Shelter

Welfare Reform Bill 2011

Briefing for 2nd Reading – Wednesday 9th March

Summary

Shelter supports the principles of the new universal credit, which is the major piece of reform contained in the Welfare Reform Bill. However, the bill will also introduce a second wave of cuts to housing benefit, **undermining the safety net** for people who lose their jobs and need temporary financial help to keep their homes, as well as affecting those who are in work but on very low incomes, or who are unable to work due to old age or disability.

The bill contains very little detail but instead enables the Secretary of State to make fundamental changes to the benefits system via secondary legislation, where the changes will be subject to little parliamentary scrutiny. Many of reforms that the government has announced over the past few months are not set out explicitly in the bill, but the bill will enable the government to enact these reforms via secondary legislation:

- Local housing allowance (LHA) and (once introduced) the housing element of the universal credit will be linked to the Consumer Prices Index (CPI) rather than to the cost of rent. **Shelter would like housing benefit in both the private and social rented sectors to maintain the link to actual housing costs rather than to the CPI, both before and after the introduction of the universal credit.**

- There will be a household cap on benefits. **Shelter would like housing benefit to be removed from the household benefit cap so that people are not forced to move away from their area if they are made redundant and need a temporary safety net.**

- Housing benefit for working age claimants in the social rented sector will be restricted for households that are deemed to be under-occupying. **Though Shelter agrees that it is important to tackle under-occupancy, we are opposing this reform on the basis that it is poorly targeted and will therefore not be effective.**

Shelter would also like new clauses to be added to the bill to tackle some of the underlying problems with LHA, by:

- **Improving the way LHA is calculated** so it better reflects local market conditions.
- Offering a **choice to tenants about whether the LHA is paid directly to their landlord**, to encourage landlords to stay in the market and maintain a healthy supply of private rented sector housing.

Principles

Shelter supports many aspects of the universal credit, especially measures to tackle work disincentives and to simplify the system. The employment barriers for claimants and the excessive complexity of the housing benefit system are common issues for our clients and we are pleased that the government is attempting to address these problems. However, in considering this legislation we urge MPs to bear in mind that:

- **Housing benefit is a fundamental part of the housing safety net** that protects people when their home is at risk. Having access to temporary help with housing costs if you are made redundant means you are not forced to move away from your local area, and this can stop a bad situation turning into a disaster.

- **Housing benefit is unique** in that it exists to support a specific and essential expenditure: the cost of having a place to live. The rate of housing benefit must be linked to the actual cost of housing, as is the only way to ensure that people can access an affordable home.

- The bill must be seen in the context of the severe national **housing benefit cuts** being introduced in 2011, which will reduce benefit levels for one million tenants and mean more claimants will be increasingly concentrated in the poorest areas with less access to work, thereby undermining the potential impact of the new work incentives within the universal credit.

Proposed amendments to the bill

Retaining a link between housing benefit and housing costs

The bill allows the Secretary of State, via secondary legislation, to change the way that LHA is calculated. Currently LHA is calculated each month based on the value of rents in each locality, known as Broad Rental Market Areas (BRMAs), but the government has indicated that in future LHA will be up-rated according to the CPI. This is likely to apply from 2013 onwards both for LHA and under the universal credit for private tenants as they migrate onto the new system. **Unlike other benefits, housing benefit is not shifting from Retail Prices Index (RPI) to CPI, but will shift from being linked to rents to being linked to inflation.**

Although the cost of rent is included in the CPI, it accounts for only 5.4% of the ‘basket of goods’ used to measure inflation. **Historically, this means that the CPI has not increased at the same rate as average rents.** Between 1997/98 and 2007/08, average rents increased by 70%, while over the same period CPI increased by only 20%.

