

BSHF Evidence to the Work and Pensions Select Committee Consultation on Universal Credit: Welfare that Works

Executive summary

The Building and Social Housing Foundation (BSHF) supports the government's commitment to welfare reform. The White Paper provides only a brief outline of the housing component of Universal Credit. If Universal Credit does not deal effectively with housing it will fail to achieve its objectives.

BSHF makes the following recommendations for the development of Universal Credit:

1. Any index linking of Universal Credit housing payments and associated caps should be subject to annual, or at most biennial, revaluations.
2. Provision should be made for direct payment to both social and private landlords where appropriate.
3. The government should urgently clarify the relationship between proposals for Affordable Rent and welfare reform.
4. The government should ensure that the localisation of Council Tax Benefit does not undermine the objectives of Universal Credit.
5. Universal Credit should reform non-dependant deductions to create a fairer and simpler mechanism.
6. The government should consider the introduction of Universal Credit as an opportunity for adopting a bold new form of support with mortgage costs.
7. If support with mortgage costs is included within Universal Credit, modifications should be made to Support for Mortgage Interest to create a system that is more compatible with the principles of the new benefit.

BSHF is an independent housing research charity that 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. In June 2010 BSHF held a Consultation at St George's House, Windsor Castle, bringing together practitioners and academics from a wide range of housing-related backgrounds to examine support with housing costs (see www.bshf.org for details).

1. Clarifying the detail of the housing component of the Universal Credit

1.1. BSHF supports the government's commitment to "reforming the welfare system to make it fairer, more affordable and to tackle poverty and welfare dependency, whilst continuing to support the most vulnerable in society".¹

1.2. As a housing research charity, BSHF's primary interest relates to the role of housing in the broader welfare system. As well as being a fundamental human need, housing is a vital part of the welfare system because:

- It is typically households' largest payment;
- It is one of the most difficult items of household expenditure to change. It is costly to move house, access (particularly to social housing) can be very constrained, and there are further difficulties for those with family commitments such as children in school, or care of elderly relatives;
- There are massive regional and local variations in the cost of housing, much more so than for other items of expenditure.²

1.3. The White Paper provides only a brief outline of the housing component of Universal Credit. If Universal Credit does not deal effectively with housing it will fail to achieve its objectives.

1.4. This response addresses each of the statements in the housing section of the White Paper in the order that they appear.

2. "The intention is that... support for rent, currently delivered by Local Authorities, will... be replaced by Universal Credit." (Chapter 2, Section 28)

2.1. In designing Universal Credit it is important to consider the residual role for local authorities. It may be that some non-mainstream support is difficult to provide centrally; but the benefits of leaving these functions with local authorities must be balanced with the associated costs. At present, for example, local authorities must run computer systems capable of handling all aspects of Housing Benefit claims. Substantial savings may be achievable by moving to a single central computer system, but any functions left with local authorities will limit the ability for IT tools to be removed.

¹ Universal Credit: Welfare that Works, p. 6

² Diacon et al (2010) Support with Housing Costs: Developing a simplified and sustainable system, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=AB588DD9-15C5-F4C0-993D5892C8E1DCC1>

2.2. In moving to a centralised system it is also important that government does not underestimate the value of local knowledge in the current system, such as tacit knowledge of addresses that provide hostel accommodation.

3. “Our aim is to simplify provision for rent support in Universal Credit as much as possible, while protecting potentially vulnerable people from unintended consequences.” (Chapter 2, Section 29)

3.1. BSHF supports reform of Housing Benefit in order to create a simplified and sustainable system that protects the amount of money available to households after housing costs.

4. “We will set the amount we pay to support people in the private-rented sector at a level that will generally make the lowest third of market rents affordable.” (Chapter 2, Section 29)

4.1. Setting support at the level of the lowest third of market rents is not unreasonable as a general target. However, a more nuanced approach is required to reflect the variation in local markets. Examples of areas where flexibility will be required are those with particularly high numbers of claimants and those where market failure has resulted in a concentration of substandard properties at the low end of the market.

