

BSHF Submission to the
Department for Work and
Pensions' 21st Century
Welfare Consultation

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BSHF is an independent housing research charity committed to ensuring that everyone has access to decent and affordable housing, and holds Special Consultative Status with the United Nations Economic and Social Council. Since 1994 BSHF has organised an annual series of Consultations at St George's House, Windsor Castle, on a range of housing issues, bringing together diverse ranges of experts for in-depth discussion and consideration of an important housing issue of the day. Several of these Consultations have informed our thinking in this submission, most notably our Consultation in June 2010 on support with housing costs, which was chaired by Lord Richard Best.¹

1 What steps should the Government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?

Sustainability of the welfare system

- 1.1 It is essential that the cost of the welfare system be managed to ensure that it remains sustainable in the long term. However, observations like those contained in *21st Century Welfare* that “the cost of welfare is rising at a time when we can least afford it” (Chapter 2, paragraph 6) fail to accurately reflect the situation. It is inherent in the nature of a functioning benefits system that the cost will increase in a downturn, at the same time as tax revenues are reducing.
- 1.2 With reference to the housing aspects of the welfare system, increases in expenditure on Housing Benefit have two sources: increasing claimant numbers and increasing rents. BSHF calculates that the majority of recent increases in housing benefit expenditure are due to increasing numbers of working age claimants.² Downturns, of course, are times when people become unemployed or have their hours or pay cut through no fault of their own, and struggle to find replacement work as the jobs market becomes more competitive. The welfare bill therefore increases, but the cost of welfare should be expected and allowed to vary with the economic cycle.
- 1.3 The second source of increasing expenditure, increases in rents, is also not “out of control”. Increases in the amount paid to claimants is closely linked to government policies aimed at rent harmonisation across the social housing sector and the greater use of private rented accommodation which is, on average, significantly more expensive than social housing.³
- 1.4 This is not to say that long term measures should not be put in place to ensure that the cost of welfare remains affordable across an economic cycle. In the short-term, however, the government’s approach should centre on creating an environment in which it is possible for people to find work (i.e. reducing unemployment) whilst reforming the system to ensure that work will pay once the availability of employment increases. Over the medium to long term, the government will need to address increases in rental prices.

The importance of housing within the welfare system

- 1.5 BSHF is a housing research charity, so our primary interest relates to the role of housing in the broader welfare and support 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 difficult and costly to move house, access (particularly to social housing) is very constrained in many areas, and there are further constraints 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. This variation is much greater than other items of expenditure.⁴ Prior to the emergency budget, the LHA rate for a three-bedroom house in Central London was £700 per week, compared with £92.31 per week for a similar property in Blaenau Gwent.
- 1.6 If the reforms arising from *21st Century Welfare* do not deal effectively with housing they will fail to achieve their objectives. As described above, support with housing costs is significantly different from other parts of the benefit system.
- 1.7 One of the current forms of support with housing costs, Housing Benefit, has been allowed to 'take the strain' of economic changes and policy decisions in the housing system and employment market.⁵ Consequently the Housing Benefit bill has grown due to rent increases and an increase in claimants. As described above, addressing these factors to reduce the cost of the welfare system will require lowering levels of unemployment in the short and medium term, and lowering the relative cost of housing over the longer term. In terms of annual cost the other largest form of support with housing costs is the preferential taxation treatment of owner occupation; cutting this cost represents a potential multi-billion pound resource which could more than cover the cost of delivering substantial reform of the welfare system.

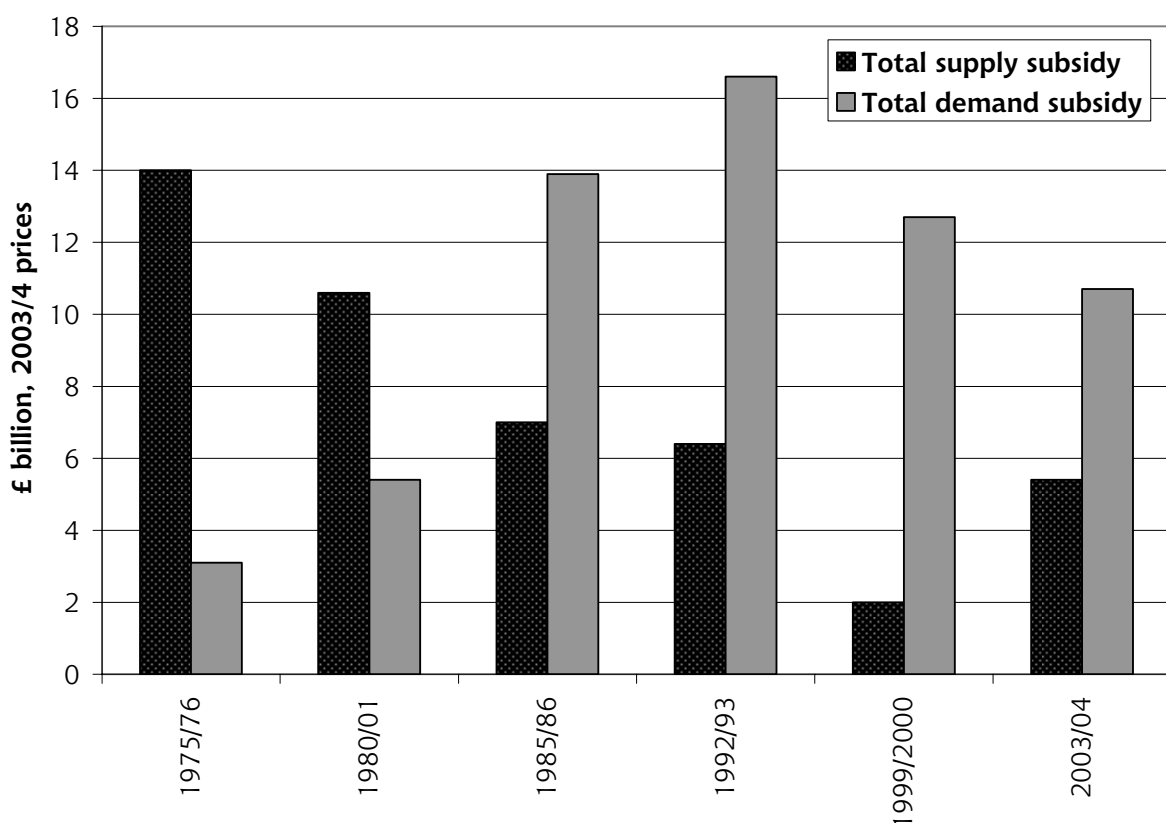
Focus on housing to reduce the cost of the welfare system

