

Welfare Reform Act 2012

The Welfare Reform Act 2012 became law when it received Royal Assent on 8 March 2012. It makes significant changes to social security rules. The 2012 Budget announced that there is to be another £10 billion round of cuts to the welfare budget whose details are not yet known.

The objects of the Act are to reduce social security spending and to ensure that a claimant is always better off in work than out of work and living on benefits. It aims to end welfare dependency for those capable of working.

Universal credit

The biggest change is the introduction of universal credit from October 2013.

This replaces six existing means-tested benefits:

- child tax credit
- housing benefit
- income support
- means-tested jobseeker's allowance
- means-tested employment and support allowance
- working tax credit.

No new claims for child tax credit, housing benefit or working tax credit will be accepted from October 2013. No claims for the other benefits will be accepted from April 2014. Existing claimants will move to universal credit by 2017.

For pensioners, housing benefit will be replaced by a new housing credit as part of the pension credit.

Employment and support allowance and jobseeker's allowance

From 1 May 2012, payment of the (contributory) employment and support allowance is generally limited to 365 days. A claimant may then be able to claim income-related employment and support allowance. From the same date, ESA in youth is abolished.

From a date to be announced, a single parent may claim employment and support allowance only if their youngest child is under the age of 5.

A significant development is that the conditions for seeking work are tightened up. In general, there is a **claimant commitment** for anyone claiming jobseeker's allowance or employment and support allowance. From a date to be announced, there are sanctions for claimants who fail to

keep to their commitment.

From October 2013, there is a new condition that benefit may only be paid to those eligible to work in the UK.

Child benefit

Child benefit continues to be paid, though from January 2013 those earning more than £60,000 will the benefit clawed back by an income tax charge (under Finance Act 2012). Those earning between £50,000 and £60,000 will have some benefit clawed back.

The Welfare Reform Act includes provisions to allow the child maintenance scheme to be reformed.

Benefit cap

From April 2013, there is a cap on the maximum amount a household may receive from all benefits. The legislation says that the cap is related to the average earnings of working households.

At present, this means that the cap will be:

- £500 a week for a couple,
- £350 a week for a single person.

The cap applies to the benefits listed in the first column, but not to those in the second:

| Cap applies to: | Cap does not apply to: |
|----------------------------------|--|
| Universal credit | Working tax credit |
| Income support | Disability living allowance |
| Jobseeker's allowance | Constant attendance allowance |
| Employment and support allowance | War widow payments |
| Housing benefit | Statutory payments such as SSP and SMP |
| Child benefit | |
| Child tax credit | |
| Carer's allowance | |
| Industrial injuries benefit | |

Other support for childcare and housing is also excluded from the cap.

The cap for a couple applies regardless of how many children they have. This proved controversial when the matter was debated in the House of Lords. An attempt to exclude child benefit was defeated.

The following exemptions to the benefits cap have also been announced:

- anyone in a support group for employment and support allowance is exempt
- if someone was in work for 12 months and lost their job through no fault of their own, they are exempt for nine months
- transitional arrangements are made where someone is particularly affected by the loss of housing benefits.

Pension credit

This means-tested benefit aims to provide a minimum income for people above state retirement age that is above the state pension. It currently has two elements:

- pension credit
- earnings credit.

When housing benefit is abolished, there will also be a housing credit.

Housing benefit

From April 2013, this benefit does not cover the full cost of a person's rent. It is expected that many claimants may be obliged to move to less expensive areas. This will be extended to universal credit when it replaces housing benefit.

Local housing allowances will be fixed centrally, and then indexed by the Consumer Price Index, or (if lower) with the bottom 30% of housing costs in the area.

There is a new restriction for living in a home with more bedrooms than are needed. The restriction is 14% for one bedroom, and 25% for two or more.

Council tax benefit

Council tax benefit is replaced from April 2013 by **localised support**. These are administered by local authorities in England. The devolved governments of Scotland, Wales and Northern Ireland will be announcing their provisions.

The budget for this benefit will be 90% of the amount spent on council tax benefit.

Social Fund

The Social Fund is intended to be the safety net of the welfare system, providing benefit for those still in need. Provisions are provided as crisis loans or, in some cases, grants.

Social Fund is abolished from April 2013 to be replaced by **locally administered assistance**. Local authorities will announce how this will operate, but the government expects it to include food banks and furniture re-use projects.

Crisis loans will be replaced by **short-term advances**. These may also be made for alignment payments (advances will waiting for another benefit).

The Social Fund also provides funeral and maternity payments on a less discretionary basis. These will continue. Funeral and maternity costs will also be added to the list of those costs for which a budgeting loan may be claimed.

Disability living allowance

From April 2013, disability living allowance is being replaced by **personal independence payment (PIP)** for adults aged between 16 and 64. Children under 16 continue to qualify for disability living allowance. Adults 65 or over may still claim attendance allowance.

Initially the scheme is for a few claimants to test the system before applying to all new claimants from June 2013. Existing claimants will be moved to PIP between autumn 2013 and 2016, usually when the claim needs renewing.

The PIP is not means-tested and does not depend on having paid any national insurance. It may be claimed regardless of whether a person is in work or not.

Payment depends on the claimant having such physical or mental disability that they are unable to perform “daily living activities” or have mobility problems. This is assessed by dividing each activity into **descriptors** against which a claimant is scored.

Industrial injuries benefits

Only two minor changes are made:

- pre-1948 injuries will now be covered
- the scheme will extend to claimants under 18.

The operative date for these changes is not yet known.

Bereavement benefits

These are under review with any changes not expected before 2014.

Penalties and sanctions

A significant development is the increased powers and sanctions for any overpayment, however innocently made. The Act also removes the current six-year time limit that applies for recovery of social security debts (and indeed most debts of any kind).

There is a separate scheme of sanctions for social security fraud. The *minimum* penalty is £350 or 50% of the sum involved (if greater) to a maximum of £2,000.

For a conviction the penalty is 13 weeks' loss of benefits for a first offence, 26 weeks for a second, and 3 years for a third or subsequent. If benefit was paid because of incorrect information from the claimant, the penalty is £50.

There is also a restriction on appeals. At present, someone can appeal by means of review by the DWP or by going to a tribunal. In future, a claimant may only go to a tribunal after a review has been conducted.

Fraud work will be undertaken by a new Fraud Investigatory Service.

During the passage of the Bill through Parliament, a Social Mobility Commission and Child Poverty Commission were established.