



The Comprehensive Spending Review and Upcoming Benefits Changes



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Introduction

The Government's Comprehensive Spending Review was published on 20 October 2010 and will have significant implications on every aspect of public services in the years ahead. It is led by the Treasury and involves an allocation of resources across all Government departments. Spending budgets for the four years from 2011/12 to 2014/15 have been set and each department has decided how best to manage and distribute this.

In particular, the Comprehensive Spending Review is likely to have a significant effect on the structure of the welfare benefits system as well as the availability of welfare benefits and Tax Credits in the next few years.

In the June 2010 Budget, the Government announced several cuts that would save £11 billion per year from welfare spending by 2014-15. To make welfare more affordable, the Comprehensive Spending Review includes further cuts leading to savings of £7 billion, bringing the total welfare savings to £18 billion per year by 2014-15.

Information on these changes together with some frequently asked questions about the Comprehensive Spending Review and upcoming benefits changes are contained in this document.

Please note that detailed information about the changes outlined in the Comprehensive Spending Review is limited at present. Although some changes will happen quickly, others may take several years to put into practice. Some may also be subject to further revision at a later date.

If you are worried about the effects that the changes to the benefits system will have on your personal situation, we recommend that you discuss this with an expert benefits adviser. You can use the [Find an Adviser tool](#) on our website to find a local one.

Announced Benefits Changes

1 November 2010

Contribution based JSA/ESA

Change: new claimants will need to have paid national insurance (NI) contributions on relevant earnings at the lower NI earnings limit (which was £97 for 2010/11) for at least 26 weeks in one of the last two complete tax years. [See our information sheet on national insurance for more information on how this tax works](#)

At the moment people can qualify having paid the relevant national insurance contributions for around 12 weeks at National Minimum Wage level, or less than four weeks at higher-rate tax level. This is because the condition rule is based on the amount of the contributions, not the time over which they are made.

Cold Weather Payments

Change: the temporary increase to £25 will be made permanent

1 January 2011

Health in Pregnancy Grant

Change: abolished

A one-off payment paid to pregnant women to help prepare for the birth. Not means tested so is available regardless of income and capital.

Abolition follows a move by the Government to restrict availability of universal benefits.

See also changes to Child Benefit.

Child Trust Fund

Change: abolished

The Child Trust Fund was a savings and investment scheme started in 2002 to encourage parents to save for their child's future.

Support for Mortgage Interest

Change: temporary changes which were due to come to an end in January 2011 will be extended until January 2012. These include a reduced waiting period of 13 weeks and an increase in the eligible mortgage capital limit to £200,000

April 2011

Child Benefit

Change: rates to be frozen for three years

Housing Benefit

Changes:

- Baby element of family premium will no longer be available
- Local Housing Allowance (LHA) restricted to four-bedroom rate regardless of household size. About 8,000 households will be affected by this limit, according to the Department for Work and Pensions (DWP). A claimant's LHA rate will be reduced on the anniversary of their claim.
- New maximum LHA rate based upon property size – £250 for one bedroom, £290 for two bedrooms, £340 for three bedrooms, £400 for four bedrooms.
- £15 excess rule will be removed. This is the rule that if the LHA rate is higher than the rent that a Housing Benefit claimant is paying, they can keep the difference up to a maximum of £15 a week.
- An extra room will be allowed for a non-resident carer in the 'size criteria' used to determine LHA.
- Non-dependant deductions to be increased (uprated) on the basis of prices using the Consumer Prices Index. The rate of deduction made from a claimant's Housing Benefit award if they have a non-dependant living with them had been frozen since 2001
- The Discretionary Housing Payment budget to be increased by £10million per year. This will be targeted on the local authorities most needing it. It is intended to be offered to those affected by the cuts to provide a limited amount of time to 'ease' the situation if they have to move somewhere else. Some Housing Benefit claimants in private sector rented properties will in

effect be made homeless by the Housing Benefit changes. Some of these will be owed a 'duty of care' by their local authority to be re-housed.

