



## **Housing Benefits not Barriers**

### **Introduction**

Crisis knows, both from many of our service users, who are often out of work and in housing need, and from consultation with Shelter, of the difficulties regularly encountered with the Housing Benefit system and particularly how it can act as a real disincentive to work. We believe that the current review of Housing Benefit must deliver both administrative and structural change in order to genuinely tackle worklessness and make work pay.

Our experience has taught us of the transformational effect skills development and employment can have on people's lives – not only in terms of income but also leading to increased confidence and self worth, improved health and a higher life expectancy. With the Government's focus on hard-working families, pensioners and child poverty, homeless people and those in housing need are often forgotten. However, they are some of the worst affected by recent economic developments and many are struggling to cope with higher rents and living costs, the abolition of the 10p tax rate and low incomes.

We currently have a Housing Benefit system long overdue for reform which is widely recognised as one of the key barriers to people improving their skills and finding work. As highlighted by Professor John Hills in his 2007 review, "Fear of the loss of support of Housing Benefit can be an important barrier to seeking work"<sup>1</sup>

There is a real perversity in the present system, particularly when we look at this against a wider policy context and at a time where we see the Government's emphasis and targets on getting people into work (an aspiration for an 80% employment rate) and improving the nation's skills base (an aspiration of 95% of the population achieving basic numeracy and literacy skills). These are ambitious targets, especially at a time of economic insecurity, and Government should be looking across the board at ways to meet them. This must include reforming Housing Benefit.

### **Housing Benefit & Worklessness**

Four million people claim Housing Benefit at a cost of nearly £14 billion annually<sup>2</sup>. 72% of Housing Benefit recipients are also in receipt of a passporting benefit.<sup>3</sup>

The current Housing Benefit system creates huge barriers for those trying to move into work (unemployment trap) and also for those in low paid work trying to increase their earnings (poverty trap). Recent work by the ippr highlights that 57% of poor households have a household member in work and that the number of these households has increased by half a million in the past ten years<sup>4</sup>.

David Freud estimated that the annual saving to the DWP of moving an average recipient of incapacity benefit into work is £5900, and a recipient of JSA £4100. Taking into account the tax gains to the

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<sup>1</sup> Hills, J., *Ends and Means: The Future Roles of Social Housing in England*, Case report 34, ESRC Research Centre for Analysis of Social Exclusion, February 2007

<sup>2</sup> DWP, *Income-related benefits: estimates of take up, 2006/7, 2008*

<sup>3</sup> DWP, *Quarterly Statistical Summary*, May 2008

<sup>4</sup> Cooke, G. and Lawton, K., *Working out of poverty: a study of the low paid and working poor*, ippr, January 2008

Exchequer, these figures rise to £9000 and £8100 respectively<sup>5</sup>.

One of the primary economic concerns for people moving into work is the impact of Housing Benefit withdrawal on their ability to pay their housing costs – housing constitutes a fifth of average household budgets<sup>6</sup> and can therefore act as one of the main barriers to people finding employment. Households living in temporary accommodation (and therefore facing high rental costs) are more likely to remain unemployed than others living in London.<sup>7</sup>

On the Government's own figures, a single person working 16 hours a week at the National Minimum Wage would only be £8.63 a week better off than if they were unemployed, once housing costs are taken into consideration<sup>8</sup>. This is without considering the attendant costs that work often incurs (such as travel, clothes and childcare) which, if taken into account, could actually make someone **worse off in work**. The reality of this situation is a stark contrast to the Government's 'work pays' message.

A comprehensive review of Housing Benefit which eliminated the disincentives to work would encourage and support more people into work and away from benefit dependency. This would result not only in a reduction of Housing Benefit costs but also a much wider saving to the Exchequer and ultimately an increase in tax revenue.

## What are the problems?

Many of the people with whom Crisis and Shelter work typically face high rental costs (living in supported housing, temporary accommodation, or the private rented sector), will often move into low paid employment and may face frequently changing employment circumstances either through short term insecure work or working shifts which involve an inconsistent amount of weekly hours. All of these factors exacerbate the problems outlined below. Whilst the problems are exacerbated for these groups, they also affect those in social rented accommodation with secure tenancies and low rent.

Housing Benefit is often viewed as a hugely complicated, confusing system and genuine reform sometimes seen as too great a challenge. If this is the view held by experts and academics, imagine the difficulties recipients face in understanding and navigating the system. It is because the current system is so complicated and confusing that Government must overcome the challenges and tackle this issue head on.

