

# Quick guide

## Welfare in Wales series: Welfare reforms

September 2011

### Introduction

In addition to the introduction of a new **Universal Credit** and large scale changes to **Housing Benefit** (see guides 3 and 4 in this series), the UK Government has also proposed a number of changes to other benefits, including:

- Changes to the **Tax Credit** system;
- Changes to the **Disability Living Allowance (DLA)** and the time limiting of **Employment and Support Allowance (ESA)**;
- Localisation of **Council Tax Benefit (CTB)**;
- Changing from RPI to **CPI indexation** of benefits;
- Freezing **Child Benefit** for three years, and removal from higher rate taxpayers;
- Localising discretionary **Social Fund** payments; and
- The introduction of an annual **benefit cap** of about £26,000 per family.

The package of welfare changes announced in the October 2010 *Spending Review* amounted to savings of £7 billion, bringing total savings in the welfare system to **£18 billion per annum by 2014-15**.<sup>1</sup> Many of the changes needing primary legislation are contained in the *Welfare Reform Bill*, which is currently passing through Parliament.

### Disability Living Allowance (DLA)

**Disability Living Allowance (DLA)** is a benefit that provides a cash contribution towards the extra costs of needs arising from a disability or health condition. DLA is a non-means-tested benefit payable **regardless of employment status**. The two components for **care** and **mobility** are paid at different rates depending on the effect of the disability.

In November 2010, there were **244,540 people claiming Disability Living Allowance (DLA)** in Wales, most of whom received it in combination with another benefit.<sup>2</sup>

The public consultation on DLA reform proposes replacing DLA with a new benefit

<sup>1</sup> HM Treasury website: [Spending review 2010- Welfare reform](#) [accessed 4 August 2011]

<sup>2</sup> DWP Information Directorate: Work and Pensions Longitudinal Study/ NOMIS

(Personal Independence Payment) to support disabled people. The new benefit is planned to be introduced for new claimants from 2013-14. The proposed elements of the new benefit are:

- A new **objective assessment** to deliver more consistent outcomes and greater transparency for individuals;
- **Two components**, linked to the activities considered in the assessment. Eligibility for one will be based on the individual's ability to get around, the other on their ability to carry out other key activities necessary to be able to participate in daily life;
- **Two rates** for each component (four in total);
- **Moving away from automatic entitlement** based on certain conditions to assessments based on the impact of an impairment;
- The facility to **regularly review** all awards;
- Maintenance of existing special rules to fast track claims for people who are terminally ill.<sup>3</sup>

It was proposed that from April 2012 the **mobility component** of the DLA will be removed from those in residential care.<sup>4</sup> However, this has been delayed until March 2013 when the Personal Independence Payment (PIP) is due to begin, as announced in the 2011 Budget.<sup>5</sup>

There is currently an **independent review** of this proposal being undertaken.<sup>6</sup>

The DWP has acknowledged that there will be reductions in awards to some claimants as a result of **focusing support on those with greatest needs**.<sup>7</sup>

## Contributory Employment and Support Allowance (ESA)<sup>8</sup>

**Employment and Support Allowance (ESA)** provides financial help to people who are unable to work because of illness or disability. ESA replaced Incapacity Benefit (IB) from 2008. After assessment, claimants are placed in two groups:

People in the **Work-Related Activity Group (WRAG)** are expected to take part in work-focused interviews to help them prepare for work.

People in the **Support Group** are those whose illness or disability has a severe effect on their ability to work, and they are not expected to work.

From April 2012, people in the contributions-based Work-Related Activity Group will have their claims **limited to one year**. After this time they will have their family income and savings assessed to see if they qualify for the means-tested version of the benefit.<sup>9</sup>

<sup>3</sup> DWP, [Impact Assessment - Disability Living Allowance Reform](#), p6

<sup>4</sup> HM Treasury (2010) [Spending Review 2010](#), p69

<sup>5</sup> HM Treasury (2011) [Budget 2011](#), p55

<sup>6</sup> [The Low Review](#)

<sup>7</sup> DWP, [Impact Assessment - Disability Living Allowance Reform](#), p7

<sup>8</sup> There are two types of ESA: **contributions-based**, which people receive if they have paid enough National Insurance contributions; and **income-based**, which people receive if their income and savings are low enough.

<sup>9</sup> HM Treasury (2010) [Spending Review 2010](#), p69

## Tax Credits and Child Benefit

**Tax Credits** are benefits paid by HM Revenue and Customs (HMRC).

**Child Tax Credit (CTC)** is available to people responsible for a child, whose income is below a certain amount.

**Working Tax Credit (WTC)** is a payment to top up earnings of people working on low incomes, including those that do not have children.

