Shelter's response to the Work and Pensions Committee inquiry into the Cost of Living

Summary

- Shelter welcomes the opportunity to submit evidence to this inquiry
- Shelter exists to defend the right to a safe home. In 2020/21, we provided housing and homelessness advice to 22,644 households through our emergency helpline, 18,500 households through our local hubs and our online advice and support pages received 6.5 million visits[1]
- On 26th May 2022 the Chancellor announced a range of support measures aimed at helping households cope with the rising cost of living, including one-off £650 payments for households claiming Universal Credit and some legacy benefits, £150 payments for people in receipt of disability benefits and an extension to the Household Support Fund as well as £400 grants for all households to assist with energy bills
- Shelter strongly welcomes these measures and the fact that the bulk of support has been targeted at low-income households through the benefits system
- **However, we are concerned that the Chancellor has failed to recognise that high housing costs and inadequate housing benefit is at the root of the cost of living crisis for many households – and attempt to rectify this**
- **Long term, to insulate more people against cost-of-living shocks we need investment in social homes with affordable rents pegged to local incomes**
- Having to make up large shortfalls in Local Housing Allowance (LHA) forces struggling private renters to dip money which they should be using for energy bills, food and other essentials (e.g. Universal Credit standard allowance). With both rents and the cost of these essentials rapidly increasing, inadequate housing benefit is contributing to the cost of living crisis they face.
- An ongoing freeze to the Local Housing Allowance (which determines the amount of legacy housing benefit or Universal Credit housing element a private renter can receive) means that many households increasingly face shortfalls between their rent and housing benefit every month, eroding their ability to use the cost of living support payments to cover rising bills. Households in this position are unable to save so are unlikely to have their own savings to help afford increases in the cost of living
- Furthermore, the household Benefit Cap, which effectively deducts housing benefit to bring social security payments in line its limit, leaves financially vulnerable households (such as lone parents, people who used to sleep rough and those needing to escape

[1] Shelter, Impact Report 2020/21.

domestic abuse) unable to afford rents in most areas of England – putting them at risk of homelessness.

- It is welcome that the cost of living payments have been exempted from the household benefit cap. This indicates the government understands capped households have inadequate financial support. The cap needs urgent review: it was frozen in 2016 and has not been updated to reflect subsequent rises in average household incomes, rents and prices.
- We are concerned that legacy housing benefit claimants who do not claim another eligible benefit will not receive the £650 cost of living payment automatically. Local authorities will instead be directed to assist affected households via the discretionary Household Support Fund. The Fund is currently being administered in a wide range of ways depending on local authority policy, and we are concerned that affected households may face a 'postcode lottery' of efficiency and means of accessing support.

How effectively will the new Cost of Living Payments protect different types of households from increases in the cost of living?

1. The Cost of Living Payments will be welcome help for millions of people struggling with rising inflation across the country. Targeting help through the benefits system will ensure that many of the low-income households most affected by rising costs of energy and food will receive vital support – and that this support can be administered nationally to get it to people quickly and efficiently (compared with locally-administered funds.

Private renting households in receipt of housing benefit

2. However, private renting households will see the value of the additional support payments eroded, as they already need to use income from subsistence benefits to cover shortfalls in the housing benefit they receive. Therefore, to avoid homelessness, they are likely to have to use the payments to make up these shortfalls over the coming year (or pay off rent arrears) rather than to cover rising energy and food bills.

3. There are 1.8 million households in England who receive housing benefits via Universal Credit or legacy housing benefit. This number is 32% higher than before the pandemic.[2]
4. Local Housing Allowance (LHA), which determines the amount of housing benefit private renters receive, is frozen at rates set in March 2020. LHA is supposed to be adequate to cover the lowest 30% of rents in each area. The most recent rates are based on data gathered by the Valuation Office Agency in the year to September 2019. In the intervening period since March 2020, rents have risen 3.9% in England.[3] As a

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[2] Shelter, [Alert Briefing: Universal Credit and Housing Benefit](), May 2022.
[3] ONS, [Index of Private Housing Rental Prices, UK: monthly estimates](), May 2022.