We will look at the problems with the current system as seen through the eyes of someone wanting to work, who might reasonably ask the following 3 questions:

- How can I make the transition into work?
- What if my job doesn't work out?
- Does work pay?

### 1. *How can I make the transition into work?*

#### *Perception/administration problems*

- **Requiring time off work to sort out a Housing Benefit claim** - registering a change in circumstances can mean at least half a day's leave from work as a client is required to visit their local housing office at least once and fill out at least one form<sup>9</sup>

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<sup>5</sup> Freud, D. *Reducing dependency, increasing opportunity: options for the future of welfare to work*, An independent report to the DWP, 2007

<sup>6</sup> National Statistics Family Spending 2007, 2008

<sup>7</sup> CESI, *Working Future Evaluation*, November 2007

<sup>8</sup> DWP/CLG figures

<sup>9</sup> Finnis, *A Making Housing work: The links between housing and worklessness*, Ingeus, 2008

## *Systematic problems*

- **16 hour rule** - this means that anyone over the age of 18 cannot claim Housing Benefit if they are studying for more than 16 hours a week. This can impede the efforts of claimants to study for further qualifications.

“Around 50 per cent of those with no qualifications are out of work” - Lord Leitch<sup>10</sup>

In practice, this means that many low-skilled people are likely to be abandoning attempts to gain qualifications at NVQ Level 2 and 3, and instead move into work that does not require qualifications or skills. People can then find themselves trapped in a cycle of low paid, insecure work and unemployment.

Their skills deficits need addressing if they are to find permanent, stable work and move away from benefit dependency. However, the 16 hour rule prevents people from doing just this. Research amongst young homeless people conducted by The Foyer Federation estimates that over half of its residents have no qualifications and that around two-fifths of these people are deterred from studying because they would lose their benefit entitlement.<sup>11</sup>

- **Short term financial implications** - It used to be the case that Housing Benefit ceased as soon as a claimant started work. This acted as a disincentive for someone to seek work, as they might feel that taking on a job would be too risky for their short-term finances, particularly given normal gaps to a first wage payment.

To increase certainty a new four week benefit run-on (Extended Payment Scheme) was introduced. However, this is restricted to claimants who have been in receipt of Income Support or Jobseeker's Allowance for at least 6 months before the job starts and, in addition, if the job taken on lasts for five weeks or more. However, the six month aspect to the benefit extensions excludes: those moving in and out of work, individuals who make a few failed attempts before finding a suitable job, and also those who simply have not been consistently claiming for 6 months - a substantial proportion of job seekers. The five week rule also deters individuals from trying out jobs when they are unsure how they will work out or from trying paid work experience for a couple of weeks. Although a step in the right direction, both of these rules are still likely to act as a disincentive to work for many of those in receipt of benefit. We would therefore like to see further reform and simplification of the Extended Payment Scheme in order for it to have maximum impact.

- **Sensitivity** - the Housing Benefit system is highly sensitive to changes in circumstances which can affect the eligibility of those with irregular employment patterns; any change in income means a recalculation of entitlement. This can act as a disincentive to someone moving into a job which would have fluctuating hours.

## **2. What if my job doesn't work out?**

### *Perception/administration problems*

- **Complexity of applications** - if a job doesn't work out, a claimant will have to make a fresh or change of circumstances application. The average time taken to process a new claim is 26 days and 11 days<sup>12</sup> for a change of circumstances. However, some local authorities take as long as 73 and 38 days<sup>13</sup> on average. The amount of form filling involved in processing a Housing Benefit application

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<sup>10</sup> Skills' Leitch, S. *Prosperity for all in the Global Economy: World Class Skills*, HM Treasury, 2006

<sup>11</sup> The Foyer Federation, *The 16-hour rule - past its sell by date*, 2004

<sup>12</sup> DWP Housing Benefit Statistics for the first quarter of 2007/2008

<sup>13</sup> *ibid*

(the claim form is 40 pages long) and the risk of having to go through a lengthy process if they enter and then fall out of employment can act as a disincentive to people entering work, particularly if they have previously had bad experiences with the system.