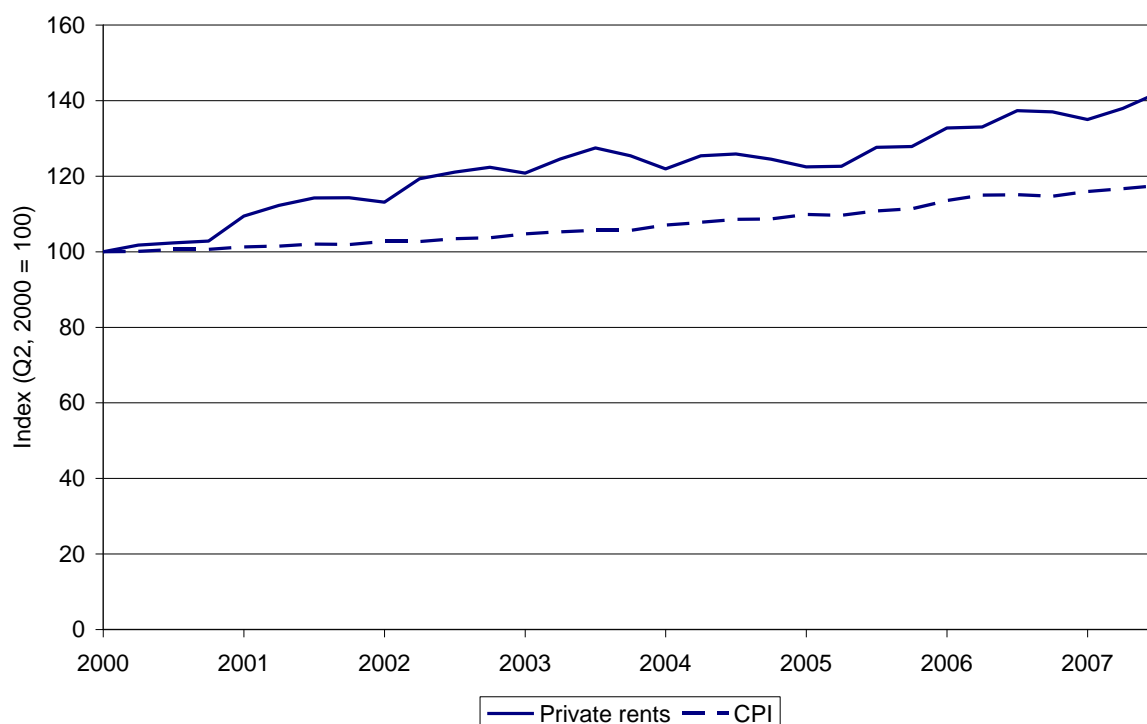
4.2. Moreover, the commitment to making the lowest third of the market available could very easily fail to be met if recent changes to Housing Benefit are transferred to the Universal Credit. Consumer Price Index (CPI) indexation (discussed below) and national caps could undermine this commitment in high-price areas.

4.3. BSHF has previously noted that an alternative to crude LHA caps would be to redefine Broad Rental Market Areas (BRMAs) to account for typical longer commutes in areas such as London. However, it must be stressed that if commuting is considered a desirable option for those in receipt of support with housing costs, then the cost of commuting must be taken into consideration.

5. “Rates will be set and updated to ensure that the support received is fair but not excessive.” (Chapter 2, Section 29)

5.1. The Budget proposed that LHA rates would be linked to the CPI. It appears likely that this measure will achieve cost savings, as in recent years rent inflation has been higher than CPI (Figure 1).

Figure 1: Rent inflation and CPI inflation, 2000-07 ^{3,4}



5.2. Whilst indexation of LHA may be useful in controlling costs in the short term, it is likely to create significant problems if it is adopted as a long term strategy. In the long term, benefit rates are likely to diverge from actual rents and fewer homes will be available to claimants in many areas.

5.3. The differing local impacts of indexation may be particularly damaging due to significant variation in how rental prices change in different areas. This regional and local variation is greater than changes that are seen in other items of household expenditure. For example, between 1999 and 2007, private rents increased by 30 per cent in the North West, compared with 78 per cent in the North East.⁵ It is therefore vital that policies take this variation into consideration if they are to have similar outcomes for households in similar circumstances in different parts of the country.

5.4. If actual rents and LHA rates are allowed to diverge there will be significant negative outcomes for tenants. Landlords may be less willing to let to tenants in receipt of LHA or may exit the market altogether, reducing the number of properties available for those in receipt of benefits, a problem that will increase over time as LHA rates fall behind market rents.