- 1.8 Over the longer term, housing is a key area where efforts to improve the affordability of the welfare system should be made. In his Foreword to *21st Century Welfare*, the Secretary of State rightly identifies that:

“Too often governments have tried to tackle poverty but ended up managing its symptoms. The changes outlined here are based on a recognition that poverty cannot be tackled through treating the symptoms alone.” (p1)

- 1.9 Support with housing costs is a prime example of an area where current approaches tend to deal with the symptoms rather than the root cause: high and unaffordable housing costs in many areas. In broad terms there are only two possible approaches to providing support with housing costs: providing a benefit to allow people to afford high housing costs or working to reduce the cost of housing. The current system of support with housing costs has focused on the former. In 2008/09, Housing Benefit expenditure reached £17.58bn whilst social housing investment was £8.85bn.⁶ This is the result of a shift towards revenue support and away from capital investment over the last 35 years (Figure 1).

Figure 1: Housing subsidy (constant prices), England, selected years between 1975/6 and 2003/4⁷



- 1.10 As a long term goal, greater emphasis should be put on reducing the cost of housing, through increasing the delivery of affordable housing as well as other approaches, to create a more sustainable housing system. In the interim, revenue support, along the lines of the current Housing Benefit, will remain

necessary, until the housing market can be restructured to provide housing at lower cost. Even once the transition is complete, there will probably still remain a role for some form of revenue support, although the aim would be for it to be able to play a substantially smaller role.

- 1.11 Addressing this issue will require welfare policy to be clearly aligned with coherent housing policy to a much greater extent than is currently the case.

Tenure neutrality

- 1.12 *21st Century Welfare* states that “positive behaviours, such as ... buying your own home, [should be] rewarded” (Chapter 1, paragraph 9). However, half the poor are owner occupiers⁸ and over 4.8 million owner-occupied homes fall below the Decent Homes standard, which represents 32.3 per cent of households in this tenure.⁹ Prior to the significant tightening of loan availability following the financial crisis in 2007, many people aspiring to homeownership took significant risks to enter the tenure, including by taking out mortgages of up to 110 per cent of their homes’ value. Many of these households remain in low or negative equity; this creates problems for those households that want to move, and also for those with fixed rate periods ending who might wish to remortgage to avoid facing a ‘rate shock’ if interest rates rise.
- 1.13 These problems indicate that buying your own home is not always and unequivocally a positive behaviour. Owner occupation is not a sustainable housing choice for every household.
- 1.14 BSHF welcomes the fact that the government is taking a broad view of welfare within *21st Century Welfare*, including at Chapter 4, paragraph 10, where the important role of the delivery of affordable housing is addressed. In addition to this, it would be beneficial for any proposals arising from the *21st Century Welfare* consultation to also address the “middle-class welfare” provided through the favourable taxation treatment of owner occupation. Owner occupation is currently given substantial support, in the form of favourable taxation treatment. This was described in the Hills Review of social housing as the third major form of housing support, alongside Housing Benefit and the provision of social housing at below-market rents.¹⁰ In terms of the annual foregone income the value of this support prior to the recession was substantially larger than annual expenditure on Housing Benefit (estimated at between £23.7 billion and £28.4 billion per year for the years from 2002/03 to 2007/08), although in the economic downturn it fell to slightly lower than the Housing Benefit bill (£15.9 billion for 2008/09).¹¹

- 1.15 Addressing this substantial foregone income would provide significant funds to reform other forms of welfare and support. BSHF's submission to the 2010 Spending Review provides detailed information on the forms that this favourable taxation treatment takes, as well as some indications of potential methods for creating a fairer system.¹² As *21st Century Welfare* notes, "it is clearly important that we ensure support is well targeted, is fair to those on low pay and that the right money goes to the right people" (Executive summary, paragraph 6). A reassessment of the role of housing taxation would make an important contribution to this aim.