### 3. Does work pay?

#### *Perception/administration problems*

- **Concern about losing benefit entitlement when starting work** - there is a lack of awareness of in-work Housing Benefit both amongst claimants and JCP staff. A fifth of eligible people fail to claim, mainly those in low wage jobs rather than those who are out of work.<sup>14</sup> According to Kemp, the take-up rates of Housing Benefit among people in employment is only in the region of 41-54%.<sup>15</sup>

#### *Systematic problems*

- **Benefit taper** - Under the current system a claimant faces two types of work disincentives: the unemployment trap (where Housing Benefit can discourage a move into work) and the poverty trap (where Housing Benefit can discourage people in low paid work from increasing their earnings). The withdrawal rate for Housing Benefit is excessively high. When a person goes into work the rate at which Housing Benefit is “tapered” away is 65 pence for every extra pound earned, when combined with the Council Tax Benefit taper this goes up to 85 pence.
- **Link with other benefits** - Both Shelter and Crisis welcome the decision in the 2008 Budget to disregard Child Benefit when calculating Housing and Council Tax Benefit but more measures need to be taken to further improve work incentives. The interaction of Housing Benefit and Council Tax Benefit with other benefits and tax credits (i.e. Working Tax Credit and Child Tax Credit) and also income tax and National Insurance increases withdrawal rates and can further disincentive people from moving into paid work. For some households, the marginal deduction rate can be greater than 90% when they enter work.

Whilst better off in work calculations can be an effective tool for some, for many people they only serve to underline the fact that they will not be much, if at all, better off working. For example, the single person who is £8.63 a week<sup>16</sup> ‘better off’ before the travel costs of getting to work or the disabled couple who stand to be only £18.46 a week<sup>17</sup> ‘better off’, again before travel or any other work related costs are factored in. The situation is similarly difficult for those looking to move into higher paid work and out of poverty. For example, a couple with two children and a private rent of £120 per week would be only £23 per week ‘better off’ if their earnings rose from £100 to £400 per week<sup>18</sup>. However, if their rent was a typical social rent of £60, they would gain over double this at £55 a week<sup>19</sup>. The benefit taper must be reformed to address this inequity. The present Housing Benefit system traps people in unemployment and poverty completely contradicting the Government’s stated aims of increasing employment and eradicating child poverty.

The DWP has extensive figures demonstrating the effect that tapers and interactions between benefits have on a range of different household structures and incomes. The graph below<sup>20</sup> shows

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<sup>14</sup> National Statistics, *Income Related Benefits Estimates of Take-Up in 2005-06, 2007*

<sup>15</sup> Kemp, P.A., Chapter 4: Housing Benefit and social housing in England. In Fitzpatrick, S. and Stephens, M. (eds) *The Future of Social Housing*, Forthcoming, Shelter

<sup>16</sup> DWP/CLG figures

<sup>17</sup> *ibid*

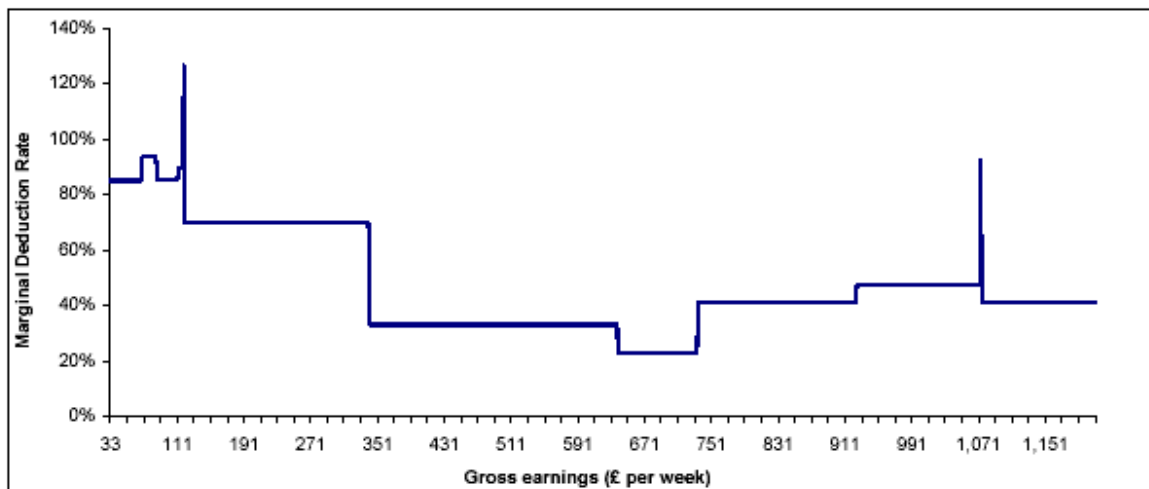
<sup>18</sup> Hills, J., *Ends and Means: The Future Roles of Social Housing in England*, Case report 34, ESRC Research Centre for Analysis of Social Exclusion, February 2007

