

# **Crisis Policy Briefing**

## Housing Benefit cuts

July 2011

## Overview

Housing Benefit is vital in supporting people with their housing costs and in ensuring people's housing stability. Crisis has long called for reform of housing benefit to better support housing stability and to remove barriers to work but we strongly believe that the proposed cuts will not achieve these ends, will adversely affect some of the most disadvantaged in society and are likely to lead to an increase in homelessness.

There are 4.72 million people receiving Housing Benefit (HB).<sup>1</sup>

Of these:

- 3.16 million, just over two thirds, are of working age
- 3.25 million receive a passported benefit
- 70% are social tenants and 30% rent from private landlords
- 3.76 million are single and two thirds of this figure are female
- Of the 1.54 million who have at least one dependent child, one million are single.<sup>2</sup>

The cost of HB is expected to rise to £20 billion this year<sup>3</sup> with Local Housing Allowance (LHA), a form of HB in the Private Rented Sector (PRS), costing £2.6

billion in 2009-10<sup>4</sup>. This is not due to there being a significant increase in the number of claimants but rather largely as a result of steep increases in private sector rents driven by economic factors and the severe shortage of housing. Between 97/98 and 07/08 the average private sector rent rose by 63% from £79/week to £129/week.<sup>5</sup> For many years now, Housing Benefit has been taking the strain of rent increases.

However, despite recent headline-grabbing figures, the average HB award in the private sector is just £109.25 per week and for social tenants is £72.60<sup>6</sup>. Furthermore according to Government figures, 48% of people on LHA already face shortfalls between their benefit and their rent, with the average shortfall being £23/week<sup>7</sup>

The Emergency Budget on 22<sup>nd</sup> June announced £11 billion of cuts from the welfare budget, which was a third of all the cuts announced. Housing Benefit faces £1.8bn of cuts with the most significant impact on tenants in the PRS but tenants in social housing will also be affected.

An additional £7 billion of cuts to the welfare budget were announced in the Comprehensive Spending Review, including further significant cuts to Housing Benefit.

<sup>1</sup> DWP Statistical Summary, June 2010, [http://research.dwp.gov.uk/asd/asd1/stats\\_summary/stats\\_summary\\_jun2010.pdf?x=1](http://research.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_jun2010.pdf?x=1)

<sup>2</sup> DWP Statistical Summary, June 2010

<sup>3</sup> UK Housing Review 2009/10, Housing Benefit expenditure and plans for Great Britain, <http://www.york.ac.uk/res/ukhr/ukhr0910/tables&figures/pdf/09-114.pdf>

<sup>4</sup> Hansard (25 March 2009) cc454W

<sup>5</sup> CLG (2009) Survey of English Housing Preliminary Results 2007/08

<sup>6</sup> DWP Statistical Summary, June 2010

<sup>7</sup> Hansard (05 March 2010) cc1422W-1423W

## Changes in the Budget

### LHA caps

From: April 2011

Estimated saving: £65 million

Requires secondary legislation (due to be laid in Parliament in November 2010)

LHA rates will be subject to caps ranging from £250 per week for a 1 bedroom property to £400 per week for a 4 bedroom property. 4 bedroom will now be the maximum entitlement.

The impact of these caps will only be felt across Greater London but will affect the majority of boroughs. There will be some very significant drops in benefit levels. In central London, for example, the 4 bed LHA rate is currently £1000, so some claimants will see a £600 per week fall in their housing benefit when the caps come into force.

We are very concerned about the impact these changes will have on people's ability to meet their rents. It is likely that significant numbers of households will find themselves needing to move homes, with some households left facing homelessness. Not only will this have a real impact on individuals but will also place a strain on London councils who will need to re-house a significant number of households within a short timeframe.

This will also mean that much of London is likely to become a no go area for claimants, particularly larger families, with significant implications for mixed communities and

community cohesion. Only 7% of properties will be affordable in Central London<sup>8</sup>. This is likely to have knock on effects even on those outer London boroughs, not directly affected by the cuts, placing an increased demand not only on the housing market but also on services such as schools and GPs.

### LHA to be set at the 30<sup>th</sup> percentile

From: October 2011

Estimated saving: £425 million

Requires secondary legislation (due to be laid in Parliament in November 2010)

LHA rates will be set at the 30<sup>th</sup> percentile of local rents rather than the median (50<sup>th</sup> percentile).

This will effect all areas across the country to a lesser or greater degree. LHA reductions for a 1 room property will range from zero to £25.50, and for a 4 bedroom property from £4.37 to more than £50. In some parts of London, the 30<sup>th</sup> percentile figure will be irrelevant as the caps outlined above will reduce rates still further.

On average this change alone will cause LHA rates to fall by £5.64/week for the 1 room/shared room rate, £7.73 for a 1 bed property, £9.60 for a 2 bed, £13.33 for a 3 bed and £24.26 for a 4 bed.