Addressing poverty amongst owner occupiers

- 1.16 Government efforts to address poverty should take account of the incidence of poverty amongst owner occupiers. Whilst BSHF would broadly encourage a tenure neutral approach to addressing poverty, we appreciate that owner occupation contains substantial differences to the rental sectors. For owner occupiers their housing represents an investment good as well as a consumption good and the housing expenditure of mortgaged owner occupiers includes both interest payments and capital repayments. Consequently the priority should be on producing similar outcomes for people in different tenures experiencing hardship, not necessarily on adopting identical mechanisms.
- 1.17 The current mechanism for providing support with housing costs to owner occupiers facing hardship is Support for Mortgage Interest (SMI). Access to SMI is tightly constrained compared with Housing Benefit. Reducing poverty in this sector without substantially increasing the cost of the welfare system might require the adoption of an innovative form of support. The SHOP (Sustainable Home Ownership Partnership) proposal developed by the Joseph Rowntree Foundation warrants particular attention here, for its potential to provide support to homeowners losing income. In brief, participation in SHOP would be compulsory for all new and remortgaging borrowers, with contributions providing insurance against loss of employment. Three parties would contribute to the scheme – the borrower would pay 50 per cent of the cost, and the lender and government would pay 25 per cent each.¹³

2 Which aspects of the current benefits and Tax Credits system in particular lead to the widely held view that work does not pay for benefit recipients?

- 2.1 The high cost of housing, particularly in some areas, means that it makes up a large portion of the expenditure of most households. Any system that seeks to guarantee that “work pays” will need to include a component that reflects the actual housing costs in an area, and be payable to people in work who would otherwise not be able to afford suitable housing in their area, as well as those who are unemployed.
- 2.2 Complexity and marginal deduction rates are clearly important issues, well highlighted by *21st Century Welfare*. There are also other issues that make movement into and out of the benefits system difficult, therefore creating barriers to work for claimants. Difficulties faced in claiming benefits in the first place can create barriers to moving off benefits, as claimants fear having to go back through the process of initiating a claim should their work end for any reason.
- The system is not well adjusted to complexity of household relationships and changes that occur in household structures.
 - The system does not always reflect normal practice in the private rented housing market, which makes movement into and out of the Housing Benefit system difficult. For example, Housing Benefit is paid four-weekly in arrears, whereas rent is normally due monthly in advance in the private rented sector and the basic Housing Benefit system does not deal with the normal practice of tenants paying a deposit.
 - There are also problems with administration of changes. If someone takes on temporary work, then the time taken to increase Housing Benefit again after employment ceases can be too long, making it risky to accept temporary or uncertain employment.
 - These problems with administrative changes have led to a lack of public trust in the system that will be difficult to overcome even if problems with administration and complexity are addressed.
- 2.3 The low take up rate of Housing Benefit as an in-work benefit, suggests that people are not aware of their eligibility. Only 38 to 51 per cent of those in employment who are entitled to claim Housing Benefit do so, compared with 90 to 96 per cent of those not in employment.¹⁴

3 To what extent is the complexity of the system deterring some people from moving into work?

- 3.1 BSHF would consider that, broadly speaking, the analysis provided (Chapter 2 paragraphs 23-28) is accurate. However, more research is required in this area to understand the relative importance of different barriers (identified in response to question 2) including marginal tax rates, complexity, social norms and availability of employment.
- 3.2 We would also highlight that not all of the complexity is due to the interaction between different forms of support; Housing Benefit contains significant complexity within itself, not just in its relationships with other parts of the welfare system.
- 3.3 BSHF has previously called for simplification of both the purpose and operation of Housing Benefit.¹⁵ Briefly, a simpler purpose would allow Housing Benefit to focus on ensuring households have sufficient residual income after their housing costs have been covered, whilst a simpler form of operation could help to avoid some of the complexity of processing, as well as increasing the transparency and comprehensibility of the benefit.

4 To what extent is structural reform needed to deliver customer service improvements, drive down administration costs and cut the levels of error, overpayments and fraud?

- 4.1 There is a clear need to improve customer service and there is always a need to minimise administrative costs, error, overpayments and fraud. It is not acceptable that 4.4 percent of Housing Benefit expenditure is overpayment due to fraud or error, compared with 2.2 percent for other benefits. An average processing time for an application of 23 days is too long and causes major difficulties for tenants and landlords.
- 4.2 However, there have been notable improvements in some aspects of Housing Benefit administration during recent years and some local authorities are achieving very low average processing times.
- 4.3 Housing Benefit has consistently been criticised for being too complex. It is a complex benefit, with links to other benefits and tax credits; with different rules for private and social tenants and for in-work and out-of-work claimants; and has earlier versions and entitlements running in parallel.

- 4.4 Low take-up rates (especially as an in-work benefit) means that many are missing out. Housing Benefit has particular difficulties as an in-work benefit. Complexity is a major cause of this, as people are not clear as to when they are eligible (see response to question 6)
- 4.5 It has already been noted (response to question 3) that BSHF supports simplification of both the purpose and operation of Housing Benefit. Structural reform should bring about improvements in customer service and administration whilst minimising error, overpayment and fraud.
- 4.6 Structural reform needs to undertaken with care to ensure that changes to administration and customer services genuinely meet the needs of claimants who are often vulnerable. Face to face contact with staff is an important and valued resource for many benefit claimants, particularly those who are older.
- 4.7 One indication of the complexity of the Housing Benefit system is the scale of the guidance provided by the Department for Work and Pensions to local authorities. This guidance, covering Housing Benefit and Council Tax Benefit, runs to four volumes and over 1,200 pages.

5 **Has the Government identified the right set of principles to use to guide reform?**

“ensure that people can see that the clear rewards from taking all types of work outweigh the risks;”

- 5.1 This principle appears sound. It is good that it reflects the importance of the system being seen to provide rewards, as well as actually providing them.