New research by Shelter and the Chartered Institute of Housing (CIH) shows that linking LHA with CPI will, over time, severely exacerbate shortfalls between payments and the rents people have to pay. On a conservative estimate, the reform would mean that **60% of local authority areas would be unaffordable for LHA claimants by 2030**. The neighbourhoods that would become unaffordable the most quickly would be higher rent areas that tend to have the most job opportunities. This means that claimants would be concentrated in deprived areas with fewer employment prospects.

Having this measure on the statute books would have a corrosive effect over the long term. We urge MPs to vote against the clauses that will allow the Secretary of State to make further damaging cuts to housing benefit without parliamentary scrutiny.

We believe that once the universal credit is introduced **the housing benefit element for tenants in the private rented sector should be calculated according to local rents** under reformed BRMAs (see below) and then up-rated according to changes in rent levels, rather than by CPI. For claimants **in the social rented sector (including those in the new affordable rent tenure paying up to 80% of market rents) the rate of universal credit they receive should correspond with their actual rent liability**, as is currently the case under housing benefit in the social rented sector, and be up-rated according to actual rent increases.

The link between rent and housing benefit is fundamental in terms of ensuring that, regardless of changes in the cost of rent, low-income households can afford a home and are not forced to make frequent moves to procure ever scarcer housing. To undermine this principle would mark a substantial retrograde step in the provision of state support for housing and would significantly increase levels of poverty and undermine the creation and maintenance of mixed communities.

We urge MPs to support amendments to ensure that the rate of housing benefit is linked to housing costs in each local area and accurately reflects rent rises.

Household benefit cap

The bill introduces a new cap on the maximum amount of benefits households can claim, targeted at households in which the adults are out of work. This has been set at approximately £500 per week (£26k per annum) for couples and lone parents, and £350 per week for singles. The government's impact assessment suggests 50,000 households will be affected by this measure.

The cap will not just affect large families: in many areas of London families with just two children will effectively face a cut amounting to a third of their current housing benefit entitlement. Shelter's research shows that **in more than a quarter of local authority areas the cap will push three-child households below the official government poverty line**. A typical three bedroom, three-child household living in the private rented sector claiming the maximum employment support, council tax benefit, child tax credit and child benefit they were entitled to, totalling £338, would be left with just £162 a week to cover their housing costs. This is below projected LHA levels, at the reduced 30th percentile, in more than a third of local authorities nationally.

These changes do not just affect long term workless households. With so many people losing their jobs in the current economic climate, the changes will mean that any household where parents lose their jobs will move into poverty very quickly, with many likely to be forced to move away from the areas that have the most job opportunities. The cap will apply to families that do not claim Working Tax Credits, so it will not just affect non-working households but also working households that for any reason are unable to qualify for Working Tax Credits.

The measure is also likely to create significant problems for homeless households who need to access or exit temporary accommodation, where their only options of accommodation are places that are so expensive that under the cap they would be left with little residual income. A household that has been found homeless is owed a duty by the local authority and cannot simply uproot to a less expensive area. This aspect of the policy has been poorly thought through and, combined with government plans to forcibly re-house homeless families in the insecure private rather than social sector, will force the most vulnerable families to choose between poverty and homelessness.

The cap is a crude measure which will have a disproportionate impact in areas where housing costs are highest. It fails to recognise the significant variation in living costs in different areas of the country. Unless housing benefit is excluded, the cap is likely to cause significant disruption and hardship for a wide range of families.

Shelter is calling for housing benefit to be taken out of the benefit cap, so that people who lose their jobs are not forced to move into areas with fewer job opportunities or pushed into overcrowded accommodation.

Housing benefit cut in the social rented sector

The bill will allow the government to reduce the amount of housing benefit for which working age tenants in the social rented sector are eligible, if these tenants are deemed to be under-occupying their property. This will affect about 32% of all housing benefit claimants living in the social rented sector, **the majority of whom are not under-occupying according to the conventional definition used by the Department for Communities and Local Government (CLG) and local authorities.** At the very least DWP and CLG should use the same definition of under-occupation.

