11

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List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Special Report	Beyond Decent Homes: government response to the Committee's Fourth Report of Session 2009–10	HC 746
First Report	Local Authority Publications	HC 666 (HC 834)
Second Report	Abolition of Regional Spatial Strategies: a planning vacuum?	HC 517 (CM 8103)
Third Report	Localism	HC 547
Fourth Report	Audit and inspection of local authorities	HC 763

Oral evidence

Taken before the Communities and Local Government Committee

on Wednesday 6 July 2011

Members present:

Mr Clive Betts (Chair)

Heidi Alexander
Bob Blackman
Simon Danczuk
David Heyes

James Morris
Mark Pawsey
Steve Rotheram
Heather Wheeler

Examination of Witnesses

Witnesses: **Helen Williams**, Assistant Director—Neighbourhoods, National Housing Federation, **Alan Barton**, Social Policy Officer, Citizens Advice, and **Dr Peter Kenway**, New Policy Institute, gave evidence.

Q1 Chair: Good afternoon and welcome to all of you. Thank you for coming. This is a one-off evidence session that the Committee is holding into the localisation issues in welfare reform. Thank you for the evidence you have given us in writing and for coming this afternoon. For the sake of our records, would you say who you are and the organisations you represent?

Alan Barton: I am Alan Barton; I come from Citizens Advice, which is the national organisation for Citizens Advice Bureaux, which see about 2 million people every year over a whole range of issues.

Helen Williams: I am Helen Williams from the National Housing Federation, the membership body of housing associations.

Dr Kenway: I am Peter Kenway from the New Policy Institute, which is a small think-tank that has done more work on council tax than is good for us.

Q2 Chair: Thank you very much. The Government's policy as part of their localism agenda is to localise the discretionary Social Fund. What do you think will be the impact on those people who may be making use of the fund now, or potentially may want to make use of it in the future?

Alan Barton: We are pretty concerned about these proposals. Initially, we are concerned about the process by which all of this is being brought forward, in that the Government's call for evidence earlier in the year was only a four-page document, which said very little more than that two important parts of the discretionary Social Fund should be passed over to local authorities with money attached but that it would not be ring-fenced. We accept that there are problems with the Social Fund at the moment and welcome a thorough review involving all the stakeholders, but that is not what has happened. We have just been told that this arrangement with local authorities is the way ahead, and it is very unclear what local authorities will do following the handover.

In terms of the effect on individuals it is probably worth looking at community care grants and crisis loans for living expenses separately, because I think they raise different issues for the client. Community care grants exist to help vulnerable people to live an independent life and purchase items that they need in

order to do that. They might be coming out of residential accommodation, hospital or prison, and a big group of them are people who have had relationship breakdowns and have to move into new premises. 32% of the awards go to disabled people and 26% to lone parents.

The DWP have responded to the evidence all of us put in on the Social Fund. They have said they do not think they should carry on doing community care grants because "modern social security structures are no longer the right place to deliver what is essentially a social care package". We do not think it is a social care package. To a large extent, we are talking about items with which people furnish their properties, and a lot of disabled people will not be in touch with social care services because those are restricted to people with very high care needs. We think that most lone parents will not be in touch with the children's social services, because they are really concerned only with children at risk. I would guess that, in terms of the community care grants and the new schemes, people who are already in touch with social services for either children or adults might do quite well out of a system that is locally administered, but the rest will not.

To move on to crisis loans, this is a really big activity. Part of crisis loans will stay within Universal Credit. These are really advances on benefit called alignment payments. We are talking about crisis loans for living expenses. There were 1.6 million applications last year and 1.2 million awards of these. The average was about £56. The Government have made clear they do not expect local authorities to provide loans under the new arrangements. They talk about schemes for second-hand furniture, white goods, food banks and credit unions. We think that all of those activities are helpful to low-income people, but we see considerable numbers who are in desperate need of cash to buy food and top up their electricity or gas cards when they do not have any light or heating in the house. It seems that there will be no provision for them under the new arrangements. They will have to go to charities that are already under huge pressure; credit unions, which are very patchy and charge quite high interest rates; high-cost lenders—a survey that we did with our advisers showed that 67% of them had seen

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people go to high-cost lenders when they had not got money from the Social Fund—or I suppose they might just go hungry or cold.

Helen Williams: To add to that, the issue as we see it is not so much with the localisation of the Social Fund but the way it is being done and the fact it is being done without any suggestion of a ring fence being put on the money, or any requirements on local authorities as to which services they provide to which groups of people. Given the kind of wider local government expenditure pressures and what we have seen happen in initiatives such as Supporting People, we have real concerns that historically those people who have been able to access support from the Social Fund will not be able to do so in future. It has been incredibly important in terms of people moving out of hostels or long-stay institutions to settle into tenancies. Many of the people coming through temporary accommodation through the homelessness system really do not own furniture, or even the basics to set up homes, and they have been helped through the grant expenditure.

There could be some benefits to localisation if we get those bits right. Those are to do with the fact that it gives local authorities the opportunity to do things in a different way. We think there could be creative approaches. Local authorities could be smarter about working in partnership with local charities, like furniture recycle projects; they could also pool it with other budgets. It is important that we see who benefits from the expenditure, but localisation gives an opportunity for it to be done in a different way in the future. But we would be looking for some safeguards about the actual level of funding available for those groups and accountability of how that money is being spent locally.

Chair: There are two points there about whether there are requirements on local authorities and the ring fencing.

Q3 James Morris: I want to focus on the local authority role, picking up on the points you made, Helen. The Government's rationale from a policy point of view is that local authorities should be better placed to understand their locality, people's requirements and therefore tailor their provision accordingly. You started talking about some of the additional flexibilities that you thought local authorities should have. Assuming local authorities will be best placed to do this, do any other members of the panel have views about what flexibilities they should have? How does that work in relation to making sure there is accountability for how that money is spent locally?

Alan Barton: One of our concerns is that under the Government's original proposals there was really no suggestion of any accountability for the local authority beyond what it has to its voters anyway. In the response document the Government have given some indication that they might consider requiring some kind of report from local authorities about how they use those powers. We would welcome that, but it is far short of a promise in the document that they will do it. I think I will leave it there.

Helen Williams: We think that as a minimum local authorities should account for how the expenditure has

been made and who has benefited from it. They will have to be more sophisticated than saying they have given x pounds of grant, because you would expect the expenditure to pan out in different ways in the future. I mentioned the possibility of the direct purchase of furniture or working in partnership with furniture projects. But we are really concerned that, if local authorities do not have to account for the expenditure and there is no ring fence, it may go to plugging holes in other budgets.

Alan Barton: I had a senior moment and could not think of the next point I was going to make. We think that local authorities will need to find a way to make themselves accessible to people with whom they are not dealing at the moment. For example, I mentioned lone parents who had moved into new properties.

Q4 James Morris: I get the sense that you do not really trust local authorities to perform this role. There are so many caveats in what you are saying. You think, "Well, they may not do this; they may use it to plug other things." Is it that you do not have confidence in local authorities to be able to deliver this service? Is that the fundamental point?

Alan Barton: I would not put it quite like that. Part of the difficulty is that it is very unclear what they will do. Because there has been virtually no dialogue between all the stakeholders, which is how one would expect a Government department to develop a policy, we do not really know what is going to happen.

Q5 James Morris: But the fundamental point is that you seem to be saying you do not think local authorities should be discharging this function. Is that what I am hearing from you, Mr Barton?

Alan Barton: At the moment, if people meet the very tough eligibility criteria for community care grants and crisis loans, they have a right to apply for them, and if they are turned down for them there is a process of internal review by the Department for Work and Pensions and the Social Fund Commissioner. That process results in quite a lot of people who have been turned down first time round by DWP being awarded those payments. We are concerned that it is likely to be very much a postcode lottery under the proposed arrangements.

The other point is that the proposal in England is to pass this responsibility to upper-tier authorities in county areas and yet issues about homelessness are district responsibilities. Again, it is unclear how there will be any mechanism between the upper-tier and district authorities. It is just another worry we have about the lack of clarity.

Q6 Simon Danczuk: Helen, I know that you touched upon ring-fencing. The intention is not to ring-fence that money and give local authorities responsibility to do what they feel is best. You have concerns about it not being ring-fenced. Do you want to explore that a little more and give any examples of where ring fences have been removed, what the consequences are, and what your worst-case scenario is in terms of local authorities not having that money ring-fenced?

Helen Williams: Our concerns are in the face of the huge budget pressures that local authorities are under

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at the moment. We are looking at what has happened under Supporting People. Though the national settlement from central Government held up quite well in the spending review period, individual local authorities are making quite large cuts. We know of some local authorities, not all, that have made cuts of as much as 40% this year; others are looking at cuts of 60% this year. That was what happened when the ring fence came off Supporting People, combined with very high constraints on local authority expenditure. It seems it is perfectly okay for central Government to say to local government, "We're handing you this pot of money," as they do with other pots of money, "and we would expect it to be spent on this group of people for these kinds of services." It is not the "how" that is the problem—free local authorities to innovate in the type of service they provide in this area—but there should still be an expectation that that money is spent so people benefit as they do now.

Q7 Simon Danczuk: What is your worst fear?

Helen Williams: I think it would be impossible to predict. I would look to what has happened under Supporting People where money has been used to plug other budgets, but I would not like to hazard a guess about what would happen in this scenario.

Alan Barton: We share these concerns. Those who currently receive community care grants and crisis loans are some of the most vulnerable people in the community. I am sure some local authorities will do an extremely good job, but we would worry that some may feel they have more important things on which to spend their money.

Dr Kenway: To add one point, it is not just a question of what happens in year one or two; it is about the path we are on. Helen is absolutely right; one does not know where this will go, but we are set on a path that looks more like the localisation of poor relief and that creates all kinds of issues maybe five or even 10 years down the track. In particular, it is all to do with how budgets are set and, as areas change and some become more deprived, who picks up the tab. Today we are talking about a first step, which I think is difficult enough to argue about and be sure of the merits, but where it might lead is very worrying. I think the removal of ring-fencing just increases that worry. For me, what ring-fencing does is to say that in some sense that pot of money is a central Government decision and it is therefore clear. You can argue about whether it is right or wrong. If it gets lost, the profile is lost, and I think that becomes a bigger unknown several years away.

Q8 Bob Blackman: Perhaps we may move on to the issue of the localisation of council tax benefit. Obviously, potentially this could have implications for local authorities and claimants. Peter, you have given us some quite strong evidence of your views on this. Would you like to kick off on the implications both for local authorities and claimants?

Dr Kenway: If I may, I will answer that in two parts. First, I know you will have read all the evidence, but it is worth saying that this council tax benefit is not just a tail on the council tax dog. I think council tax benefit is about 22% overall. Before coming in here

we did some sums. At its lowest it is received by one in six households; around here at its highest one in three households are receiving council tax benefit. For many years we have had the sense that this is a second-order thing. It is not. Whatever one does, even if it does not affect them directly, it will worry an enormous number of people.

The other point, which might sound like a cop-out, is that in some ways we really cannot answer what the effect will be until we see the detail. With anything to do with benefits, taxation or means-testing, the detail is all-important. I think the approach of, in some sense, agreeing things in principle and then leaving it either to secondary legislation or, in this case, local authorities to come up with the detail is fundamentally flawed, because if you get the detail wrong you can completely undermine the principles that, if you like, Parliament thought it was agreeing. It is impossible to say. It could be quite benign; it could be very malign. A lot of simple ideas, for example about helping the most vulnerable, are unhelpful. This is a very slippery concept. Where is this heading? It is not just about what happens in year one but what happens to whatever lump of council tax benefit goes to local authorities. How will that change both over time but also in the short run if there is another downturn? CTB takes up the slack, and politically I think it has been enormously successful.

Q9 Bob Blackman: A lot of people would say that the elderly and pensioners feel a bit proud about claiming this benefit. Do you not think that by localising it local authorities will try to encourage those people to apply?

Dr Kenway: Non-take-up by pensioners is a very serious problem. Several years ago the Local Government Association made a proposal, which admittedly we part-authored, about how one might address that. But it is not obvious to me that localisation will do that. One must remember that while it delivers large sums of money—15 or 20 quid a week—to the poorest pensioners and those out of work, it is also very valuable in delivering small sums of money to pensioners who are not even conventionally in poverty. What it offers them is the essential security that if the council tax goes up by more than their pension, CTB takes up the slack. We are not talking about big sums of money now, but as a principle it delivers one of the great demands. This is why changing it is very difficult. Pensioners are quite well treated on paper by council tax benefit. There is terrible non-take-up by people usually with small amounts, but they are not necessarily those who on any criteria would be called the most vulnerable.

Helen Williams: We focus most of our analysis on housing benefit, but I suppose our main concerns about council tax is the fact that this is coming in at the same time as local authorities will have reduced budgets. Therefore, there is a concern about eligibility criteria and the fact this might pull in a different direction from the simplification agenda and the benefit of Universal Credit in terms of people being quite clear about what income they will have when they make the transition into work. It is a concern about the amount of funding that local authorities will

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have to deliver on this as much as how this will actually impact on people on low incomes, but most of our analysis has gone into the housing benefit issue.

Alan Barton: On pensioners, there is terrific under-claiming, particularly by owner-occupier pensioners. Probably less than half of those who are entitled claim. Of course, the budgets will be based on this under-claimed benefit and 10% is then knocked off that. We are worried that local authorities may find they need to make everyone pay some council tax depending on how they decide to share this out, including people on means-tested benefits whose only entitlement in future would be Universal Credit, which could raise all kinds of issues about collection of these small amounts of council tax.

There are two other things about which we are concerned. It seems quite a strange decision in that one of the virtues—and we do see it as a virtue of Universal Credit—is that applicants will have to deal with only one agency, whereas at the moment they deal with their local council and DWP. They will still have to deal with their local council and DWP under this proposal, so that seems to be a bit contrary to the main aim.

Q10 Bob Blackman: I think that one of the great benefits of the whole thing is that, if you are a vulnerable person filling in one set of forms and producing the data once to one agency, that must be a better way than being passed from pillar to post. Does that not fly in the face of it?

Alan Barton: All the time in bureaux we see people who are caught between the two. One agency has one set of information and the other has a different one. We are also concerned about how the Council Tax benefit proposals will interact with the taper in Universal Credit. One of the big selling points is that it will make work pay for everybody and people will have a 65% withdrawal rate when they go into work; it goes up to 76% if they are paying National Insurance and tax. But if the local council then operates some other means test to help people with their council tax, that will add a further tranche on top. That is one scenario.

The other scenario would be that there would be some arrangement for the local authority to tell DWP what that individual's rebate was on their council tax and that will be factored into their Universal Credit. That saves the person having to worry about it, but we have big worries about whether a complicated scheme like that would work.

Q11 Heather Wheeler: You have brought me to the question I was going to ask, which is great timing. You may not believe me, but I get more letters from my constituents saying, "Universal Credit is absolutely brilliant; get on with it." I am really interested in your replies. One of the reasons people are very keen on it is that they want to make work pay. You have concerns about that, and I wonder whether the other panellists share those concerns. The other end of it is: how do you assist the other vulnerable groups, the pensioners, with localised schemes?

Helen Williams: Similarly, we think there are lots of advantages in bringing in Universal Credit in terms of simplification and people being clear about the improvement in their household budget when they make the transition into work, and so making that much smoother. All of that is good, but there are some features, particularly with regard to the payment of the housing benefit element, that we would like to see retained. In a way, what we are seeing through Universal Credit is centralisation of a benefits system. One of the things tenants have welcomed is the way in which they can have face-to-face contact, or a responsive service from local authorities, in the administration of housing benefit. We would like to see a way in which that feature could be retained, because often working out complex issues can be helped if you can chat to someone face to face.

There are other elements about the way in which the housing benefit bit is paid in the social housing sector that we would like to see retained, in particular for tenants to have the choice of having the payment paid direct to their landlord. You may have seen from our evidence on this that we are concerned that if they do not, the costs of rent arrears management and rent collection will go up significantly. The Council of Mortgage Lenders (CML) have said that the expectation of direct payment is crucial in terms of competitive loan rates to housing associations. We have done some analysis in addition to our submission to you that suggests that, given the CML has said a move away from that could put 100 basis points on loans, that is about 1% in interest terms and about £30 million on existing housing associations loan books.

Q12 Chair: Could we have a note on that?

Helen Williams: I can follow up with a note.¹ That is the equivalent. Housing associations could use that money to build 3,000 homes, or it is money taken away from front-line management services. It is also about the way in which Universal Credit is designed to keep the best features of the localisation of the housing element in terms of housing benefit staff knowing the local housing market.

Compared with, say, 10 or 15 years ago, housing benefit administration has improved massively in recent years. Real thought needs to be given to the new national IT system. How is that to work? How will we make sure that people do not get overpaid or underpaid and then cannot budget against that? Lots of safeguards need to be put in place in terms of that transition, but overall we see many benefits to it in terms of the impact on individuals.

Dr Kenway: I now understand better than I did when I wrote the submission what DWP were assuming about council tax benefit when they put together the impact assessment of welfare reform. Apparently, they assumed that council tax benefit would be part of Universal Credit. The implication of it is that, while it is not to be part of UC, a new CTB could be designed in a way to fit with UC and it need not be necessary to have a higher than 65% withdrawal rate. That would, however, require in a sense the thing to be designed by DWP and, as it were, designed top down. The real concern is that there are clashes here,

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not just a clash about how you can have this along with localisation. DWP want to protect welfare reform, a very proper objective. How does one square that with localisation?

The other problem is the original announcement that council tax benefit spending was to be limited. There was to be a cut of £400 million, or 10%, whatever. That is a nonsensical proposal given the way in which council tax benefit works, as a responsive benefit. Council tax benefit spending is AME, annually managed expenditure, but it reflects the number of people who claim it. Therefore, it is not just a clash with DWP, which properly wants to protect welfare reform, and what might happen locally when a local authority designs the scheme; you also have the hand of the Treasury in this, which is making resolution many times more difficult.

Alan Barton: We have been given to understand from discussions about Universal Credit with DWP that somehow council tax benefit will come within the 65% HB. You may want to ask the Minister when you see him how he thinks they will do that.

Q13 Chair: There is an issue here. If you put council tax benefit into Universal Credit then many people who claim nothing other than council tax benefit, or maybe ought to be claiming it and do not, might be put off even more by having to go into that major system, when if you can find a way of giving them just an ability to get a reduction in their council tax, they might be more inclined to claim.

Dr Kenway: I fully understand why local authorities in particular want CTB to be separate from Universal Credit. Your point is a good one. One can have two separate systems that at least are designed—whether they work properly is a different matter—in such a way that you could achieve what you just wanted and not undermine the 65p taper.

Alan Barton: Most pensioners, who are the big under-claimers of council tax benefit, will not be in the Universal Credit regime anyway. The Welfare Reform Bill allows for housing credit to be part of pension credit. I guess you could do the same kind of thing for council tax, or you could have a separate arrangement for older people.

Q14 David Heyes: To stay with council tax benefit for a little longer, my question is really designed to give you the opportunity to raise concerns about the policy development process. Each of you has said a fair bit about that already. Peter, your written submission even went as far as to use a medical analogy, saying that this operation should be cancelled. Do you want to say more about that?²

Dr Kenway: The medical analogy looked good when it was written. Looking back at it, I do not know whether it was wise. But in the sense that it is a major operation, it is not a bad little phrase. One is not talking about an outpatient operation. Where I might differ from what I wrote is that I think it is now possible, having understood what DWP were doing, to design a new council tax benefit that fitted with Universal Credit but was administered separately. On paper in the ideal world that might be the best option.

I think the next best option is to stick with the current council tax benefit system. Nevertheless, DWP would have to do some tweaking to make it fit, but it is a very tweakable system; it is immensely flexible. But both of those are in a sense centralising options and require that the Treasury backs down on the idea that this is to be a source, frankly, of not very big savings—a few hundred million—that puts a crucial system at risk.

Q15 David Heyes: The timetable envisaged for implementation does not allow for that.

