

# **BSHF Evidence to the DWP Select Committee Consultation on: Impact of the changes to Housing Benefit announced in the June 2010 Budget**

## **Executive summary**

- Whilst portrayals of the housing benefit system being “out of control” are inaccurate, there is a clear need for long term reform of housing benefit and the wider system of support with housing costs.
- Several of the mechanisms adopted in the budget give cause for concern. There is a risk they will:
  - Have unintended consequences that minimise the public expenditure savings;
  - Fail to meet one of the stated aims of the budget: supporting the most vulnerable;
  - Undermine the core purposes of housing benefit, i.e. provision of access to affordable housing and protection of residual income (the money left to live on after rent).

We recommend that the government should:

1. Recognise that the housing benefit system is not “out of control” and consequently undertake the serious process of reform of the system in a measured fashion rather than as an emergency reaction to a perceived problem;
2. Define a narrow purpose for housing benefit and use other mechanisms to deal with wider issues.
3. Adopt more nuanced methods to avoid excessive payments, including reconsidering the use of caps on Local Housing Allowance (LHA) and the adoption of percentile limits that reflect the proportion of the rental market being funded by housing benefit;
4. Retain the link between the level of support with housing costs and actual housing costs;
5. Address the negative impacts on young and old people, particularly in relation to non-dependent deductions;
6. Simplify the action of the housing benefit system in the long term, including by repealing all earlier housing benefit systems (with a clearly defined transition period);
7. Reconsider use of reductions in housing benefit as a work incentive;
8. Address the social impacts of property size restrictions, particularly on families;
9. Address the supply-side implications of changes in housing benefit;
10. Monitor the impact of changes to avoid unintended consequences, particularly on:
  - a. Homelessness;
  - b. ‘Ghettoisation of poverty’;
  - c. Other areas of public expenditure.

*The Building and Social Housing Foundation (BSHF) is an independent housing research charity which is committed to ensuring access to decent and affordable housing for all. BSHF holds Special Consultative Status with the United Nations Economic and Social Council. Several months before the general election BSHF planned a Consultation to be held at St George's House, Windsor Castle. It was chaired by Lord Richard Best and brought together practitioners and academics from a wide range of housing-related backgrounds to examine support with housing costs. The first day of this meeting coincided with the emergency budget<sup>1</sup>. This submission is largely based on the findings of that Consultation. More detailed information, including a full response to the emergency budget, can be found on the BSHF website ([www.bshf.org](http://www.bshf.org)) or on request from the organisation.*

## **1. Recognise that housing benefit is not 'out of control'**

1.1. Whilst there is a clear need to manage overall housing benefit expenditure, care must be taken not to create significant adverse effects in the process. At their worst, negative impacts could undo any public expenditure savings made, by resulting in the need for additional expenditure on homelessness provision, health, education and other service areas.

1.2. However, it is incorrect to portray housing benefit as a system that is "out of control". In fact, as a proportion of the overall benefits bill it is striking that housing benefit has remained remarkably constant at around 14 percent of total expenditure for many years. Between November 2008 and April 2010 approximately 70 per cent of the increase in total housing benefit expenditure was due to the growth in the number of working age claimants, suggesting that the increase was linked to reductions in employment.<sup>2</sup>

1.3. Recent increases in expenditure largely reflect this benefit reacting as we would expect, providing support to more people in a downturn. A reduction in claimant numbers through higher levels of employment provides the most effective option for reducing housing benefit expenditure in the short term. However, there is also a need to reform both housing benefit and other forms of support with housing costs (such as favourable taxation of owner occupiers and provision of housing at sub-market rents).<sup>3</sup>

## **2. Clarify the purpose of housing benefit**

2.1. The Council of Europe's guidelines<sup>4</sup> on the effective use of housing allowances<sup>5</sup> state:

*The goals for a housing allowance system should be to improve access to decent, affordable housing for all households on low incomes and to function as a safety net for these households against increases in housing expenditure or decreases in income.*

2.2. As a broad principle there are many merits in adopting a narrow purpose for housing benefit, and not attempting to use it to achieve policy objectives that are non-core for the benefit.

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<sup>1</sup> The full findings of the Consultation at Windsor Castle will be published in the autumn, but a draft can be made available to the Select Committee on request.

