Shelter

Welfare Reform & Work Bill

Parliamentary Briefing

October 2015

Shelter helps millions of people every year struggling with bad housing or homelessness – and we campaign to prevent it in the first place. We're here so no one has to fight bad housing or homelessness on their own.

The Welfare Reform & Work Bill seeks to alter the support available to people facing bad housing or homelessness. We are concerned that some of the measures will make it harder for the people we help to find and keep affordable accommodation, putting many more at risk of homelessness.

Summary

1. Freezing **Local Housing Allowance** will mean more and more private renters will be unable to pay their housing costs as rents outstrip wage growth. In 2 years, LHA will not cover the bottom third of rents in almost all local authorities, as it is meant to. After four years, 60 areas will be very unaffordable and virtually out of bounds to households on benefits.

2. The **Benefit Cap** has fundamentally changed. The cap is no longer made with reference to average earnings, making it punitive. It will now affect much smaller families in less expensive areas. This will increase the risk of homelessness and price out-of-work families out of whole swathes of the country.

3. Removal of the **Family Premium** will lead to reduced housing benefit for working families, making it harder for them to manage the shortfalls as the value of LHA falls. The impact of this change on growing families has not been modelled by the government and is of great concern.

4. **Support for Mortgage Interest** benefit payments for homeowners will be replaced by a loan. Little accompanying detail has been announced. Loans should not put people's homes at risk and mortgage holders should be able to choose between a reasonable and affordable payment plan and deferring payment until the sale of the property.

5. **Reducing Social Rents** is welcome; tackling the high cost of housing is the only sustainable way of reducing welfare spending. But house building – the only way to bring housing costs down in the long term – must not be undermined, reinforcing the need for the Affordable Homes Programme.

6. The redefinition of **Child Poverty** is worrying. The new definition risks under-estimating the rise in in-work poverty. It will be a missed opportunity if the new definition does not capture the impacts of high housing costs on family finances and bad housing on children's lives.

7. The **removal of housing benefit for 18-21 year olds** will remove support from an extremely vulnerable group. The government must come forward with robust and practical exemptions. However, even with exemptions, many will likely fall through the net and become street homeless.

1) Freezing Local Housing Allowance (LHA)

Section 9, Pg.12.

Key points:

- Freezing LHA for 4 years means more struggling private renters unable to pay their rent as housing benefit is inadequate to cover rising private rents
- By 2019, LHA will not cover the cost of the bottom 10% of properties in 60 local authorities
- 39% of LHA claimants already work but are still unable to find affordable rents

Local Housing Allowance is housing benefit for private renters, set at different rates across the country to reflect variations in rent. Before 2011 LHA rates covered the bottom 50% of the rental market and were linked to actual market rents, rising or falling accordingly. In April 2011, LHA rates were rebased at the bottom 30% of the market and the link to market rents was broken – meaning support could no longer keep track with rising rents. In recent years, increases have been capped at 1%; in the last year, average rents in England increased by 2.1%. As a result LHA rates already do not cover the bottom third of rents in nearly 70% of England.

Policy changes have failed to bring down rents and rising rents have outstripped LHA increases and wage growth, leading to increasing shortfalls between housing costs and incomes. Many households are struggling to stay in their homes or to find new ones, meanwhile the ending of an Assured Shorthold Tenancy has become the leading cause of homelessness in the UK.

The Welfare Reform & Work Bill will make this worse by freezing LHA rates for a further 4 years. This will mean increasing shortfalls between rents and incomes for the 1.4 million people receiving this support. On current trends, we estimate that rates will have fallen behind rents in the bottom 30% of the market in nearly every single local authority after two years.

In some areas the gap between LHA rates and rents will be so great that housing benefit claimants are unable to find anywhere affordable. By 2019, 60 local authorities will be off limits to LHA claimants – meaning their support will be insufficient to cover the rent for the bottom 10% of properties in the local market. More and more people will be chasing fewer and fewer affordable properties. Families will be put at increased risk of homelessness as their tenancy ends or because they are evicted due to rent arrears. Those who do have a home will be forced to cut back on essential spending and risk getting into debt to manage rising shortfalls between LHA rates and rents.