Dr Kenway: The initial announcement was in the spending review last October. That is 30 months. We ought to say that 30 months is enough time. I stand to be corrected—I do not look at it every day—but I think we are still waiting for a consultation paper. Basically, there has been no progress in nine months. I think the explanation for this must be that there is a fundamental clash of objectives going on here. Are we trying to save money, which is the Treasury objective; are we trying to localise, which I think is the objective of the Department for Communities and Local Government; or are we trying to make sure that work pays and welfare reform works, which is a DWP objective? I do not think they can square all three. They might be able to square two. I am very struck by the fact that you have only two Ministers coming on after us, not a Minister from the Treasury.

Q16 David Heyes: Earlier your criticism of the policy development was that there has been no dialogue with the stakeholders.

Alan Barton: Over council tax?

Q17 David Heyes: I am staying with council tax benefit.

Alan Barton: Not that I am aware of. There has been no consultation document either, which is really frustrating.

Q18 Steve Rotheram: Following on from what Peter described as a clash of objectives, there appears to be a contradictory approach at least by the Government on Government policy. On the one hand, there is incorporation of housing benefit into the new Universal Credit. Heather must be getting some of my post because I have not had many people writing to me saying they cannot wait for Universal Credit to take off. On the other hand, there is localisation of council tax benefit. Does this rationale appear to be sound?

Helen Williams: I do not know about that. I would go back to the points I made earlier about centralisation in Universal Credit and keeping some of the best features of the localisation of housing benefit now. So, there are real advantages to local authority housing benefit officers knowing their housing market and, to repeat what I said before, to be able to offer tenants face-to-face contact and sort things out and know the landlords in their area. We would like to see those kinds of features retained when the housing element for social housing tenants goes into Universal Credit.

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Q19 Steve Rotheram: There is a supplementary question about the practical steps that local authorities and landlords would have to take in regard to the changes. Can you tease out some of those? You said they might well have to do that.

Helen Williams: Yes.

Q20 Steve Rotheram: At what level?

Helen Williams: We would expect housing associations and local authorities to have to make quite significant changes in how they collect rent and manage rent arrears. You might expect those to go up with people who find difficulty to the extent Universal Credit goes hand in hand with a move to more direct payments to tenants. One of the current features is that local authorities send housing associations one transaction for all the housing benefit claimants. That is administratively efficient for both the local authority and for the housing associations. Under the new approach you could have many more transactions. Again, that could cost money.

We put in our evidence that London and Quadrant Housing Trust did a pilot where they moved a proportion of their tenants to receiving direct payment of housing benefit.³ In that pilot those tenants saw their arrears go up from 3% to 7%, but they also calculated that, if that was translated across their whole stock and 90% of their tenants got their housing benefit direct, their management costs would go up by about £300,000. Lots more staff time would be needed to help people with budget management and collecting rent arrears, so if that happened there would be a significant impact on the ground.

Dr Kenway: Almost the first comment was about the pensioners who do not take up the benefit. As Alan said and I am sure you know, they are mainly owner-occupiers. The flipside of that is that council tax benefit works really well with housing benefit, the whole thing. That is being broken and it is a real worry. Although I see many virtues in Universal Credit, clearly one wants the system to be as simple

as possible, but I do feel with this process that, if you like, some real difficulties have been swept under the carpet. As to people receiving HB and CTB, it will not work well to begin with; hopefully, the teething problems will be sorted out, but there are real problems here. We know that people will go into arrears. There is a series of concerns about losing your house, and so on and so forth.

We are dealing here with people's lives. They are very complex situations, which most of us have accountants to deal with. We are going to introduce a great deal of uncertainty and we need to be aware of all these short-term difficulties, not just say that in the end it will be a better system, which it might be. There is a lot of cause for concern. I do not know what letters you get, but Citizens Advice must already be picking this up.

Alan Barton: We certainly see the problem of splitting council tax and housing benefit. Generally, we favour a national system under the Universal Credit system for people of working age, but I agree there are difficult issues about to whom Universal Credit is paid. It might not be paid to the tenant. There is also the issue of rent arrears to which Helen referred. We are a little bit caught on this. We favour people's autonomy, but in local housing allowance there is already a situation where rent is normally paid to the tenant and that people who find it rather difficult to organise their lives get into all kinds of difficulties. Under LHA there are arrangements that they can agree for rent to go direct to the landlord. I would hope that when housing benefit goes into Universal Credit there will be arrangements to enable the tenant to agree that their housing benefit is paid direct to their landlord.

Helen Williams: It should be possible to devise a Universal Credit where the housing element can be paid direct to the tenant as opposed to another person in the household or to the landlord and the tenant has a choice in that. It should be possible to combine that with a Universal Credit system.

Chair: At that point I have to wind up this session. Thank you all very much for coming and for the very interesting evidence you have given us.

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Examination of Witnesses

Witnesses: **Cllr Peter Fleming**, Sevenoaks District Council, Local Government Association, **Lynne Hutton**, Chair, BenX Review Group, and **Kerry Macdermott**, National President, Institute of Revenues, Rating and Valuation, gave evidence.

Q21 Chair: Good afternoon and welcome to the second set of witnesses. For the sake of our records, would you say who you are and the organisations you represent?

Kerry Macdermott: I am Kerry Macdermott and I represent the Institute of Revenues, Rating and Valuation, but I also administer housing benefit in a local authority and have done for some 30 years.

Lynne Hutton: I am Lynne Hutton and I am the Revenues and Benefits Manager at Colchester Borough Council, but I am here representing the BenX Review Group.

Cllr Fleming: I am Cllr Peter Fleming. I am leader of Sevenoaks District Council and I am here representing the Local Government Group.

Q22 Chair: You are all most welcome. Thank you for the evidence you have given us so far. Generally, local authorities are quite in favour of being given things to do; it is part of the localism agenda for which they have been calling, or do you simply see this as giving them responsibility under the Social Fund for something that Government regard as too difficult to deal with, and that is why local authorities are going to get it?

Lynne Hutton: I think local authorities are ideally suited and placed to deal with a lot of elements, more than housing benefit and council tax benefit, because of the local angle. I agree with Peter's earlier evidence that there seems to be a conflict in some of the policies. The DCLG are looking very much at localism, which local authorities truly welcome. We have spent a lot of time and effort getting to know our demography and our caseload make-ups; we know what our citizens want and we know how to help them. We think we are best placed to help them locally. There are things like the Social Fund, and, for example, crisis loans. People who apply for crisis loans need it now; they need money to get to an interview, to buy food, to get a cooker and a bed. I think that local authorities are ideally based to do that as an emergency function. If somebody needs that they can come to a central place locally, not have to contact somebody who is 100 miles away. I think local authorities are very well placed to deliver an awful lot of different things across the whole range of benefits, not just housing and council tax benefit.

Q23 Chair: On the Social Fund, are there any differences about responsibility?

Kerry Macdermott: I think that currently the Social Fund is in disrepair. If you look at the statistics, the decision making is very poor; it is underfunded. I would be concerned if it was moved to local government. I agree with my colleague that we can administer it, but it needs to come with substantial resource funding, and potentially some form of regulatory framework, if it is only at a very high level. I am concerned about allegations of postcode lotteries

and balancing consistency throughout England, Scotland and Wales. The criticism—it is a matter of public record in the submissions—is already there; the concerns are expressed. I would not want it passed to local government unless we are confident it comes with a funding resource. We will deliver it but we do not want the poisoned chalice passed our way.

Cllr Fleming: The greatest difficulty you face is that all of these things are so intertwined that looking at each individual aspect we are going to consider today is particularly difficult. We could get into the whole resourcing of local government issue, which I am sure is something this Committee does not want to look at today.

Q24 Chair: Another time.

Cllr Fleming: We will see you another time on that. Generally, the Local Government Group is in agreement that unless the funding comes it will be no better than the situation we have at the moment. But we are best placed in localities to make sure the right people get the right funds at the right time.

Q25 Mark Pawsey: How is the local authority managing it going to make it better for the person who needs access to the Social Fund? How is the end user, the person in need, going to be better off as a consequence of these changes?

Kerry Macdermott: We are a unitary authority. I think there is a question regarding two-tier administrations. At the moment it is suggested that it will be passed to the county council in two-tier administrations. I feel that the districts that deal with the housing benefit administration are better placed, because we touch every one of our customers in the community. I represent a unitary authority and I deal with a whole raft of services: residential care, fairer charging and free school meals. I will not bore you with all of them, but we are better placed to deliver the collective services. My staff are trained to recognise that the customer might be disabled. He could have a Social Fund grant. We would then also ensure there was take up of Disability Living Allowance (DLA) and attendance allowance, and a reduction for council tax for disability. We join it up, and are very much pro-customer. I do not think that can exist anywhere else.

Lynne Hutton: I agree with that. Locally, we are ideally placed in terms of ease of access for those customers and vulnerable people in need. We are on their doorstep. As Kerry says, we know our demography and our local citizens. We have worked very hard to understand what they need and want. As to take up, locally we work very closely with lots of different stakeholders and partners—Age Concern and CAB—who can help to influence things like that.

Q26 Mark Pawsey: Do you think the Government have got it wrong by allocating responsibility in a

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two-tier authority to the county authority, the bigger authority, rather than the smaller districts?

Kerry Macdermott: I think so. I think that customers in need will already be captured by the existing housing benefit and council tax benefit schemes, so we will be aware of the customers. What the county councils offer is obviously interaction with social care and education. Districts offer housing services. We have the homelessness issues. We have areas where we would want to give better protection to allow people to retain their homes, etc.

Cllr Fleming: Of course, the issue is that under this we are talking about taking away the link with housing benefit. At the moment we have all the skills and interaction with the very people who need the Social Fund, but in future DWP seem intent on centralising that, which may break the very local knowledge that Lynne and Kerry have talked about. I am absolutely with both of them that in two-tier areas it is clearly the districts that have that day-to-day, face-to-face contact, and unitaries obviously.

Q27 Mark Pawsey: Would you want local authorities under the spirit of localism to define the rules and set up how their fund would work, or would you be looking to Government for a degree of central direction, in which case how far would you want that direction to go?

Lynne Hutton: Parameters have to be set somewhere along the line. There are 382 different authorities. If they did 382 different things the transparency and understanding of customers would become complex. The review group I represent today truly welcomes welfare reform. We know that there needs to be simplification, but we feel that with two very different agendas, one about localism and one about centralisation, which was mentioned by the previous panel, it makes it extremely hard to administer it across the whole spectrum.

Q28 Mark Pawsey: But what is wrong with locally elected representatives knowing what is best within their communities in this particular issue?

Cllr Fleming: This has to be risk-led. If the Government are to fund it properly then we are willing to take on the management of the scheme. If they are not going to give us the money, or enough money to do it, we will say, "You can have the responsibility of deciding who has it." There must be a clear link between the risk and the responsibility. You cannot just pass down responsibility without the funding to carry it through.

Lynne Hutton: Some parameters must be set so everybody takes the same direction across the country, but localism comes in in the form of local knowledge. It makes perfect sense to the group that perhaps income support, jobseeker's allowance, employment support allowance and tax credits should go into Universal Credit. They are a centralised service in the sense that if people claiming in Newcastle, Cornwall or whatever have the same circumstances they are entitled to the same levels of benefit. When it comes to housing benefit and the issue about local rents, it is completely different. That seems to be where the two agendas do not seem to gel.

Q29 Steve Rotheram: To follow on, in one submission it says: "In extreme cases different local schemes could lead to benefit chasing with claimants moving between authorities to access more generous CTB schemes." There does not appear to be universal support for the belief that there are advantages with greater local discretion over how council tax benefit is costed and managed. Can you highlight some of the advantages, even if you do not necessarily believe that as an authority you would like to take advantage of this?

Kerry Macdermott: So, we have moved from the Social Fund into council tax benefit?

Steve Rotheram: Yes.

Kerry Macdermott: I think the reality of it, if you speak to local government, is that we speak on a number of unitary issues. Within Wales I would expect us to have virtually a pan-Wales scheme. I know that in England there are consortia. I would expect England for the practical operation of the scheme to have a fairly similar localised scheme. While there might be minor differences at the periphery, I would expect very similar schemes to run. We are acutely aware of administration, software, etc. The evidence I see already is that we are talking of massive consortia of authorities to prevent that disaster-type scenario happening.

Lynne Hutton: This was the concern about local housing allowance. One of the objectives of local housing allowance was to give people freedom of choice about where they moved to and where perhaps they could get more rent rebate in one area than in another. We have not noticed that is the case. People on benefit cannot afford to move about too much. They tend to move within seven miles between districts; they will go only to the next district, which perhaps will be the same local broad rental market area. I do not think somebody is going to move because they think they will get a little more council tax benefit or council tax rebate. I do not think that is their priority. They want to live where they want to live for social reasons and everything else, but certainly with local housing allowance we have not seen movement for that reason.

Kerry Macdermott: We administer discretionary housing payments on behalf of the Government. That comes with a very high-level policy statement of expectations from the DWP, which gives the parameters for the award of discretionary housing payments. I think you will find that that works very well in local government. We would be realistic, pragmatic and responsible. I think the schemes would be linked; I would not expect to see a disaster there.

Lynne Hutton: I think that if council tax benefit went into Universal Credit it would be quite disastrous in terms of local authority expenditure. We rely on the collection of council tax to fund all the services we provide. We service about 50 different departments in terms of what we deliver to local citizens. We cannot do that without council tax. The review group is very much of the opinion that our collection rates would drop significantly.

Equally, in the case of housing benefit and local rent payment, in my authority alone £26.5 million was paid to social tenants last year. If that revenue does

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not get to the social housing providers you are talking about poorer quality accommodation and property because repairs cannot be done. You are talking about huge costs, as Helen said earlier, with the cost of collection of rent arrears or evictions, and also the homelessness aspects.

Cllr Fleming: On the back of what Lynne said, if you decided to wrap it all up in Universal Credit—I am not sure that you are allowed to put these two words together in this place—it would not be dissimilar from the situation one had under the community charge where you were desperately trying to take money back from people. It is far better in the way it is delivered at the moment.

The other important thing, which was picked up in the last session, is that if you look at the people who receive council tax benefit at the moment and take out of the process those who get 100% council tax benefit and older people, you are left with only 9% of people not within those two groups. So, they are not getting 100% or they are older people. If you are then talking about a 10% reduction in the total, those 9% will carry an awfully large weight of expectation of picking up that cut in CTB funding.

Q30 Bob Blackman: What are the financial risks for the local authorities in putting council tax benefit to them and giving them the option almost of devising their own schemes? Peter, do you want to start?

Cllr Fleming: We come back to the risk and rewards. If we are given more flexibility about the ability to raise our own funds and do all those things, I think we would take on board the risks that would come with council tax benefit.

Q31 Bob Blackman: We will have the Ministers in later. No doubt they are going to tell us that it is all wrapped up in the grant and then it is for you as a local authority to decide locally how to use it.

Cllr Fleming: Absolutely, but they are fundamentally wrong on this. The issue about council tax benefit and the risks that a council will take on with the localisation of it without the inherent funds to pay for it is large. We have all seen about a 15% uptake in housing benefit claimants. It is 15% in my own authority, and there is a 15% uptake in council tax benefit claimants in this very short period. Those kinds of variables in small- to-medium-size councils, whose budgets are already under pressure, are massive if you are fully responsible for paying it out. The only options that the council will have will be either to reduce benefit across the board or reduce benefit to a specific number of people, neither of which I would imagine your postbags would take very kindly to.

Lynne Hutton: There are lots of possibilities we could follow with the council tax rebate scheme. It could become another suite of council tax discounts in terms of having bandings or whatever else. There are different ways of looking at it; it does not have to be council tax benefit as it is now, but the main concern for local authorities is the 10% funding cut because we rely on it so much in terms of our collection rates. As a local authority, without collection rates, not just revenues and benefits departments, we will find it difficult.

Q32 Bob Blackman: Ministers would say, I think, that the council tax benefit as it currently stands is very expensive to administer. Therefore, by putting it to local authorities they are sure it will be better.

Lynne Hutton: I am absolutely sure we can deliver on that because we can look at it, but we must not forget about customers. We still have people who, with the taper and if they are passported, are now claiming benefit up to 100%. We need to ensure that the most vulnerable citizens in our communities do not lose out, and if we are losing 10% we cannot possibly fund it in the way we are funding it now.

Cllr Fleming: It is also important to say, as was said in the last session, that there are a huge number of people whom we would love to claim council tax benefit, especially older people. We would want to encourage them actively. How much will we be able to encourage them with less money to go round? We can reduce the amount on admin, if it is localised; we can make that money go further, but you cannot start cutting the cash already. For Ministers to say, “Well, we’ve not run this scheme particularly well, so we’re going to give it to local authorities to do it because they can administer it better and, by the way, we’re going to cut it by 10%,” is perhaps not the best way of going about it.

Kerry Macdermott: I think we should be realistic. We do not fund 100% of our costs already. As a local authority we would fund about 10% of our benefits because of the various subsidy reductions in it. A further reduction will obviously hurt us. The realism of it is that if there is less money we will be unable to meet the level of our commitment to customers at the moment. The admin grant, which is a sizeable fund, is also being reduced; it is silent at the moment about where it will finally end up. The other issue is that we will be collecting smaller debts as representative of the community charge.

Q33 David Heyes: Because of the cuts that are already being experienced, my local authority has lost quite a number of experienced welfare benefits advisers from the team. I have some concerns about that. There are still some good people left. The 30 years’ experience that people like you have, Kerry, cannot be thrown away too easily. I want to ask you a question about the capacity of local authorities and staffing ability to deliver this new system. Perhaps linked to that is the fact we have had criticism about the very compressed time scale with which it is being brought in and still the lack of information about what it is you are expected to do. I put those things together and would like to have your views on that.

Cllr Fleming: There is a general point. You talk about the expertise in local authorities. The Government’s starting point on this was that only 20% of people would need any face-to-face interaction under Universal Credit; the scheme would be so simple that it would be possible for 80% of people to do it online with no face-to-face interaction. Clearly, that is crazy. The one benefit that the Government do not currently do out of the five they are pulling together into Universal Credit, which is housing benefit, is the most complex of all the benefits. A housing benefit form is 68 pages long. There is a lot of difficulty in getting

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the people we want to claim to be able to fill in that kind of form accurately on their own, or even get them to start filling in the form, because seeing 68 pages is itself a barrier to taking up that benefit.

As to the skills within our authorities, those are the people on the front line delivering the advice to help people claim the benefits to which we feel they are entitled. We looked at 110 district authorities. We will give you that evidence following this. On average 66% of claimants needed some face-to-face interaction. That will not be delivered under the new scheme. I guess the fall-out from that will be what we think it will be: people will either not claim or claim wrong amounts. Whatever will happen will happen.

Lynne Hutton: With the spending cuts over the last few years most authorities have gone through fundamental service reviews, introduced lots of more efficient processes and procedures and shortened customer journeys. On average, customers were sometimes touching the local authority five or six times for a new claim for council tax or housing benefit. Some of the efficiencies that have been made at my authority mean that they now touch once or twice. Customers like that. They are satisfied in general across all the authorities I represent today with the level of service that they receive.

What customers are not satisfied with is where they are once they get into the process. Can they track their claim? Local authorities have manageable caseloads. We can tell Mr Smith that his claim is at this or that point. If suddenly you have a caseload of 4.9 million, for example, which is the current housing benefit caseload, how do you tell Mr Smith from Colchester what is happening to his claim when he comes into a local office wanting to know when he will get his rent paid or that paid? Because we have introduced so many lean procedures we have made it more efficient with a much smoother journey. We have been able to retain our knowledge and an awful lot of very good benefit officers. I have been in benefits for 23 years. We all look back to 1988 and supplementary benefit. Suddenly, that was not the way to do it. To me, Universal Credit is very much a retrograde step towards supplementary benefit, and that is why housing benefit came to local authorities.

Q34 Chair: We are going to have to bring things to a conclusion, but there is one question about housing benefit to which I would like a very simple answer. Can you deliver the changes to council tax benefit and the new system that you have been asked to deliver in under two years given there is no consultation paper yet for you to look at?