<sup>2</sup> Diacon, D., Pattison, B. and Vine J. (2010) BSHF Submission to the Spending Review 2010, <http://www.bshf.org/scripting/getpublication.cfm?thePubID=8AF35100-15C5-F4C0-99BE979B7ACACA24>

<sup>3</sup> Ibid.

<sup>4</sup> Council of Europe (2008) Housing policy and vulnerable social groups, page 88, [http://book.coe.int/EN/ficheouvrage.php?PAGEID=36&lang=EN&produit\\_aliasid=2321](http://book.coe.int/EN/ficheouvrage.php?PAGEID=36&lang=EN&produit_aliasid=2321)

<sup>5</sup> Housing benefit is the UK's housing allowance for tenants.

Housing benefit is more likely to be successful if it is only trying to do one or two jobs and is doing them well, than if it is used to achieve multiple (potentially conflicting) policy objectives, as it is at present.

### **3. Adopt more nuanced approaches to setting LHA rates**

3.1. Exceptional instances (such as households receiving housing benefit of around £100,000 per year) should be addressed, but should not form the basis of a policy that will have a major impact on those receiving much lower levels of housing benefit. Whilst recognising that those in receipt of housing benefit should continue to have to make choices about their housing, in the same way that others do, the move to an LHA rate at the 30<sup>th</sup> percentile and the cap on LHA rates has at least two potential problems (see 3.2 and 3.4).

3.2. There is a risk that households will simply be unable to find accommodation available to them below the new lower LHA rate for the area. In some areas the proportion of tenants claiming housing benefit is in excess of 30 percent, making it impossible for all housing benefit recipients to obtain accommodation costing below the 30<sup>th</sup> percentile.<sup>6</sup> The impact of the cap will create particular challenges in securing accommodation in the most expensive areas. Larger families in particular will face a significant change and may struggle to source suitably sized, reasonably priced properties, especially in the initial period of the new regulations.

3.3. By setting LHA rates at a percentile in each area reflecting the proportion of tenants receiving the benefit, many of the savings in public expenditure could be achieved whilst avoiding the worst pressures on local housing markets. If, for example, the 20<sup>th</sup> percentile above the local proportion of tenants receiving the benefit was used, then an area with five percent of tenants receiving housing benefit would see its LHA set at the 25<sup>th</sup> percentile, whilst one with 30 percent receiving housing benefit would have its rate set at the median.

3.4. In the longer term, concerns will centre on the potential for the creation of Parisian-style *banlieues*, areas on the outskirts of the city with concentrations of deprivation, while the city centre becomes exclusively for the very well off. Further analysis will need to be undertaken to establish what is likely to happen in the UK's context, but the potential for the total exclusion of the poor from large areas is clearly present in the measures announced in the budget.

3.5. Many housing benefit recipients already have to make tough choices within the current system without these additional restrictions. Nearly half face a shortfall at present, which has to be made up from an income that can be very limited; the average shortfall is £23 per week.<sup>7</sup> These changes will potentially impact most upon an already disadvantaged group.

3.6. The primary effect of crude caps on LHA rates will probably be to make certain areas of central London inaccessible to housing benefit recipients, especially for larger households. If the

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<sup>6</sup> In Blackpool, for example, 63 percent of private rented sector tenancies are funded by housing benefit. Although this is not directly comparable as the rate would be set for a BRMA not a local authority, it gives an impression of the very high proportion of tenants claiming in some areas. (Source: Blackpool Borough Council (n.d.) Blackpool Housing Statement, 2009-2012, <http://www.blackpool.gov.uk/nr/rdonlyres/e12161d5-9c94-41c3-9d98-3259f4c970a7/0/fchousingstratdraftsummaryversionfeb09.pdf>)

<sup>7</sup> Goodman, H. (2010) Answer to Parliamentary question on 5th March 2010, <http://services.parliament.uk/hansard/Commons/ByDate/20100305/writtenanswers/part003.html>

intention of the policy is to reflect the choices that (unsubsidised) housing consumers make in the market, then a less crude mechanism might involve redrawing the Broad Rental Market Areas, by re-examining the guidance given to Rent Officers to ensure it reflects longer travel to work times in high-value areas.<sup>8</sup> This may not be desirable, for the spatio-economic reasons identified above, but it would be a more nuanced approach than a crude cap.

#### **4. Ensure that housing support reflects actual rents**

4.1. Going back as far as the Beveridge Report of 1942 the issue of “Benefit Rates and the Problem of Rent” has been identified as a significant concern. Rents vary substantially around the country<sup>9</sup> and are generally the largest item of expenditure for households. Therefore it is vital that policies take local rent levels into consideration if they are to have similar outcomes for people in similar circumstances in different parts of the country.