“further incentivise and encourage households and families to move into work and to increase the amount of work they do, by improving the rewards from work at low earnings, and helping them keep more of their earnings as they work harder;”

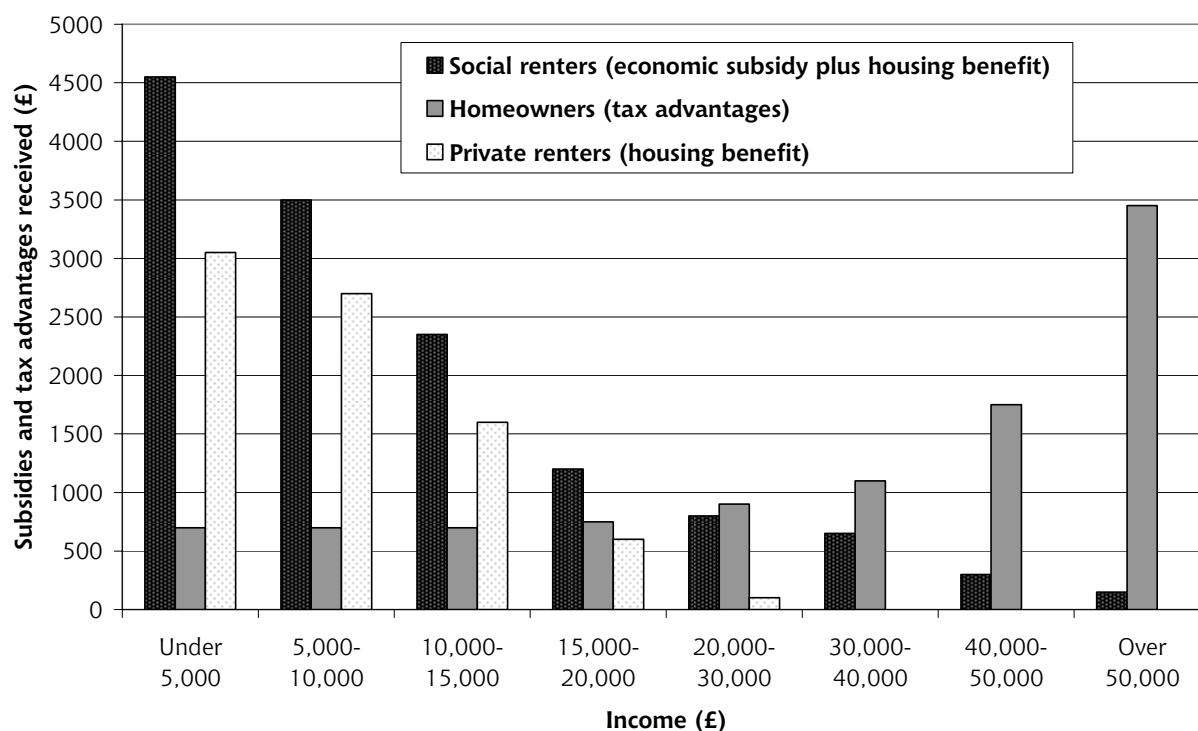
- 5.2 This principle appears to be a positive approach to encouraging a move from welfare to work. Alternative approaches, which seek to penalise those failing to get work, would be much harder to justify, not least as work may not always be available; it would be unreasonable to penalise those who remain out of work in spite of their best efforts to find employment.

- 5.3 This principle could be further strengthened by ensuring that incentives are not created that produce unintended consequences that hinder people's ability to take up work. Most notably, incentives should not be created that encourage people to move to low employment areas, a potential risk of measures that limit Housing Benefit in high cost areas.

“increase fairness between different groups of benefit recipients and between recipients and the taxpayer;”

- 5.4 This principle calls for more fairness between different groups of benefit recipients, which seems reasonable. However, it also calls for an increase in fairness between recipients and taxpayers. Implicit in this latter call is an understanding that the current system is not fair enough to taxpayers; it should be noted that non-recipients gain substantially from the presence of a benefits system, even when not drawing on it directly, not least as it provides a safety net that know they would be able to access should they need to. It also implies that recipients and taxpayers are two separate groups. Recipients are taxpayers too; everyone pays VAT on goods and services that they purchase, and most recipients will pay other taxes too. The false distinction drawn between the two groups is unhelpful.
- 5.5 The most obvious reading of this principle is that increased fairness between “taxpayers” and “recipients” equates to a lowering of the benefits bill. Assuming this is the intention of the principle, and assuming that most owner occupiers would be classified as “taxpayers” for the purposes of this principle, it is worth reflecting again upon the substantial support that is provided for owner occupation in the form of its favourable taxation treatment. This support is not means-tested and there is evidence that, in general, larger sums are received by higher-income and higher-wealth households (see Figure 2). Consequently, there is a strong case for arguing that the fairness urged in this principle would be best achieved by taking steps to neutralise those taxation advantages, to make a greater proportion of the scarce resources available to vulnerable people and to improve the benefits system.

Figure 2: Housing-related subsidies and tax advantages by income band and tenure¹⁶



“continue to support those most in need and reduce the numbers of workless households and children in poverty and ensure that interactions with other systems of support for basic needs are considered;”

- 5.6 The appreciation of the importance of the interaction of the welfare system with other forms of support is welcome. This is particularly important in relation to housing, as the largest element of most households’ expenditure. We would urge a particularly broad approach in this area, not limited to things traditionally considered ‘systems of support’: all factors that influence housing costs contribute to whether housing is affordable to those on low incomes, and how expensive it is to provide the primary support system (currently Housing Benefit). All steps to reduce housing costs, including substantial increases in the supply of both sub-market and market housing, should be considered in relation to this point (see answer to question 10).

