

BSHF Evidence to the Social Security Advisory Committee Consultation on: The Housing Benefit (Amendment) Regulations 2010

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. Any changes made at this stage should contribute to the longer term objective for support with housing costs.
- Several of the mechanisms adopted in the budget that are due to be implemented in 2011 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);
 - Remove the link between the level of support with housing costs and actual housing costs.

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. Clarify the purpose of housing benefit
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. Ensure that housing support reflects actual rents;
5. Ensure that claimants receive adequate notification of changes;
6. Address the supply-side implications of changes in housing benefit;
7. Monitor the impact of changes to avoid unintended consequences, particularly on:
 - a. Homelessness;
 - b. Other areas of public expenditure;
 - c. ‘Ghettoisation of poverty’.

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 budget¹. 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) 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.²

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).³

2. Clarify the purpose of housing benefit

2.1. The Council of Europe's guidelines⁴ on the effective use of housing allowances⁵ 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.

¹ 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.

² 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>

³ Ibid.

⁴ 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

⁵ 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 30th 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 30th percentile.⁶ 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 20th 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 25th 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 proposed measures.

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.⁷ 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

⁶ 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>)

⁷ Goodman, H. (2010) Answer to Parliamentary question on 5th March 2010, <http://services.parliament.uk/hansard/Comms/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.⁸ 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 country⁹ 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. As described above, the change to setting LHA rates at the 30th percentile will weaken the link between housing costs and the support available. Although not being enacted in the changes that are the subject of the current consultation, other proposals in the budget (notably the indexation of housing benefit at CPI) will further weaken the link, and the proposals being considered by this consultation should be considered as part of a broader direction of travel.

4.3. 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.

4.4. 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.

5. Ensure claimants receive adequate notification of changes

5.1. 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.

⁸ 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.

⁹ 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.

5.2. 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.

5.3. 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.

5.4. 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.

5.5. One option to help to minimise the negative impacts would be to postpone the changes proposed for April to October. As demonstrated above, the housing benefit system is not in crisis, and a longer lead-in period would make give more time to ensure claimants are forewarned of the changes. It would also make the changes simpler to understand, as under the current proposals there will be two sets of changes in 2011, some of which will affect the same households twice. A single point of change would be easier to communicate and potentially easier to administer.

6. Address the supply-side implications of changes in housing benefit

6.1. 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.

6.2. In the private rented sector, the proportion of landlords who are willing to let to households receiving housing benefit may fall further.¹⁰ As tenants' benefits payments seem even more uncertain than they were previously, the ability of private landlords to finance the acquisition and 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.

6.3. This is another area where the SSAC may wish to consider the regulations being consulted on in the context of the broader package of reforms that has been announced as the impact on the private rented sector will be further affected by the decision to peg LHA rates to CPI. In the areas that experience the highest rent increases following the indexation, there are likely to be substantial increases 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

¹⁰ 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)

also face social landlords, whose business plans and financial strength are reliant to a large extent on tenants receiving housing benefit.¹¹

7. Monitor impact of changes to avoid unintended consequences

7.1. 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. The government will need to closely evaluate the likely impact of changes in several areas, both on social and economic grounds.

7.2. The first is homelessness, which the coalition government has promised to “tackle head-on”¹² through a new cross-departmental Homelessness Working Group. Relevant authorities will need to assess likely impacts and then monitor actual changes. As well as the obvious social problems that will occur if policy changes drive households into homelessness it can also require substantial additional public expenditure to address. For example a report for Business Action on Homelessness found that the annual cost to the state of a homeless person is £26,000.¹³

7.3. Secondly, the likely impacts in areas indirectly linked to housing should be monitored. Homelessness and poor housing outcomes are known to have impacts on areas such as health and education.¹⁴ Again, both the social impacts and the increased expenditure in these areas should be monitored.

7.4. Thirdly, 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.

7.5. 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.

¹¹ 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>

¹² Communities and Local Government (2010) Shapps: Rough sleeping count masks real scale of the problem, <http://www.communities.gov.uk/news/corporate/161113811>

¹³ new economics foundation (2008) Work it Out: Barriers to employment for homeless people, <http://www.bitc.org.uk/document.rm?id=8850>

¹⁴ Roys, M. et al (2010) The Real Cost of Poor Housing, Bracknell, IHS BRE Press.

8. Further changes

8.1. The measures being consulted on at this stage are part of a wider package announced in the budget. BSHF has published an analysis of the measures contained in the emergency budget, which can be obtained for free download from our website.¹⁵

¹⁵ http://www.bshf.org/published-information/publication_download.cfm?lang=00&thePubID=8EE7CD39-15C5-F4C0-998147558D33B53E