4.2. The decision to link LHA levels to the Consumer Price Index (CPI) from 2013 will inevitably lead to situations where the value of LHA available does not reflect changes in the relative rent levels between areas. Two areas having similar rent levels which diverge due to the popularity of one increasing, will find that their LHA levels stay in step while actual rents vary. More broadly, if rent inflation outstrips CPI in the long term (as it has in the past), LHA levels in general will fall in terms of their rent-purchasing power.

4.3. The flat rate non-dependant deductions across the country fail to reflect local housing costs. Consequently in some areas contributing for the non-dependant deduction might be a relatively cheap way for a non-dependant to house themselves, whilst in others it could be a very expensive option, relative to other local rents.

4.4. Whilst the direct impact of many of the changes will be felt most keenly in high rent areas, these have potential knock-on effects in other areas. If people react by moving into lower rent areas there will be an impact on the areas that they move to, potentially putting a strain on those local authorities (including on homelessness budgets). Since many low-rent areas are also high-unemployment areas, it is also possible that people will move to obtain cheaper accommodation, but then find their ability to gain employment reduced. Further potential impacts include effects on social cohesion, both of the areas that people have left and of the areas they move into.

4.5. Caps on housing benefit rates in the private rented sector can also have a knock-on effect on the social rented sector. If private rented accommodation becomes harder to access for those on low incomes, demand for social rented accommodation may increase further, at a time when social housing waiting lists already stand at nearly 1.8 million households.

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<sup>8</sup> Current legislation requires Rent Officers to take into account reasonable travel time to various facilities e.g. hospitals, schools, shopping. It does not, however, allow Rent Officers to take into account travel to work times which, if they could, may have the effect of making some BRMAs smaller, undermining the concept of “broad” rental market areas. Care would need to be taken in amending legislation to avoid unintended consequences.

<sup>9</sup> The current LHA rate for a three-bedroom house in Central London is £700 per week, compared to £92.31 per week for a similar property in Blaenau Gwent.

## **5. Address negative impact on young and old people**

5.1. The budget announcements risk further exacerbation of a tension that already exists within the housing benefit system, specifically between the effects of non-dependant deductions and the single room rent. In some cases these lead to major difficulties for young people, particularly those on low incomes, who are seeking accommodation.

5.2. Non-dependant deductions are a disincentive for young people to stay at home; if they stay their parents may find their housing benefit significantly reduced. The increases in these deductions announced in the budget will mean that they significantly reduce the housing benefit of some households. However the single room rent, a special low rate of housing benefit paid to under-25s, is generally so low that it makes finding decent accommodation very difficult. The data show that the shared room rate does not meet the cost of accommodation in approximately 70 percent of cases.<sup>10</sup> This means that young people will significantly decrease the income of their family household if they stay at home, but cannot find decent accommodation if they leave.

5.3. It also appears that the non-dependant deduction has a major financial impact on many older people. It appears that non-dependants frequently do not pay the householder for the benefit they are losing through the deduction. Even if they are willing to pay, householders are put in the difficult position of having to find out financial information about family members.

5.4. There is a risk of increasing public expenditure if non-dependant deductions are set too high. At a certain point non-dependants (if they are paying the householder) will decide that it is better to go out and rent somewhere of their own. In some cases the non-dependant will be eligible to claim housing benefit in their own right, adding to public expenditure.

## **6. Remove historic housing benefit arrangements**

6.1. Previous changes in the housing benefit system have resulted in recipients being allowed to continue receiving their benefits on the older (more generous) bases indefinitely. This ongoing approach to retaining existing schemes is expensive, adds complexity to the system and can be perceived as being unfair (with tenants in identical properties and circumstances receiving different levels of housing benefit). Consequently, as savings are being sought from the budget, this would represent an area where they could be achieved whilst fairness is increased.

6.2. When changes are made to the housing benefit system, transitional arrangements should be adopted to phase them in over a period of time. Whilst this adds a little complexity in the short term, it avoids some of the worst consequences of sudden changes. New transitional arrangements should be clearly time limited to avoid the problems with multiple historic systems running in parallel which have previously occurred.

6.3. For many households the cap will reduce their income significantly, some by several hundred pounds per week. This will represent a sudden and huge shock to those households. The budget announcement contains no transitional protection.