“promote responsibility and positive behaviour, doing more to reward saving, strengthening the family and, in tandem with improving incentives, reinforcing conditionality;”

- 5.7 It generally seems that the promotion of positive behaviours is preferable to penalising those who fail to meet those ideals. However, there is significant

scope for interpretation here. It is, for example, important to carefully consider which behaviours are considered to be “positive”. As noted above, owner occupation should not be uncritically assumed to always be a positive behaviour.

- 5.8 The calls for reinforced conditionality within this principle warrant close scrutiny. As BSHF has shown¹⁷, the methods proposed in the emergency budget to increase conditionality (the proposed cut of Housing Benefit for recipients who have been claiming Jobseeker’s Allowance for 12 months) risk many negative consequences and may not result in cost savings. Housing Benefit (or any successor benefit) is a poor choice for the application of any reductions due to conditionality. At a maximum, it seems that as a principle conditionality should be limited to requiring claimants to seek work. It is unreasonable to impose benefits reductions on those who seek work but through no fault of their own are unable to secure employment due to a lack of available jobs.

“automate processes and maximise self service, to reduce the scope for fraud, error and overpayments. This could include a responsive and immediate service that saves the taxpayer significant amounts of money and ensures compliance costs for employers, at worst, no worse than under the current system; and

- 5.9 This point does not appear to fit well with the others: it appears to be more practical in nature and less of a principle.
- 5.10 An alternative proposal to one that seeks to monitor every change in employment and household circumstances would be to adopt a system that is designed to be **“roughly right rather than exactly wrong”**.¹⁸ At present, much of the complexity of the Housing Benefit system is due to it being designed to closely match changes in household income and structure. A simpler method of calculating Housing Benefit could be achieved by using broader categories of rent paid, income and household type. The Dutch housing allowance system, for example, has a small number of household types. Likewise, income and rent could be broken up into broad bands. This would create a fixed number of Housing Benefit payment rates that could easily be understood and accessed by claimants, advisors and the general public in ‘look up tables’ or simple online calculators. A more basic system such as this would need to be carefully tested to analyse its impact on different groups of people, but could provide a direction of travel to overcome the counterproductive levels of complexity in the current system.

“ensure that the benefits and Tax Credits system is affordable in the short and longer term”

- 5.11 The measures being considered in *21st Century Welfare* are large in scale and wide ranging. They have the potential to radically alter the welfare system in the UK. It is essential that the long term affordability is given precedence over short term costs. Any functioning welfare system should be expected and allowed to be more expensive in a downturn than in better financial times.
- 5.12 To ensure the long term affordability of the housing element of the benefits system, it is particularly important to draw the links outlined above, joining the welfare system both to other forms of housing support (most obviously the provision of social rented housing) and to other factors that influence the affordability of housing (notably the supply of both sub-market and market housing).

Further principles

- 5.13 BSHF has previously proposed principles by which simplification of the Housing Benefit system could be assessed, which might provide useful information for the consideration of benefits reform more generally.¹⁹ The Housing Benefit system should:
- Be responsive to how people now live, reflecting the structural and demographic changes that have taken place since the design of the welfare state;
 - Be designed to be “roughly right rather than exactly wrong”. At present, the complexity of the Housing Benefit system is due to it being designed to closely match changes in household income and structure;
 - Make greater use of fixed period awards would create greater stability for low income households, particularly those in marginal employment;
 - Give detailed consideration to whether it would be better to have a different system of Housing Benefit for pensioners;
 - Not vary entitlement depending on when the original claim was made;
 - Remove the differential treatment of younger people;

- Ensure that changes do not lead to an increase in homelessness in the short, medium and long terms.

6 Would an approach along the lines of the models set out in chapter 3 improve work incentives and hence help the Government to reduce costs and tackle welfare dependency and poverty? Which elements would be most successful? What other approaches should the Government consider?

- 6.1 The broad concepts outlined in the description of the Universal Credit seem beneficial, particularly the aim of reducing complexity and the opportunity to ensure through a single taper that marginal withdrawal rates are not excessive. However, the success of this approach would be entirely dependent on working through the details of this proposal, which are not covered by this broad outline.
- 6.2 It is noted for the Universal Credit that it “[creates] a platform for tackling the current problems of high Marginal Deduction Rates and low gains to work” (Chapter 3 paragraph 6). It is important to recognise that it does only create a platform: whether it actually resolves those problems will be dependent on the levels at which various variables are set.
- 6.3 Particular care will be needed in working out how housing costs are addressed within a system based around a Universal Credit. BSHF believes that support with housing should reflect actual housing costs, which vary substantially around the country, in a way rarely seen in other items of household expenditure. There are three broad options available, each with their strengths and weaknesses:
- A separate housing allowance could be maintained. This would weaken the overall idea of moving to a single benefit, but is justifiable as housing is such a special case;
 - Include an element for housing costs within the Universal Credit. This would maintain the principle of moving to a single benefit, but would require the credit to vary significantly in different areas;
 - Adopt a hybrid approach, whereby an amount is included within the Universal Credit to contribute towards housing costs, with a separate allowance to act as a top up. One effect of this would be that everyone would be expected to contribute to their housing costs with a payment from their main Universal Credit.

- 6.4 Ultimately, the mechanism that is selected is less important than ensuring that housing costs are accurately reflected somewhere within the system.
- 6.5 BSHF recommends that the Universal Credit does not cover the housing costs of homeowners. Owner occupation is an investment as well as a consumption good. The response to question 1 notes the potential of alternative approaches to help homeowners such as SHOP or insurance type schemes.