Kerry Macdermott: It depends on whether it comes with resource capacity. As our colleague said, we are suffering severe cuts. If the funding and resources are there, we have made substantial changes to other benefit schemes; the whole housing benefit scheme is captured by major changes we have delivered.

Q35 Chair: It is still possible that you could make the system and IT changes and inform all the intended recipients of the benefit by April 2013?

Lynne Hutton: It depends on the enablers, parameters and guidance we receive from the Departments. We are confident we can deliver whatever we need to deliver. If it is council tax benefit and council tax rebate as they are now, we have the IT; if it is something completely different, we need to talk to our software companies.

Q36 Chair: So, that is a “maybe”?

Lynne Hutton: Yes.

Q37 Mark Pawsey: What are the challenges that local authorities face? I think you have answered that by saying that it is a matter of resource principally.

Lynne Hutton: Yes.

Kerry Macdermott: If I may make one final point, I think it was in 1983 that local authorities took over administration of housing benefits. In all of the financial factors and models I have seen, nobody has actually modelled the impact on council tax payers in any particular authority as a result of increased arrears and payments going back to the tenants, as the lady said earlier. That was the fundamental reason that the benefits system was transferred to local authorities. When you look at our performance, it is exemplary; it is without equal compared with other public service issues. Universal Credit that includes housing benefit is too much of a variable. I think they should be reconsidering that significantly.

Q38 Mark Pawsey: What is the impact of the changes on your ability to deliver strategies such as that for homelessness?

Lynne Hutton: I think it will be a huge impact. I referred earlier to the amount of social housing across the country. Depending on the area you are in, 70% to 80% of those tenants are in receipt of housing benefit. The main thing is that local homelessness and housing policies, with which we have a huge interaction, would be in danger again because of the fact that housing benefit would be centralised, especially if direct payments cannot be done. Homelessness and housing policies will be terribly affected. There will be more homelessness and evictions. Finally, the cost of temporary accommodation, which follows that, is horrendously higher than the actual housing benefit payments.

Q39 Chair: Are there any detailed estimates of that you could let us have? That would be helpful.

Lynne Hutton: Of course.⁴

Cllr Fleming: All I am going to say is that in the current climate of localism I cannot see how any Minister can talk about centralisation of a service that is working and delivering well locally for the people in our society who are the most needy.

Chair: The Ministers have probably heard that, so we may ask them that question when they come to give evidence in just a few seconds. Thank you very much indeed for the evidence you have given us.

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Examination of Witnesses

Witnesses: **Right Hon. Grant Shapps MP**, Minister of State for Housing and Local Government, DCLG, and **Steve Webb MP**, Minister for Pensions, DWP, gave evidence.

Q40 Chair: Welcome to you both. Thank you very much for coming this afternoon. Grant, for the second time this week we have the pleasure of seeing you.

Grant Shapps: Something was wrong yesterday? I did not handle the appearance properly?

Q41 Chair: We tried to find something else for you to talk about, but I am sure you will have the opportunity this afternoon. Steve, thank you for coming as well. Clearly, the issue affects both Departments and we might like to explore those relationships. To begin with, in terms of the Social Fund, if I was being a bit sceptical I might think that it had a few problems. It got a lot of criticism about how it was working. It might be said that, therefore, Government thought, "Well, this is a difficulty for us that we can't really sort out. We can pass it on to local government and give them the problems to sort out, and at the same time they can have the job of saving some money for which they will be held accountable by their constituents." Would that be a fair analysis of what has happened?

Steve Webb: Funnily enough, that is not what the brief says. No. Just to give a bit of context, a lot of the Social Fund will remain national, so budgeting loans and alignment payments when benefit and tax credits do not come through on time will remain national and will be part of the Universal Credit. The bits we are localising, where we are offering local authorities a chance to do better, are the discretionary ones. The two main bits are the community care grants, which is the bulk of the money, and crisis loans for living expenses. Those are the two things we are localising. It is important to make clear that we are not asking local government to do what we do; we are saying to them, "This is 170 million pounds. We think you can spend it better than we do because we are trying to operate a discretionary system remotely." With crisis loans in 2006 we went to remote phone-based applications and, after a very flat level of demand year after year, it went mad. You now find web pages that tell you what to say when you ring the well-known 0800 crisis loan number and you get the money. That seems crazy to us. In the spirit of localism we take that money; we tell local authorities what we currently do with it—so the need that we meet—and say, "That is need in your area. We have just given local authority-level data for the first time. That's what we do with it currently. Can you do better with that money based on what you know of your area?" It is cash-limited; we say no to some people, but we are not asking local authorities to run a grant or loan scheme; we are simply saying, "Here's some money. Bolt it on to what you do; set up new things; get the third sector to do it, but you spend it in your area better than we can." That is the challenge.

Q42 Heidi Alexander: What degree of central direction and guidance do you see in a localised discretionary Social Fund system?

Steve Webb: This is overwhelmingly a local priority-setting agenda. We will alert local authorities to what we currently spend the money on in as much detail as we can. Are these people who are coming out of institutional care, or people you stop going into a care home, or a family under great pressure? We will tell local authorities in their area what we spend, and that tells them the need we have been meeting. But we are in ongoing conversations with the LGA. Andrew Stunell and I have jointly met the LGA on two occasions, and we are talking through with them how much reporting they would want to do and how much they would feel was appropriate, but fundamentally we see accountability as being local; in other words, they will get some money. It is not a fortune. A big county council might get £1 million or so. They are not phenomenal amounts of money, but we would expect local people would know the money had come down and the kinds of needs to be met and would challenge the local authority and hold it to account. We think that is the best mechanism for accountability.

Q43 Heidi Alexander: Take a scenario where that local challenge did not happen. Would it be possible that a Social Fund service did not operate at all in a local authority area?

Steve Webb: I suppose I have more trust for local government than the question implies, in the sense that we will have told a local authority about the kinds of needs we meet in an area. If they have the best interests of local residents at heart, which I am sure they do, they will want to put in a pattern in provision, which will not mirror what we did. It may be delivered through different agencies, but I cannot see them not wanting to meet the kinds of needs we have met but perhaps in new and creative ways. Although I am sure the focus of the discussions is on the burdens, costs and so on, we see this as a great opportunity. We are already hearing from innovative local authorities, which, with a bit more money, could develop some of the things they are already doing.

Q44 Heidi Alexander: But in theory a local authority could take the money and choose not to deliver the kinds of grants and loans that have been delivered by the Social Fund?

Steve Webb: I am glad you say "loans", because we absolutely do not envisage saying, "Run a loan scheme." We would be very surprised if they did, because that is a very expensive and bureaucratic thing to do. It will be up to them. It is not ring-fenced; they could spend it on other things.

Q45 Heidi Alexander: I have a question about how you will allocate the money to local authorities. I think you said that current expenditure was about £170 million.

Steve Webb: Yes.

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Q46 Heidi Alexander: On what basis will you divvy up that money across local authorities? How will you determine what each local authority gets?

Steve Webb: We have been criticised in previous years for the way the pot is allocated at the moment. We have responded to that criticism, which I think was by the Public Accounts Committee (PAC), by planning to move to a measure of what we call legitimate demand. By that we mean we know currently how much people apply for and get, and how much people apply for and do not get—because it is cash-limited rather than because we do not think they should get it. Roughly speaking, we know the numbers of those people and the amounts. We are looking at managing the current allocations towards what we call legitimate demand in each area, and we are staging that over the next two years, so at the point of transition we will hand over to local authorities the exact amount we have to. Therefore, in the final quarter of 2012–13 there will be a figure, and that is the precise one we will hand over to the local authority. It will be the same amount we have spent in that area by the end of that transition process.

Q47 Heidi Alexander: Would that happen just on an annual basis?

Steve Webb: It confuses me. What we are doing is starting that process this year. We will have a figure for 2012–13, but what Jobcentre Plus will do quarter by quarter is stage the annual figure down or up, depending on which direction we are going in, to the final destination figure, so we will be at legitimate demand at the end of 2012–13. That is the figure we will hand across: that final quarter times four, if you like.

Q48 Heidi Alexander: If there are to be 150 versions of Social Fund administrations across the country, is it not going to cost more to deliver it in administrative terms than it would if it was a centralised system? How much money are you going to give to local authorities to set up those administrations? I think you have indicated that that money will not come out of that £170 million; it will be additional.

Steve Webb: Yes.

Q49 Heidi Alexander: How much money is it, and how do you compare the costs of one centralised system versus 150?

Steve Webb: As to how many systems there will be, there could be one per top-tier authority, but, for example, London boroughs could work together and have a common system, so there need not be 150 necessarily; there could be as many or as few. We are not asking them to replicate a Social Fund grant system and loan system. We have to look at this, but my feeling is that it may well be a lot cheaper, because currently we administer a community care grant application process, a crisis loan application process and an independent review service in Birmingham to deal with appeals. If we simply give local government the 178 million pounds and say, “Spend this money in your area in the best way you think possible,” it may well be cheaper to run. Of course, if you ran 150 systems mirroring what we do it would not be, but

that is not what we are asking people to do. We are trying to disentangle from everything we do the bit of the cost of running CCGs and crisis loans for living expenses. We have not disentangled it yet. These are things like how much of the overhead you allocate and that kind of thing. I cannot give you a figure, but our intention in good faith is to work out what we spend currently, to disentangle it and hand over that cash.

Q50 Heidi Alexander: When do you expect to have that figure ready?

Steve Webb: Soon. We are working on it now.

Q51 Bob Blackman: What do you think will be the advantages to local authorities and also claimants of localising council tax benefit?

Grant Shapps: To local authorities I think the big advantage is that they will have a stake for the first time in what people who live in those homes are doing; in other words, an incentive to help get the person back into work, and so on. There is a big advantage to local authorities in a world where we are moving much more towards—through things like the new homes bonus, which you have heard me talk about a lot, or localisation of business rate retention—going that step further and saying, “Not only are we now able to set out a vision for the financial future of our area; we also have a stake in it. It matters to us how many people are out of work.” At the moment, slightly oddly, it has nothing to do with local authorities at all; they pass over that because the money comes in directly from central government.

Q52 Bob Blackman: And to the individuals who are claiming?

Grant Shapps: We have talked about this many times before here and elsewhere. There is a real problem where, if you are living in a situation where no one appears to care about your situation, it makes it harder to get back into a job. Clearly, having that local knowledge will be helpful.

The other point to make is that council tax is a local tax set by the local authority. Somewhat bizarrely, the benefit against that tax comes straight from central government, wham, into the middle of it all. Of course, it makes perfect sense to tie together these two ends so that the local authority has a proper picture and control over it, and can assist people finding their way back into work.

Q53 Bob Blackman: It is notorious that at a local level pensioners and other vulnerable people are too proud to claim council tax benefit. Do you envisage that more people will take up the benefit at a local level?

Grant Shapps: I very much hope that is the case. You are absolutely right that the historic claimant rates have been quite low. Catching the end of the evidence just given, I was quite surprised not to hear more mention of the fact that the current system is not functioning perfectly from that point of view. The DWP White Paper back in the autumn made it clear that pensioners must be a priority under the new system and must not lose out. I will go a step further

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and say that I think local authorities will be in a better position to make sure they are benefiting from a situation where local knowledge is being used properly.

Q54 Bob Blackman: Can we also look at the dichotomy here? There is localisation of council tax benefit and at the same time centralisation of housing benefit. It appears to be illogical.

Grant Shapps: I do not think that is right, because housing benefits are set nationally. There is no local discretion in the way this operates, whereas, as I just mentioned, the rate and level of council tax is set by the local authority; they have to manage the budget, so it makes sense for them to manage the benefit side of that as well, because it is supposed to be an entirely local tax. That is the whole point of it.

Q55 Bob Blackman: But one of the issues is that it is a horrendously complicated benefit. There is a 68-page form to fill in. Most local authorities now require people to produce lots and lots of evidence and, therefore, there needs to be contact at local level. The fact is that virtually everyone who applies for housing benefit will apply for some form of council tax benefit, so why not have one set of forms that everyone fills in administered at local level in an appropriate way rather than this grand centralisation of a horrendously complicated benefit, unless we are going to see a radical change to housing benefit to simplify the whole process?

Grant Shapps: It is a question of putting the things at the right level for who is best to deal with it. You will be aware that there are clauses in the Welfare Reform Bill to do with data sharing.

Steve Webb: On your specific point, our vision of localism is that local authorities can, for example, have a simpler system that does not need a 68-page form. We will not make them run a 68-page form for council tax benefit if they do not want to, so they have the option to simplify it for the benefit of local residents.

Q56 Heidi Alexander: If I may cut across, in that case does it mean that at national level, when they are completing their application for housing benefit to go into Universal Credit, they will then have to fill in a 68-page form either in paper or online?

Steve Webb: One of the things about the Universal Credit is that instead of going to the local authority for housing benefit and council tax benefit, to HMRC for tax credits and DWP for jobseeker's allowance and all the rest of it, there is a single application process for the Universal Credit, which will give help with living expenses, housing costs and so on. The local authorities can then have a tailored council tax benefit system for their areas. You can imagine a world where they have their own local IT system for paying it, or, if it is a local benefit, they could deliver it if they wanted to. The Universal Credit would be available as a way of paying the money, if that is what they wanted to do. It is up to them whether they have a local payments system or use the national one, but it is a local decision.

Q57 Bob Blackman: The key is the personal contact that vulnerable people need at local level. Why not do it through the local authority rather than centralise that approach? For me that is the key issue.

Steve Webb: I think there will be both. There will be local authority contact on council tax benefit but also Jobcentre Plus has local offices and services. In my area of south Gloucestershire the visiting local service of the Pension Service is co-located with the local authority, so these things are complementary. You are right. There will be a set of people who need a face-to-face conversation, and we will make sure that happens.

Q58 Mark Pawsey: On council tax benefit, we have heard evidence today and in writing that councils are unclear about their level of discretion. At its extreme, could a council choose not to have a system of council tax benefit if it wished to do so? Following on from that, if that is not acceptable how will you tailor-make a system that is acceptable?

Grant Shapps: The White Paper made it very clear that there would be protection for the most vulnerable—pensioners were mentioned in particular—so the answer is: no, it will not be possible simply to say that you will not have a benefit system.

Q59 Mark Pawsey: How do you draw up a system that prevents that from happening?

Grant Shapps: The whole consultation is really part of that. I heard somebody say there would be no pre-consultation consultation. Almost the exact opposite has been the case. We have pre-consulted on this before putting out the consultation with a large number of bodies and groups from the LGA to local authorities individually and collectively, and many others besides. The question of precisely how that is modelled is dependent on those pre-consultation discussions and also the consultation itself, so I do not want to pre-judge the point of a genuine consultation. To answer your question outright, no, it will not be possible to leave the vulnerable vulnerable.

Q60 Mark Pawsey: But if there is no central direction, how will you ensure that happens?

Grant Shapps: The simple answer is that there certainly will be some central direction, and it is made clear in the White Paper that there will be.

Q61 Mark Pawsey: We have heard that in some authorities one in three people claim this benefit. Will we make certain that the people who currently receive council tax benefit will have council tax benefit in the future, or do you anticipate, particularly with the 10% reduction that central Government are looking for, that in future fewer people will be entitled to such a benefit?

Grant Shapps: First, I know you are familiar with the time scale of 2013. We have to go through a consultation first and that consultation is a genuine one; it is not that we have the whole thing as a template that we are going to impose. We want to have feedback, particularly because this has to be operated by local authorities, many of which like the idea of having the control and the ability to do this.

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They want a stake in the future of their communities and to be able to play an active role in doing what I think should be the objective of all of us, which is to ensure people are able to work rather than receive benefits. It is fantastic that you will be able to tie up the two things of economic activity in the area, keeping the business rate uplift and those people who could go and work in those jobs getting jobs there and not having to be on benefits. This is why there is a joined-up approach. I think that the exact scheme design on which you are pressing me needs to come out of the consultation rather than the other way round.

But you ask whether people will be worse off on day one. Clearly, the purpose will be that by 2013 the answer should be no. We should get a system that starts from a fair position, but clearly we are looking to the local authorities on localisation to save 10%. We think that is very possible, with the potential of taking a real stake and interest in getting a population back into economic activity. Indeed, it may not be too extreme to suggest that there will be opportunities for local authorities to manage this more efficiently, use the incentives of people coming back into work and for local authorities to end up being better off as a result of having properly managed the council tax benefit.

Q62 Steve Rotheram: There is potentially a reduction of £500 million to local authorities, so will they be forced either to use general budgets to protect support for those claiming council tax benefit as a result of the 10% funding cut when it is localised in 2013–14 or simply pass on that reduction and recover it from claimants?

Grant Shapps: Steve, I hope you will forgive me for saying that I think that is old-school thinking in a sense, because it says that a local authority has no control over what happens in its authority boundaries, what economic activity is like, whether there is growth in the area, whether those business rates are kept, and the new homes bonus and the rest of it. The truth is that we are moving to a world, because we are about to do the business rate retention consultation as well, where your authority and everybody else's will have a real stake in the economic development and activity of the local area. Therefore, if we believe that localism and this stake is going to mean anything, we must be modelling in that there is a benefit in doing that. Once you establish that connection then I simply do not recognise it in those terms.

What I think we are presenting here is a great opportunity for local authorities, many of which have said they favour this idea, to be able to say, "From now on we're not just innocent bystanders watching people receive council tax benefit with no input, no financial benefit and no stake in helping people back into work by creating jobs locally," and the rest of it. All of that is changing. In that new world I think it is fair to assume and model that this world works and you are able to encapsulate those benefits, which means that you would want to get those savings from it for sure.

Q63 Steve Rotheram: What is it that you do not understand about cutting something by £500 million and local authorities having to find that saving? If they cannot find that saving, they will have to pass it on to somebody. At the end of the day, they need to find £500 million. Are you disputing that there will not be a 10% reduction in 2013–14?

Grant Shapps: Let's start with the basics. We could be like Portugal yesterday and have our credit rating downgraded to junk status, or Greece last week where there were riots in the streets. Most people, including by the way Her Majesty's Opposition, accept that there is a need to reduce the deficit, which means there is a need to reduce funding. What we propose here is a way of achieving a 10% reduction and, at the same time, through giving local authorities a stake in the economic activity, and therefore in the welfare of their citizens, the opportunity to reduce that bill, not by unfairly not paying people who are vulnerable and need it—the White Paper makes very clear that they will be protected—but ensuring that there is a definite interest in starting up that new industrial estate, business park and getting economic activity going so there are jobs for individuals living in those homes to go to. In doing so, surely you would accept that if somebody is in work they will not be receiving the benefit because they will not need to.

Q64 Steve Rotheram: I absolutely agree, and it is perfectly logical to try to get as many people into work as possible.

Grant Shapps: Which will reduce the bill.

Q65 Steve Rotheram: If there is a shortfall—it is estimated at £500 million, but it might not be that amount in the event some of that economic activity happens—how do you expect local authorities to address that? Is it by using general funds, or will claimants see a reduction?

Grant Shapps: In the consultation we are going to ask about issues to do with ring-fencing, which is really what you are getting at. As you know, this Government have unring-fenced £7 billion worth of funding, which has enabled a great deal of flexibility through budgets. I think we would like to see that type of approach, so you can make sure you protect the most vulnerable people by ensuring that the money goes where it is required.

But I simply do not recognise the figures. In a sense, you can ask the question only if you start from the point of believing there are no savings to be made by having direct connection and interactivity between the welfare of your residents and constituents and the way the system operates. The culture of, "Let them rot in the houses while we pay them benefit," must come to an end. We have to do this more intelligently and involve the local authorities in the economic activity and success of their areas. Bluntly, I do not think that is worth 10%; it is actually worth a lot more to local authorities, because suddenly they get something back for making sure they are looking after their residents.

Q66 Steve Rotheram: Part of your philosophy is: do not let them rot in the houses; it is better if they are on the streets.

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Grant Shapps: In what way?

Q67 Steve Rotheram: Because, at the end of the day, if there is a shortfall somebody has to pick it up. If it is not to be through general funds and there is a reduction in benefit, that will mean people get into arrears, cannot afford houses, homelessness will increase and people will be on the streets.

