

# **BSHF submission to Public Bill Committee for the Welfare Reform Bill**

Submitted on 21 March 2011

## **1. Summary**

1.1. There is much to welcome in the introduction of Universal Credit. However, if Universal Credit does not deal effectively with housing it will fail to achieve its objectives. BSHF has three main concerns about the housing components of the Bill.

1.2. **The specification of the housing component of Universal Credit (clause 11) is very broadly drawn** and draft regulations have not yet been published. Substantial changes to housing support warrant full parliamentary scrutiny, so further detail about the specification of the housing component should be provided on the face of the Bill. This specification should ensure that support with housing costs is not reduced below a minimum threshold for households in any tenure. For example, the Bill might include requirements that:

- Rent support in the private rented sector must reflect actual rents within an area;
- Rent support in social housing must cover actual rents;
- Struggling homeowners will continue to receive support with mortgage interest payments.

1.3. **BSHF has expressed concern<sup>1</sup> about the impact of some of the changes to Housing Benefit announced in the June 2010 Budget**, including some that are being enabled by the Bill. These are indexation of housing payments and limits on Housing Benefit in the case of 'under occupation' of social housing. These proposed changes could undermine the stated aim of welfare reform – to support the most vulnerable in society – whilst not achieving the intended cost savings. Specifically, BSHF recommends that any index linking of housing payments (whether under Housing Benefit or Universal Credit) should be subject to annual, or at most biennial, revaluations to ensure that they reflect local rents.

1.4. **It is vital that these proposals for Universal Credit are coordinated with wider housing policy, to create a coherent approach.** There is a risk that recent changes to housing policy, particularly the Affordable Rent, will undermine steps taken to make benefit expenditure sustainable.

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<sup>1</sup> Vine, J. et al (2010) Housing Benefit and the Emergency Budget of June 2010, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8EE7CD39-15C5-F4C0-998147558D33B53E>

## **2. About BSHF**

2.1. *The Building and Social Housing Foundation (BSHF) is an independent housing research charity, which holds Special Consultative Status with the United Nations Economic and Social Council. In June 2010 BSHF coordinated a Consultation on support with housing costs at St George's House, Windsor Castle. It brought together practitioners and academics from a wide range of housing-related backgrounds to examine this issue with particular reference to Housing Benefit. This submission is based on the findings of that Consultation and original research by BSHF. More detailed information can be found on the BSHF website ([www.bshf.org](http://www.bshf.org)) or on request from the organisation.*

## **3. Introduction**

3.1. There is much to welcome in the introduction of Universal Credit. BSHF supports the Government's aspiration for a simpler, fairer welfare system that tackles poverty and supports the most vulnerable in society.

3.2. However, if Universal Credit does not deal effectively with housing it will fail to achieve its objectives. Housing is typically a household's largest expenditure, it is one of the most difficult outgoings to change and there is substantial variation in housing costs across the country.<sup>2</sup>

3.3. As a housing research charity, BSHF's primary interest relates to the role of housing in the broader welfare system. BSHF has three main concerns about the housing components of the Bill which are outlined in the following sections. These are:

- The wide powers delegated to regulations by the Bill
- Changes to Housing Benefit announced in the emergency Budget
- The relationship between welfare reform and housing policy

## **4. Wide powers delegated to regulations by the Bill**

4.1. As the White Paper for the Bill noted "[there] are many policy and operational issues to work through in respect of housing". BSHF is concerned that many of these policy and operational issues have not been satisfactorily resolved.

4.2. The specification of the housing component of Universal Credit is very broadly drawn (clause 11). Detailed specification of the component is delegated to regulations, to be made by negative resolution (clause 43(2)). Draft regulations have not been published

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<sup>2</sup> Diacon et al (2010) Support with Housing Costs: Developing a simplified and sustainable system, p. 20 <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=AB588DD9-15C5-F4C0-993D5892C8E1DCC1>

at present. This means that there are almost no firm proposals on the housing component of Universal Credit.

4.3. The housing component is likely to make up a significant proportion of the payment for most households; Housing Benefit represented government expenditure of around £20 billion in 2009/10,<sup>3</sup> and makes up 14 per cent of the total benefit expenditure.<sup>4</sup> It is therefore surprising that more detail is not currently available and concerning that the powers in the Bill are so widely drawn.

4.4. Substantial changes to housing support warrant full parliamentary scrutiny, so further detail about the specification of the housing component should be provided on the face of the Bill. The details of this specification should ensure that support with housing costs is not reduced below a minimum threshold for households in each tenure. This safeguard would be vital to ensure that no future Secretary of State could withdraw support entirely without Parliamentary approval.

4.5. In order to ensure a minimum level of support with housing costs is safeguarded, the Bill might include requirements that:

- Rent support in the private rented sector must reflect actual rents within an area;
- Rent support in social housing must cover actual rents;
- Struggling homeowners continue to receive support with mortgage interest payments.