Pension Credit

Change: maximum Savings Credit award to be frozen for four years

State Retirement Pension

Change: the rate will be increased through a 'triple guarantee' – which means that the pension will be increased each year by the highest out of the earnings inflation rate, the prices inflation rate (using the Consumer Price Index) or 2.5%.

Sure Start Maternity Grant

Change: this will only be available for the first child.

Tax Credits

Changes:

- There will be some changes to the way Tax Credits are calculated, claimants with incomes over £40,000 will be affected, there will also be a slight increase in the rate at which Tax Credits are withdrawn as a person's income increases.
- The baby element will be removed from CTC.
- If your income rose by £25,000 during the award year this would not affect your award, now they will only ignore increases of up to £10,000. This results in a disincentive to work more hours/improve earnings and is likely to lead to more Tax Credit overpayments.
- An increase in child element rate by £180
- A reduction in the percentage of childcare costs that parents can claim through the childcare element of Working Tax Credits (WTC) from 80% to 70%.
- Couples with children must work at least 24 hours a week between them, with one working at least 16 hours to qualify for WTC.
- The basic and 30 hour elements of WTC will be frozen for three years.

Uprating

Change: the Consumer Price Index (CPI) will replace Rossi and Retail Price Index (RPI) as the tool used to decide on benefits increases in April each year (also known as uprating), The Government's reasoning for this change is that 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 £6billion savings per year by 2015.

Institute for Fiscal Studies (IFS) analysis found that only 23% of claimants will be protected by this change, the rest will be paying for things not covered by CPI so there will be a real loss of income over time. This change saves the Government the most money out of all things announced. RPI is running at 4.6% at the moment, CPI was just 3.1% in September 2010 and this is the figure that will be used for uprating benefits in April 2011.

Income tax

Change: the tax-free personal allowance will rise to £7,475 for people under 65. The basic rate limit will be reduced so that higher-rate payers don't benefit from the increased personal allowance.

October 2011

Housing Benefit

Change: LHA rates are set at a value where 50% of the rents in an area fall below it, and 50% are more expensive. This is to be reduced so that LHA rates will be at a value where only 30% of the rents in an area are below it and 70% are above it.

The average loss is expected to be £9 per week per household. The Department for Work and Pensions (DWP) believes some landlords put up their rents to match the LHA level for their area. The evidence is not clear on this as over 43% of claimants get the £15 excess paid to them when their rent is less than their LHA. The DWP expects landlords to reduce rents in line with reductions in LHA.

April 2012

Contributory Employment and Support Allowance

Change: people in the Work Related Activity Group will have their claims limited to one year, they will then have their family income and savings assessed to see if they qualify for the means-tested version of the benefit.

Disability Living Allowance

Change: the mobility component will be removed from those in residential care.

Housing Benefit

Changes:

- A further £40million per year will be added to the Discretionary Housing Payment budget
- Increase the age threshold for shared room rate from 25 to 35. This means that single claimants up to the age of 35 will have their LHA based on a room in a shared property rather than a self contained one bedroom property.

Income Support

Change: existing claimants who are lone parents whose youngest child is aged over five years will be transferred to other benefits

Tax Credits

Changes:

- Further changes to the way Tax Credits are calculated so that the credit is withdrawn faster as income rises
- 50+ element removed from Working Tax Credits (WTC)
- If your income falls by up to £2,500 during the tax credit award year your award will not be revised to see if you are entitled to more credits.
- You will only be able to backdate new applications and changes of circumstances for up to one month instead of three.
- Increase of child element by £110

January 2013

Child Benefit

Change: families will not be entitled to this benefit if there is a high-rate tax payer in the household.

April 2013

Council Tax Benefit

Change: reduce spending by 10% and localise it providing greater flexibility to Local Authorities

Disability Living Allowance

Change: introduction of 'objective assessments' to decide eligibility. The intention is to target support through this benefit on those in most need.