<sup>19</sup> *ibid*

<sup>20</sup> Source: DWP, *Tax Benefit Model Tables*, April 2007, National Statistics

the points at which this adversely affects income for a lone parent with one child. This household's situation is further examined in the following case study.

#### Lone Parent with 1 child under 11 , LA Tenant



Note MDRs may briefly rise above 100% where benefits fall below their minimum payment level

#### Case Study A: How the system works

A lone parent with one child under 11, renting from the Local Authority (with a rent set as £56.63 and fully covered by Housing Benefit) and not working would have an income of £125.83 after housing costs (AHC).

Say she/he decided to work 16 hours at the National Minimum Wage with gross earnings of £88.32, their income would increase to £171.64 AHC, Housing Benefit entitlement has now been withdrawn at the 65% taper to £21.28. They are £45.81 better off (the marginal deduction rate is 85%).

However, if they increase their income by getting a better job and are now earning £150 a week (£9.37 per hour), after housing costs their net income would be £178.97. They would be £53.14 better off than on benefits but only £7.33 better off than the previous job (the marginal deduction rate here is 126%).

The steep withdrawal rates of Housing Benefit combined with other tax credits and benefits would be a deterrent to earning more in this case.

#### What are the solutions?

##### 1. Smoothing the transition

- **Making the system less responsive to changes in circumstances** – we would like to see a less rapid adjustment to entitlement when circumstances change. This could be achieved through fixing benefit awards for a certain period regardless of any increase in income. However, if income decreases the award will clearly need to be recalculated to avoid leaving claimants unable to pay their housing costs and facing financial hardship

Removing the current restrictions of the Extended Payment scheme and increasing the period of run on would also help (eg to 3 months).

- **Removal of restrictive 16 hr rules** – removing these rules would encourage people to improve their skills and help ease the transition into work. This is particularly important for those who have been out of work for a long period of time when it is apparent that they are having difficulty making the transition into a job. Allowing people to study and improve their skills without losing their benefit entitlement would have the attendant advantage of addressing other barriers to moving into work such as problems with time keeping, low self esteem and confidence and a lack of motivation. We would recommend that the Government consider removing this prohibitive rule at the very least for those who have been out of work for a significant period of time (eg a year or/and at the discretion of their advisor who can judge when the claimant is engaged in particularly good activity which will help with their future employment prospects).
- **Improving case management** – ensuring that claims are processed quickly would increase people's confidence in the system and decrease the chance of them facing a shortfall in their finances on a move into work. It would also help claimants if their job doesn't work out. In the short term, advisors should be encouraged to make better use of the Discretionary Housing Payment scheme – which is currently under spent – when they recognise that additional financial support would help ease people's transition into work.

## 2. Ensuring support if work doesn't work out

- Allowing people to automatically return to their previous level of benefit if a job doesn't work without within a specified time of for example 3 months without having to go through a further lengthy application process. The recent in and out of work pilots provide a single point of contact for working age claimants at their local Jobcentre Plus. A national roll-out of this initiative would allow a quicker and simpler process for people returning to work or benefits.

## 3. Making work pay - ensuring people get more as they move into and progress in work

- **Better advice and information** – The Government needs to do more to promote Housing Benefit as an in work benefit and ensure people are aware of their entitlements. The recent announcement of the Government's 12 housing options 'trailblazers' presents a step in the right direction in terms of offering combined housing, employment and training advice but more needs to be offered to people looking to go back into work.
- **Extension of the Working Future model** – This model was piloted in East London for families living in temporary accommodation. It enabled families to pay lower rents by dividing the original rent into two elements; a rent element set at the level of a social rent and claimed from Housing Benefit, and a block grant element equalling the difference between the original and new rent funded from Housing Benefit resources and paid directly to the landlord. Results from the evaluation of the project found that job entry rates for households receiving the block grant rent subsidy were 40% higher than the control group<sup>21</sup> in Newham. The scheme is cost neutral and Shelter and Crisis are calling for it to be rolled out in all temporary accommodation.
- **Increase level of earnings disregard** – The standard earnings disregard of £5 for a single person has not been updated since 1988. In 2008 £5 is not even one hour's work on the minimum wage. If the earnings disregard were to be updated in line with the cost of living this could tackle both the poverty and unemployment traps. Work by JRF on 'mini-jobs'<sup>22</sup> found that increasing the earnings disregard to 16 times the NMW (£88.32) would also encourage lone parents to work 16 hours or more<sup>23</sup>.
- **Reducing Housing Benefit and Council Tax Benefit tapers** – We acknowledge concerns that this will keep people on benefits for longer but more needs to be done to help those at the bottom of the