5.5. Those tenants who are able to find properties will face an increasing shortfall in their rent, which they will have to make up themselves. As a principle, the main component of benefits is to be set at a level that is not excessive, covering only necessities. Whilst this is reasonable, it implies that claimants will have little surplus with which to top up shortfalls in housing costs. Consequently, support must continue to meet reasonable housing costs if the risk of increases in indebtedness (and eventually homelessness) is to be avoided.

³ DCLG (2010) Housing Live Table 740, Rents, lettings and tenancies: Private Sector Rent Index, England, <http://www.communities.gov.uk/documents/housing/xls/141464.xls>

⁴ ONS (2010) Consumer Prices Index, <http://www.statistics.gov.uk/statbase/tsdataset.asp?vlnk=7174&More=Y>

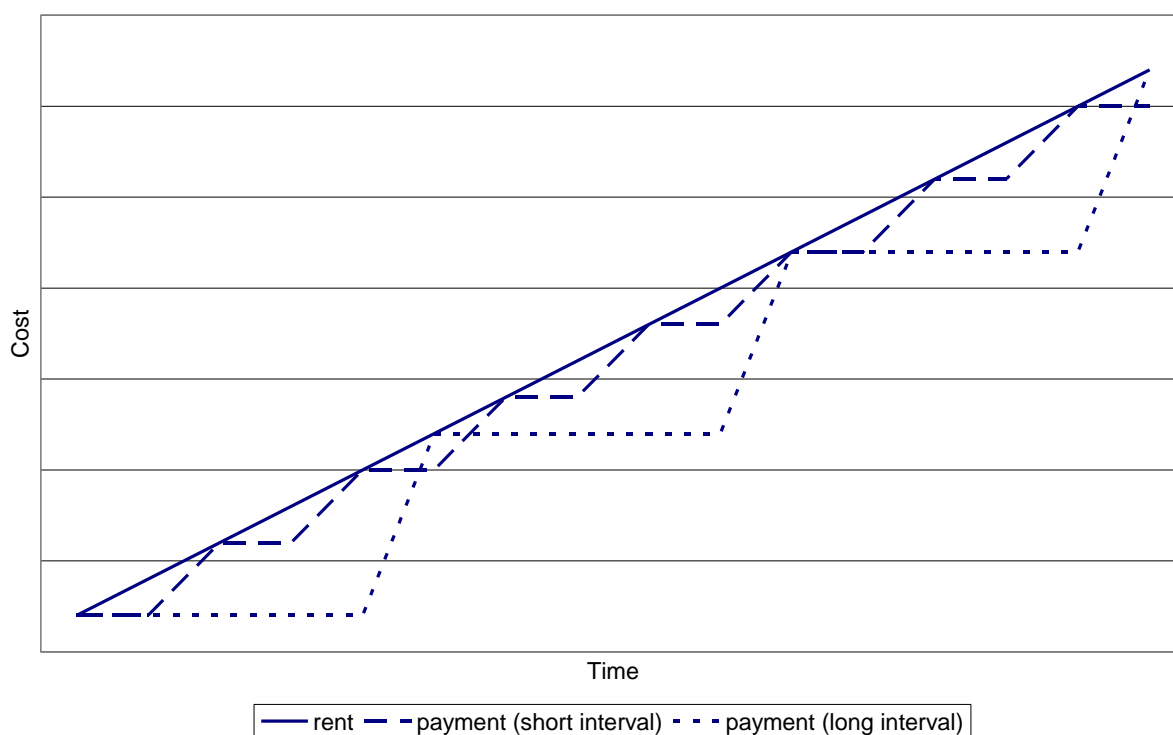
⁵ DCLG (2010) Housing Live Table 715, Rents, lettings and tenancies: rents and rent types, from 1994, <http://www.communities.gov.uk/documents/housing/xls/table-715.xls>.

5.6. However, it may be possible to adopt a form of indexation that simplifies the current system and creates greater certainty for tenants, landlords and the government, whilst avoiding the worst potential impacts.