result, LHA no longer covers the 30th percentile of rents for 2- or 3-bedroom homes in 91% of England.[4]

5. Many private renters thus have shortfalls between the amount of housing benefit they receive and their rent. According to data released by the Department for Work and Pensions in response to a parliamentary question, more than half (54%) of all private renters in Great Britain in receipt of LHA through Universal Credit or legacy housing benefit have a shortfall between this amount and their rent.[5]

6. The average shortfall between 30th percentile rents and LHA for a 2-bedroom home is £547 a year in England.[6] In some areas these shortfalls are even greater: in the Peaks and Dales area, the shortfall for a 3-bedroom home is £598 a year and in the Black Country the 3-bedroom shortfall is £658 a year. For a family with such a shortfall, most or even all of their £650 Cost of Living Payment would be taken up paying for rent rather than helping them cope with the rising cost of essentials.

7. In summary, LHA is inadequate to cover the rent of many private renters, living in almost every area in England - leaving them short to the tune of hundreds of pounds a year.

Recommendation: LHA must urgently be restored to at least the 30th percentile of local market rents so that support accurately reflects the increased cost of renting – and so that private renters are able to use the Cost of Living Payments for their intended purpose of assisting with increased energy bills and other essentials.

Households who pay rent inclusive of bills

8. The government has announced £400 grants to domestic energy customers to assist with the increased cost of bills. However, as these grants will be provided as credits to energy accounts, people who pay for bills as part of their rent or service charge will be reliant on the discretion of their landlord to pass on the savings this represents.

9. This includes:
    - homeless people such as those in some temporary accommodation (e.g. hostels and B&Bs), and

[4] Shelter, Alert Briefing: Universal Credit and Housing Benefit, May 2022.
[5] Data relates to February 2022. UK Parliament, Written questions and answers - UIN 6683, tabled on 23 May 2022.
[6] Calculated based on data on 30th percentile rents and LHA rates. VOA, Local Housing Allowance (LHA) rates applicable from April 2022 to March 2023 - GOV.UK (www.gov.uk), January 2022.

- some tenants in both houses in multiple occupation and self-contained homes, where some/all costs are included in the rent, e.g. where bills are included or in blocks with communal boilers.

Households in receipt of legacy housing benefit

10. In the Chancellor's announcement, he noted that claimants in receipt of legacy housing benefit who do not claim any other eligible benefit will not receive the £650 Cost of Living Payment and will instead be supported through an extension to the Household Support Fund.

11. The Household Support Fund (HSF) is a discretionary fund administered by local authorities. Under the current guidance, local authorities are able to distribute the funding in a manner they deem appropriate, including through voucher schemes, funding for third parties and by providing material assistance. They are not required to accept open applications from local residents. As of the time of writing (8th June), the HSF guidance provided to local authorities is yet to be updated to reflect the need to identify and target payments to households in receipt of legacy housing benefit who will not receive an automatic Cost of Living Payment.[7]

12. We are concerned that local authorities may face challenges in identifying affected households. In research conducted from November 2021 to January 2022, we found that a majority of surveyed councils do not currently undertake active identification of households at risk of homelessness in order to target support through data, for example by using the DWP datashare or council databases.[8] While good practice in this area is growing, many councils may not be experienced in using available data to pro-actively identify households in need of targeted assistance.

13. Since other benefits claimants will automatically receive Cost of Living Support Payments, it's vital that they also reach people on legacy Local Housing Allowance, who may be really struggling to afford their rent and other bills. To avoid a 'postcode lottery' DWP must ensure that all councils are prepared to get payments to all those in need.

Recommendation: The Household Support Fund guidance must be updated to clearly direct councils to proactively target affected legacy housing benefit with HSF payments equivalent to other benefits claimants (£650).

[7] DLUHC, Household Support Fund (1 April 2022 to 30 September 2022): final guidance for county councils and unitary authorities in England, April 2022.

[8] Unpublished survey sent to local authority housing leads in England in November-December 2021. We received responses from 32 local authorities, of whom 11 said that they undertook early intervention for those at risk of homelessness identified through council data.