The package of cuts to **Tax Credits** amounts to a saving of £2.1bn, by:

- Freezing Working Tax Credit (WTC) for 3 years from April 2011;
- Cutting childcare subsidy in WTC from 80% to 70% from April 2011;
- Couples need to work 24 hours rather than 16 to get WTC from April 2012; and
- Reducing fraud and overpayments with better earnings data from April 2014.

In addition, there will be more spent on the per-child element of **Child Tax Credit (CTC)**, up by £30 in 2011 and £50 in 2012 on top of indexation and June Budget changes. This is intended to ensure that the overall outcome of the Spending Review has no measurable impact on child poverty in the next two years.<sup>10</sup>

From April 2011 rates on **Child Benefit** are to be frozen for three years, and from January 2013, families will not be entitled to Child Benefit if there is a higher rate tax payer in the household.<sup>11</sup>

## Council Tax Benefit (CTB)

From April 2013, **Council Tax Benefit (CTB)** spending will be reduced by 10 per cent and devolved to local authorities and devolved administrations.<sup>12</sup>

## Uprating

From April 2011, the **Consumer Price Index (CPI)** replaced the **Rossi**<sup>13</sup> and **Retail Price Index (RPI)** as the tool used to decide on benefits increases in April each year (also known as uprating). The UK Government's reasoning for this change is that it believes CPI is a better measure of inflation and a more appropriate measure for benefit claimants as it doesn't take into account housing costs. This change is expected to result in **£6 billion savings per year** by 2015.

## Additional changes

- The **Health in Pregnancy Grant**, which was a one-off payment to pregnant women to help prepare for birth, was abolished from 1 January 2011. The **Sure Start Maternity Grant will only be available for the first child**, unless it is a multiple birth or the

<sup>10</sup> HM Treasury (2010) *Spending Review 2010*

<sup>11</sup> HM Treasury (2010) *Spending Review 2010*, p68

<sup>12</sup> HM Treasury (2010) *Spending Review 2010*, p69

<sup>13</sup> The **Rossi index** is a system that is used to increase benefit rates each year based on the September increase in the all-items Retail Price Index, excluding rent, mortgage interest, Council Tax and housing depreciation.

new child is the only one in the family under 16;<sup>14</sup>

- The temporary increase to £25 of **Cold Weather Payments** became permanent from November 2010;<sup>15</sup>
- The **Child Trust Fund** was abolished from 1 January 2011, however in Autumn 2011 the Treasury is to offer a tax free children's saving account. The UK Government will not provide any money for the account; the main benefit is that it is tax free.<sup>16</sup> The Welsh Government offered a top-up through the Child Trust Fund Cymru, but this ended in April 2011;
- From April 2011, the tax free personal allowance for **income tax** rose to £7,475 for people under 65;<sup>17</sup>
- From April 2012 existing claimants of **Income Support** who are lone parents, and whose youngest child is aged over five years will be transferred to other benefits;<sup>18</sup>
- The Maximum Savings Credit award of **Pension Credit** was frozen for four years from April 2011;<sup>19</sup> and
- From October 2010, the interest rate used to calculate **Support for Mortgage Interest Payment (SMI)** changed from 6.08 per cent to the Bank of England's average mortgage rate, which was 3.63 per cent in July 2010. This will be changed only when the average mortgage rate differs by 0.5 per cent or more. Temporary measures to **reduce the waiting period** and **increase the limit** on eligible mortgage capital were also extended.<sup>20</sup>

## Further information

For further information on (insert quick guide subject here), please contact **Hannah Johnson** ([Hannah.Johnson@Wales.gov.uk](mailto:Hannah.Johnson@Wales.gov.uk)), Research Service.

### See also:

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<sup>14</sup> HM Treasury (2010) [Emergency Budget June 2010](#), p34

<sup>15</sup> HM Treasury (2010) [Spending Review 2010](#), p69

<sup>16</sup> Child Trust Fund website: [Changes to the Child Trust Fund](#) [accessed 13/01/10]

<sup>17</sup> DirectGov website: [Budget June 2010 - Tax changes](#) [accessed 11/01/11]

<sup>18</sup> DWP website: [Changes to Income Support for lone parents](#) [accessed 11/01/10]

<sup>19</sup> HoC Library (2010) [Standard Note SNBT/1439 Pension Credit](#) [accessed 11/01/10]

<sup>20</sup> HM Treasury (2010) [Emergency Budget June 2010](#), p35