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<sup>10</sup> Harvey, J and Houston, D. (2005) Research into the Single Room Rent regulations, <http://campaigns.dwp.gov.uk/asd/asd5/rports2005-2006/rrep243.pdf>

6.4. At the least it will be important to ensure clear information is provided in relation to these changes. Making people aware of what is going to happen and giving them plenty of time to move if necessary, will be vital particularly if they have school-age children.

6.5. It is not feasible to expect everyone affected by this change to relocate immediately or to renegotiate their rent, so information and protection will need to be put in place. Part of that protection may involve discretionary housing payments (DHP). DHP policies may need to take particular note of the period between the change affecting the tenant's housing benefit period and the date at which they can reasonably move.

## **7. Reconsider use of reduction in housing benefit as a work incentive**

7.1. As noted above, there are advantages in allowing housing benefit to focus on its core function rather than attempting to address additional problems such as worklessness. Plans from the government to reduce housing benefit by ten per cent for recipients who have been claiming Jobseeker's Allowance (JSA) for more than 12 months risk undermining the core purpose of housing benefit and may not provide an effective work incentive.

7.2. This increased conditionality will leave some households having to choose between reducing their housing costs, making up the shortfall from their other income (and lowering their general standard of living) or falling into rent arrears if they are unable to secure employment. Landlords, whether private or social, will not be able to accept rent arrears indefinitely, so the potential for households to be evicted, and ultimately become homeless, is clear. One group that may be particularly susceptible to the impact of this policy is people who have moved off Employment and Support Allowance / Incapacity Benefit onto JSA under the stricter medical tests. These people may have poor health or disabilities and therefore be disadvantaged in the labour market and may take longer to get jobs.

7.3. Although this measure is not due to be introduced until April 2013 there are still concerns about the supply of work available at that time. Some commentators consider medium term government estimates of unemployment to be overly optimistic.<sup>11</sup> The government will need to closely monitor the employment market to ensure that it is not penalising people who are genuinely seeking work in a difficult economic climate.

7.4. Even if the government wishes to create work incentives through the withdrawal of benefits (as opposed to, or in combination with, positive methods such as enhanced support for the long-term unemployed), there seems to be little logic for applying the cuts to housing benefit. Local variation in rent will lead to people losing very different sums depending on where in the country they live, therefore providing a different perceived 'work incentive' in different geographical areas.

## **8. Address the social impacts of property size restrictions**

8.1. The budget announced plans to restrict housing benefit payments to working-aged social tenants based on the size of accommodation that they are deemed to need. Although their legal

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<sup>11</sup> Chartered Institute of Personnel and Development (2010) Labour Market Outlook: Summer 2010, [http://www.cipd.co.uk/NR/rdonlyres/DE1D59DA-2424-4ABC-931E-ADDC8CC87329/0/5302\\_LMO\\_report\\_Summer10.pdf](http://www.cipd.co.uk/NR/rdonlyres/DE1D59DA-2424-4ABC-931E-ADDC8CC87329/0/5302_LMO_report_Summer10.pdf)

security of tenure will be retained, the result would be that if they are unable to afford their rent once the benefit level is reduced they would have to leave the property. Generally, allocations policies will prevent social tenancies being granted for properties that are 'too large' in the first instance, so this policy will affect those households whose circumstances change.

8.2. For many households experiencing a change of circumstance it will not be easy to move to a smaller social rented property as there is a shortage of accommodation in the sector. The housing benefit system cannot require social landlords to make offers on allocations, so the tenant may be faced with a shortfall in housing benefit with no viable option to move to another social rented property to resolve their situation. This may precipitate a move to the private rented sector, with the loss of security of tenure implied by that.

8.3. Social rented tenancies are a scarce resource, so it is inevitable that government will seek to make the best use of them. However the details of this particular proposal risk ending security of tenure for some tenants without providing a realistic alternative. Significant work will be necessary to resolve these problems.

8.4. The impact of the restrictions should also be considered in the light of the budget announcements on non-dependant deductions. If the increase in the non-dependant deduction causes a non-dependant to leave a working-age household, the household could experience this restriction. The interaction of these two policies will create further tensions and complexity for families seeking to make decisions about their housing.