Grant Shapps: The big gap in your argument, as with so much of the housing and welfare benefit arguments, is that you are completely removed from this when you are in employment. The big challenge for the local authority, as well as the individual of course, will be to say, "Is there a way that I can get into employment?" Once you are, you no longer have the issue. Because that is the case and, as I have said several times, the local authority suddenly has a stake in this, of which it has none at the moment, we would expect to see a saving in the overall budget. Frankly, I think the overall saving could be quite considerable.

Q68 Heidi Alexander: Minister, do you not think your argument fundamentally misunderstands the ability of a local authority in some circumstances to have a direct influence upon the job prospects of individuals in that area? Take my local authority in Lewisham. It has worked very hard to increase economic prosperity, but my constituents are dependent fundamentally upon the London economy. You are saying pretty much that you would expect local authorities to bump up the council tax benefit budget from the general fund. You are also saying that you hope the number of claimants for council tax benefit will increase with the system operating better. I just do not see how you square that circle. I put it to you that you fundamentally misunderstand the ability of local authorities to influence economic outcomes directly.

Grant Shapps: First, I do not accept the argument being pressed by Steve that this will come out of the general fund; in fact I argued exactly against that, and said that it would come out of better management, administration and economic growth. Second, you are absolutely right about your local authority because, compassionate and as idealistic as they may be to increase business growth in the area, it is a fact that under the current modelling of local government finance there is absolutely no positive benefit in terms of their own finances in increasing economic activity within their area.

Heidi Alexander: There was under the last Government.

Grant Shapps: For example, there is nowhere within the revenue support grant system where you are benefited for opening that new industrial retail unit, etc, etc. In a way, I accept your argument under the current system, but we know that by the time this system comes into place we are in a completely new world of business rate retention as well as the money that you now get through the vision of the local authority, which is a multi-billion-pound package of new homes bonus as well. You are in a world where you control your destiny in a way that your local authority, try as they may, cannot at the moment. As far as I can see, local authorities—I pay tribute to

them—that are aspirational enough to try to create jobs, wealth and enterprise in their areas are almost just doing that through the goodness of their own hearts, and without any particular reward to them or the local community.

The difference is that, by the time this system and council tax benefit localisation comes into place, they will be in control of the whole picture and, therefore, will have the ability to manage some people who are on benefits off benefits. We are not talking about everybody, but we do think there are potentials through that and administrative savings, better running and so on and so forth, because they have an interest in doing all of those things as well, which at the moment is a nationalised system. We think they will be in a position to save that 10%.

Q69 Heidi Alexander: Of course, your Government did get rid of one of the schemes that encouraged local authorities to develop businesses in the area: the local authority business growth initiative.

Grant Shapps: All I can tell you is that LABGI was a small-scale scheme in comparison with business rate retention. This is enormous. There were many criticisms of that scheme. I do not think we want to get sidetracked by that today since it has gone, but what we are going to see is vastly more wholesale than that, because it means that local authorities will retain every pound of business rate they keep. It is so different from the mindset of, "How much money will we be given as a local authority," that I can appreciate why some Members will struggle to understand both that change and this change put together, but unless you view them together you cannot see why the savings are possible.

Steve Webb: Perhaps I may add a quick point from the DWP perspective. Just thinking in particular about perhaps the most deprived areas and folk who have been long-term IB or ESA recipients and so on, that is where the Work programme will be going in strongest; that is where the money will be going in and where the performance-related money to the providers of the Work programme will be. Every person that the Work programme gets back to work will be less expenditure that the local authority needs to make on council tax benefit. As to what the DWP is doing, the bulk of that money will be going into just the areas where perhaps it is most difficult for local authorities to get economic regeneration. We will be paying people to get them back to work in those areas. Every time they succeed, the local authority will get a benefit.

Q70 Chair: So, it might be better if we localised the Work programme as well, but we will not go into that argument today. I have sympathy with the Government's position about trying to make better incentives for local authorities in terms of their resources to create development in an appropriate way in their areas. I have no problem with that at all, but let's try to look at it on a national basis. If unemployment goes up—I do not want you to agree that it will—over a two-year period, the reality is that local authorities collectively will have greater demands on their resources from people claiming

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council tax benefit. Therefore, they have a choice: either they reduce the rate of council tax benefit so that people who apply for it get less; or they find money from other sources and spending streams in their budgets to pay for it. They cannot borrow for revenue purposes; they are stuck. Is that not the reality of what will happen?

Grant Shapps: First, the Office for Budget Responsibility, the IMF and many others disagree with your analysis of what will happen with unemployment over the next couple of years. In an imaginary world where over the next two years unemployment goes up rather than what it is doing at the moment, which is dropping, there are all kinds of pressures to which council tax and the overall amounts raised through it will be subject. This is absolutely true. The fact that it is localised does not change that threat to the overall public purse. It is not the case that at national level the Treasury is not also under pressure, as we saw with the recession, for example. When money is short and the economic activity is poor, the money will have to come from somewhere to pay that welfare bill. This is not an either or in a sense.

I guess what you are really getting at is: how will local authorities cope, given that they have budgets within which they need to operate? There could be all kinds of possibilities for local authorities to work together to help better handle ups and downs. You might say that they want to work in conjunction with each other. They may choose to do that.

Q71 Chair: They will all go up and down together if there is a national unemployment problem, won't they?

Grant Shapps: It depends on the extremity of what you predict. I guess that what I am thinking of is a situation where one local authority has a large factory that closes, and next door is a different type of area and they might say, "We can work together over a period of time." That is a possibility. But we want to consult on the whole issue of how you manage the budgets. The same applies to lots of different things that local authorities do, and they set their council tax at what they think are appropriate levels to deal with the risks and rewards. My argument is that, given there is now a direct interest through several different changes in economic performance, and the Universal Credit will provide a real incentive for people who otherwise are currently trapped in worklessness, if you put those things together you get the savings required. That is at the heart of this proposal.

Q72 Chair: I think there is still a problem about a national rise in unemployment, but we listen to what you say about the possibility of looking about. One other issue that again does not really seem to be addressed is the take-up of council tax benefit—we had an inquiry about it in the last Parliament—because everyone accepts that one of the problems is the number of people who do not claim but could do so. A lot of them are older owner-occupiers. If local authorities are now to decide that they are really going to make an effort—it is all local—to get more pensioners to take up the council tax benefit, or

however it is renamed to encourage the take-up of that scheme, they will have to pay for that themselves by cutting other services. That is the only way they can do it.

Steve Webb: Clearly, one would assume that a local authority will want to make sure that the vulnerable people in the area are getting what they are entitled to. When they design the scheme, which I hope will be simpler than just replicating the 68-page form, they will have to build in a realistic assumption about take-up. At the moment the problem we have with take-up that it is a lottery. It is not that the most needy get it and the least needy do not; it is just that two people are living next door to each other and one does and one does not. We might be in a situation where it is less of a lottery; the local authority designs a simpler and easier way to claim; it uses its networks of older people, for example, and we get higher take-up rates. I take your point that it is still a given budget, but in designing the system the local authority will have to make a realistic assessment of take-up. If it can design a simpler system it will have to allow for the fact that take-up will be higher. That might mean it narrows the scope of what it does but spends that money better, which is the goal of the exercise.

Q73 Chair: Given the Government have made the commitment that pensioners will not lose out in any way on their council tax benefit under the new scheme, if more pensioners claim it and existing claimants are not to lose out, that means local authorities will have to find the money from other budgets to pay for it. Is that correct?

Steve Webb: What they will do is design a council tax benefit system based on local priorities, which will include pensioners, long-term sick and disabled, unemployed and the low-waged—a whole raft of groups—and will decide locally what their priorities are.

Q74 Chair: But if pensioners are to be protected by Government directive, their priorities will have to be that either local authorities find the money from other budgets or other groups of people will have their council tax benefit cut. Is that right?

Steve Webb: That is one of the choices they will make.

Chair: We have got to a rather interesting point we might have to look at further.

Q75 Steve Rotheram: The Minister who responded last probably admitted something that Mr Shapps did not, and that was in regard to his contention that there is no overall increase in the public purse. That is not what we said, but that deprived areas would be hit the hardest and they would lose up to four times as much as some of the more affluent areas. They would be hit the hardest also because of Communities and Local Government (CLG) cuts they have also faced, which were the highest. Are we not just exacerbating the problems for those people; in other words, if there is a finite budget and some of that is guaranteed because of the pension credit, that leaves less money to be disbursed between possibly higher numbers of claimants if unemployment was to rise?

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Grant Shapps: I do not mean to turn this the wrong way round as to who is giving evidence, but I am not clear how you get to the four times figure.

Q76 Steve Rotheram: The New Policy Institute states that.

Grant Shapps: Because I do not recognise the figures, it is quite difficult to respond.

Q77 Steve Rotheram: Do you want me to read that particular section? It says: "The Government's plan to reduce spending on council tax benefit by 10% will have a disproportionate impact on local authorities which are in the areas of highest levels of deprivation, with the most affected losing more than four times as much per dwelling as the least affected," and it goes on.⁵

Grant Shapps: I will have to analyse their figures; I just do not recognise the numbers at all. There is another way of looking at precisely that issue. An area that is currently suffering, for example, from higher levels of unemployment and worklessness in a sense might have more to gain through the Work programme, the Universal Credit, for it always being beneficial to work rather than not to work, with changes in benefits and the localisation of council tax benefit. In a sense, the upside might be dramatically bigger for an authority that at the moment is deprived, and we hope these policies will assist. I would argue it the other way round.

Q78 Chair: The analysis had been given to you to respond to in detail. That might be helpful.

Grant Shapps: Sure; yes.

Q79 Chair: As to implementation, we are getting closer to April 2013. We still have not had the consultation document. Do you know when that will come and what the consultation period will be?

Grant Shapps: We intend to consult this summer. As you know, we have been having these pre-consultation discussions, of which I think this is also a very useful part in gathering evidence. The consultation will go out shortly and there will be a usual consultation period from which we will draw up further plans.

Q80 Chair: In your consultation would you be willing to listen to any representations that, given the shortened period of time in which we will have to implement this system, particularly if we are to design new systems, including IT systems, and give all this information to people, 2013 may not be an achievable target date?

Grant Shapps: We need to follow the evidence; we need to listen to what people are saying to us about implementation. We need it to work. I was interested in just catching the end of the previous evidence session. The witnesses seemed to suggest that they might be able to do it, but they needed to know the detail. We all need to know the detail, which is why we need the consultation to get there. This is entirely pragmatic and evidence-based. Let's find out what is said through the consultation.

Q81 Chair: That is helpful. Given the massive changes around Universal Credit it might be better just to do that and then bring some of the changes on a little later when those changes have bedded down.

Steve Webb: I guess the two can go in tandem in the sense that Grant will publish the consultation document and local authorities and others will say how they think they will best deliver this. Obviously, one option is that they have to develop all their new IT systems, up to 150 as was said earlier, at local level, or we may get feedback which says that Universal Credit is available in 2013, which is more or less when it all kicks off. Do they want to decide the council tax benefit structure locally but then feed the figures into the Universal Credit and deliver the cash through that route, which might be a way of cutting the lead time between now and when it goes live? That might come back through the consultation responses.

Q82 Chair: But you are open to suggestions on this?

Grant Shapps: Absolutely. As I stressed before to Mark, this is very genuine consultation where we need the feedback. We cannot design without this consultation. It is as simple as that. You cannot design the application of this system without talking to people.

Q83 Simon Danczuk: I am conscious of time as well, so I will keep it fairly brief. My first question is: I understand the logic in terms of Universal Credits, but my question is about housing costs going in there. Are you not a little worried about the disconnection in terms of local knowledge and the housing situation on the ground?

Steve Webb: In a sense, what will be happening there is that a payment akin to the current local housing allowance will be delivered as part of the monthly Universal Credit payment. The idea is that it feels like a pay packet, so you get paid typically on a monthly basis; you get Universal Credit on a monthly basis; your housing help is part of that. But obviously the arithmetic behind the figure, the 30th percentile in the local reference market area and all that stuff, is determined locally and paid through a national mechanism. You are still using local knowledge of what is going on in the local market.

Q84 Simon Danczuk: My second question is very much about how the two Departments have worked together in terms of where we are at the moment. You will be familiar with the Department for Communities and Local Government's internal modelling which showed there was potential for 40,000 people ending up homeless because of these changes in benefits. Were the Ministers in the Department for Work and Pensions made aware of that internal modelling?

Grant Shapps: First, it is probably worth making clear that there was no internal modelling which suggested that. There is nothing at all which has been externally validated. This was a line written by a civil servant and sent across to No. 10 and DWP. It was an internal office-level exercise. These are not representations made by Ministers at all because we did not believe them to be accurate, and they were not based on any

⁵ Dan Paskins, *Council Tax Benefit: the effect of a 10% cut*, New Policy Institute 2010, p.5.

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evidence at all. The two impact assessments published in February and March make it clear that it is impossible to model this. There are so many different possible lifestyle changes that people could make by 2013 that it would be impossible to do it. We do not recognise those figures at all. In addition, the central thrust of that letter was about whether the universal cap would damage the affordable housing programme and speculation that it would. Again, they were figures off the top of whoever's head it was. We now know six months later that it has not and that programme has been over-subscribed. I hope that shortly I will be able to deliver some rather good news about the affordable rent programme, which was completely known about by all those bidding on it and is going to deliver for the country. I am trying to point out that the assumptions in that letter have already been proved to be inaccurate, and some other assumptions in there are just not internal modelling in the way you describe it at all.

Q85 Simon Danczuk: I was trying to get to a bigger point but you have picked up this issue. The Secretary of State for DCLG felt strongly enough about the figures to be able to write to the Prime Minister about it.

Grant Shapps: No. To clarify it, this was a piece of correspondence at official level which was not Ministers raising it with other Ministers.

Q86 Simon Danczuk: Private secretaries in the Departments were raising it?

Grant Shapps: Somebody within the private office.

Q87 Steve Rotheram: Just off the cuff, off his own bat?

Grant Shapps: We are fairly mature about government, and understand that when you are discussing policy you have the perfect right to discuss ideas, as even the shadow Secretary of State acknowledges she did when she was in government. You have a perfect right to do it in private and what have you. When you come to publish the best possible evidence on it you do it through impact assessments. They are rigorously put together; they use scientific data; they are externally checked; and the impact assessments are very clear that you cannot come to those conclusions. Those are the facts.

Q88 Simon Danczuk: I do not want to get into semantics about it. The Secretary of State for Communities and Local Government wrote either today or yesterday to Caroline Flint saying that it drew on some initial internal modelling.

Grant Shapps: Which has turned out to be inaccurate when it comes to the housing numbers.

Q89 Simon Danczuk: That's fine. In respect of transparency and everything else, was that internal modelling—which was my initial question—shared with Ministers at the Department for Work and Pensions?

Steve Webb: As Grant says, the letter was copied to DWP. As the lead Department on the policy DWP has been evolving its modelling work. What DCLG and

we did was to agree an impact assessment quite a number of months later.

Q90 Simon Danczuk: I know that, but I am not talking about that.

Steve Webb: But in a sense what we do is evolve the policy. Six months ago it was, "Well, exactly what will it look like?" We firmed up the policy; we agreed on the impact; and we published it.

Q91 Simon Danczuk: I understand that. To be clear, did Ministers in the Department for Work and Pensions see the initial modelling from DCLG which showed—it must have because it is quoted in the letter—that potentially 40,000 people would be made homeless? Did Ministers in the DWP see that initial modelling, not the later impact assessment?

Steve Webb: We saw the letter because we were copied in.

Q92 Simon Danczuk: You did not see any of the initial modelling. Were you aware of it?

Steve Webb: We were aware of it.

Q93 Simon Danczuk: When were Ministers in DWP aware of that?

Grant Shapps: May I cut in here? I can do no better than quote Caroline Flint who, when she inadvertently exposed an internal briefing to Cabinet, said: "It is generally not disclosed because to do so could harm the frankness and candour of internal discussion." I think she is quite right to say that Government have the perfect right to discuss and debate policy. As Steve says, this was six months ago. We have already seen one of the main tenets of that letter completely disproved. We collectively came to a decision on these figures, which are not what you describe as internal modelling. This was speculative. It was at the "we are concerned" level. Part of it has been disproved. To make it very clear, we are 100% signed up to the principle that work should always pay. If you are to get to that position there is a quid pro quo, which is that a life on benefits is unfair to the person on benefits; it locks them in. Therefore, you have to make changes to the system, and a smooth, tapered Universal Credit is something of which DCLG is every bit as supportive as DWP. We stand shoulder to shoulder. The system needs to change. By the way, the Opposition also believed that; it was in their manifesto on pages 2 and 3.

Q94 Simon Danczuk: I appreciate the answer. It is not me but the Secretary of State who calls it internal modelling in a letter to Caroline Flint either yesterday or today.

Grant Shapps: I have it here, but I do not want you to construe that as being some kind of big computer model in the Department.

Q95 Simon Danczuk: Fair enough. I think it is helpful to know that Ministers in the Department for Work and Pensions were aware of the possibility, according to the DCLG and the letter which was seen, that there was a potential for 40,000 people to be made homeless.

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Grant Shapps: No; that is absolutely wrong, and you are putting words into both our mouths.

Q96 Simon Danczuk: The substantive point is: how will any extra costs in terms of homelessness services—bed and breakfast, hostels—incurred by local authorities be identified and how will they be compensated?

Steve Webb: In all of this one thing that becomes conflated is that there are different caps at work here. There is the local housing allowance cap, which has already come in in April, and will apply to existing claims from next January. One of the things that is being done for that—the same principle applies to the overall benefit cap—is, first, discretionary housing payments for local authorities for the most difficult cases; and, second, additional funding for local authorities to deal with that transition. That is the approach adopted for the overall benefit cap.

Grant Shapps: Again, just to put it on record, we do not accept what you are saying about Ministers. This was absolutely not true and not the case. As the impact assessment rightly says—remember this was formulation of policy, as Caroline Flint points out. If you cannot have a candid discussion internally about various different formulations, which were at a different stage of development at the time the letter was written from now, you cannot do government. It is misleading and unhelpful for everybody, as she points out, when those things cannot be discussed properly and privately. What we do know is that the response will be complex and different because some people will make up the difference; some people will have the rent lowered; some will get discretionary payment; and, yes, some people will have to move. Let's be clear: moving is not being homeless. There is a complete difference. In my view, as somebody who cares passionately about homelessness and who has been out today to launch the No Second Night Out pledge that the Government have just made, that no one should ever sleep on the street for a second night, with £20 million of funding put into it today, I would not support policies that I thought would lead to homelessness. Will it lead to some people moving? Yes. We cannot all live in the street we want to live in. That is a completely different case.

Q97 Chair: Anyone who is involved in housing, the National Housing Federation and local government that still have council houses, have said that one of their real concerns is about the end of direct payments and the fact that could lead to a significant increase in rent arrears and the possibility of homelessness for that group. That has been said to us very forcefully. How do the Government respond to that? I think there is a real concern here.

Grant Shapps: We have not made final decisions on these things. I have worked a great deal with Lord Freud on this. One thing we are very clear about is that, whatever happens, we need to make sure landlords are in a position where they do not stop accepting tenants and that sort of thing. The recompense would need to be very quick. We are not proposing to move without evidence and testing out these things, so we are very cautious in our approach

to this. Final decisions have not been made in this area at all. Steve is probably better able to tell you, but if you believe in a Universal Credit—everybody in all parts of the House say they do believe in making work pay and Universal Credit—you have to find a system of having a single payment in order to support that approach. These are some of the complex and difficult decisions that must be made along the line. But I do not think we should shy away from making them but within an environment where we can reassure the landlords and social landlords that they will not lose out. By the way, we are probably winning that battle because, as I mentioned before, they would not have signed up for affordable rent, as I am shortly to announce they have, if they had longer-term concerns about being able to receive that rent.

Q98 Chair: The National Housing Federation also said the Council of Mortgage Lenders had told them to expect 100 base points increase in loans in the future with substantial cost because of the lack of certainty over the rent income.