Recommendation: **The Department for Levelling Up, Housing and Communities and the Department for Work and Pensions should commit to proactively collaborating with local authorities (including housing and social services) and sector organisations to assist in identifying and contacting affected households.**

Recommendation: **Local authorities should be directed to provide a standard means through which affected households apply for and receive support, to avoid a 'postcode lottery' of approaches, causing confusion for applicants, some of whom will have support needs, and their advocates.**

What approach should the Government take to the uprating of benefits and state pensions in future years?

Uprating Local Housing Allowance

14. As set out in paragraphs 3-7, LHA rates are frozen until at least March 2023 at a time of rising rents, meaning that housing benefit no longer reflects the costs that private renters face, even in the bottom 30%of the market it is intended to cover.

15. By the end of the last LHA freeze (2016-20), LHA failed to even cover the cost of the cheapest 20% of private rented 2 bedroom homes in 78% of England, and in a third of areas did not cover the cheapest 10%.[9]

16. Of homes available on the open market, the proportion was even lower, with just 1 in every 18 (5.6%) two-bedroom properties advertised to let in September 2019 being affordable at the local LHA rate across Britain.[10]

17. LHA freezes mean that even if other benefits are uprated in line with inflation, private renters receive inadequate support. Housing costs are often the largest area of household expenditure and proportion of claimants' benefits entitlement. To avoid rent arrears, eviction and homelessness, private renters are forced to use benefits income (deemed the bare minimum to cover rising bills and food costs) to cover shortfalls between LHA and rents.

Recommendation: **As well as re-aligning LHA with at least the 30th percentile of the market, the government must re-link LHA to the local rental market in future years so that it continues to be uprated in line with local rents.**

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[9] Shelter, Briefing: LHA Impact Assessment, March 2020.
[10] The Bureau of Investigative Journalism, Locked Out: How Britain keeps people homeless, October 2019.

Investment in social housing

18. Due to a severe shortage of affordable social rent housing, low-income households including those at risk of homelessness have no choice but to turn to the private rented sector and rely on LHA to afford increasing rents. The cost of housing benefit to the government was £29bn in 2021-22, and is forecast to increase by a further £4.4bn by 2026-27.[11] While the housing benefit bill has grown, investment in social housing has dwindled. Since 1991, there has been an average annual net loss of 24,000 social rent homes and the social housing waiting list now stands at more than a million households.[12] Social rent is the only truly affordable tenure, as rents are linked to local incomes.

Recommendation: To insulate low-income households from future price shocks, the government urgently needs to invest in a new generation of genuinely affordable social rent homes.

Benefit cap

19. We welcome the fact that the Cost of Living Payments have been exempted from the household benefit cap. This is the first time that there has been an effective raise to the cap. The £20 uplift to Universal Credit, temporarily introduced as a financial support measure during the pandemic, was subject to the cap, meaning many struggling households never received it.

20. 123,000 households are currently subject to the benefit cap: 64% higher than before the pandemic. The cap massively disproportionately affects families with children: 85% of affected households are families with children. In particular, it hits lone parents: 65% are lone parents. This is because the cap takes no account of the size of home a family needs to avoid severe overcrowding and homelessness.[13]

21. Lone parents face particular difficulties escaping the cap, as in order to do so they must single-handedly increase their working hours while caring for their children.[14] The pandemic has made it more difficult to rely on free childcare from older relatives and made formal childcare places more limited. The cap has a disproportionate impact on people experiencing domestic abuse, who are deterred from fleeing if they know they'll be capped face homelessness, or struggle to move on from refuges due to the cap –

[11] DWP, Benefit expenditure and caseload tables 2021, November 2021.
[12] Shelter, Briefing: Levelling Up and Regeneration Bill: Second Reading, May 2022.
[13] Shelter, Alert Briefing: Benefit Cap, April 2022.
[14] Shelter, Alert Briefing: Benefit Cap, April 2022.

thus blocking refuge beds for others in urgent need.[15] It also prevents people who previously slept rough from being helped to move on into an affording a settled home.[16]