48% of people on LHA already face shortfalls between their benefit and their rent, with the average shortfall being £23/week<sup>9</sup>. As these changes will come in

<sup>8</sup> DWP (July 2010) Impact of changes to Local Housing Allowance from 2011

<sup>9</sup> Hansard (05 March 2010) cc1422W-1423W

abruptly rather than being phased in, many tenants will suddenly find that their rent is now unaffordable. Many more people will face shortfalls and/or find it very difficult to find and sustain a tenancy. This has very significant implications for homelessness.

This and other measures will have cost implications for other Government departments, most immediately to CLG and local authorities but also to health, criminal justice and so on. Individuals will also face costs associated with needing to move such as finding a deposit, removal costs and so on, which will be particularly difficult for people on low incomes to meet.

There are also real implications for local authorities' homelessness prevention work which in recent years has made much use of the PRS. In 2009, of the 75,520 households helped to find alternative accommodation, half were offered PRS accommodation<sup>10</sup>. We are concerned that in the future local authorities may struggle to find properties that are affordable to benefit claimants and so may find it harder to prevent or resolve people's homelessness. It is also likely that there will be a rise in the use of temporary accommodation.

### Removing the excess payment of LHA

As announced by the previous Government  
From: April 2011  
Requires secondary legislation (due to be laid in Parliament in November 2010)

Excess payments of up to £15 to claimants of Local Housing Allowance (LHA) where contractual rent is lower than the rate of LHA will be scrapped.

For people on very limited incomes, £15 is a significant amount of money. Those currently receiving an excess payment who are likely to already be struggling to make ends will experience a sudden drop in income and may struggle even more to keep on top of their finances. Whilst we understand the need to make savings, there needs to be real consideration as to how best to manage this transition.

### Non-dependant deductions

From: 2011 – 2014

Estimated saving: £340 million

Part of uprating statement (made in Parliament following Pre budget report in November 2010)

A non dependant is someone who normally lives with the Housing Benefit claimant such as an adult son, daughter, relative or friend. Non dependent deductions (NDDs) are the deductions made to a household's housing benefit when it contains a non dependent. Non-dependants cannot claim Housing Benefit for any payments they make for their keep.

There will be staged increases in NDDs to bring them up to the level they would have been had they been fully uprated since 2001.

NDDs are perceived as unfair as they are imposed at the same rate regardless of the rent due. Non payment by the non dependant is common, meaning that they are a frequent cause of rent arrears as well as family tension and pressure to move out of the family home.

<sup>10</sup> CLG (2009) Homelessness Prevention and Relief: England 2008/09

We are very concerned that, particularly at a time of growing youth unemployment, increasing NDDs will force more young people out of the family home. It is perverse to adopt a measure which will punish young, unemployed people and cause family break up and homelessness. What's more, it is doubtful whether the level of savings envisaged will actually be generated and this measure could in fact end up costing more as non-dependents move out of the family home and make HB claims in their own right.

This also poses issues around new household formation and the pressure this will place on an already overstretched housing system.

### **Index linking of LHA**

From: 2013/14

Estimated saving: £390 million

Needs primary legislation – likely to be contained in Welfare Reform Bill

Local Housing Allowance rates will be uprated on the basis of the Consumer Price Index (CPI), rather than on the basis of local rents.

As rents generally rise faster than CPI, over time LHA rates will be eroded. Additionally, the link between housing benefit and rent will be broken and, as rents rise at different levels in different parts of the country (due to economic factors and the local housing market), benefit levels will cease to reflect local rent levels.

This will mean that in many areas housing benefit will no longer meet people's housing costs. We are deeply concerned at the impact these changes may have on people's ability to find and sustain accommodation in the PRS in the medium to long term. What's more such a move is

likely to be very difficult to reverse as evidenced from the more than 30 years it has been since the link between the state pension and earnings was broken.

### **Limiting working age HB entitlement to reflect household size in the social rented sector**

From: 2013/14

Estimated saving: £490 million

Needs primary legislation – likely to be contained in Welfare Reform Bill

Working age people in social housing will no longer be able to claim HB on a property deemed bigger than their needs. This already applies in the PRS.

Given the huge demand for social housing, measures to help address under occupancy are to be welcomed. However, we are concerned that this move will effectively force people out of their home without them being offered a suitable alternative.

We are particularly concerned that this reduction in HB is not dependent on the tenant being offered another suitable property. It is not yet clear whether social landlords will prioritise under occupying tenants in allocations policy and if they do what the impact will be on others in housing need. Moreover, housing pressures mean that there may simply not be alternative accommodation options available for these tenants. There are concerns that this will effectively end security of tenure by making it impossible for the tenant to sustain their tenancy.

Rent arrears are likely to rise, causing difficulties not only for the household but also the social landlord.

The size of the anticipated saving suggests that this measure is expected to affect large numbers of households.

### **HB award reduced to 90% after 12 months for claimants of JSA**

From: 2013/14

Estimated saving: £110 million

Needs primary legislation – likely to be contained in Welfare Reform Bill

Any claimant on JSA for over a year will have their HB entitlement cut by 10%.