5.7. Lord Freud recently stated that the indexation of Housing Benefit is proposed to last from 2013 until the end of the current Spending Review period.⁶ The introduction of the Universal Credit therefore represents an ideal opportunity to create a longer term approach to the uprating of support with housing costs. Any indexation of the housing component of Universal Credit will require a robust uprating mechanism. In addition to upratings of Universal Credit payments, it is also important to uprate any absolute caps that may exist within Universal Credit.

5.8. It is important that revaluations occur frequently in any new system of uprating. If there is a long gap between revaluations, the step increases required become large. This not only means that households will face increasing shortfalls in their payments, but it also becomes politically problematic to increase the payment sufficiently (Figure 2).

Figure 2: Impact of length of time between revaluations



5.9. Recommendation 1: Any index linking of Universal Credit housing payments and associated caps should be subject to annual, or at most biennial, revaluations.

6. “For social-rented sector tenants... the housing component will... [be] based on actual rents” (Chapter 2, Section 30)

6.1. BSHF supports the principle that the housing component of Universal Credit should reflect actual rents in the social rented sector.

⁶ Parliament (2010) House of Commons Oral Evidence: Changes to Housing Benefit announced in the June 2010 Budget, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/uc469-ii/469ii.htm>

7. “There are advantages in paying the housing component to individuals... However, we also recognise the importance of stable rental income for social landlords to support the delivery of new homes” (Chapter 2, Section 31)

7.1. Any removal of direct payments from housing associations could hinder their ability to borrow, requiring alternative government support if housing delivery is to be maintained. It is also likely that housing associations would face higher costs arising from increases in arrears.

7.2. In addition, there need to be safeguards in place for private landlords, otherwise they may be less willing to let to tenants in receipt of benefits. This is particularly important for vulnerable individuals who will still need payments to be made directly to their landlord.

7.3. Recommendation 2: Provision should be made for direct payment to both social and private landlords where appropriate.

8. “There are many policy and operational issues to work through in respect of housing.” (Chapter 2, Section 32)

8.1. BSHF welcomes the acknowledgement that there are outstanding issues to be resolved in the housing component of Universal Credit. It is vital that these proposals are coordinated with wider housing policy to create a coherent approach to housing and welfare reform. There is a risk that recent changes to housing policy will undermine steps taken to make benefit expenditure sustainable.

8.2. One area that deserves particular attention is the impact of **Affordable Rent** on welfare expenditure. In order to analyse this, BSHF made requests to DCLG, DWP and HMT for modelling they had undertaken on the impact of Affordable Rent on Housing Benefit expenditure. The departments declined to provide this information as the policy was still under development.

8.3. In the absence of these assumptions it is difficult to make predictions, but basic modelling by BSHF suggests that the introduction of Affordable Rent could add cumulatively £390 million to Housing Benefit expenditure each year. By the end of the Spending Review period that could amount to an increase of Housing Benefit expenditure of £1.56 billion per year.⁷ This is in contrast to the government’s projected savings of £2.25 billion for 2014/15.⁸

8.4. Recommendation 3: The government should urgently clarify the relationship between proposals for Affordable Rent and welfare reform.

8.5. The **localisation of Council Tax Benefit (CTB)** will also need to be considered alongside Universal Credit. There is a risk that local authorities will set up their schemes in ways that clash with the objectives of Universal Credit. Specifically, it could reintroduce the problem of multiple tapers interacting to create high marginal withdrawal rates, which Universal Credit is designed to avoid. Two options are available to combat this potential problem. The first is to reconsider including CTB within Universal Credit. The second is for government to work with local authorities

⁷ Calculations available from BSHF on request.

⁸ Pattison, B. et al (2010) The Impact of Claimant Numbers on Housing Benefit Expenditure, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=0D3686BE-15C5-F4C0-99EB00984C47C286>

to create a clearer framework for a local CTB that, as a minimum, ensures that it does not recreate high marginal deduction rates.

8.6. Recommendation 4: The government should ensure that the localisation of Council Tax Benefit does not undermine the objectives of Universal Credit.

8.7. Non-dependant deductions complicate the Housing Benefit system and create problems for households. Younger people are discouraged from staying at home, as their parents may find their Housing Benefit significantly reduced. Equally, many older people lose support with housing costs as non-dependants frequently do not pay the householder for the benefit deducted. An alternative model that may simplify the system could be to treat non-dependants as separate households, even if they are occupying the same dwelling. Claimants' housing support entitlements would then be based on the size of their household excluding non-dependants, who would themselves be eligible to make a claim should their circumstances entitle them to.