## 5. Changes to Housing Benefit announced in the Emergency Budget

5.1. BSHF has expressed concern<sup>5</sup> about the impact of some of these changes, some of which are being enabled by the Bill (clause 68). These are indexation of housing payments and limits on Housing Benefit in the case of under occupation of social housing.

5.2. The first area of concern is the **impact of uprating Local Housing Allowance (LHA)** rates in the private sector using the Consumer Prices Index. 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.

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<sup>3</sup> House of Commons Work and Pensions Committee (2010) Changes to Housing Benefit announced in the June 2010 Budget,

<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/469/469.pdf>

<sup>4</sup> Diacon et al (2010) Support with Housing Costs: Developing a simplified and sustainable system, p. 20 <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=AB588DD9-15C5-F4C0-993D5892C8E1DCC1>

<sup>5</sup> Vine, J. et al (2010) Housing Benefit and the Emergency Budget of June 2010, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8EE7CD39-15C5-F4C0-998147558D33B53E>

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.<sup>6</sup> 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. 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. Lord Freud has stated that the indexation of Housing Benefit is proposed to last from 2013 until the end of the current Spending Review period.<sup>7</sup> The introduction of Universal Credit therefore represents an ideal opportunity to create a longer term approach to the uprating of support with housing costs. In addition to upratings of Universal Credit payments, it is also important to uprate any absolute caps that may exist within Universal Credit.

5.5. 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

5.6. BSHF recommends that any index linking of housing payments (whether under Housing Benefit or Universal Credit) should be subject to annual, or at most biennial, revaluations to ensure that they reflect local rents.

5.7. A second area of concern for BSHF relates to **reductions in payments for under occupation in social housing**. For many households experiencing a change of circumstance it will not be easy to move to a smaller property, as there is a high level of demand for accommodation in the social rented sector. Tenants may be faced with a shortfall in their Housing Benefit with no viable option to move to another social rented property to resolve their situation. Social rented tenancies are a scarce resource (and will remain so, until and unless there is a substantial investment in new stock), 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.

5.8. This policy may also have unintended consequences that undermine wider social priorities. For example, the property size restrictions will also have an impact on separated parents (usually fathers) who have access to children at weekends. Eligibility

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<sup>6</sup> 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>.

<sup>7</sup> 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>

for a property with sufficient rooms can already be a significant barrier for fathers who are not living with their children. This may undercut other policy objectives, given the importance of the continued involvement of fathers in their children's lives if relationships end.

## 6. Relationship between welfare reform and housing policy

6.1. It is vital that the proposals outlined in the Bill are coordinated with wider housing policy to create a coherent approach. There is a risk that recent changes to housing policy will undermine steps taken to make benefit expenditure sustainable, and that the changes being made to cut the Housing Benefit bill might add to expenditure in other policy areas. The changes could also undermine one of the stated aims of Universal Credit: to support the most vulnerable in society.

6.2. Several of the changes to Housing Benefit **may have unintended consequences that act to minimise the public expenditure savings**. If the changes lead to an increase in homelessness this could create significant costs for other areas of public expenditure. 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>8</sup> Homelessness and poor housing outcomes are known to have impacts on areas such as health and education.<sup>9</sup> If the changes merely shift public expenditure from one budget (housing benefit) to others (e.g. homelessness prevention or healthcare) then they are difficult to justify.

6.3. The changes proposed in the June 2010 Budget in particular appear to be based on the premise that Housing Benefit expenditure is "out of control".<sup>10</sup> In fact, as a proportion of the overall benefits bill it is striking that Housing Benefit has remained remarkably constant at around 14 per cent 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>11</sup> The projected savings from Housing Benefit expenditure are heavily dependent on reductions in claimant numbers.<sup>12</sup> However, the most recent data from the Department for Work and Pensions suggests that claimant numbers are increasing.<sup>13</sup>

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<sup>8</sup> new economics foundation (2008) Work it Out: Barriers to employment for homeless people, <http://www.bitc.org.uk/document.rm?id=8850>

<sup>9</sup> Roys, M. et al (2010) The Real Cost of Poor Housing, Bracknell, IHS BRE Press.

<sup>10</sup> Hansard (2010) Daily Hansard debate for 9<sup>th</sup> November 2010, House of Commons, Column 173, <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm101109/debtext/101109-0002.htm>

<sup>11</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>12</sup> 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>

<sup>13</sup> DWP (2010) Housing Benefit and Council Tax Benefit, [http://research.dwp.gov.uk/asd/asd1/hb\\_ctb/hbctb\\_release\\_mar11.xls](http://research.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_mar11.xls)

6.4. Other policy approaches also interact with the changes being made in this Bill. For example, Government ministers have repeatedly stated that the introduction of Affordable Rent will not increase welfare expenditure. However, no evidence or modelling has been released to support this assertion despite requests from BSHF under the Freedom of Information Act. The Department for Communities and Local Government declined to publish the information as the policy was under development. This information has still not been released even though Affordable Rent is due to be introduced in April.