22. The cap limits a household's benefits to £20,000 or £23,000 in London for couples and families with children or £13,400 or £15,410 in London for single adults. This equates to £1,667 pcm for families outside London and £1,917 pcm for London families to cover rent on a family home plus all bills and other essentials. The benefit cap was lowered to the current limits in 2016 – and doesn't reflect average family incomes. As rents rise, a greater proportion of capped households' income must be spent on housing in order to avoid arrears, leaving them with less and less to cover other essentials. The cap level is so low that even families living in homes with affordable social rents are now being affected.[17] Almost all capped households with children live in deep poverty.[18]

23. Since the cap is not raised in line with inflation, capped households will see their income fall in 2023-24, once Cost of Living Support Payments have ended, while other claimants will have their benefit uprated. Even in 2021, before the present rapid inflation, the benefit cap cut deeply into the budgets of out-of-work families leaving them far below the Minimum Income Standard needed to reach a minimum socially acceptable standard of living, as calculated by Joseph Rowntree Foundation.[19] Capped households will fall even further below adequate standards of living in 2023/24 as rents and prices rise.

Recommendation: In the light of post-pandemic realities, the benefit cap must be abolished to ensure that households, especially former rough sleepers, survivors of domestic abuse and lone parents with children, can afford settled homes. At the very least, it must be urgently reviewed to assess its impact and cost-effectiveness.

What changes should DWP make to their deductions policies and practices to protect those on Universal Credit and legacy benefits from reduced incomes?

24. Deductions have been identified by Joseph Rowntree Foundation as a key cause of destitution and food bank use amongst benefits recipients.[20] These issues affect a very large number of those who are in receipt of benefits: 1.4 million (29%) Universal Credit

[15] Shelter and Women's Aid, Joint Briefing: The Benefit Cap and Domestic Abuse - Shelter England, May 2021.
[16] Shelter, Everyone In: Where Are They Now?, August 2021.
[17] JRF, A Minimum Income Standard for the United Kingdom in 2021, July 2021.
[18] 90% of benefit-capped families with children are in deep poverty. Deep poverty is defined as 50% of the equivalised median income for a household. Child Poverty Action Group, Pushed deeper into poverty: the impact of the benefit cap, March 2022.
[19] Joseph Rowntree Foundation, A Minimum Income Standard for the United Kingdom in 2021, July 2021.
[20] Joseph Rowntree Foundation, Destitution in the UK 2020, December 2020.

claimants had a deduction for an advance payment on their benefits in May 2021 (necessary due to the 5-wait week policy) and 533,000 (11%) for third party deductions.[21]

25. DWP's deduction practices do not match the best practices already adopted in regulated consumer credit markets. For instance, only limited pro-active assessment of affordability is undertaken, despite DWP holding data which could be used to inform such an assessment. As a result, research by Stepchange found 89% of those with deductions from their Universal Credit for tax credit overpayments had a payment taken which they couldn't afford, and 98% struggled to cover essentials because of deductions.[22] Our own research on clients who approached Shelter services in 2019 found that unsustainable deductions from Universal Credit meant many people needed referrals to food banks, with repaying an advance for the 5 week wait often being the largest proportion of their deductions.[23]

26. Other issues include a failure to identify vulnerabilities and a lack of clear communication prior to starting deductions. Two-thirds of those surveyed by Stepchange were unaware that deductions were going to start before they were taken and 70% were unaware how much money was going to be taken, plus there is a general lack of awareness around the ability for people to renegotiate their payments.[24]

Recommendation: The government should cap total deductions to repay debts to national agencies at 5% of the Standard Allowance (in line with most other creditors).

Recommendation: The overall cap on the total of all deductions should be 15% of the Standard Allowance (down from current 25%). This would be the maximum imposed deductions – with flexibility for claimants.

[21] UK Parliament, Written questions and answers - UIN 40869, tabled on 18 August 2021.
[22] Stepchange, The True Cost of Tax Credit Overpayments: A Fairer Approach, September 2021
[23] Shelter, From the Frontline, August 2019.
[24] Stepchange, The True Cost of Tax Credit Overpayments: A Fairer Approach, September 2021