Grant Shapps: I do not want to pour too much scorn on the NHF evidence to you, but barely a week goes past when it does not announce there will be some catastrophe. So far in the last year we have had 22% increase in building starts, and we are going to build more affordable housing every single year of this Government than in the 13 years of the previous one. I cannot see that their evidence is all that accurate.

Steve Webb: We often hear it said that landlords will not rent to people on housing benefit if they do not get the money directly, and yet we have passed 1 million people now on local housing allowance, virtually all of whom have flowed on in the last two or three years. Although we have probably all met a landlord who says, "I won't rent to people on housing benefit", the evidence is that the numbers of landlords renting to private tenants from whom they do not get direct payments is going up every year. What we are looking at with Universal Credit is whether there are ways, for example, of carving up the money people get, whether it is direct debit, jam jar accounts or whatever it is, so that the rent gets through as painlessly as possible while still treating people like adults. It is trying to get that balance right.

Q99 Chair: But both Departments are still open to looking at the problem of direct payments?

Grant Shapps: Absolutely. Let me make it very clear that we are not storming ahead with a pre-defined system at all. We will want to test it very carefully. I am aware of past evidence which says that there have been some issues when direct payments have been made. We cannot get back to replicating that system. We need much faster responses from the system overall, to list but a few issues on direct payment. I totally agree. We will not storm ahead with it. If it were not for the Universal Credit approach of trying to help people off benefit and into work I think there would be very strong arguments against doing anything at all. But if you do believe fundamentally that it should pay to work then you have to design a system whereby that can be a single payment that promotes the personal responsibility of receiving it,

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and the rest of it. I have concerns to make sure that the system works right. We will not steam ahead with a system that cannot scientifically be proved to operate properly.

Q100 James Morris: The successful delivery and implementation of these policies on council tax benefit, administration and the Social Fund will require a lot of joint working between the two Departments. Can you give us a flavour for how that will work and the mechanisms you will put in place to ensure the two Departments work effectively on implementation?

Steve Webb: I do not know whether it is a consequence of coalition—that is probably a subject of another debate—but I have found that very often we are working cross-departmentally. Grant spoke about direct payment and the views of housing associations. About a week ago the two of us were sitting together in a Committee room down the corridor with a bunch of housing associations and London MPs and debated that. All the things we have done on Social Fund localisation I have done jointly with Andrew Stunell and meetings with the LGA have been joint, as well as that officials have been talking all the time. We have got so much in common when welfare reform and localisation of the Social Fund are going on that it is almost impossible to do it without working jointly. I think it has worked well.

Grant Shapps: I work at ministerial level very closely with Lord Freud and Iain Duncan Smith. Our officials are virtually embedded within one another's Departments all the time. You cannot do this stuff without that.

Q101 James Morris: One of the criticisms we have heard in evidence from some people is that the policy on localisation of council tax benefits and Social Fund

has come out of a kind of inter-departmental negotiation about localism. Some people argue that DWP have made the concession to CLG, "We'll give you localisation of council tax benefit but we're not too keen on localising any other parts of the welfare reform agenda; the work programme stays as a central scheme." Is there any truth in that?

Steve Webb: There is a cross-government drive to localism with the DWP delivering things like retirement pensions and so on. There is a hell of a lot that you could not imagine localising. For us, the obvious thing to localise are those that have the local government interface and those that are discretionary. In a sense, that has led us to Social Fund and council tax benefit. Within DWP that is the obvious place you would go.

Q102 Chair: Don't you think local government could have made a better job of administer the Universal Credit given your confidence in its ability to administer things more efficiently?

Steve Webb: I guess it has a different characteristic from something like Social Fund which is very discretionary. Bear in mind that the bits of the Social Fund that are national and rules-based—budgeting loans and crisis loans for alignment—will still be part of a national system, so I think there is a fundamental difference.

Q103 Chair: But local authorities now administer housing benefit and council tax benefit which is not discretionary, and they probably do it more cheaply than central government administers things. The LGA would be up for it. Would you be up for a conversation with them in future about any changes?

Steve Webb: I will probably not set that hare running just today.

Chair: Thank you both very much indeed for coming.

Written evidence

Written submission from BenX Group

1. This letter is a response in respect of the above, from the BenX Benefit Review Group. Thank you for the opportunity to respond. For information, I enclose a copy of BenX's Terms of Reference.

2. Please note that BenX is comprised of a number of local authorities, so this response comprises a range of views.

SUMMARY

3. Whilst supporting the need for welfare reform to make the system more straightforward for customers to navigate, and for practitioners to administer, BenX has serious concerns about the inclusion of Housing Benefit within Universal Credit. Housing Benefit is inextricably linked with local housing policy—such as homelessness and housing strategy issues, and central administration would lose vitally important links with other local authority departments (eg housing, homelessness), local landlords and other housing providers (eg housing associations). BenX also has major concerns regarding internet being the main method of application.

4. Localisation already has a range of advantages, including providing tailored services to local communities, using local knowledge and intelligence to inform administration, investigation and enforcement. This enables strict forms of scrutiny and accountability that ensures we are both directly and immediately answerable to stakeholders.

5. Local councils have an extensive and established network, successfully providing rented accommodation, especially to people with low incomes. The principles of local level accountability and responsiveness work well. It is at a local level that collective actions are taken to make more housing available and affordable, to attract employment as well as to co-ordinate the various local and national agencies in supporting the local community.

6. Local authorities are best placed to deliver either more benefits or a single universal benefit. They have a proven record of performance improvements, reducing costs, as well as being responsive to local needs. In addition, they have links into other local strategies (eg housing), which is assisted by the close working relationships enjoyed by Benefit, Council Tax and Housing departments.

7. Furthermore, local authorities already collect the vast majority of the information needed to assess other benefits and run a localised service with greater efficiency and flexibility than the arms-length service provided by centralised agencies. We offer no apology for repeating the fact that the performance of local authorities has consistently outstripped the DWP and this is because, in part, we live in fear of being left behind by other local authorities. Hence, the vast majority take every opportunity to share good practice and develop even better ways of delivering an excellent service. This culture is not yet present in the DWP.

8. It is also true that by being local, authorities are able to offer that personal touch when dealing with the many social, financial and community issues that changes to welfare and housing reform will present. The DWP will argue that their Jobcentres give them a local presence; however, anybody visiting one of these offices in order to claim a benefit will be given a national telephone number and told to make their claim over the phone.

9. Originally, Universal Credit was to be an all-encompassing benefit with a one-claim process. Whilst BenX has concerns about including any Housing Benefit component within Universal Credit, to divorce Housing Benefit from Council Tax Benefit causes us greater concern. Customers are used to claiming Housing and Council Tax at a single point of contact and we believe that separating the claim process would cause confusion for customers and create duplication of effort.

10. Housing Benefit and Council Tax Benefit currently have the same claim process; a claimant will claim both benefits on the same claim form, the same details will be used by our computer systems to calculate entitlement and a claimant receives a combined award notice.

11. Currently customers claim day-to-day living expenses from the DWP, and assistance with housing costs and council tax from their local council. Under the current proposals for welfare reform, support with housing costs for working age would be within Universal Credit, for pensioners it would be claimed with Pension Credit and help with Council Tax would be claimed at the local authority. This appears more fragmented than the current claims process.

12. BenX is very concerned about the impact that the 10% reduction on funding for Council Tax Benefit. Inevitably, vulnerable households will feel the impact of this change, with the potential for other financial budget constraints to influence the delivery of a locally devised scheme.

13. Conversely, if Council Tax benefit were to be included with Universal Credit, a complicated process for paying direct to Local Authorities would need to be put in place, or if paid direct to the customer, Local Authorities would have to collect 100% of Council Tax, which would lead to soaring arrears.

14. An alternative would be to de-scope Housing Benefit from Universal Credit and allow local authorities to continue to administer benefit relating to housing costs and Council Tax locally.

15. Having a key element to the localism agenda, welfare benefits and especially Housing Benefits centrally administered and centrally controlled removes the cohesive element of the localism package and may therefore not reduce costs, not be more efficient, nor be an effective means of delivering welfare support to the most needy within our society at times of great uncertainty.

16. The Welfare Reform Bill also contains proposals to restrict Housing Benefit for social housing tenants whose accommodation is larger than they need.

17. Under the proposals, due to be introduced from April 2013, those with one spare room will face a reduction of 15%, around £11–£13 a week. Those with two spare rooms will face a reduction of around 25%, illustrated at around £20–£25 a week.

18. Housing Benefit departments do not currently hold information about the size of properties, as this is excessive information. To enable us to apply these size-related sanctions we would have to solicit information relating to the size of socially rented sector properties from either a registered social landlord or the Council's housing section. This would require significant software and procedural changes and is not a decision to be taken lightly. We believe that an assumption has been made that Housing Benefit teams already hold this information, but we don't.

19. BenX is also concerned that the proposed change to Housing Benefit for single claimants under 35 (where entitlement will only be calculated on shared accommodation rates as opposed to one-bed roomed rates) could lead to an unaffordable shortfall. Customers may be forced to seek alternative accommodation, but is there adequate availability of shared accommodation to meet potential demand?

20. The knock on effect and cost to our homelessness service as they try to cope with the increased homelessness anticipated as a result of this change could be extreme. It is feared that this change could increase the number of rough sleepers in the area as it is widely recognised that 25 to 35 year olds are already disproportionately likely to become rough sleepers.

21. A survey undertaken by Crisis reported that 72% of housing professionals and the voluntary sector workers said that there is not enough shared accommodation in their areas.

22. The principles of self-service via the Internet are a major concern, and BenX believe that self-service will increase fraud—whereas face-to-face contact would reduce fraud.

23. Online services should be encouraged, but it needs to be recognised that not everyone uses such services and the needs of vulnerable persons should be considered. Data shows that 27% of households still have no internet connection at their home and some six million people aged over 65 have never used the web, so introducing measures to provide services online may be out of step with consumers, who in order to gain general web access, are going to have to spend in the region of £500 for a PC and printer, as well as sign up for a monthly broadband charge.

24. Therefore, it would perhaps become more difficult than it is currently to apply for welfare benefits and, as a consequence, many in need would be excluded from the system due to their inability to gain access to suitable online facilities or their ability to understand a system that may be removed and remote from their individual circumstances and needs.

25. Finally, BenX believe that the timescale for these changes is completely unrealistic. If the proposals go forward as planned, it could be prudent to create Universal Credit by combining Jobseekers' Allowance, Child Tax Credit, Working Tax Credit, and Income Support whilst leaving Housing Benefit and Council Tax Benefit administration with Local Authorities until Universal Credit and real time integration of earnings with HMRC is well established.

26. I hope this BenX Benefit Review Group's response is useful, but please do not hesitate in contacting our group if you would like to discuss any of this letter further.

June 2011

Supplementary written submission from BenX Group

COLCHESTER COST DIFFERENCE BETWEEN LHA RATES AND TEMPORARY ACCOMMODATION

Please see table below for the cost differences for Colchester Borough Council as requested at the CLG Parliamentary Select Committee on Wednesday 6 July 2011.

Room rate	LHA weekly rate	<i>Temporary Accommodation weekly rate depending on household make up Average charge: adult £26 per night child £13 per night</i>
Shared Accommodation	£63.48	£182
1 bedroom	£100.00	£182–£364
2 bedroom	£126.92	£273–£546
3 bedroom	£160.38	£455–£728
4 bedroom	£206.54	£728–£910

July 2011

Written submission by Citizens Advice

INTRODUCTION

Citizens Advice welcomes the opportunity to respond to this inquiry from the Communities and Local Government Select Committee. In 2010–11, Citizens Advice Bureaux helped 2.1 million clients with 7.1 million enquiries, of which 191,980 were about Council Tax Benefit, 28,364 were about Community Care Grants, and 22,978 were about Crisis Loans.

We are working in coalition with a number of other representative organisations to exchange views and share work-load as the Welfare Reform Bill passes through Parliament. We have written a range of briefings to inform MPs as they scrutinise the Bill in the House of Commons, and have started to engage with Peers for discussion in the House of Lords. The proposed localisation of Council Tax Benefit and proposed abolition of elements of the discretionary Social Fund are two of the issues of common concern amongst these organisations.

We address the last question first: we are confused about the motivation for localisation of Council Tax Benefit and elements of the discretionary Social Fund, which appears to be driven by some form of bargaining between central government and local authorities, regardless of the benefit to constituents. The policies do not appear to have been thought through, and do not seem to be based on any evidence or evaluation of how effective they will be at serving the people who need them. At best, the working relationship appears uncoordinated; at worst, it seems to represent competing priorities which are not aligned in the interests of citizens, but are based on the procedural preferences of the two departments.

LOCALISATION OF COUNCIL TAX BENEFIT (CTB)

We can see no advantages to localisation of CTB, and are disappointed that the Government proposes to allow local authorities (LAs) to devise their own rules on council tax relief. We believe that a separate system is bound to result in *either* a second taper for withdrawal of benefit once the Universal Credit (UC) is introduced; *or* an extremely complex administrative process whereby the LA decides on who is eligible for council tax relief, calculates the amount of that relief, and relays this information to the DWP to be reflected in the amount of UC allowed to the individual, and then the LA will be responsible for collecting any outstanding council tax. The former will undermine work incentives *and* add complexity. The latter will result in complex administration, which—though mainly a burden on the system rather than the claimant—is likely to cause significant problems for claimants if it goes wrong, as is very likely where complex systems are required to interact.

LOCALISATION OF COMMUNITY CARE GRANTS (CCGs) AND CRISIS LOANS (CLs)

We believe that localising resources previously spent on CCGs can only result in *less* consistent delivery across the country. With sketchy information on a) how the Government will decide on allocation to LAs, or b) how LAs intend to use the money, we cannot give an opinion on whether the funding will be distributed more evenly amongst claimants.

We do believe, however, that LAs will make decisions on how to allocate support based on their current priorities, since there will be no new statutory duty on how the funds are to be used, and no ring-fencing. The proposals as currently described make it possible for LAs to discharge their duties by use of furniture stores, food banks and other services, meaning they could use the cash funds for other LA spending if they choose. It therefore seems likely that—far from experiencing a more consistent provision—claimants will face a post-code lottery for some of life's basic necessities, and may be expected to rely on charitable grants instead of statutory funding.

Decision-making is currently influenced by the finite amount of money available; while the use of furniture stores and food banks might relieve some pressure on the cash funding, there is still likely to be more demand than supply, so that localisation will not necessarily resolve this problem. It may even give a false sense of resolution, if people are directed to provision which only partially solves their problem, in order to try and spread the resources more thinly—eg reconditioned white goods may be a short-term solution, but are unlikely to be guaranteed against further fault.

Since local authority budgets are allocated by function—social care, education etc—there may be problems for authorities in how to allocate emergency funding across their different departments, since household emergencies do not fall neatly into departmental categories.

The Government does not envisage LAs providing any loan facilities—which effectively abolishes crisis loans for emergency living expenses. This gives us grave concern, as CABs regularly see clients who need a crisis loan in order to buy food, or to top up their gas or electricity card. Under these proposals, we believe many more people will be forced to use high cost lenders, increasing their debts and reducing their ability to take control of their finances. (In a recent survey of CAB advisers, 67% had seen clients who had resorted to high cost lenders after being refused a grant or loan from the Social Fund).¹

This also means that the initial funding pot can only decrease over time, as there is no facility to recover a proportion of the disbursement through loans. The funding is only guaranteed for the life of this Parliament, which suggests that there is a very real risk of the provision steadily diminishing until it no longer exists at all.

We are particularly concerned that localisation will effectively remove the right of claimants to apply for a grant or loan, since eligibility can be decided by LAs, and could therefore exclude some people in some locations, depending on local priorities. This is likely to be a particular problem for victims of domestic violence who often have to move away from their home local authority, but are likely to find that the authority to which they move refuses to help them. It will also remove any right of appeal, since—with no new statutory duties—LAs will not be required to create their own appeal mechanisms, and no central mechanism could hope to understand the application criteria for each LA in order to adjudicate over appeals.

SCOPE OF LOCAL DISCRETION

In the case of council tax relief and discretionary social fund payments, we prefer a national provision. However, if they must be localised, we believe that LAs should be bound by clear and rigorous rules of accountability, where spending is justified in terms of wider principles such as reducing child poverty, preventing homelessness, promoting equality, and ensuring that everyone has the basic needs, as well as due consideration of further costs to government if people are not supported to manage their immediate needs—for example, re-housing for people made homeless; impact of postponing a move from residential care if claimants can't afford to furnish a home; health costs for people whose health deteriorates from inadequate physical support, or from the anxieties of their situation.

We believe that these proposals will create an intractable problem by localising provision on the basis of minimal control, as it is hard to see how consistent standards can be maintained without direction from central government. As far as we can see, the commitment to localise council tax relief without jeopardising the single taper of Universal Credit can only lead to a complicated administrative process (as suggested above), which would be open to error and is therefore likely to cause constant problems with calculation and delivery. It seems that it will also add an extra layer of bureaucracy, as the DWP may have to set up mechanisms to monitor local schemes to ensure that relief does align with the principles of UC.

VULNERABILITY OF FUNDS

This was a point of considerable discussion at the Welfare Reform Bill committee's oral sessions in March. Committee members asked why witnesses believed that LAs would not consider it a priority to support people in emergency need.

This seems to us to show a lack of appreciation of just how difficult LA decisions will be as they manage their greatly reduced spending allocations. We have no doubt that LAs will indeed prioritise support for people in greatest need, but in practice, the definition of "greatest need" is being narrowed and tightened in order to focus diminishing funds—as illustrated, for example, by trends in criteria for social care. (We would argue that there is precedent in what has happened to funds for Supporting People, where ring-fenced funding has gradually been absorbed over time). We are concerned that many people who are highly vulnerable but perhaps not the *most* vulnerable, will not be given support. The irony is that very vulnerable people will quickly become the most vulnerable if they are not supported to avoid their situations becoming even worse.

We reiterate the point of principle, that—regardless of the actual decisions made by local authorities—the government's proposals will remove the existing constitutional protection for people on very low incomes, which recognises that benefit levels are not sufficient to manage unexpected high-cost expenditure, or emergency needs.

¹ See: Appendix to *Citizens Advice response to DWP's Call for Evidence, local support to replace Community Care Grants and Crisis Loans*, April 2011

CHANGES REQUIRED IN WORKING RELATIONSHIPS BETWEEN DWP AND LAs

As we do not know any details of how the localisation of council tax relief and social fund replacements will work, it is difficult to answer this question. Three points come to mind, however:

Firstly, there appears to be an assumption that many of the people needing emergency support are likely to be in contact with local authority services, and therefore localisation will improve the targeting of support. We do not find this convincing, as LA social services are increasingly focused on people with high levels of care needs, or where children are at risk. Many individuals and families who apply for CCGs and CLs are not eligible for social services, but still need this extra support.

Secondly, if the social fund monies are not simply to be absorbed into LA funding, there needs to be some joint agreement on how priorities will be decided. It is hard to see how that will be achieved without some central direction—or without considerable extra administrative burden to enable formal discussions between DWP and each local authority.

Thirdly, any sharing of information will depend on effective IT systems, and efficient data processing. Citizens Advice Bureaux see numerous cases of official error causing hardship to claimants, including co-ordination between HB payments which are administered locally, and other benefits delivered centrally. After the initial difficulties with tax credits, we are wary of reliance on government IT systems, and while we hope that the IT proposals for Universal Credit will be effective, we have significant concerns that they may not run as smoothly as intended. Adding an extra dimension of co-ordinating information systems between DWP and local authorities clearly adds another layer of risk.

ABILITY OF LOCAL AUTHORITIES TO DEAL WITH WORKLOAD

Without more detail, it is impossible to estimate what extra workload will be involved. We have already suggested that a whole new administrative mechanism may be needed to manage council tax relief if it is to be decided by LAs but reflected within UC.