The Chancellor did announce in the Summer Budget that there will be additional Discretionary Housing Payments (DHPs) provided to help those struggling and Targeted Affordability Funding to raise LHA rates where rent increases were unusually high, which are both welcome. However, TAF is drawn from the savings of the LHA freeze , which is likely to mean no further funding available to alleviate high rents until at least 2017-18, as savings are benchmarked against CPI rather than rent increases. Sadly, neither DHPs nor TAF will be enough to significantly mitigate the enormous impact this policy will have on affordability across the country.

Recommendation:

LHA rates should reflect the real cost of renting in each area to ensure availability of affordable properties, preventing shortfalls and homelessness. The link to actual market rents should be restored and rates allowed to fall or rise in line with local rent pressures.

Should the government go ahead with the freeze, the rates should, at the very least, be reviewed after 2 years to assess whether they need to be rebased to ensure private renters can find homes. This would mean re-setting LHA rates in line with the bottom 30% of market rents at that time.

TAF funding must be available from 2016/17 to recognise recent and projected increases in actual rents. TAF must be adequately funded and DHP increased until LHA is brought back in line with market rents to help those struggling to stay in their homes.

2) Reducing the Benefit Cap

Section 7, pg. 8.

Key Points:

- The link to average earnings has been broken, making the policy unnecessarily punitive
- The policy goes beyond large families in expensive areas and will now affect smaller families in towns across middle England
- The cap risks increasing homelessness and will make it very hard for local authorities to find anywhere affordable to rehouse families

The Welfare Reform and Work Bill seeks to reduce the benefit cap from £500 per week to £442 in London and £385 outside of London. This will include housing benefit to pay rent. Shelter remains particularly concerned that the cap ignores the high and variable housing costs paid by families across the country. With more people affected, more will struggle to pay their housing costs.

The government's rationale for the original cap was to ensure people claiming benefits could not receive more than the average family earnt. The original cap, therefore, was made with reference to average family earnings and affected over 55,000 households, mostly large households in relatively expensive areas. Households could escape the cap if they moved in to work, however, only a minority of these were actually able to do so.

The new lower cap, however, fundamentally alters the nature of the policy. The new cap no longer makes reference to average incomes. This new, arbitrary threshold will drastically change the impact of the cap; rather than affecting large families in expensive areas it withdraws support from small families right across the country. For example, the new cap would affect a family with 1 child living in Guildford or a family with 2 children living in Leeds or Plymouth. It creates a postcode lottery at the heart of the safety net, with whole swathes of the country being deemed excessive for support.

The DWP estimate as many as 90,000 additional households are subject to the new cap. This group, despite already deemed in need of state support, could have their housing benefit substantially reduced, even though they do not live in areas considered atypically expensive, needlessly risking homelessness.

Those affected by the new cap will increasingly be ordinary sized families in averagely priced areas, simply struggling to make ends meet. The new cap will put these families closer to losing their homes.

Recommendation:

The Government should consider the adverse effects of this policy on vulnerable groups, some of whom will inevitably be unable to withstand the loss of income. The impact upon these groups should be published and exemptions considered.

Local Authorities must be adequately supported to house families made homeless as a result of the benefit cap and other welfare reforms. This means adequately financially supporting them to find emergency housing for people who have lost homes and then to help find settled accommodation that is suitable for their needs.

3) Removal of the Family Premium

Section 12, pg. 13.

Key Points:

- Removing of the premium will lead to loss of income for low income working families
- The changes will affect working households only and will reduce housing benefit
- The loss of income will exacerbate the financial pressure created by falling LHA rates

The Summer Budget announced changes to the means test for housing benefit which will make it less generous for working families. Already overstretched family budgets will have to be squeezed further if families are to pay the rent.