Two of the other models outlined in *21st Century Welfare* (the Mirrlees model and the TaxPayers' Alliance / negative income tax model) appear in large part to be dependent on a general lowering of the levels of support available to households. BSHF has previously highlighted how, particularly in relation to housing support, a reduction in the level of support available can have significant unintended consequences.²⁰ As well as the social and financial impacts on the households themselves, the state can end up supporting them through alternative methods: in the case of housing this can mean providing homelessness services, which can end up many times more expensive than the support that would ordinarily have been provided.

It is important to note that changes to the welfare system need to be combined with a coherent housing policy in order to reduce costs and tackle welfare dependency and poverty. Controlling the cost of housing through, for example, increasing supply and mortgage availability, is as important as structural reform of the welfare system.

7 Do you think we should increase the obligations on benefit claimants who can work to take the steps necessary to seek and enter work?

- 7.1 Whilst requiring people to take the steps necessary to seek and enter work does not seem unreasonable, they should not be penalised if their best efforts in taking those steps are unsuccessful.
- 7.2 The government's measures, announced in the emergency budget, reducing claimants' Housing Benefit by 10 percent if they have claimed Jobseeker's Allowance for 12 months is a particularly poor form of conditionality as it breaches the principle outlined above. It will also penalise different claimants to very different extents, depending on where in the country they live, breaching the fourth principle for reform in *21st Century Welfare* ("increase fairness between different groups of benefit recipients...", Chapter 3, paragraph 1). In developing proposals following the consultation it is important that this mistake be reversed and not repeated.

- 7.3 The inter-relation between housing costs and the availability of work should be considered carefully when designing any amendments to the welfare system. Specifically, measures that seek to encourage benefit recipients to move to areas with lower housing costs may result in their moving to areas with poor prospects for employment as there is frequently a correlation between low housing costs and low rates of employment. This could result in an unintended consequence of reducing people's access to the employment market, undermining other objectives of the system and increasing the long term cost of the system as people remain out of work for longer.

8 Do you think that we should have a system of conditionality which aims to maximise the amount of work a person does, consistent with their personal circumstances?

- 8.1 BSHF does not have any particular contribution to make on this point except to reiterate the importance of local variation in housing costs, and hence that Housing Benefit (or any successor benefit) is a poor choice for the application of any reductions due to conditionality.

9 If you agree that there should be greater localism what local flexibility would be required to deliver this?

- 9.1 BSHF does not have any particular contribution to make on this point, other than to note that housing costs vary substantially around the country. Whether addressed through a localism approach or a centrally-defined formula the levels of benefits provided must take account of this fact if they are to be fair to claimants living in different parts of the country.

10 The Government is committed to delivering more affordable homes. How could reform best be implemented to ensure providers can continue to deliver the new homes we need and maintain the existing affordable homes?

- 10.1 The recognition of the provision of affordable homes as an important factor in this discussion is welcome. In broad terms, the provision of sufficient affordable homes would lower the number of people requiring assistance to pay high rents

in the private rented sector and would lower the levels of revenue expenditure needed to support those who did still require support with their housing costs.

- 10.2 We would also urge a broader view of the importance of the supply of housing. Market housing costs in some areas are high and unaffordable; increased supply would tend to constrain further increases in these costs, and would contribute to the long term sustainability of providing support with housing costs. Consequently, all measures to constrain or decrease the cost of market housing (including substantially increased supply) should be considered in relation to this issue.
- 10.3 The other substantial form of support with housing costs that is provided by the government is the favourable taxation treatment of owner occupation. This support is very expensive, costing around £20 billion per year in foregone income, and is not targeted towards those in greatest need.²¹ This support should be reviewed as part of the process for developing proposals from *21st Century Welfare*; removing it could provide substantial funds to allow other forms of support to be improved. BSHF's submission to the Spending Review provided more information on this subject, including ideas of how the taxation treatment could be made more neutral.
- 10.4 It is also vital to recognise the importance of Housing Benefit to the finances of housing associations.²² The predictability of Housing Benefit revenues provides a strong base for their finances allowing them to lever in private funding for new affordable homes and secure low lending rates. This system provides an efficient mechanism for supporting housing associations and delivering new homes. BSHF supports a narrowing of the purpose of Housing Benefit, so would not be opposed to a new system that meant it could not serve this role in relation to housing association finances. However, if this were to happen it would be essential that the system were replaced with alternative methods of achieving these goals that did not actively involve the benefit system.²³

Increased housing supply

- 10.5 Last year BSHF published *The Future of Housing* which highlighted almost 40 possible options that might contribute to an increase in housing supply.²⁴ Some of the most well developed and widely supported proposals include:
- Amending the Right to Buy scheme to ensure that most or all of the receipts from sales are recycled into providing new social rented housing stock.

- Rebalancing capital and revenue subsidies, to provide greater investment in the development of a long-term social housing asset for the nation.
- Revisiting 'best consideration' rules to ensure they are not preventing public bodies from making innovative use of their land assets as subsidy during a period when other sources of subsidy are constrained.
- Increasing the provision of desirable accommodation purpose built for older households, to free up family homes and make better use of the existing stock. Where appropriate, these properties should be located in or near to existing communities to give those downsizing the option of doing so without moving out of the area. Work to increase this provision should feature delivery of homes in a range of tenures, including investment in provision of social rented homes of this type.
- Switching the UK to the GGF system of accounting in a phased manner, to better reflect the status of local authorities' landlord functions and safeguard the status of housing association debt as off balance sheet.
- Concluding the reform of the housing revenue account to give local authorities greater financial autonomy.
- Considering the merits of existing innovative structures that housing associations and local authorities have established to deliver housing for communities, and if appropriate support their wider adoption.
- Supporting the establishment of a housing innovation agency, to conduct experiments into housing provision.
- Providing support for housing delivery mechanisms that harness the efforts of members of communities, such as self-help housing, as part of the Big Society programme.