If LAs choose to run local equivalents of the existing social fund, they may have to devise application processes; verification of need; delivery systems, such as access to and delivery of large items of furniture and white goods; possible cash provisions, with associated security of cash and staff; mechanisms to manage repeat applications; and—we hope—some system of appeals. These may not be required if provision is to be made by bodies other than the LA itself, but there could then potentially be requirements to commission contracts and refer claimants, together with a quality assurance process.

The survey mentioned above asked bureaux advisers about the capacity of LAs to provide replacement services for CCGs and CLs. Of 95 advisers who responded, 77% did not believe that their local authority had the capacity to manage this kind of support, with 23% saying they were not sure, and none saying that their LA would manage this provision with existing capacity.²

IMPACT ON CLAIMANTS

Claimants cannot be assessed as one homogenous group.

Regarding social fund equivalents, depending on how the LA manages the funds, it is most likely that the changes proposed will make it easier for some people to access emergency support, and more difficult for others. It may not even be more responsive to local circumstances if the LA decisions are made on narrow definitions of eligibility. We do believe that these proposals will increase pressure on grant-making charities, and we fully expect to see more people turning to high-cost credit.

Regarding localised council tax relief: as suggested above, the proposals risk either creating a second withdrawal taper, which will undermine work incentives; or administrative problems, which can have devastating impact on claimants if they do not receive benefits in time, leading to debt, rent arrears and possible homelessness.

TIMESCALE

If the Bill becomes law early in 2012, and UC is due to be delivered in October 2013, the timescale for change is some 18 months. The way housing costs will be delivered in UC is still unclear, and if this requires as much thought and consultation as childcare has done, there is at least six months' work ahead just in the planning. HMRC continues to reassure stakeholders that the IT system will be ready, but the history of government IT systems—especially tax credits—does not foster optimism.

We would hope that with the radical nature and wide range of these reforms, there will be time for testing and piloting, which should cover a period of six months at minimum, and preferably a year, to capture the seasonal variations in demand, in claimant behaviours, and therefore in pressures on the system.

We envisage difficulties for LAs in decisions around redundancies and re-deployment/re-training, as they could plan to manage out HB staff in time for the introduction of UC, only to find that if the government's

² Ibid

timetable slips, the LA could be short of staff in the transitional period. Alternatively, if staff are to be re-trained to advise claimants on the new benefit system, they will need to be ready for 2013, while still managing the transition for existing claimants.

The 2011 Welfare Reform Bill contains an unprecedented number of fundamental changes, which will have major impact on some of the most vulnerable people in society, who need reassurance and guidance at the best of times. Advice services therefore expect to face a considerable increase in demand, even as funding is under threat from changes to legal aid; limits on financial inclusion funding; and cuts to LA spending allocations.

June 2011

Written submission from the New Policy Institute

1. This submission from the New Policy Institute (NPI) is in response to the Committee’s invitation to its inquiry into the implications of welfare reform insofar as it affects matters in the remit of DCLG. Our remarks are restricted to the localisation of council tax benefit (CTB). NPI has studied council tax and how it might be reformed since 1998. We were particularly active both prior to and during the 2004 Raynsford Review. If there is one thing we learned—and it was some time before we did—it is that it is a huge mistake to suppose that CTB is just the tail on the council tax dog.

2. The submission is divided into two parts. In the first, we set out the key features of CTB and, in particular, the way in which it modifies the “normal”, property-based council tax. We refer to this combination of “normal” council tax and CTB as the council tax system. In the second part, we respond to four of the questions of interest to the Committee.

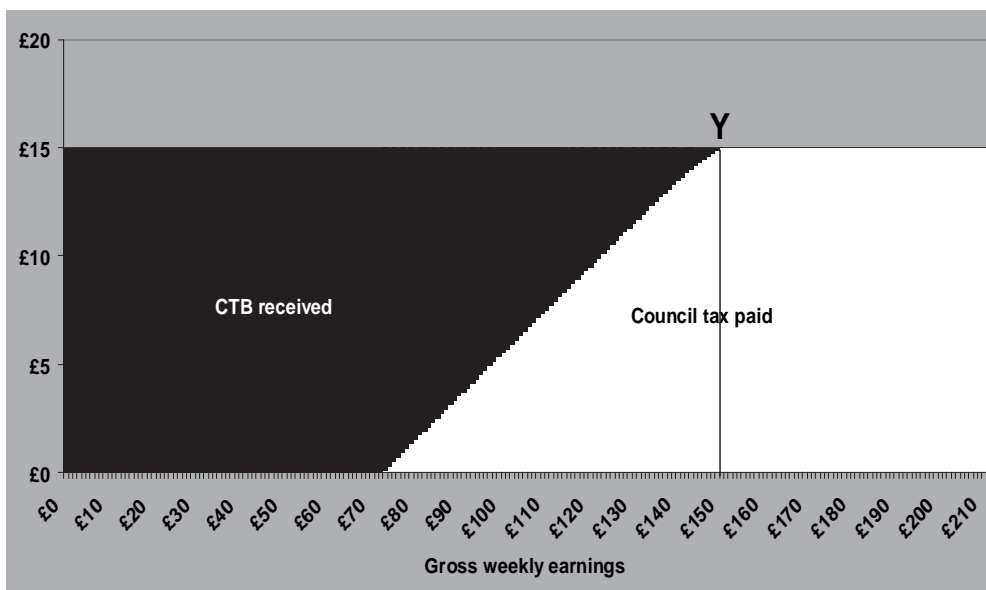
PART I: SOME KEY FEATURES OF CTB

CTB has a profound effect on the council tax system, transforming it into a hybrid property and local income tax

3. To grasp what CTB really does requires a shift of perspective. Instead of looking at CTB itself—that part of “normal” council tax that a householder entitled to CTB does *not* have to pay—look instead at the householder’s liability to council tax that remains *after* CTB has been deducted. In figure 1, which shows the liability for a single working-age adult without dependent children, this means shifting attention from the black area (CTB) to the white (the remaining liability).

Figure 1

CTB RECEIVED AND COUNCIL TAX PAID BY A SINGLE WORKING-AGE ADULT WITH A “NORMAL” COUNCIL TAX LIABILITY OF £15 P.W. TAX IS PAID ON THE INCOME BASIS TO THE LEFT OF POINT Y AND ON THE “NORMAL”, PROPERTY BASIS TO THE RIGHT



The key thing that CTB does is this: for so long as the household is entitled to some CTB, its liability to council tax does not depend on the value of its property or the band it is in but rather on its income

4. For example, the liability of the single adult without dependent children works out at 20 pence for every pound of weekly income (net of income tax and national insurance) above £73. For those entitled to it, CTB

turns council tax into an income tax. As income rises, so the tax payable rises until the point at which the liability under this local income tax is equal to the “normal” property-based council tax. After that, further rises in income have no effect on liability since the “normal” property-based tax acts as a cap or ceiling on the amount to be paid. Leaving aside complications such as the impact of savings on CTB entitlement, the liability of *any* household to council tax can be expressed as the lesser of (i) the normal, property-based council tax and (ii) the local household income tax in which the marginal rate of income tax is 20%. If CTB were just a fringe benefit, going to a few tens or even hundreds of thousands, then this might be no more than a curiosity with no political import. In fact, however, some 22% of households in both England and (coincidentally) Great Britain (some 5 million and 5.9 million respectively) receive CTB. More people receive CTB than any other means-tested benefit.

The detailed design of CTB means that council tax is the first tax that low income households pay as they move into work and increase their hours

5. CTB starts to fall from its maximum when weekly household income is £5 (for a single adult) or £10 (for a couple) above the level of working-age means tested income replacement benefits (income support, jobseeker’s allowance, income-based employment and support allowance). A single adult paid the minimum wage needs to work only 12½ hours a week before they lose their entitlement to full CTB and start paying some council tax. Earnings at this level (around £75 a week or £3,900 a year) are barely more than half those at which income tax becomes payable.

CTB acts as a shock absorber, both for people who lose their job, for pensioners whose council tax rises by more than their pension, and for local authorities

6. Like any other means-tested benefit, CTB responds rapidly to households’ changing financial circumstances. While in the first instance, the award of CTB means reduced income for the local authority, central government makes up the difference, that is, it picks up the bill for CTB. CTB also protects households against rises in normal council tax. Households don’t have to be receiving full CTB to enjoy this protection: on the contrary, provided a household gets *some* CTB then if “normal” council tax rises by more than income, CTB makes up the difference. Pensioners in particular have demanded that council tax should not rise by more than their pension. If they get any CTB at all, that is what happens—although not many people seem to know that. Thanks to the relative generosity of the savings element of pension credit, the pensioners who gain from this, though not well-off, are by no means just the poorest.

PART II: RESPONSE TO COMMITTEE QUESTIONS

7. In the remainder of this submission, we respond to four of the Committee’s questions. They are: the advantages and disadvantages of localisation; what should be off-limits; the procession of policy formation; the realism of the timescale; and the process of policy formation.

The advantages and the disadvantages of localisation

8. Once it is appreciated how central CTB is to the council tax system, the idea that it is to be abolished and replaced with diverse local schemes is, quite simply, incredible. As a key component of a nationally-designed tax system, CTB has *systemic* implications that make it unique. No benefit is less suitable for this treatment than CTB.

9. Localisation will likely also undermine CTB’s role as a shock absorber, in the first instance for local authorities and then for individual council tax payers. It is true that localisation could bring stability and control to central government’s spending on CTB. But what stabilises central government here destabilises local government. If local government in turn adopts a scheme that stabilises its expose to CTB, then the instability will be transferred to council tax payers. In this case, it is not just those receiving (or hoping to receive) CTB who will be affected but also all other tax payers in the area who will have to pay for it. Localisation of poor relief will return us to the 1920s.

What should be off-limits?

10. In inviting responses to its inquiry, the Committee notes the DWP’s insistence that localisation of CTB should not jeopardise the single taper feature of universal credit (UC). What exactly is meant here by “jeopardise”? Since CTB is (quite rightly) outside of UC, no replacement can in itself affect the UC taper. However, unless CTB is either (i) abolished without replacement or (ii) granted in full until all UC has been tapered away (neither of which is plausible), it will have to have a taper of its own. This means that at least some recipients of UC and CTB must inevitably experience a *total* taper greater than the UC taper alone. Far from being ruled off-limits, it should be explicitly recognised that this will happen.

11. How high that total taper goes is another matter, however. To give an example, if CTB were to continue in its present form with its 20% tax rate on net income, a recipient of UC and CTB would face a total taper of 72% (UC’s 65% plus CTB’s one fifth of the remaining 35% taper). Since this is some four percentage points less than the 76% total taper faced by a UC recipient who is also paying income tax and national insurance, there can be no principled objection from the DWP to a total taper of just 72%. This suggests that a serviceable

rule is that the taper on any CTB replacement is not more than the 20% net income taper on CTB today. If in some circumstances that is still felt to produce too high a result (eg a UC recipient receiving CTB and paying income tax and national insurance would face a total taper of about 81%), some supplementary limit—perhaps 80%?—could be placed on the total.

The realism of the timescale

12. For all that it has a big effect, CTB is not complicated. The 30 months notice of its effective abolition that was given in the Spending Review ought to be enough time to bring a suitable replacement into being, assuming of course that such a thing exists. The fact that the first nine of those 30 months have now passed with no sign of the promised government consultation paper suggests that it does not exist. If even central government—with some input from local government—cannot agree on the way forward within this sort of timescale, time in itself is not the real problem.

13. In these circumstances, the wisest course would be to retain CTB in its present form in 2013 and for the foreseeable future thereafter. The concerns that DWP have about how CTB fits with UC could then be addressed directly by that department. Having made whatever detailed revisions are necessary to ensure the maximum level of compatibility with UC, central government could then invite both individual local authorities, groups of local authorities and perhaps most importantly of all, the Welsh and Scottish Governments, to come forward with proposals to vary the design of CTB in their area. If the reversal of policy on CTB needs a justification, it can quite properly be that it is a tax cut which, for the most part, will benefit low income, working households.

The process of policy formation

14. As is perhaps by now apparent, we are very critical of the way this whole matter has so far been handled. This is not because CTB does not need changing: on the contrary, some of the principles that have motivated the design of UC could be applied to CTB too. DWP should have treated the reform of CTB as a necessary adjunct to the introduction of UC.

15. Neither are we critical because of what it might mean for CTB recipients. The interests of these low income households should be uppermost when it comes to assessing the merits of what is proposed—but until such a proposal is on the table, replete with all the necessary details, little worthwhile can be said.

16. Our criticism instead is directed at the way that policy regarding CTB has been made. The original Spending Review announcement that CTB spending was to be limited made no sense given the way CTB actually works. The Welfare Reform Bill was rash to announce CTB's abolition before a plausible replacement had been identified. The delay in producing a consultation document suggests that the seriousness of the situation has still not been properly grasped. The replacement of CTB is not some minor procedure for the out-patients department of welfare reform but a major piece of surgery. We think the operation should just be cancelled. If it is to go ahead, it should be remembered that the losers from a botched job will likely be pensioners with small private pensions and working-age people in low-paid, part-time work. In other words, much the same group as lost out when the 10p tax band was abolished.

June 2011

Written submission from the Institute of Revenues, Rating and Valuation

IRRV Submission: The Communities and Local Government Select Committee: Brief Inquiry into the Implications of Welfare Reform.

The Institute of Revenues, Rating and Valuation (IRRV) is pleased to provide the attached response to the above CLG Select Committee Inquiry.

The IRRV is the professional body concerned with all aspects of local benefits administration and local taxation in the United Kingdom. It draws its membership from those working within both the private and public sectors. Institute members are engaged in local authority benefits administration, local tax administration, valuation of property for taxation, the appeals process and financial management in local government. The Institute represents the professional interests of its members who work within this broad church.

The Institute is the only professional body in the United Kingdom that specialises in the law and practice of local authority revenues and local taxation collection, together with the income related benefits that support these processes.

IRRV Submission: The Communities and Local Government Select Committee: Brief Inquiry into the Implications of Welfare Reform

ANSWERS TO THE SUGGESTED QUESTIONS RAISED WITHIN THE CONSULTATION

Q: What are the advantages and disadvantages of localisation of council tax benefit? Are concerns that it will undermine the intent of Universal Credit (UC) valid?

3. The advantages of localisation are that the Local Authority (LA) can address local priorities and issues through the scheme. If there is a specifically large number of a particular vulnerable group the scheme can be geared to help these people most.

4. The counter-argument to this is that if the LA has a cash-limited fund for the scheme they may not be able to subsidise this priority group to the level that is currently done, therefore stretching funds further yet not adequately managing the level of the payment left to be made by the customer. This could result in difficulties to pay by the customer and difficulties to collect from the LA.

5. Localising Council Tax Benefit brings with it a number of financial risks; which include such factors as an increase in the benefit caseload or an increase in the Council Tax burden itself. Other disadvantages include software costs for different schemes, operation of a postcode lottery and political tensions across authorities.

6. In order to mitigate the financial risk the reforms to Council Tax Benefit could be looked at alongside reforms to Council Tax as a whole. No details have been given as to how the funding total for Council Tax Benefit following 2013 could rise. No details have been given with regard to funding of the administration of the revised Council Tax Benefit.

7. Localism will not necessarily undermine UC depending on the policies of the LA. It's quite difficult to comment fully without knowing the proposed funding mechanism. For example, we have heard a Treasury representative suggest the handing over of 10% less than LAs spent last year, not ring-fencing it, and therefore allowing LAs to not actually have a CTB scheme at all if they wished to use the funds elsewhere eg to supplement social care finance schemes.

8. It is hard to envisage a scheme that would disincentivise work. The CLG initially suggested that certain groups would need to be protected. If the scheme protects groups on their status rather than financial position, this could undermine UC due to perceived unfairness in the award criteria.

Q: Will localisation of Community Care Grants and Crisis Loans resolve identified problems with these funds? (such as uneven distribution of funding, variation in success rates for applicants with similar needs across the country, high administrative costs, questions over the standard of decision-making processes)

9. Perhaps! Although again it depends upon how "local" the policies are permitted to be. It would probably help with the high administration costs, particularly as LAs would be expected to take this on within existing structures. Also it would be more efficient simply because of the number of systems the DWP currently use to operate the process and, in most areas, the lack of a DIP system, leading to concerns regarding the validity of claims. However, localising them may not help with improvements in the consistency of awards, as decision making would be diluted even further. How will the UK Government recognize the issues that may arise locally? Perhaps reference to the Scottish Government's *Index of Multiple Deprivation* or a similar tool could be a way forward.

10. Where this would sit within an LA is also unclear; whether this would be prescribed or left to each LA to determine eg would it sit within the remaining Benefits teams or within social services; and what would happen where there is a county/district split. The proposal that these grants be decentralised to the county council, not the billing authority with the responsibility for benefits, will not assist the scheme at a localised level. An uncoordinated approach such as this will not bring any cohesion between the two areas of award unless they are drawn together in legislation.

Q: How much local discretion will/should be allowed in criteria, systems, decision-making and so on? What, if anything, should be off-limits to local decision-making? (For example, DWP has committed to ensuring that localisation of council tax benefit does not jeopardise the single taper feature of Universal Credit)

11. A basic scheme with some local variations has the most chance of palatable success. However this has to provide real localism and not simply a minor tweak which does not allow local priorities and issues to be addressed. A basic scheme that looked more like a simple discount scheme rather than a complex mini version of UC would be easily deliverable and administratively acceptable to the LA.

Q: How vulnerable will the funds available be to pressures on general local authority finances?

12. That will depend on the funding mechanism proposed and whether it contains something similar to DHP funding, whereby the overall limit is 2.5 times the pot provided by DWP.

Q: What, if any, changes will be needed to the working relationship between local authorities and DWP for the reforms to work effectively? What will the requirements be in terms of information sharing between DWP and local authorities, and how should these be managed?

13. There is requirement for excellent and accurate data exchange via technology that provides data matching and sharing of evidence for the award of benefits. There should be no need for the LA to collate the majority of information, as this should be available through DWP centralisation. The CIS system allows the fledgling information but HMRC and Pension Service links are also needed to ensure the LA can assess entitlements quickly and accurately with minimum interface from the customer who has already claimed means testing.

Q: Are local authorities equipped to deal with the attendant workload, and what new systems will they have to put in place?

14. They may be now, but the significant fear is that many will see staff leaving before 2013, who will not be replaced; and this could impact on an LA's ability to deliver.

Q: Will these changes make it easier or more difficult for claimants to access assistance? Will they complicate the system overall, or just improve its responsiveness to local circumstances?

15. The changes will make it more complicated for claimants in one way, in that UC only incorporates a limited number of benefits eg it includes JSA(IB) yet excludes JSA(C).

16. If claims can be made for all benefits through various portals this has to help everyone, eg LAs, HMRC and DWP. As LAs are in the community they are a vital interface for benefit applications.

Q: Is the timescale for change (including the rolling of Housing Benefit into the Universal Credit) realistic?

17. The timescale for the localisation of CTB is not realistic, but it may be realistic for the transition of HB cases to UC; more information from the DWP would be very helpful about important matters such as progress in software development. The timescale for the HB system is only two years, and for the CTB changes it is less than that. In order to design a scheme, pass local amendments, purchase or update systems, put interfaces and protocols in place for the exchange of data etc., this timescale is looking extremely doubtful. What is more disappointing is the fact that HB is being complicated further before 2013 eg transitional protection afforded to existing customers from the LHA cuts, ESA re-assessment and further planned changes due to LHA. It has also been suggested that, prior to transferring to UC, HB will be simplified by moving all existing HB claimants onto LHA. If true, this would be a very major undertaking, albeit one which seems sensible in the circumstances. The lack of information is frustrating.

18. Clear decisions must be made now; and in any case savings provisions put in place to ensure that the current scheme can continue if there is slippage.

Q: How is the process of policy formation reflecting, in your view, on the working relationship between DCLG and DWP?

19. It is encouraging that the two departments are working together; however, they need a clear and stated joint approach. This is an excellent opportunity for a review of the discounts and exemptions in council tax to address the failings in the benefit scheme to ensure that fairness and ability to pay are intrinsic to the core of the local property taxation scheme all the way down to the rebate system.