The Family Premium will be removed from the housing benefit calculation for new claimants from April 2016. This is an income allowance worth £17.45 per week for families with children and was designed to reflect the increased cost pressures families face. We are disappointed that the DWP has not produced any modelling on the impact. Shelter calculates that a single parent working part time (20 hours a week) at the new national living wage would lose around £11 per week.

The housing benefit means test will no longer reflect the additional costs of a growing family from April 2017. New claimants will not be eligible for a ‘child allowance’ for third or subsequent children. This reflects new restrictions on tax credits for more than two children. It will reduce the amount of housing benefit larger families are eligible for. Again, we are disappointed that DWP has not modelled the financial impact of this.

Recommendation:

We are concerned that these changes, which affect working households only, will reduce affordability at a time when housing benefit is already increasingly inadequate. This will make it even more important that LHA rates reflect actual rents so families are not left with shortfalls. LHA rates should reflect the actual cost of renting.

4) Support for Mortgage Interest (SMI) Grant to Loan

Section 16, pg. 15.

Key Points:

- Loans must not become an additional burden for struggling households
- Clarity is needed on whether people can defer payment until the sale of a home without penalty
- SMI should not be delayed from 13 weeks to 39 weeks given financial costs to DWP are reduced

People who are out of work and struggling with mortgage payments may be eligible for Support for Mortgage Interest. This benefit covers the cost of a person’s mortgage interest (but not capital repayments) up to a £200,000 capital limit.

The Bill seeks to turn new SMI payments in to loans from April 2018 onwards. Interest will be charged on the loans, which will be secured on the claimant's property as a 'second charge', effectively a secured loan on top of the existing mortgage.

Paying support through a loan rather than benefit payment may be a sensible reform in principle, given that SMI enables homeowners to retain an asset and potentially gain substantially from rising house prices. But it must be introduced in a way that does not exacerbate affordability problems.

The Budget indicated that a repayment plan will be agreed when a person's circumstances improve (for example they move into work) or when the property is sold. However, it is currently unclear which repayment mechanism the government intends to pursue. SMI should never make a household's situation worse – any repayment plan must be affordable and not compromise their ability to stay in their home.

The Budget also announced an increase in the waiting period for SMI eligibility to pre-recession levels - up from 13 weeks to 39 weeks. This will be done in accordance with regulatory powers within the Bill and will come into force in advance of the move from grants to loans. This will mean a significant and worrying delay in support for mortgage interest rates.

Once the loan scheme is introduced there is no need to make people wait for assistance and quicker access to credit could be beneficial, whilst waiting could increase the risk of people turning to toxic forms of debt, such as pay-day lenders or loan sharks, and risking arrears.

Recommendation:

The Bill gives huge scope for the government to set the terms of repayments but more details are needed about the government's intentions around repayments. Whilst a loan may help prevent the loss of a home, imposing unsustainable repayments could eventually tip people in to repossession and homelessness. Those who access SMI should be able to defer repayment until they sell their property, without pressure from the government to sell.

Increasing the 13 week waiting period to 39 weeks is unnecessary in the long-term. With SMI effectively becoming a form of low-risk, consumer credit, it should be readily available to those struggling to make repayments. The government no longer bears the risk of paying mortgage interest indefinitely with no hope of repayment. With this reduced risk, help should be made available sooner rather than later.

5) Reducing Social Rents

Section 21, pg. 20.

Key points:

- Shelter welcomes the reduction in rents for tenants in social housing
- Lost revenues for housing associations or local authorities wanting to build reinforces the need for the Affordable Homes Programme to be maintained so homes to rent can still be built
- It is welcome that housing benefit savings are being sought by reducing the cost of housing and this approach should be taken further by investing in genuinely affordable housing to shift public expenditure from benefits to bricks over time

The Welfare Reform & Work Bill seeks to reduce social rents by 1% for four years. This is good news for those on low incomes in social housing, whose rent will be reduced. The policy will also mean large savings on the welfare budget for the Department of Work and Pensions.

Tackling housing costs in this way, however, must not undermine the viability of house building itself. Many housing associations and local authorities use social rent revenues to fund the building of more homes. The Office for Budget Responsibility estimates the reduction in social rents could result in 14,000 fewer homes being built, whilst the National Housing Federation estimates the loss to be as much as 27,000.