The Government is hoping for a 20% reduction in DLA expenditure by 2017 by bringing in this assessment. All working-age claimants will be reassessed.

Housing Benefit

Changes:

- Size criteria will apply in the social rented sector (council and housing association properties). This means that people living in houses larger than they need will have to move to somewhere smaller or make up the difference in rent because their Housing Benefit will be based on a smaller property. This is only for working-age people.
- LHA rates will be increased in line with the Consumer Price Index instead of the market rents in each area. The connection with actual rents will be lost.
- HB awards will be reduced by 10% for claimants who have been on Jobseeker's Allowance (JSA) for over 12 months. A 10% cut is a shortfall hard to find on subsistence benefits, and is likely to cause hardship, arrears, homelessness, and make it harder for some people to fulfil work seeking obligations. The Trade Unions Congress (TUC) has published evidence that vulnerable people will lose out, including those forced off Incapacity Benefit (IB)/Employment and Support Allowance (ESA) onto JSA and lone parents.

Tax Credits

Change: Any rise in income of £5,000 or more during the award year will be taken into account. They currently disregard increases up to £25,000 but this threshold drops to £10,000 in 2011.

Universal Credit

The current complex system of working-age benefits and Tax Credits is to be gradually replaced by a Universal Credit. Money has been set aside to fund this. Along with Universal Credit there will be a cap on the amount of benefits a working-age household can receive, capped at the level of the average working family income after tax – with the exception of those households that include a DLA claimant, war widow, or WTC claimant

April 2016

State Pension Age

Change: plans to bring women's pension age in line with men's will be sped up from April 2016 so that women's pension age reaches 65 in November 2018. Pension age for men and women will then increase to 66 from December 2018 to April 2020. Government are also considering increasing the pension age further still after this.

Frequently asked questions

1. What is the Spending Review?

The Government's Comprehensive Spending Review was published on 20 October and will have significant implications on every aspect of public services in the years ahead. It is led by the Treasury and involves an allocation of resources across all Government departments. Spending budgets for the four years from 2011/12 to 2014/15 will be set and then each department decides how best to manage and distribute this.

The Comprehensive Spending Review is likely to have a significant effect on the structure of the welfare benefits system as well as the availability of welfare benefits and Tax Credits.

Some key Tax Credit and Child Benefit budget measures include:

- Tax Credits second income threshold: reduce to £40,000 from 2011-12
- Child Tax Credit baby element removed from 2011-12
- Working Tax Credit 50 plus element removed from 2012-13
- Reduce Tax Credits backdating from three months to one month from 2012-13
- Child Benefit rates frozen for three years from 2011-12

Changes to the benefits system will take effect in 2013 include:

- Introduction of a Universal Credit designed to simplify the benefits system and improve work incentives
- A cap of £26,000 on the amount of benefits that jobless families can claim. No-one, unless they have a disability, will be able to claim more than the average working wage. This is a proposal that goes hand in hand with the structural reform of the benefits system to introduce the Universal Credit.
- High earners (on the 40% and 50% income tax rates) will no longer be able to claim Child Benefit.

[For more information on the Comprehensive Spending Review, see HM Treasury's website](#)

Why are the cuts being made?

The national debt is very high, partly due to the recession and high borrowing levels.

The cuts aim to reduce the amount the Government is spending and help them to start paying back some of the money the country owes. In June, the Government said that the debt would be paid back by 2014/15 if they make the cuts outlined in the Budget and the Comprehensive Spending Review.

Most Government departments will experience cuts, although the National Health Service (NHS) and Overseas Aid (managed by the Department for International Development (DFID)) will be protected. The cuts to Defence and Education are less severe than departments like the Department for Work and Pensions and the Home Office – both of which have to make substantial savings.

A high proportion of Government money is spent on welfare benefits so this was a focus for the cuts. £11 billion worth of savings were announced in the Emergency Budget in June, and a further £7 billion in the Spending Review.

How soon will the cuts take effect?

Some will take effect between October 2010 and April 2011. This includes the abolition of Health in Pregnancy Grants and Child Trust Funds from 1 January 2011.