OTHER POINTS FOR THE COMMITTEE'S CONSIDERATION

Replacement of Housing Benefit

20. The way UC is paid could have important implications for the housing market. If UC increases the risk that tenants default on rent and rental incomes suffer, this could de-stabilise the financial arrangements that the social housing sector has with financial institutions. Santander Bank raised this point in a very clear and eloquent way at the end of May. It remains a possibility that housing costs in respect of Social Housing Tenancies may also be paid to the claimants as part of Universal Credit. If this were to be the case, it could have implications for the ability of landlords to collect rent. As a result, the Scottish Federation of Housing Associations and the Chartered Institute of Housing have suggested to the UK Government that housing costs could be paid directly to social landlords rather than the Universal Credit claimant. Councils currently administer Housing Benefit and throughout the UK will receive £462 million in 2011-12 in administration grant for HB / CTB. The move to UC will have profound implications for many council employees, council systems, contractual arrangements with private suppliers and support services within councils.

21. No meaningful details as to transitional plans to move to the future delivery arrangements are contained in the Bill. This raises questions as to the extent to which staffing, systems, contractual and transition costs arising from the reform such as will be met. The level at which UC is paid will have an impact on recipients and their own prioritisation of their debts and financial responsibilities. The possible impact that the move to UC will have on homelessness will need to be monitored.

Universal Credit; and the Local Authority Role

22. The Bill does not contain provisions relating to the future delivery of UC and a debate continues between the UK Government and interested parties on the institutional arrangements for supporting delivery of the benefit.

23. The decision about how UC is delivered will be crucial to its success; particularly in promoting work incentives. People will need to see gains from work. If through UC claimants receive a single payment that includes monies that were formerly rebated against liabilities, many people will need to develop new skills and behaviours around how they budget and how they relate to welfare support and advice. The quality of face-to-face support given to people will be of critical importance; in statements made when UC was first proposed it became clear that the UK Government see on-line and telephony as being the main delivery models. The UK Government did however acknowledge that there is an ongoing need for face-to-face contact to be available for those claimants who need it. The UK Government is still considering the delivery model and LA associations, including CoSLA, have emphasised that many people naturally see their council as the place to go for support. There is a strong case for giving councils the role to provide or commission face-to-face support locally. The UK Government's decision to postpone decisions on this until 2015 will cause confusion and place unnecessary financial pressures on councils who will be expected by their local communities to fill in any vacuum in support at local levels.

24. The way universal credit is paid it could have important implications for the housing market. For example, if universal credit increases the risk that tenants default on rent, and rental income streams suffer, this could de-stabilise the credit arrangements the social housing sector have with financial institutions.

25. If through universal credit they receive a single payment, many people will need to develop new skills and behaviours around how they budget and how they relate to welfare support and advice. The quality of the face-to-face support given to people will be of critical importance but this will not be offered by DWP. LAs already provide a face-to-face service and deal with customers on a daily basis. Many people naturally see the council as the place to go for support on a wide range of issues that has bearing on their attitude to work such as housing and childcare etc.

26. There will be no face-to-face service for people and the DWP intend that the majority of claims will be made, assessed and delivered electronically. A significant percentage of claimants will either not have the skills to apply online or they will not have access to computer systems.

27. LAs play a vital part in supporting the development of services for financially excluded people. In particular they support the essential networks and partnerships which link together third sector providers of support for the financially excluded. Supporting financial inclusion and embedding them within service delivery helps:

- to prevent homelessness,
- reduce rent arrears and number of evictions,
- reduces the cost of rent and CTAX collection including court costs, and
- reduces the broader social costs caused by financial pressures such as anti social behaviour, vandalism etc.

28. LAs constantly deal with the wider consequences of poverty and have provisions and policies in place to help deliver financial inclusion which stimulates innovation, problem solving and partnership working. The need for positive financial inclusion activity is being exacerbated by the current recession.

29. LAs have a key role to play in engaging with the majority of the local community, especially the most vulnerable and hard to reach in society when dealing with such things as housing, benefits and homelessness etc. They are best placed to engage with these customers to deliver appropriate support. This is an important element of breaking the intergenerational cycle of disadvantage and supporting the wider social and economic cohesion of neighbourhoods.

Policy Formation and Inter-Governmental Working Relationships

30. Council Tax Benefit will be abolished and replaced by another form of local tax benefit that may be localised from April 2013; and which will reduce the Council Tax Benefit costs by 10%. This replacement benefit will not be considered a welfare benefit. The Secretary of State for Communities and Local Government is leading the development of the new benefit and he will liaise with the devolved Governments to try to develop parameters for local schemes throughout the UK. From Scottish and Welsh perspectives it is very difficult to view this approach as anything other than inappropriate and overbearing.

31. The UK Government, the Scottish and Welsh Governments and Local Government will need to discuss a formula to ensure that resources for Council Tax Benefit go where they are needed given the demographic make-up of different areas;

Replacement of Council Tax Benefit

32. During the Committee stage of the Bill some of those interviewed have opined that the replacement for Council Tax Benefit should be included in Universal Credit (UC) as if it were to be outwith UC that would undermine the basic principles of universality. This however overlooks the issues surrounding the collection of Council Tax from those who would be in receipt of UC (see para. 39 under “Study Three” for detailed information on this point). This divergence of opinion has given rise to media speculation as to whether, in the end, the replacement for Council Tax Benefit will be in UC.

Fraud and Overpayment Issues

33. Fraud prevention should feature as a key factor in the design of welfare reform and it therefore has an important place in the localisation or replacement of council tax benefit. The system should not contain elements that are likely to be perceived as unfair since this will be seen by some as a moral justification to commit fraud. An example in the present council tax system is that a one-person household pays 75% council tax but a nil-person house can attract 90% or 100% tax, so that the tax reduces when a person moves into a property. Similar inconsistencies should be avoided in this welfare reform. The Institute has taken issues related to fraud into account in various places in the response.

34. A factor where fraud is incentivised is in relation to the recovery of overpayment. People on low income inevitably spend the welfare benefit they receive on essential living expenses. Such people tend not to have any savings but rely on borrowing and debt to meet unexpected costs that arise. In many cases, as HMRC has found in relation to tax credits, repayment of overpayments has to be made out of future income, which if the person is still on benefit, will increase the incentive to fraud or drive the family into greater poverty. These concerns need to be given careful consideration in the design of the system and in the policy approach to overpayment recovery. With the increased complexity that a localised rebate scheme will introduce and the increased workload to authorities, the risk of over payment is heightened. As the funding to cover such over payments will be the responsibility of the authority, it is a further financial burden on the authority.

CASE STUDIES FROM A SCOTTISH LOCAL AUTHORITY

Study One: *Possible Impact of the Replacement of Housing Benefit*

35. In particular the implications of the change need to be considered for single 25–34 claimants, a group which contains a significant number of vulnerable people for whom shared accommodation may not be appropriate. The 25–34 aged claimant caseload residing in LHA private rented accommodation face reductions in benefit because of the legislative change that will affect them as from 1 January 2012. There are currently 141 such claimants in the Authority, 109 of which will see their benefit entitlement fall from its current LHA level of £98.08 per week to one of £57.69 per week; a loss of £40.39 per week. 32 cases who already occupy shared properties will see their LHA rate fall from £65.77 per week to £57.69 per week, a loss of £8.08 per week. This claimant group may create a pressure point in terms of an increase in homelessness.

36. The move to UC is expected to start with new claimants as from 1 October 2013. New claims include any claims, which are resumed after a break in entitlement. In the financial year 2010–11 there were 5,054 successful new claims. New claims, will at the introduction of UC, no longer be handled by the Revenues Unit although the Revenues Unit will still, at that point, be handling all ongoing claims. New claimants will, as a starting point, have any entitlement they may have to housing costs paid directly to them. This may present an immediate collection problem with regard to Council Tax and rent payments. On the basis of the content of the Welfare Reform Bill, the UK Government makes no distinction between private and social landlords in this regard. While elected members have over the years had many dealings with the Revenues Unit with regard to constituents’ HB / CTB queries, from 1 October 2013 for new HB / CTB claims this will no longer be the case. This has been recognised by the Scottish Government in their publication *Housing Benefit Changes: Scottish Impact Assessment*³ as “having an obvious implication for the 2012 Homelessness commitment.”

37. At present there are some 60 full-time equivalent members of staff in the Revenues Unit involved in benefits administration, whose jobs could be directly impacted upon by the introduction of UC. The impact will depend upon what happens to the replacement for CTB. The potential changes cause uncertainty for these staff and it is testament to the character of the staff that their professionalism has not wavered during this period.

Study Two: *Possible Impact Regarding Universal Credit and the Local Authority Role*

38. The DWP published a research report recently entitled “*Customers’ Experiences of Contact with the Pension, Disability and Carers Service*”.⁴ The report highlighted a number of issues including customers’ own views that highlighted the following key messages:

- There was strong support for face-to-face contact;

³ Housing Benefit changes: Scottish Impact Assessment: Communities Analytical Services, in conjunction with the Scottish Government Housing Benefit Reform Stakeholder Advisory Group: Scottish Government: March 2011: Version 1.21 Web document

⁴ DWP RR 722: Customers’ experiences of contact with the Pension, Disability and Carers Service: by G Whitfield, A Waring, J Goode, V-H Phung, K Hill and E Sutton: Feb. 2011: ISBN 978-1-84712-919-2

- Although telephone contact was viewed positively for simple transactions difficulties in getting through to the right person, and having to provide and repeat information over the telephone proved problematic for many people; and
- There was little appetite for internet based services due to the cost of equipment and connection, the ability to use computers and concerns about data security and privacy. Experience gained when the Pension Service was launched in 2005 suggests that face to face contact with customers is inevitable. When the Pension Service came into being it did not, originally, have a local presence but this quickly changed following customer pressure. As a result, the council set up a local service (as did others throughout the country) and a Section Leader from the Revenues Unit has been on long term secondment to the Pension Service Local ever since. [A large number of councils throughout the country have worked closely with Pension Service in similar ways as well as visiting the most vulnerable in the home.]

Study Three: *Possible Impact of the Replacement of Council Tax Benefit*

39. In the Authority there are around 17,000 households that currently receive Council Tax Benefit. This benefit is paid in the form of a rebate and is credited to the individual claimants' Council Tax account. During the financial year 2010–11 a total of £10.55 million was paid directly to the council in terms of Council Tax Benefit. This represents 15.34% of the total collectable debit. Should the replacement for Council Tax Benefit be included in Universal Credit, paid direct to the claimant, this will increase pressures on collection rates. It is impossible at this stage to come to any firm conclusion as to how much of a problem this could become. In many ways it will also be influenced by the level at which all the various component parts of Universal Credit are paid. The situation however is similar to the current position regarding the collection of water service charges, which Council Tax Benefit does not meet. At present, notionally, primary state benefits include amounts to allow the claimants to pay their commitments for water service charges. The reality for this council is that if water service charges are isolated the in-year collection level is around 70% as compared to 94.4% for Council Tax and Water Service Charges combined. Given that this is the level after recovery procedures are invoked, it is clear that if CTB was included in UC it would almost certainly result in financial pressures for the council. For example, if the water service charge collection rate were to be applied to the amount of Council Tax currently received directly this would leave a shortfall of around £20 million in terms of in-year collection in the Authority.

40. In addition to the UC issue, the impact of the UK Government's policy objective of reducing Council Tax Benefit expenditure by 10% will potentially have an impact on collection levels, given that 10% of the current level of Council Tax Benefit amounts to £1 million. Such an impact could mean that the Scottish Government may have to look at redesigning the scheme of Council Tax exemptions and discounts (as may CLG and the Welsh Assembly Government).

June 2011

Written submission from the National Housing Federation

The National Housing Federation represents 1,200 independent, not-for-profit housing associations in England and is the voice of affordable housing. Our members provide two and a half million affordable homes for five million people. The Federation welcomes the opportunity to respond to the Department for Communities and Local Government Select Committee inquiry into the implications of welfare reform.

INTRODUCTION

1. The National Housing Federation has welcomed the Government's plan to simplify the benefits system into a Universal Credit that provides greater incentives to work. However, it is important the Government is alive to the risks of centralising the administration of housing benefit and seeks to preserve some of the administrative efficiencies in the current system and effective joint working between landlords and administrators.

2. Housing benefit in the social sector is currently paid—often directly to landlords—by local authorities. There are several advantages to such a system, including councils' local knowledge and the ability to provide claimants with face-to-face meetings and advice.

3. Under the proposed changes, local housing benefit structures would be largely swept away and replaced with a centrally administered system that would be responsible for providing a range of vital support under the umbrella of the Universal Credit. The changes would be significant for both users and administrators.

4. Questions that the Government will have to address include:

- To whom will the Universal Credit be paid? Current benefits are paid to different people—rent to the tenant, child benefit to the main carer and Jobseeker's Allowance to the job seeker. The Department for Work and Pensions (DWP) wants a single payment made to each household but we would be concerned if support for housing costs was to be paid to someone other than the person responsible for paying the rent.

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- Can a centralised benefits system remain knowledgeable about, and responsive to, local claimants? Who or what will replace the local expertise and presence of local authority housing benefit staff? The very distance between the administration of housing benefit, as it becomes rolled into the Universal Credit, and its claimants, has the potential to create problems. Ideally, some of the things recipients like about the current system—for example, the opportunity for face-to-face contact with officials—would be preserved.
 - How will rent arrears be kept to a minimum if tenants are no longer able to choose to have their housing benefit paid directly to their landlord? The evidence suggests that an end to direct benefit payments to landlords will lead to increased arrears, which would jeopardise housing associations' security of income and limit their ability to develop new homes. In addition, some people do not have bank accounts and would therefore find it much harder to budget their spending.
 - Who will be responsible for determining which working-age households in the social rented sector are “under-occupying” and therefore liable for a housing benefit cut averaging £676 year?
 - What effect will changes to the housing benefit entitlement of tenants in both the private rented and social sectors have on homelessness?
 - What will happen to the transparency and accountability of emergency support when the Social Fund is abolished in its current form and replaced with an undefined system of local support?
 - Who will be responsible for updating central records when changes are made to social rents? Currently, tenants do not need to put in a new claim when their rent goes up. Instead, the landlord informs the local authority, which alters the housing benefit paid accordingly. This is much more efficient than 20,000 tenants each having to inform the central authority that is running the Universal Credit.
 - Will the IT system designed to run the Universal Credit be delivered on time—and will it work? Government computer systems have had their problems in the past, but the potential consequences of a household's entire income going unpaid due to technical errors could be very serious indeed.
 - What happens to older people? Universal Credit is a working-age benefit and we understand that pensioners are expected to receive their housing support through the existing Pension Credit. DWP has released very little detail about how this will be administered and any changes that older people or landlords can expect.

Landlords can play an important role in smoothing the process of change and informing tenants. But they need to prepare for fluctuations in their revenue flow and to do this effectively they need answers to the questions as soon as possible.

RECOMMENDATIONS

5. Retain the right of tenants to choose to have their housing benefit, or housing element of their universal credit, paid directly to their landlord.

6. Drop the new size criteria for the social sector that will lead to 670,000 households across Great Britain losing an average of £676 per year in housing benefit for “under-occupying” their homes. At the very least there should be exemptions for disabled people in specially designed or adapted properties, and for all recipients of Disability Living Allowance.

7. Issue the consultation on the future of “exempt accommodation” that reflects the importance of supported and sheltered housing in meeting broader government objectives of greater efficiency in social care and choice and control for disabled people.

8. Ensure that funds for the local replacement of the Social Fund are ring-fenced and local authorities are given statutory duties to guarantee that the most vulnerable people do not lose out from hard-pressed councils redistributing funds to other areas, as has happened in some cases with Supported People funding.

9. Provide clear and detailed plans, including a timetable, for the proposed system of support with housing costs for older people.

10. Involve social landlords at an early stage in discussions about the transfer of administrative responsibilities from local authorities to the new system.

Recognise that many disabled and vulnerable people live in social housing. Retain links between local authorities and the new Universal Credit administration to support effective homelessness prevention work.

HOUSING BENEFIT

Direct payment to landlords

11. We are concerned that under the Universal Credit tenants will be compelled to receive their housing support directly from the DWP. Currently many social housing tenants choose to have their support for housing costs transferred directly to their social landlords. This freedom to choose should be retained under the

Universal Credit. It is an important option for people on a low income, or with poor access to credit and traditional bank accounts, to use to help them budget month to month.

12. The Government, in its White Paper on the Universal Credit, stated: “We... recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position. Options for achieving this could include some ongoing use of direct payments to landlords, use of direct debits, and a protection mechanism which safeguards landlords’ income.”⁵

13. However the Welfare Reform Bill is silent on this vital issue. There are real fears that any introduction of direct payments to tenants to cover housing costs in the social rented sector will precipitate increased difficulties in budgeting for tenants, rising arrears and rising collection costs for landlords. The loss of direct payments would also be likely to have an impact on cash flow-based loan security valuations and will cut future borrowing capacity of housing associations at a time of constrained public spending.

14. London housing association L&Q, which ran a pilot to test the implications of paying benefit directly to tenants, found it increased arrears and was not popular with tenants. In areas where it had moved a significant number of tenants to the new system as a “big bang” approach, the rate of arrears increased from 3% to 7%. L&Q estimated that if this pilot was replicated across the association then arrears would increase from £2.5 million to more than £6 million (2004 figures).⁶

15. The proposed move to mandatory payment of support for housing payments to tenants will lead to a range of additional costs for landlords, which will in turn have an impact on their ability to fund new development. They include increased management costs as staff will have to spend more time with tenants on benefit to arrange payment, to set up and implement different collection systems, to deal with HB/UC administration, and to help sort out errors. Other additional costs could be created by increased management costs on arrears recovery and legal action against tenants. The L&Q pilot identified an additional cost of £300,000 in transaction costs for its 16,500 tenants on housing benefit if 90% were to move to payments direct to tenants.⁷

16. An estimated 15% of local authority tenants and 13% of housing association tenants do not have a bank account, and so would be unable to pay their rent by direct debit if direct payment to landlords were brought to an end.⁸ Where people do have an account that allows payment by direct debit, people face financial penalties if there is not enough money in the account to cover the direct debit. Such penalties compound personal debt.

17. The Council of Mortgage Lenders has expressed concern at the proposal and has called for direct payments to landlords to be retained.

18. The Federation has raised concerns with ministers about the importance of secure income to housing association investment, to continue development of much-needed new homes, and the significance of direct payments in helping tenants on low incomes avoid debt and arrears. We are working with DWP officials to help design a workable payment system but we are also calling for legislation to include the right for tenants to continue to be able to choose direct payment.

SUPPORTED AND SHELTERED HOUSING

19. The Government intends to consult on proposals to change the payment of housing benefit to claimants in what the DWP terms “exempt accommodation”, which is supported and sheltered housing for vulnerable people. Supported and sheltered housing includes schemes to allow independent living for disabled people, hostels for homeless people and refuges for people fleeing domestic violence. An independent analysis by Frontier Economics concluded that this specialist housing delivers a net benefit of £639 million a year; including £219 million a year from older people’s housing, £199 million a year from specialist housing for adults with learning disabilities and £187 million a year from specialist housing for people with mental health problems.⁹

20. Housing benefit for vulnerable tenants underpins the revenue for these services and any changes could force existing schemes to close. These schemes are already under pressure from local cuts in the Supporting People budget. It is vital that we have clarity from Government as soon as possible on their intentions for benefit claimants in such schemes. The DWP has suggested that there will be an ongoing role for local authorities and any retention of local knowledge, and link to local commissioning for Supporting People, would be welcome. However, existing efficiencies in the way benefit is administered should be protected. Claimants should retain nationally determined entitlement to housing benefit but there is an ongoing role for local administration.

⁵ *Universal Credit: welfare that works*, November 2010 <http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf>, p.20, par. 31

⁶ *Where’s the Benefit?* L&Q, February 2004

⁷ *ibid.*

⁸ Family Resources Survey 2008–09. Figures exclude post office accounts, which do not accept payment by direct debit.