8.8. Recommendation 5: Universal Credit should reform non-dependant deductions to create a fairer and simpler mechanism.

8.9. There are other groups of people who have different housing needs that should be considered during the development of Universal Credit. These include:

- People who do not live in traditional bricks-and-mortar accommodation (Gypsy and Traveller accommodation, houseboats, etc);
- Severely disabled adults who are expected to need significant support for the rest of their lives. It would be important to consider housing in conjunction with their other needs such as health and social care;
- People living in temporary accommodation. Both the transitory nature and the cost of this accommodation mean that it would be important to ensure that Universal Credit is able to reflect the needs of people in this situation.

9. “We will consider whether changes are needed to the current approach to calculating help with mortgage costs to ensure it is consistent with Universal Credit principles.” (Chapter 2, Section 33)

9.1. Whilst it would appear equitable to treat mortgage payments as similarly as possible to rent payments, owner occupation is an investment as well as a consumption good and justifies a distinct treatment.

9.2. There are also practical reasons for differential tenure treatment. For example, owner occupation is generally significantly less flexible than private renting.

9.3. There is significant justification for considering a bold overhaul of the type of support available to households in owner occupation. The SHOP (Sustainable Home-Ownership

Partnerships) proposals developed by the Joseph Rowntree Foundation⁹ would warrant particularly close attention, as a model that balances the interests of borrowers, lenders and the state.

9.4. Recommendation 6: The government should consider the introduction of Universal Credit as an opportunity for adopting a bold new form of support with mortgage costs.

9.5. If support with mortgage costs is brought within Universal Credit, there are several issues that will need to be resolved. These include:

- Universal Credit is designed to have smooth tapers that will be based on the level of income, not the number of hours worked. Support for Mortgage Interest (SMI) is currently hours limited;
- SMI is time limited with both a waiting period before the claim will be paid and a limit on how long it will be paid for. Neither of these is consistent with other aspects of Universal Credit;
- SMI is paid at a standard rate of interest, as opposed to actual costs, which can result in overly generous payments, or in under-payments that leave claimants accruing arrears;
- SMI is paid with reference to the current mortgage of the household, subject to a cap. At the high end, this can pay for a substantially larger house than claimants would be eligible to receive support on if they were private renting. In higher price areas, the cap can constrain payments at a significantly lower level than in private renting.

9.6. Addressing some of these issues to make SMI consistent with other support in Universal Credit is likely to add substantially to its costs. An alternative model might look to balance cost, the principles of Universal Credit and reasonable treatment of claimants.

9.7. Universal Credit could pay the actual interest costs faced by the claimant for a set period (to account for the inflexibility of owner occupation). After this set period support could be capped at whichever is the **lower** of the actual costs or the award they would be entitled to if they were claiming rental support. In general, support should not be indefinite for households with mortgages. If a household is unable to afford owner occupation over a significant period, then it is not necessarily an appropriate tenure.

9.8. There are options available for determining the level of interest paid to avoid under- or over-payments without having to rely on the claimant reporting changes to their interest rate, including:

- Requiring lenders to charge interest at a particular rate for those claiming this support;
- Requiring lenders to provide real-time reporting of rate changes to the DWP.

These are not unreasonable burdens to impose on lenders given that government support is being provided to uphold a private contract between the household and mortgage provider.

9.9. As Universal Credit will be a working age benefit, the treatment of pensioner households is not within its direct scope. However, there is an argument for considering pensioners as a special

⁹ Stephens, M. et al (2008) Developing safety nets for home-owners, <http://www.jrf.org.uk/sites/files/jrf/2198-mortgage-insurance-repossession.pdf>

case in terms of mortgage support. There is a significant and increasing number of SMI claimants that are pensioner households, who could potentially remain supported indefinitely. In these cases it may represent value for money for support to be given by paying off the mortgage in return for an equity stake in the property (which is very likely to be cost effective, as equity is returned when the household moves on).

9.10. Recommendation 7: If support with mortgage costs is included within Universal Credit, modifications should be made to SMI to create a system that is more compatible with the principles of the new benefit.