The UK already builds less than half of the houses it needs, reducing the number of homes built – even if rents are reduced for some in the meantime – will not bring down the cost of welfare sustainably in the long term. Housing associations and local authorities, therefore, need continued access to alternative forms of funding, such as the Affordable Homes Programme, to continue to build homes to rent.

Reducing the benefits bill can only be sustainably achieved through reducing the cost of housing, which this policy recognises and seeks to do. Further long-term reductions in housing benefit can be achieved if the government invests in genuinely affordable social housing. This will reduce reliance on the expensive private rented sector, meaning working households are less likely to require a housing benefit top-up and reducing the cost of housing people who continue to require support.

Recommendation:

For those local authorities and housing associations who use revenues from social rents to fund house building, the importance of the Affordable Homes Programme is reinforced. AHP funding should be protected, if not increased, to ensure the building of affordable homes to rent continues, helping to alleviate the high cost of housing and subsequently welfare spending.

6) Changing the definition of Child Poverty

Section 6, pg.6.

Key point:

- The new definition fails to capture the true extent of child poverty, most notably the cost of housing for low income families

The government proposes to redefine child poverty. The Bill will abolish the existing four indicators based on family income and reframe child poverty in relation to behaviour, (such as unemployment, addiction and family breakdown).

This new definition fails to capture the true extent of child poverty and in particular the impact of the cost of housing on low income families. We are particularly concerned that it will downplay the recent growth of working poverty at a time when changes to housing benefit and tax credits will penalise many working households and reduce their income.

Recommendation:

In order to develop a true picture of the extent of poverty in the UK we need a clear focus on the structural and financial causes of poverty, with the impact of rising housing costs front and center – as well as supporting families and addressing barriers to work and progression.

Moving to a multidimensional measure should also capture the importance of overcrowding, poor conditions, stability and security on the development of families. Reliable datasets exist for many measures of housing need, making this suitable for inclusion in what risks becoming a nebulous measure of life chances.

7) Removing Housing Benefit for 18-21s

(Outside the Bill but of serious concern)

Key Points:

- Young people are already penalised under housing benefit rules and receive little support
- Most young people do live at home until they can afford to move out, but living at home for many vulnerable young people is simply not an option
- The government must bring forward proposals on robust and enforceable exemptions

The decision to remove housing benefit from 18-21 year olds is highly regrettable. Shelter would never advocate the removal of housing benefit on the basis of age and rejects the proposition that a significant number of young people leave the family home in order to claim benefits.

Of the 19,000 18-21 year olds who will be affected by this change, 60% are in social housing and will have already met extremely strict criteria, having been deemed in priority need by their local authority, demonstrating just how vulnerable this group is. The remainder of those eligible for help live in the private rented sector and receive the Shared Accommodation Rate, the lowest rung of housing benefit, barely enough to cover a room at the bottom end of the market.

For many young people, living at home is simply not an option, including those who have fled domestic violence or abuse, been asked to leave because of their sexuality, or have become estranged from their parents. Housing benefit helps these people to live independently when living at home is no longer an option. Removing it could leave people choosing between returning to a destructive family home or street homelessness.

Recommendation:

The government has made clear there will be exemptions for certain groups but we would encourage them to come forward with details as soon as possible to ensure they are robust and practical. Shelter has welcomed the commitment to protect vulnerable people but maintains that this is the bare minimum required; even with exemptions, many young people will slip through the net and increase homelessness. We would urge the government to reconsider its position on removing housing benefit for 18-21s.

The changes are expected to come via regulations in the coming months and are not part of the Welfare Reform & Work Bill. This is regrettable as the decision to remove housing benefit from an age group on this scale is an unprecedented step and should be subject Parliamentary approval in Primary Legislation.

If you are interested in helping Shelter oppose these changes, or for more information, please contact Scott Dawes on 0344 515 2052 or email Scott_Dawes@shelter.org.uk