⁹ Frontier Economics, *Financial Benefits of Investing in Specialist Housing for Vulnerable and Older People* (September 2010), www.frontier-economics.com/_library/pdfs/frontier%20report%20-%20financial%20benefits%20of%20investment.pdf

 UNDER-OCCUPATION AND THE OVERALL BENEFIT CAP

21. Measures in the Welfare Reform Bill to introduce new size criteria in the social sector in effect place an onus on administrators to police people's living arrangements while at the same time shifting power to the centre as housing benefit is rolled into the centrally-administered Universal Credit. The Government has announced plans to reduce housing benefit for working-age tenants it considers are "under-occupying" social homes—even if they have lived there for decades. Under the new restrictive size criteria, each person or couple living as part of a household would be allowed one bedroom, except for under-16s of the same gender, and under-10s of different genders, who would be expected to share bedrooms. Any household deemed to be "under-occupying" their home by one bedroom would lose 13% of their housing benefit while any "under-occupying" by two or more bedrooms would lose 23%. The measure, which would come into force in April 2013, would hit 670,000 working-age housing benefit claimants in the social rented sector—32% of the total—rising to about 760,000 by 2020.¹⁰ Those affected would lose an average of £13 per week—£676 per year. Housing association tenants would lose an average of £14 per week or £728 per year. Those affected will include disabled tenants—including claimants of Disability Living Allowance and Employment and Support Allowance, and those living in specially designed or adapted properties—separated parents who share the care of their children, couples who use a "spare" bedroom when recovering from an illness or operation, couples whose children have "flown the nest" but still visit, families who foster children and people in areas with no smaller social homes available. Ministers hope to save £490m per year from this measure.

22. Several unanswered questions remain about the way in which the size criteria would work in practice. We do not yet know who will take on the potentially onerous responsibility of determining what constitutes a spare bedroom in order to calculate whether a family is deemed to be "under-occupying". Individuals may be required to declare whether they have any "spare" bedrooms as measured against DWP rules. But who will be expected to verify that self-declaration, or test samples? What happens when a "bedroom" is too small to share?

23. In some parts of the country, families have been purposefully allocated properties that under the new size criteria would be considered too large for them. This may have been in order to prevent a concentration of children on an estate, or in high rise flats or because there is a severe shortage of suitable smaller accommodation. The new system would take precedence over local discretion and lettings policies and could lead households into hardship without a clear route to avoid any penalty.

24. The Government has repeatedly cited its increase in the size of Discretionary Housing Payments (DHP) as a way of addressing some of the "hard cases" that might emerge following the reforms. But, despite recent increases, the size of the pot remains woefully inadequate for the task. Whether local authorities will be able to match DHP to claimants who are dealing primarily with a centralised administration system is not yet known. The plan to introduce the under-occupation measure at the same time for both new and hundreds of thousands of existing tenants could potentially be extremely destabilising for tenants, landlords and local authorities.

The Welfare Reform Bill also includes proposals to impose a cap on the total amount of benefits a household may claim, again from 2013. The cap would be equivalent to the average take-home pay of a working family—£500 a week (£26,000 a year) on current projections. Households affected by the cap will see their housing benefit reduced and where they are unable to find work, or have very young children, will face the choice of reducing weekly expenditure or getting into arrears and risking losing their home. Ministers have referred to giving families "intensive support" in this situation but there has been no detail on who will be responsible for giving this support and who will pay for it. It is likely that the policy will put more pressure on local authorities as families present as homeless.

SOCIAL FUND

25. The abolition of the Social Fund and the decision to develop a non-ring fenced local alternative raises serious questions about the future of emergency support and accountability and transparency when it comes to investment. Community Care Grants (CCGs) and Crisis Loans (CLs) provide much-needed finance for emergency expenditures and transition into the community. We believe that localisation is not the most effective way to improve the way the system operates. A localised service is likely to be less efficient in terms of running costs and less consistent in terms of standards of provision. Localisation of the discretionary Social Fund is likely to result in both fragmented and inadequate provision for vulnerable individuals and families, and great additional demands being placed on local authority resources that cannot be adequately met.

26. We understand that the new provision will fall under the remit of social services and yet the Association of Directors of Adult Social Services has highlighted significant problems with the proposals. We share their concerns about local authorities' capacity to manage the demand, and about the way the changes could create unnecessary tensions between the holistic nature of social care and the requirement to apply the financial criteria in awarding CCGs and CLs.

27. We are also concerned that the extra administrative burden will make it impossible for local authorities to continue to offer the kind of emergency financial support that CCGs and CLs have provided. The resulting

¹⁰ p.8 DWP *Impact Assessment on Under-occupation of Social Housing*, February 2011
<http://www.dwp.gov.uk/docs/social-sector-housing-under-occupation-wr2011-ia.pdf>

gap in provision may drive vulnerable people to payday lenders or home credit agencies with crippling rates of interest at 180–500% APR. If funding is transferred to local authorities it is therefore crucial that a ring-fence is retained. We are already seeing the effects of removing ring-fences from funding streams in periods of increased pressure on local authorities, for instance since its ring-fence was removed, the Supporting People budget has seen large-scale cut backs in many areas.¹¹

28. It is also important that when designing replacement provision, local authorities are able to operate within a framework that includes a robust assessment of levels of local need so that resources can be allocated in a way that meets actual local requirements. We call for an appropriate level of scrutiny to ensure that local decisions are transparent and accountable, and suggest that a national framework for guidance on delivering the provision would help support local authorities to develop a fair and transparent system. Mechanisms should be put in place to monitor local authority spending of funds on support for vulnerable people at times of crisis and transition, and spending must be transparent. Local authorities should therefore have a duty of care so that, even in the midst of difficult spending decisions, there is adequate support for people with need to access emergency finance.

In any localisation of the system, it is imperative that people still understand their eligibility for support, are able to access face-to-face support when applying for help, and have recourse to an independent appeals system. The appropriate infrastructure to make this possible is likely to be expensive for local authorities.

DCLG & DWP: WORKING WELL TOGETHER?

29. Major changes to housing policy are being led by the Department for Communities and Local Government at the same as the Department for Work and Pensions is radically changing the benefits system. We have observed different approaches to policy-making that could create difficulties the closer we get to implementation.

30. For example, DCLG has provided cash to help disabled people get their properties adapted, and Housing Minister Grant Shapps said in March this year that helping disabled people live comfortably and independently in their own homes was a “key commitment for this Government”.¹² But under the Department for Work and Pensions’ plans to penalise “under-occupation” in the social sector, an estimated 450,000 disabled people will face housing benefit cuts averaging £676 per year and will face pressure to leave their homes. There is an acute shortage of specially designed or adapted homes and landlords have very little flexibility to offer people smaller alternatives. There will be a cost to adapting new homes to meet disabled people’s needs.

31. DCLG has introduced a new investment regime for housing associations, under which most of the subsidy for developing new homes will come, not from Government capital grant, but from revenue from rents set at up to 80% of the local market rate and greatly increased private borrowing by housing associations. Such a system, based on increased borrowing against the higher rents rather than up-front capital grants, is inevitably riskier for landlords. But not only is the Government pushing ahead with the reforms, it is doing so just as the DWP proposes a range of changes to support for housing costs that could jeopardise that revenue stream. The overall cap on benefits, for instance, will mean that building larger family homes in places like London and the South East will generally not be viable because the near-market rents are likely to result in many households needing greater assistance than the £26,000 household benefit cap will allow. The end of direct payment of rent to landlords will increase costs, place revenue at risk and result in a rise in the cost of borrowing and re-pricing of existing loans.

More effective joint working between DCLG and DWP would help to ensure that welfare reform and housing policy share objectives, particularly around vulnerable people and reducing homelessness. The current proposals on benefits reform from DWP may inhibit efforts by DCLG to reduce homelessness.

CONCLUSION

32. While the Universal Credit, in centralising administration, offers many opportunities to improve the system, it also creates challenges that will have to be met as the changes are introduced. Central to these is the loss of local discretion, backed by local expertise and decision-making. By simplifying the system overall, there is a risk that its responsiveness to local circumstances could be significantly compromised. Effective information sharing will therefore be crucial if the new arrangements are to work in a way that safeguards the interests of the most vulnerable households, in particular. We hope the Committee will recommend that Government provides more information on how the specifics of the new regime will work, and that all efforts are made to prepare administrators and claimants for what are likely to be the biggest changes to welfare in a generation.

June 2011

¹¹ See the results of our survey of Supporting People providers
http://www.housing.org.uk/policy/older_and_vulnerable_people/housing_related_support.aspx

¹² Grant Shapps, DCLG press release, 3 March 2011 <http://www.communities.gov.uk/news/housing/1857639>

Supplementary written submission from the National Housing Federation

ISSUE

Current benefit systems pay claimants housing costs direct to their social landlord where the tenant opts to do so (and also on mandatory grounds in cases of arrears etc). Government's welfare reform vision is of a single Universal Credit payment paid direct to benefit recipients with housing costs included. At the same time Ministers have recognised "the importance of stable rental income for social landlords to support the delivery of new affordable homes"¹³ and have committed to developing the "Universal Credit in a way that protects their financial position".¹⁴

This paper considers the benefits that tenants, government and social housing landlords gain from the payment of Housing Benefit direct to landlords and describes a set of key tests any alternative approach to housing payments would need to pass in order to deliver against Ministers' previous commitments.

RECOMMENDATION

That within the design of the Universal Credit Ministers retain a system that allows tenants in receipt of benefit to opt for direct payment of the housing element of their benefit to their social landlord.

DISCUSSION

The National Housing Federation represents 1,200 independent, not for profit housing providers in England. Its members include housing associations, cooperatives, trusts and stock transfer organisations. They own and/or manage 2.5 million homes provided for affordable rent, supported housing and low cost home ownership, including an increasingly diverse range of community and regeneration services.

BACKGROUND

Government's Universal Credit project is designed to make work pay and encourage people to manage their own finances. Government's intention is that as far as possible it should replicate the situation of someone in work thereby easing any transition into employment.

Whilst the Federation supports the principles underlying the move to Universal Credit we are concerned that, under the proposals, social housing tenants will be compelled to receive their benefit support for housing costs directly from the Department for Work and Pensions (DWP) and lose the right to have the money paid direct to their landlord.

A move to this arrangement would deny tenants choice, bring into question the security of landlord income streams and impact on the ability of housing associations to deliver the Government's commitment to increase housing supply.

CURRENT ARRANGEMENT AND ROLE OF BENEFIT DIRECT IN SUPPORTING AFFORDABLE HOUSING DELIVERY

Currently the vast majority of tenants in receipt of housing benefit choose to have their benefit paid direct to their landlord. This arrangement has been critical in enabling social housing landlords to enter the banking and capital markets for finance at very competitive pricing. The availability of capital at competitive rates has been central to the delivery of successive governments' affordable housing aspirations and will be even more important under the new investment framework ushered in by the 2010 CSR.

In annex 1 of the White Paper on Universal Credit, the DWP acknowledged that one of the leading themes from responses to the Government's consultation, 21st Century Welfare, was concern that paying the housing element direct to the Universal credit recipient "could have a negative impact on landlords' rent collection, causing individuals to fall into debt".¹⁵

In order to ensure that the design of the new Universal Credit delivers against Ministers' commitments we believe that any design must pass three key tests.

These tests are:

1. Does it preserve consumer choice?
2. Does it secure the income streams of social housing landlords?
3. Does it offer efficiency and value for money to the public purse?

THE IMPORTANCE OF CONSUMER CHOICE

Currently many social housing tenants choose to have their support for housing costs paid directly to their social landlords. This freedom to choose should be retained under the Universal Credit. It is a legitimate option

¹³ DWP White paper, "Universal Credit: Welfare that Works", November 2010, Cmd 7957, page 20.

¹⁴ Ibid

¹⁵ P 20, para 62, Universal Credit: Welfare that Works, November 2010 <http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf>

and an entirely rational choice for people on a low income, or with poor access to credit and traditional bank accounts, and often facing acute financial pressures, to use to help them budget month to month.

We support Government's ambition to simplify the benefits system and have a single taper so that the value of working is clear to tenants. We do not believe that the single taper should prevent tenants being able to request to have their benefit paid to their landlord to cover the whole of their rent. For many people this may help smooth the transition into low paid work as tenants will be able to choose to have the reassurance that their rent is paid.

This position is strongly supported by the Tenants and Residents Organisations of England (TAROE), the Confederation of Co-Operative Housing (CCH) and the Tenant Participation Advisory Service (TPAS).

DWP has already acknowledged that direct payments to the landlord are necessary for "vulnerable groups". However, evidence from Home Group (see below) indicate that predicting the risks of tenants building up significant arrears is far from easy, demonstrating that it is very difficult to identify a reliable marker for vulnerability to losing your home. Retaining the option for tenants to choose to have the housing element of their Universal Credit paid direct to landlords is crucial. A move to take this option away from tenants would be a denial of consumer choice.

THE IMPORTANCE OF SECURE INCOME STREAMS TO SOCIAL HOUSING LANDLORDS

Secure income streams enable social housing landlords to maintain ongoing investment in new homes.

Housing associations are not for profit social businesses that invest in communities and new affordable housing. The reliable stream of income that payment of Housing Benefit direct to landlords provides has played a key role in enabling associations to secure access to long-term finance at favourable low rates, allowing to maximise the number of new homes that they can build. There is a major risk that proposals to end payment direct to landlords will result in significantly reduced funding overall for existing and new affordable housing.

This risk is increased by the move to the affordable rent regime. David Montague, Chief Executive of L&Q has said: "We will all be borrowing a lot of money over the next four years. This leaves big question marks over our capacity in the long-term to maintain the momentum of development."¹⁶ Any move away from enabling tenants to opt to have their rent paid direct to the landlord would place further pressure on the capacity of social landlords to engage in development activity. This impact would be far from marginal.

The Council of Mortgage Lenders (CML) has said that changes to the existing arrangements for calculation and payment of housing benefit could have an impact on lenders' and investors' appetite and the pricing of private finance, "The importance of direct payments to landlords is critical to the ability of housing associations to attract private investment at very favourable rates compared to other commercial sectors."¹⁷

The CML has indicated that the impact of the proposed changes could see lending rates for private finance rise by 100 basis points. Lenders are also likely to seek an increase in margins on the existing loans that they have made to the social housing sector.

With a loan portfolio of c£65 billion outstanding in the sector, and the new investment model introduced by the Government requiring significantly increased amounts of private finance, the withdrawal of benefit paid direct to landlords could have a significantly detrimental impact on the ability of housing associations to bring forward new supply.

An outline calculation suggests that this re-pricing along would lead to additional interest payments of around £30 million a year. This is money that could otherwise be invested in new housing supply and would be sufficient to secure £480 million of borrowing which could support the construction of 3,000 new affordable homes, without factoring in additional homes lost due to reduced cash flows resulting from arrears and the increased business costs associated with administering a more complex system.

HOW THE CURRENT SYSTEM DELIVERS EFFICIENCY AND VALUE FOR MONEY TO THE PUBLIC PURSE

The system currently in place facilitates the transfer of housing benefit payments from local authorities to landlords is effective at delivering value for money for both the public purse and landlords. Work between local authorities and landlords has created a system with low error rates with bureaucracy and administrative burdens kept to a minimum.

If the housing element of Universal Credit was not paid direct to landlords, they would need to bear significant extra administrative and management costs. This would impact on the delivery of existing management services, new development activity and other activities subsidised by housing associations such as adaptations to properties for disabled people.

Additional management costs would include staff spending additional time with tenants in receipt of benefit to arrange payment, the setting up and implementation of different collection systems.

¹⁶ Inside Housing, 20 May 2011 "Meeting affordable homes target will cost £14 billion" <http://www.insidehousing.co.uk/news/meeting-affordable-homes-target-will-cost-£14-billion/6514974.article>

¹⁷ Briefing by the Council of Mortgage Lenders on housing benefit and support for mortgage interest, 29 March 2011

A 2004 pilot study by L&Q identified additional transaction costs of £300,000 for its 16,500 tenants on housing benefit if 90% were to move to payments direct to tenants.¹⁸ They also estimated that they would need to process an additional 36,000 transactions a month and employ 30 additional staff to manage the consequences of the change.

THE EVIDENCE

The L&Q pilot of payment benefit directly to tenant found it increased arrears but was also unpopular with tenants. The rate of arrears as a proportion of the total rent roll increased from 3% to 7%. L&Q estimated that if this pilot was replicated across the whole of their stock then arrears would increase from £2.5 million to more than £6 million.

The study found that the “immediate impact of Tenant Direct is upon a landlord’s cash flow, with rent arrears typically doubling. In time the cost is likely to be borne by tenants as the landlord is forced to lower service levels or because they are evicted for non-payment of rent”.¹⁹

We understand that DWP believe that the Local Housing Allowance pilots of 2003–04 suggest that the arrears resulting from the payment of benefit direct to tenants lower than this. However, this study focussed on the introduction of new benefit arrangements in the private rented sector and we do not accept that this is a suitable proxy for understanding the impact in the social rented sector where most tenants are significantly more vulnerable.²⁰

VULNERABILITY

Constrained supply coupled with needs-based allocation systems means that only those with multiple needs and therefore the most vulnerable gain access to the social housing sector. Choice Based Lettings systems apply in most areas but the priority system remains needs-based so that the winning bidder for a home is likely to have priority based on medical or social need or because they are homeless and in priority need for housing.

While the DWP has accepted that payments direct to the landlord are appropriate for “vulnerable groups”, careful thought is required in assessing vulnerability. A narrow category of people defined by receipt of a disability benefit or residence in specialist housing would miss out large numbers of vulnerable people. There is also a danger of stigmatising groups.

If eligibility for payment direct to landlords is defined by vulnerability to losing your home, tenant profiling by Home Group suggests that over the last five year period, 37% of tenants had arrears at some point totalling over eight weeks rent and 70% of tenancies had arrears amounting to over four weeks of rent.²¹ There are no prior common identifying markers that would have led to these tenants necessarily being classed as vulnerable at the commencement of tenancy.

These arguments have greater force following the introduction of the Government’s affordable rent regime. As well as the greater dependence on private finance, rent will be charged at higher levels, so the impact of arrears is much greater proportionately. Eight weeks of arrears in an affordable rented home in London would easily total in excess of £3,000 a devastatingly large sum for a household in receipt of benefit and a major impact on the revenue streams of the landlord.

July 2011

Supplementary written submission from the Department for Communities and Local Government

DCLG SELECT COMMITTEE: WELFARE REFORM

In the Select Committee Evidence session on welfare reform on Wednesday 6 July, Mr Rotheram asked if it was correct that under the proposed localisation of Council Tax Benefit, councils in deprived areas stood to be four times off worse off than other councils.

I was not able to respond in detail at the time, as I did not have the analysis to hand. My officials have now looked at the analysis set out in the New Policy Institute Report of October 2010 into the localisation of Council Tax Benefit, on which I understand Mr Rotheram’s question was based.

I would like to reassure the Committee that the consultation that we will be issuing shortly will be looking at all aspects of localisation. This will include the principles for distributing the grant which local authorities will be able to use to fund support for council tax in their area. The analysis assumes a straight 10% cut in grant across all authorities. In practice, how this grant is distributed, and what factors the distribution takes

¹⁸ Where’s the Benefit?, L&Q, February 2004

¹⁹ Ibid

²⁰ DWP, “Local Housing Allowance Final Evaluation: The survey evidence of claimants’ experiences in the nine Pathfinder areas”, 2006

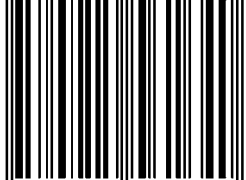
²¹ Home Group, Tenant Profiling Date (June 2006-June 2011)

account of, will determine the level of saving that individual authorities will need to find. We will actively seek the views of local authorities and others on what factors they believe should be taken into consideration.

By giving local authorities a stake in providing support for council tax, this reform is intended to strengthen the incentive for local authorities to support residents back into employment and so reduce demand for support and lessen the effect of the funding reduction. Localisation also reintroduces the link between council tax levels and the costs of providing support, reinforcing local financial accountability.

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