Housing Benefit is currently a major barrier to people moving into work and is overdue for reform. However, we are very concerned that this measure will leave people facing real hardship and unable to cover their rent and could punish people at just the point when they are trying to find work. Moreover it seems against the very principles of fairness. Whilst we understand that Government's intention in introducing this measure is that it is a work incentive, we are concerned that this will affect all those on JSA even those who are fully complying with the requirements and are actively seeking work.

Introducing such a measure at a time when unemployment looks set to rise seems particularly unfair as in some areas it is likely to be particularly difficult to find work particularly for those who face disadvantage in the labour market, such as people in poor health or with a disability. There are currently over 200,000 claimants

who would be affected by this move<sup>11</sup>. What's more as unemployed tenants struggle to meet their rent liability; this is likely to put severe strain on private, local authority and other social landlords.

### **Discretionary housing payment (DHP) budget to rise**

From 2012

Estimated additional expenditure: £10 million in 2011 and £40m thereafter **ALTER THIS**

DHP is a payment for people who require further financial assistance with their rent.

Local authorities' DHP pots are likely to face additional demands in light of the cuts. Whilst extra funds are therefore to be welcomed, the increases (£40m/year) are insignificant in comparison to the scale of the cuts (£1.8 billion).

### **Changes in the Spending Review Raising the age limit for restriction to the Shared Room Rate from 25 to 35**

From: April 2012

Estimated saving: £215m

Requires secondary legislation (due to be laid in Parliament in 2011)

The Shared Room Rate currently applies to single people aged under 25 living in the

<sup>11</sup> National Housing Federation ( July 2010)  
<http://www.housing.org.uk/default.aspx?tabid=212&mid=828&ctl=Details&ArticleID=3046>

private rented sector who receive Local Housing Allowance. These claimants are restricted to the rate for a single room in a shared house, rather than the rate for a self-contained one bedroom property. The restriction to this lower rate will be extended to claimants up to the age of 35.

The SRR currently causes considerable problems for young people, with many unable to secure or sustain affordable accommodation and left facing shortfalls, arrears and homelessness.

In many areas of the country, this type of shared accommodation simply doesn't exist. Even where it does, claimants already struggle to find an affordable property, with DWP figures showing 70% face a shortfall averaging £27 per week<sup>12</sup>.

For vulnerable people who have been homeless, are leaving supported accommodation, care or prison, even if a property is available and affordable, sharing is often inappropriate and can be particularly detrimental to their well being.

DWP estimates 88,000 people will be affected by this change<sup>13</sup>, with some seeing their benefit entitlement literally halved. They are likely to lose their accommodation, be left facing homelessness which will place further pressure on the limited pool of shared properties available.

25 to 35 years olds are already disproportionately likely to end up sleeping

on the streets, with 27% of rough sleepers in London in this age group<sup>14</sup> and 36% of Crisis' clients also fall into this age bracket.

### **Limiting total benefit claim by household**

From: 2013

Estimated saving: £270 m

Household welfare payments will be capped at around £500 per week for the vast majority of claimants (all except those receiving Disability Living Allowance, Working Tax Credit or War Widow Pension). This will have a considerable impact on larger families who are entitled to higher levels of support to reflect their additional needs.

It will have the effect of further reducing the Housing Benefit caps and entitlements for larger households. This will make it even harder for larger families to find properties that are affordable to them.

<sup>12</sup> DWP (2008) LHA pathfinder research - report no 15

<sup>13</sup> HM Treasury (2010) Spending Review 2010 press notices

<sup>14</sup> Broadway (2010) Street to Home Bulletin 2009-10

## What will the cuts mean?

Crisis has long argued that Housing Benefit needs reforming so that work always pays and it better supports housing stability. We recognise that there is also an issue with a small number of very high rents, particularly in parts of London.

However, we are very concerned that these cuts will have serious consequences for some of the most vulnerable people in society who are the least able to afford them. Nationally 936,960 households (100% of LHA claimants)<sup>15</sup> will lose out as a result of the removal of the £15 excess, the caps and the move to 30<sup>th</sup> percentile alone. The average 1 bedroom claimant will lose £11/week. The average London claimant will lose £22/week.<sup>16</sup>

There is a real concern that cutting in this way will store up problems for the future and end up costing more as social problems such as homelessness result.

Homelessness damages people's capability through loss of skills, through an inability to think about employment whilst worrying about housing, and through their health becoming impaired whilst homeless. Homelessness also damages people's resilience, self-esteem and self-confidence. As well as being costly to the individual, it is also costly to the state. We are concerned that these cuts will in fact end up costing more in other areas, such as housing and health.

Crisis urges the Government to think again to ensure that the most vulnerable are protected from the brunt of the cuts and that cuts are not made in such a way that they store up social problems down the line.

<sup>15</sup> DWP (July 2010) Impact of changes to Local Housing Allowance from 2011

<sup>16</sup> *ibid*



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