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<sup>21</sup> Families in the control area did not receive subsidies to help lower rent payments but did receive employment advice, and guidance services on the barriers they may face.

<sup>22</sup> Jobs of fewer than 16 hours.

<sup>23</sup> Bell, K., Brewer, M. and Philips, D., Lone parents and 'mini-jobs', JRF, October 2007.

ladder on low incomes and make sure a move into work really pays. DWP research<sup>24</sup> on Housing Benefit and Council Tax Benefit as in-work benefits found that local authority and Job Centre Plus staff suggested that changing the taper rate would improve the delivery of both benefits. The effect of reducing the taper would also decrease marginal deduction rates. In 2006, the estimated costs of reducing the Housing Benefit taper to 55 per cent were £150 million per annum, moving it to 40 per cent would cost £550 million per annum, and a reduction to 30 per cent would be £1.05 billion<sup>25</sup>. We believe the costs associated with changes in the Housing Benefit system would be more than counterbalanced by the economic benefits of people moving into work.

### **Case Study B - John's Journey**

John is a single 38 year old living in the private rented sector with a rent of £117/week. He hasn't worked for several years but is now ready and wants to work. Given the length of time John's been out of work, he has concerns both about moving into work and about how this move will affect him financially. However, despite these concerns, John very much wants to find a job and so asks himself:

'How do I make the transition?'

John sees a job as a cleaner with an agency. However, when he enquires about the job he is told the hours of available work will vary from week to week. When he asks about the effect this will have on his benefit, he is advised that he will need to make a change of circumstances claim every four weeks to reflect his change in income. John has previously waited 45 days for a claim to be processed and is extremely worried about how he will be able to cover his rent if this was to happen again.

Solution – Fixing Housing Benefit awards for a longer period of time would mean that John would not have to make a further claim every four weeks.

John is still nervous and wonders:

'What if my job doesn't work out?'

John is advised that if his job comes to an end he will need to launch a fresh application for Housing Benefit with the local authority. Given his previous experience of processing times, this is a big deterrent to him starting work.

Solution – Allowing people to automatically return to their previous level of benefit and roll out of the 'in and out of work pilots'. If John's job finishes, he would then only need to inform Jobcentre Plus and his benefits would return to their previous level.

John feels reassured by this new system and is keen to start work but he wants to know how working will affect his income:

'Does work pay?'

John approaches his Jobcentre Plus advisor who performs a 'better off' calculation. John discovers that if he works 16 hrs per week at the National Minimum Wage, after housing costs, his income is increased by only £8.63/week. However, John would need to pay for his travel to work which would cost him £12/week and actually leave him £3.37 a week worse off.

John decides not to take the job.

If the earnings disregard was increased and the benefit tapers were reduced there would be more incentive for John to move into work.

*This case study is fictitious but based on real examples*

<sup>24</sup> Turley, C. and Thomas, A. *Housing Benefit and Council Tax Benefit as in-work benefits; claimants' and advisors' knowledge, attitudes and experiences*, DWP, 2006.

## Conclusion

Of course there are challenges to be faced in reforming Housing Benefit but we believe that the advantages of doing so outweigh any difficulties. A reform of the system will help Government to meet its objective of reducing the rate of worklessness in social housing and hit its targets of an 80% employment rate and an eradication of child poverty by 2020. In order to achieve these goals we need a Housing Benefit system which is a real benefit not a barrier, that encourages people both to move into work and to progress in the workplace. The potential gains of this in individual, social and economic terms make this too good an opportunity to miss.

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<sup>25</sup> Written Answers, Work and Pensions, Housing Benefit, Monday 9<sup>th</sup> January and Thursday 9<sup>th</sup> March 2006