8.5. The property size restrictions will also have an impact on separated parents (usually fathers) who have access to children for part of the week. Eligibility for a property with sufficient rooms can already be a significant barrier for fathers who are not living with their children. The introduction of this reduction in housing benefit will make it harder for these fathers to be able to stay living in accommodation which enables them to retain access to their children. This may undercut other policy objectives which promote continued involvement of both parents against a backdrop of increases in the number of lone parent households.<sup>12</sup>

## **9. Address the supply-side implications of changes in housing benefit**

9.1. The impacts of changes to housing benefit on the supply of accommodation (in both the private and social rented sectors) should be of particular concern both to ministers responsible for housing benefit (Department for Work and Pensions) and for housing policy generally (Communities and Local Government and devolved administrations). Close working between the departments and the respective governments will be essential.

9.2. In the private rented sector, the proportion of landlords who are willing to let to households receiving housing benefit may fall further.<sup>13</sup> As tenants' benefits payments seem even more uncertain than they were previously, the ability of private landlords to finance the acquisition and

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<sup>12</sup> National Statistics (2009) Social Trends 40, [http://www.statistics.gov.uk/downloads/theme\\_social/Social-Trends40/ST40\\_Ch02.pdf](http://www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_Ch02.pdf)

<sup>13</sup> 45 percent of local authorities already report that landlords are less willing to let to housing benefit tenants since the introduction of LHA. (Source: DWP (2010) Local Authority Omnibus Survey – Wave 20, [http://research.dwp.gov.uk/asd/asd5/report\\_abstracts/rr\\_abstracts/rra\\_671.asp](http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_671.asp))

improvement of homes may be hindered. Private landlords may decide to stop renting to housing benefit recipients altogether if they can find alternative tenants, making it harder still for benefit recipients to secure accommodation.

9.3. The impact on the private rented sector will be further affected, albeit to different extents across the country, by the decision to peg LHA rates to CPI. In the areas that experience the highest rent increases following the indexation, there is likely to be a substantial increase in rent arrears, increasing tensions between landlords and tenants, probably with the long term effect of further reducing supply. Similar effects, albeit frequently on a larger scale, will also face social landlords, whose business plans and financial strength are reliant to a large extent on tenants receiving housing benefit.<sup>14</sup>

## **10. Monitor impact of changes to avoid unintended consequences**

10.1. The changes to housing benefit that have been announced in the budget are substantial and are likely to have a significant impact on both households and communities. Some of the effects will be the direct cost savings that the government hopes to achieve; however the changes are likely to have other, unintended, consequences. It is essential that the likely outcomes of the changes are fully evaluated. Any changes that are implemented will require monitoring, both to assess whether they meet their expected aims and whether they create unforeseen problems.

10.2. First, the government will need to closely evaluate the likely impact of changes in several areas. The first is homelessness, which the coalition government has promised to “tackle head-on”<sup>15</sup> through a new cross-departmental Homelessness Working Group. Relevant authorities will need to assess likely impacts and then monitor actual changes.

10.3. Secondly, the Secretary of State for Work and Pensions has highlighted the problems of the ‘ghettoisation of poverty’. Changes to housing benefit should not exacerbate this problem further.

10.4. Thirdly, the likely impact other areas of public spending, such as health and education will need to be closely monitored to ensure that the changes to housing benefit are not leading to increased expenditure in these areas. For example a report for Business Action on Homelessness found that the annual cost to the state of a homeless person is £26,000.<sup>16</sup>

10.5. Monitoring of the DHP could help monitor these changes. DHP is typically paid by local authorities to help households at risk of homelessness. Rapid increases in the use of this payment, or changes in its pattern of use, could indicate incidents of homelessness that are only narrowly being avoided. At present, local authorities are not required to give a breakdown of how DHP is used; requiring this information to be collected and reported would provide important data for researchers seeking to track the impact of changes. Monitoring must be undertaken directly by government departments, but external researchers will need to have access to data to support the identification of emerging trends.

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<sup>14</sup> CIH (2010) Briefing on the Impact of Changes to Housing Benefit and LHA in the Budget, <http://housing.cih.co.uk/memberbriefing/documents/housingbenefit-July-2010.pdf>

<sup>15</sup> Communities and Local Government (2010) Shapps: Rough sleeping count masks real scale of the problem, <http://www.communities.gov.uk/news/corporate/161113811>

<sup>16</sup> new economics foundation (2008) Work it Out: Barriers to employment for homeless people, <http://www.bitc.org.uk/document.rm?id=8850>