Given the extent of overcrowding and the shortage of homes in the social rented sector, it is vital that genuine under-occupancy be sensitively tackled and that the best use be made of existing stock, but Shelter believes this should be achieved by targeted measures. This will not be the effect of the cut, which is disproportionate and poorly targeted. **The areas where under-occupancy is most prolific tend to have a low supply of smaller properties**, so it will be very difficult to re-house tenants. Furthermore the areas where **overcrowding is most prevalent will have the fewest properties freed up by this measure**. Overall, Shelter estimates that two-thirds of people under-occupying in the social sector will be entirely unaffected by this measure. Moreover, given that options for mobility in the social rented sector are limited, it would be wrong to penalise households for living in homes out of which they have little option of moving without sacrificing their social home altogether.

The cut is also excessive: the government's impact assessment shows that nearly four-fifths of those affected only have one bedroom spare (according to government occupancy measures). This bedroom might not necessarily even be empty. For example, in a household with a nine year old son and eight year old daughter the two children might each have their own bedroom, in which case the family would be classed as under-occupying and denied adequate housing benefit. Also, a family might be labelled as under-occupying even if they have been placed in the property by their local authority according to local allocations policies.

Shelter is calling for MPs to vote against this clause. Instead, the government should introduce greater options and incentives for under-occupiers to downsize.

Proposed new clauses

Reforms to Broad Rental Market Areas

BRMAs are the geographic areas that are currently used for calculating levels of LHA. If they continue to form the basis for calculating the housing element of the universal credit for claimants in the private rented sector, **they need to be redrawn** to ensure that claimants can access at least 30% of the private rented sector market in their area.

Ever since the introduction of LHA there have been problems with the way BRMAs are set, which in some areas has led to **LHA claimants being unable to afford the expected market share of properties in their community**. In particular, the use of overly large BRMAs pushes households away from good transport links and areas with access to employment and childcare. This problem will become more pronounced when LHA levels are reduced from the 50^{th} percentile to the 30^{th}.

Shelter is in favour of **aligning BRMAs with local authority boundaries**, which would be a more recognisable 'neighbourhood' for claimants to find properties in and would also assist local authorities in meeting their homelessness duties and prevention strategies.

Claimant choice over direct payments

LHA claimants that have been officially categorised as vulnerable are entitled to opt for their benefit to be paid direct to their landlord, while other claimants are obliged to handle the payments themselves, whether or not this is the preferred option for them and their landlord.

Shelter has long called for the **option to be available to all LHA claimants to have their benefit paid directly to their landlord**. Since direct payments to landlords were abolished, tenants and landlord associations alike have consistently campaigned for their reinstatement. Many claimants have experienced cash flow problems when delays in other benefits or unexpected costs have forced them to use rent money to meet other essential needs. For landlords, **the risk of arrears is inevitably higher** when the money goes to claimants and there is evidence that this has deterred many landlords from operating within the housing benefit market.

The government has recently agreed to give local authorities greater discretion to allow direct payments where landlords are bringing rents down. This reform is a step in the right direction but does not go far enough. Greater choice over direct payments would **encourage landlords to stay in the rental market** under circumstances in which they might not otherwise once they start to feel the impact of the forthcoming cuts to local housing allowance. This choice should be retained under the universal credit.

Additional issues on the horizon

Shared Room Rate

Regulations are due to be laid later this year which will **increase the age threshold from 25 to 35 under which single claimants are entitled only to the shared room rate** (to cover a room in a shared property) rather than full housing benefit to cover the cost of a 1-bed flat.

The Government estimates that **88,000 people will be affected by this change**. It will leave many more people facing rent shortfalls, as there is a severe shortage of shared accommodation across the country. Research has found that **87% of people on the single room rate currently suffer shortfalls at an average of £35 a week**.

Though this measure is not included in the bill, the bill does present an opportunity to highlight concerns about this reform.

Further information

Please contact Anne Baxendale, Senior Public Affairs Officer, by telephone on: 0844 515 1182 or by email on anne_baxendale@shelter.org.uk