The rest will be put into place over a period of three-four years.

I am interested in the debate around public spending and the Spending Review. Is there somewhere I can feed in my comments?

The Joseph Rowntree Foundation (JRF) developed a new 'microsite' to encourage debate on public spending in the run-up to the Government's Spending Review in October and afterwards.

The charity, which funds social policy research and development, believes decisions about spending cuts should consider the impact on disadvantaged people and communities. The site will provide evidence, ideas and solutions about this, highlighting the importance of protecting the most vulnerable in UK society.

JRF is also investing in new research to make sure the effects that the cuts and changes to the welfare system have are accurately understood.

[Visit JRF's spending cuts microsite \(link opens in a new window\)](#)

Is the Government going to introduce a graduate tax?

No.

The graduate tax was a proposal where by graduates would pay a percentage of their earnings over £15,000 for no more than 25 years of their working lives.

However the Government has decided not to introduce the proposed graduate tax to fund higher education. Instead, higher tuition fees will be brought in by universities and colleges. Although figures of £10,000-12,000 are being suggested in the press, the likelihood is that the government will try to limit the amount to £7,000.

With all these changes being planned, is it worth me applying for any benefits at all?

Yes.

Many of the changes won't come into effect immediately and many people will continue to receive benefits, even after the changes take place, even if the type of benefit changes.

If you are struggling to manage financially and you think you might be entitled to benefits, you should claim them.

You can use our [Benefits Checker](#) to check your entitlement.

Where can I find out more about the Spending Review?

The following websites have information on the Spending Review:

- [HM Treasury](#)
- [Directgov](#)
- [The BBC](#)

Has the Health in Pregnancy Grant been abolished?

The Government will abolish the [Health in Pregnancy Grant](#) with effect from 1 January 2011. However, if you have reached your 25th week of pregnancy before this date and you meet the other conditions of entitlement (i.e. you are not subject to immigration control and you live ordinarily in the UK), you will still be able to get this grant.

My baby is due at the end of January 2011. Will I be entitled to a Child Trust Fund?

No.

The Child Trust Fund, a savings and investment scheme started in 2002 to encourage parents to save for their child's future, is to be abolished on 1 January 2011.

If your baby is born before that date, he or she will be entitled to a Child Trust Fund payment, although the amounts provided by the Government were reduced on 1 August 2010.

[See our Child Trust Fund information sheet for more information.](#)

I have heard that people on certain incapacity benefits because of disability or ill health are to have a reassessment. Why?

From this month, as part of the welfare benefits system reforms, the Department for Work and Pension is to start reassessing the claims of people who are receiving certain incapacity benefits to see if they are eligible for [Employment and Support Allowance](#)

Individuals who will be affected are those claiming [Incapacity Benefit](#), [Income Support](#) because they have an illness or disability, or [Severe Disablement Allowance](#).

People living in Aberdeen and Burnley will be the first to have the checks. Assessment on claimants living in the rest of the UK will start in February 2011.

After the assessment, depending on your circumstances, you may move on to one of the following benefits:

- [Jobseeker's Allowance \(JSA\)](#) if you are capable of work
- Employment and Support Allowance (ESA) (work related activity group) if you need more support while you prepare for work

- Employment and Support Allowance (ESA) (support group) if you are severely disabled or terminally ill. You will not be expected to look for work
- Income Support or [Pension Credit](#) if you satisfy the conditions.

You will not be affected if:

- You are claiming [Attendance Allowance \(AA\)](#)
- You are already being paid ESA
- You reach [state retirement age](#) before 6 April 2014.

Jobcentre Plus will be in touch with you well ahead of your reassessment and in the meantime there is no action you need to take.

You will continue to receive your current benefit, as long as you meet the conditions of entitlement, until Jobcentre Plus have completed the reassessment.

[More information on how the reassessment of incapacity benefits will work](#)

Has there been a change in Support for Mortgage Interest?