10.6 Further ideas that merit consideration include: efforts to make use of the equity in the balance sheets of non-developing housing associations; the possibility of social landlords being enabled to take a more flexible approach to asset management (for example selling off some stock at market rates as it becomes vacant and reinvesting in new homes); and the possibility of social landlords participating in the market rental sector to increase the delivery of well-managed housing stock, potentially cross-subsidising their social rented stock. The limited supply of housing is a major structural issue that requires urgent and sustained attention from both government and other stakeholders from across the UK housing system.

11 What would be the best way to organise delivery of a reformed system to achieve improvements in outcomes, customer service and efficiency?

- 11.1 BSHF does not have any particular contribution to make on this point, other than to note that whatever system is adopted it is essential that vulnerable people get good customer service from the system.
- 11.2 The current Housing Benefit system has seen substantial improvements to processing times for claims. There is, however, still significant room for improvement in some areas; the quickest local authorities are able to process claims in a few days, and any delivery mechanism should be arranged to try to reproduce the best performance across the country.

12 Is there anything else you would like to tell us about the proposals in this document?

- 12.1 There are a number of areas where key priorities identified in *21st Century Welfare* – increased fairness and taking a broad approach to welfare support – could be further enhanced.

Fairness and inter-generational transfers

- 12.2 *21st Century Welfare* places significant emphasis on the need to create a fairer welfare system. It is important that this fairness also be viewed in the wider context that includes both wealth and income. Housing Benefit represents a significant supplement to the income of households; however, it may not have any long term impact on wealth. The National Equality Panel led by John Hills recently highlighted the role that tenure can play in economic inequality. It described how tenure “has a dual role, both as something that shapes people’s lives and as an outcome of their levels of advantage and disadvantage in other respects”. Inequality between tenures is found in both income and wealth. Income (after housing costs) of social tenants is £204 per week compared with £390 for owner occupiers with a mortgage. There are major differences in wealth between tenures. Households in social housing have a median average household wealth of £18,000 compared to £411,000 for those who own their property outright.²⁵
- 12.3 Those from relatively well off backgrounds often benefit from substantial transfers of wealth from older generations. These transfers are becoming

increasingly important in accessing owner occupation due to the constraints on mortgage lending that have emerged since the credit crunch.²⁶

- 12.4 There are also social transfers where, for example, young people whose parents are owner occupiers will be more likely to be able to draw on relatives' experiences of the housing market if they consider purchasing a home. Taken together, these constraints limit access to owner occupation and could entrench inequalities. Consequently, a system that seeks to improve the fairness of outcomes may need to work hard to overcome the wealth effects and social barriers that exist within the housing system.

Housing and neighbourhood effects

- 12.5 As discussed elsewhere in this submission there are significant geographical effects that arise from and impinge upon the housing components of the welfare system. Prior to taking up his role as Secretary of State, Iain Duncan Smith referred to a "housing system [that] has ghettoised poverty, creating broken estates where worklessness, dependency, family breakdown and addiction are endemic".²⁷
- 12.6 Although there is a strong case for re-weighting the system towards provision of housing for sub-market rent, this should not, and need not, be at the expense of creating or reinforcing ghettos of poverty. These ghettos can exist across tenures. As well as being an often-claimed result of a residualised mono-tenure social rented estate, they can also result from a Housing Benefit system that only allows private rented sector claimants to access housing in the poorest areas.

Avoiding false economies in Housing Benefit reform

- 12.7 Question 1 asked how to reduce the cost of the welfare system and reduce poverty. An equally important question is how **not** to achieve those goals. A number of changes to Housing Benefit were announced in the emergency budget of June 2010 and included a number of measures intended to reduce spending on Housing Benefit. BSHF has previously published a detailed analysis of the likely impact of those measures. In summary, whilst the government's aspirations to undertake the important task of reforming the UK's unduly complex system for support with housing costs are commendable, several of the mechanisms adopted in the budget give cause for concern. There is a risk they will:

- Have unintended consequences that act to negate the public expenditure savings that are expected;
- Fail to meet one of the stated aims of the budget which was to support the most vulnerable;
- Undermine the core purposes of Housing Benefit;
- In the longer term, potentially create 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.

12.8 These problems provide a case study in the potential pitfalls that face efforts to reform benefits. In very general terms, there will always be a risk that measures that simply reduce benefits will simply create poverty and push expenditure onto other budgets. It is very welcome that from its opening question *21st Century Welfare* makes clear that reducing poverty must be given equal prominence with attempts to reduce the cost of the welfare system. Reductions to the welfare system that do not have poverty reduction as a shared goal are liable to increase poverty, and bring with them all of the negative consequences that this implies.

Winter Fuel Payments

12.9 One housing-related benefit that is not addressed in *21st Century Welfare* is the Winter Fuel Payment. Winter Fuel Payments were highlighted in evidence to the House of Commons Energy, Food and Rural Affairs Committee in their review of energy efficiency and fuel poverty as being “poorly targeted”. The report identified several key features of the programme and comments upon it, including:

- There are 9 million people in receipt of Winter Fuel Payments.
- In 2005, 50 per cent of all the fuel poor were pensioners, but these households only represented 12 per cent of pensioners. Hence, focusing on pensioners does tackle fuel poverty, but 88 per cent of the Winter Fuel Payments expenditure is going on non-fuel poor households.
- National Energy Action (NEA) said that the Winter Fuel Payments removed only 100,000 households from fuel poverty and was an “extremely poor return for such investment”.²⁸

- 12.10 The Audit Commission has called for a move from Winter Fuel Payments, which cost around £7.6 billion per year, to retrofitting, noting that Winter Fuel Payments “[aim] to alleviate fuel poverty but will have no effect on reducing domestic CO₂ emissions”.²⁹
- 12.11 A more sustainable approach would be to investigate the potential to move from Winter Fuel Payments to methods of tackling fuel poverty that seek to address the root cause by improving the energy performance of properties, and consequently aid environmental performance as well. The cost of a retrofitting programme for households in fuel poverty would be similar to that of the Winter Fuel Payments, and in the longer term, once the properties were retrofitted, actual savings would accrue.

Notes

- ¹ The findings of previous Consultations are freely available on the BSHF website (<http://www.bshf.org/ukhpp/?lang=00>). The report of this year's Consultation is available on request or will be available on the BSHF website when it has been published in October.
- ² Diacon, D., Pattison, B. and Vine, J. (2010) BSHF Submission to Spending Review, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8AF35100-15C5-F4C0-99BE979B7ACACA24>
- ³ This point will be discussed in the report of this year's BSHF Consultation, to be published shortly and available on request.
- ⁴ Wingfield, D., Fenwick, D. and Smith, (2005) Relative Regional Consumer Price Levels in 2004, http://www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf
- ⁵ As early as 1991 Sir George Young, then Minister for Housing and Planning, stated "Housing benefit will underpin market rents-- we have made that absolutely clear. If people cannot afford to pay that market rent, housing benefit will take the strain." Hansard, House of Commons, Wednesday 30 January 1991 column 940. <http://www.publications.parliament.uk/pa/cm199091/cmhansrd/1991-01-30/Orals-2.html>
- ⁶ Wilcox, S (2009) UK Housing Review 2009/2010, Tables 57a and 114. <http://www.york.ac.uk/res/ukhr/ukhr0910/commentaries-pdf/UKHR%200910%20Commentary%206.pdf>
- ⁷ Hills, J. (2007) Ends and Means: The future roles of social housing in England, Table 6.1, <http://sticerd.lse.ac.uk/dps/case/cr/CASereport34.pdf>
- ⁸ Burrows, R. (2003) Poverty and Home Ownership in Contemporary Britain, <http://www.jrf.org.uk/sites/files/jrf/jr136-poverty-homeownership-britain.pdf>
- ⁹ Communities and Local Government (2009) English Housing Survey: Headline report, Table 13, <http://www.communities.gov.uk/documents/statistics/pdf/1479789.pdf>
- ¹⁰ Hills, J. (2007) Ends and Means: The future roles of social housing in England, Page 2, <http://sticerd.lse.ac.uk/dps/case/cr/CASereport34.pdf>

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- ¹¹ Wilcox, S (2009) UK Housing Review 2009/2010, Table 2.6.1.
<http://www.york.ac.uk/res/ukhr/ukhr0910/commentaries-pdf/UKHR%200910%20Commentary%206.pdf>
- ¹² Diacon, D., Pattison, B. and Vine, J. (2010) BSHF Submission to Spending Review, pp9-12,
<http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8AF35100-15C5-F4C0-99BE979B7ACACA24>
- ¹³ Stephens, M., Dailly, M. and Wilcox, S. (2008) Developing Safety Nets for home-owners,
<http://www.york.ac.uk/inst/chp/publications/PDF/SHOP.pdf>
- ¹⁴ Department for Work and Pensions (2010) Income-related benefits: estimates of take-ups, Chapter 4: Housing Benefit, http://statistics.dwp.gov.uk/asd/income_analysis/jun_2010/0809_HousingBenefit.pdf
- ¹⁵ Diacon, D., Pattison, B. and Vine, J. (2010) BSHF Submission to Spending Review 2010,
<http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8AF35100-15C5-F4C0-99BE979B7ACACA24>
- ¹⁶ Crawshaw, T. (2009) Rethinking Housing Taxation: Options for Reform, p10,
http://england.shelter.org.uk/_data/assets/pdf_file/0003/224472/Rethinking_Housing_Taxation.pdf
- ¹⁷ Vine, J., Diacon, D. and Pattison, B. (2010) Housing Benefit and the Emergency Budget of June 2010,
<http://www.bshf.org/news-events/news-detail.cfm?lang=00&theNewsItemID=9245E777-15C5-F4C0-99C4D6A6E0898191>
- ¹⁸ After Read, C. (1898), Logic, deductive and inductive. <http://www.gutenberg.org/files/18440/18440-h/18440-h.htm> (Frequently misattributed to J. M. Keynes.)
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<http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8AF35100-15C5-F4C0-99BE979B7ACACA24>
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- ²² Tenant Services Authority (2010) The Impact of the Credit Crunch on Housing Associations, http://www.tenantservicesauthority.org/upload/pdf/Impact_of_credit_crunch_20100226140226.pdf
- ²³ National Housing Federation (2010) Facing the Future: Evolution or Revolution?, <http://www.housing.org.uk/Uploads/File/Policy%20briefings/Research%20Futures/Evolution%20or%20Revolution.pdf>
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- ²⁸ House of Commons Environment, Food and Rural Affairs Committee Session 2008/9 (2009) Energy Efficiency and Fuel Poverty, <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmenvfru/37/3702.htm>
- ²⁹ Audit Commission (2009) Lofty Ambitions: The role of councils in reducing domestic CO₂ emissions, <http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/20091021loft-yambitions.pdf>

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