Support for Mortgage Interest (SMI) helps home owners who are on certain income-related benefits with the cost of mortgage interest payments.

In calculating the help that a person might be entitled to, a standard interest rate is used. From 1 October 2010, this has been set at a level equal to the Bank of England's published monthly average mortgage interest rate. This rate applies regardless of what your own mortgage rate is. It is currently 3.63%.

The standard interest rate will go up and down depending on what the Bank of England decides the average mortgage rate is, but only if this differs by 0.5% or more from the standard interest rate being used at the time.

[See our information section on Redundancy: Managing financially for more information on SMI and other mortgage repayment relief schemes](#)

Is VAT going to be increased in 2011?

Yes. Value Added Tax (VAT) rates will increase from 17.5% to 20% on 4 January 2011.

VAT is the tax we pay on most goods and services. Some items we buy are zero-rated for VAT, including food, children's clothing, newspapers and printed books.

See the section on Tax on our website for more information about VAT.

What is the Universal Credit and how soon will it be implemented?

The Secretary for State, Iain Duncan Smith, has formally announced the introduction of a Universal Credit designed to simplify the benefit system and improve work incentives, with the aim of smoothing the transition for benefits claimants into and out of work.

The plan is to move people from the current means-tested benefits and Tax Credits onto the Universal Credit starting at the end of 2013. However, most people's benefit won't be affected until 2015.

[See the Directgov website for more information on Universal Credit \(link opens in a new window\)](#)

I have heard that the amount that families will be able to claim in benefits is to be capped. Is this true?

As part of the proposals for the reform of the benefits system, the amount that families will be able to claim in benefits will be capped so that working age families won't receive more in benefits in one year than those that earn the average wage.

The cap is expected to be applied through the Housing Benefit system. In most cases, families receiving more than £500 a week in benefits will have the amount they are paid to cover their rent cut.

This will not take effect until 2013.

What is going to happen to Child Benefit?

From 2013, households that include a higher-rate taxpayer will no longer be able to claim Child Benefit.

This will affect families where there is at least one earner on a salary of more than £43,875 per year.

However, households where there are two people working but neither of them are paying the higher-rate tax could still be entitled to Child Benefit with a shared income of almost £88,000.

Is there still going to be social housing available to those that need it?

Yes, although the nature of it may change in some UK countries.

The social housing budget in England is to be cut by more than half as part of the Comprehensive Spending Review.

Council housing 'for life' may be phased out and 'flexible tenancies' for people moving into it may be introduced. This might mean that if a person's financial situation improved, they would be encouraged to move to renting in the private housing sector.

This change is likely to take some time to put into practice.

If you live in council housing and are worried about your situation, you should contact your local council for more information. You can find the contact details and website of your local one on the [Government's Directgov website](#).

[Read the BBC news item about the social housing budget 'to be cut in half'](#)

Glossary

Consumer Prices Index

A measure of the level of inflation in the UK which looks at how the price of a basket of common consumer goods has changed over a given time period.

Discretionary Housing Payments

Payments sometimes made by Local Authorities to Housing Benefit claimants who are struggling to pay the rest of the rent themselves.

Local Housing Allowance

The Local Housing Allowance is used to work out how much Housing Benefit you get if you rent from a private landlord. It varies according to the area you live in. Factors that determine the LHA rate you might be given include the type of accommodation you live in and who lives with you.

See the Government's Directgov website for [more information on Local Housing Allowance \(link opens in a new window\)](#)

Retail Price Index

Measures inflation by charting the average change from month to month in the prices of goods and services purchased in the UK.

Rossi Price Index

The Rossi index is a system that is used to increase benefits rates each year based on the September increase in the all-items Retail Price Index, excluding rent, mortgage interest, council tax and housing depreciation.

Subsistence level benefits

Benefits where the Government set a basic rate which is what they decide a person needs to live on, such as Jobseeker's Allowance, Employment and Support Allowance, Pension Credit and Income Support.

Taper rate

The rate at which benefit is withdrawn when income rises.