

Shelter

Shelter's response to David Freud's review – Reducing dependency, increasing opportunity: options for the future of welfare to work

Shelter is a national campaigning charity that provides practical advice, support and innovative services to over 170,000 homeless or badly housed people every year. This work gives us direct experience of the various problems caused by the shortage of affordable housing across all tenures. Our services include:

- A national network of over 50 housing aid centres
- Shelter's free housing advice helpline which runs from 8am-midnight
- Shelter's website which provides housing advice online
- The Government-funded National Homelessness Advice Service, which provides specialist housing advice, training, consultancy, referral and information to other voluntary agencies, such as Citizens Advice Bureaux and members of Advice UK, which are approached by people seeking housing advice
- A number of specialist projects promoting innovative solutions to particular homelessness and housing problems. These include 'Homeless to Home' schemes, which work with formerly homeless families and in many cases provide assistance with moves into employment. In addition, Shelter's Inclusion Project, which works with families, couples and single people who have had difficulty complying with their tenancy agreements because of alleged anti-social behaviour. The aim of all these projects is to sustain tenancies and ensure people live successfully in the community.

Executive summary

Shelter believes that the Government's welfare to work agenda must focus strongly on the potential of Housing Benefit Reform to overcome work disincentives and to provide extra support for the 'in work' poor. We have highlighted in our submission a number of areas which we believe deserve close consideration:

- Housing Benefit tapers and tax credits
- Interaction with Working Tax Credit
- Earnings disregard
- Changes of circumstance
- Single Room Rent and benefit shortfalls
- Temporary accommodation and Working Future pilot

Introduction

We welcome the opportunity to submit a formal response to David Freud's report on options for the future of welfare to work. We believe that a debate on the future of

welfare to work is needed and see this report as an important part of this process. Shelter welcomes Freud's recognition of the need to focus resources on the least advantaged and the need for the benefits system to be simplified. We also support Freud's call that more should be done to highlight entitlement to Housing Benefit as an 'in work' benefit.

The recent Hills report on the future of social housing considered the high level of worklessness in social housing. This examined a number of useful ideas to address this such as greater integration of housing and employment support as well as looking at reform to Housing Benefit.¹ We welcome this new thinking and we believe that if the Government wants its 'work pays' message to be meaningful, it must ensure that it works to overcome the very real work disincentives in the Housing Benefit system. These can both discourage a move into work (the unemployment trap) and can also discourage people in low paid work from increasing their earnings (the poverty trap). In addition, as Lisa Harker's report on child poverty for DWP noted, nearly half of children in poverty now live in families where there is someone in work². It is clearly critical, therefore, that we properly support the 'in work poor' in order to tackle child poverty.

The Freud report argues that the structure of the Housing Benefit system is unlikely to be a reason for worklessness and that this does not create an unemployment trap on the basis that people are almost always better off in work. However, in our experience serious and substantive work disincentives persist for many of our clients due to the structure and operation of the Housing Benefit system. Shelter recognises the efforts of the Government to reform the over-complex Housing Benefit system through the Pathfinders' pilots. We also recognise that tax credits and other reforms are working to improve work disincentives. Nevertheless, we believe that much more could be done to ameliorate work incentives within the welfare system. We have concentrated below on a number of Housing Benefit reform options which could help provide the support needed and improve work incentives.

Housing Benefit tapers and tax credits

Analysis by the JRF has considered the extent to which work incentives are weakened by withdrawal of means tested benefits and tax credits. Their analysis shows that overall some 400,000 workers in Britain only stand to keep up to 20 pence of each extra pound earned³. In terms of Housing Benefit a claimant who goes into work has his/her benefit withdrawn at a rate of up to 65 pence for each additional £1 of income earned. When combined with Council Tax benefit this rate of withdrawal can rise to 85 pence. Hills' analysis compared net incomes (after housing costs) with different levels of earnings. He noted that a couple with two children in the private rented sector paying a typical rent of £120 would only gain £23 when their weekly income rose from £100 to £400. Social rented housing improves this to some degree so that the same family paying a typical social rent of £60 would gain £55 per week. This demonstrates that for those on higher rents, such as those in temporary accommodation or the private rented sector, the work disincentives are greater than for those living in social housing. Those considering whether to take up employment must also look at the impacts on wider costs such as travel, childcare, work material

¹ Hills J, *Ends and means: the future roles of social housing in England*, CASereport 34, ESRC Research Centre for Analysis of Social Exclusion, February 2007

² Harker L, *Delivering on Child Poverty: what would it take?*, DWP, November 2006

³ Adam S Brewer M and Shepard M, *The poverty trade off, work incentives and incomes redistribution in Britain*, JRF, October 2006

expenses and loss of free school meals, prescriptions and impacts on other benefits. However, if by taking up full or part time work a person is only very marginally better off, which in our experience is often the case, then it is difficult to see this as an incentive to work.

As outlined in a government evaluation of housing policy there are two policy options which could address the issues of steep benefit withdrawal to ease the transition into work⁴. Firstly, a reduction in the taper could be introduced so that less benefit is lost as income rises. The estimated cost of reducing the taper to 40 per cent is £550 million per annum and for 30 per cent this would be £1.05 billion per annum⁵. A second more radical proposal which has been considered by Kemp, Wilcox and Rhodes would be to incorporate a housing element into the tax credit system⁶. This could involve a means tested flat rate contribution to housing costs to complement the existing Housing Benefit system and to operate alongside the existing tax credits. If designed to be tenure neutral then such a measure would also help to lift low-income owner-occupiers out of poverty. Neither of these solutions would be without potential drawbacks but would go a long way to improving the current situation.

Interaction with Working Tax Credit

At present Working Tax Credit (WTC) is taken into account when assessing entitlement to Housing Benefit. The ODPM (now CLG) evaluation of housing policy⁷ noted that:

Taking the system of in-work benefits in the round it is evident that the relationship between Housing Benefit and the WTC has yet to be resolved. Other than some extension in earnings disregards for some HB claimants in receipt of WTC, the bulk of any gain in WTC is lost in HB. This weakens the intended work incentives arising from WTC as well as its redistributive impact.

Lisa Harker's recent report on child poverty for DWP highlighted that if WTC was disregarded in Housing Benefit and Council Tax Benefit calculations then 160,000 children could be lifted out of poverty⁸. This would also have a positive impact on work incentives potentially reducing child poverty further and would cost £0.5 billion per annum. Shelter is supportive of this approach and believes this should be closely considered as part of an overall approach to reduce steep levels of withdrawal of benefit as income rises.

Earnings disregard

In addition, work incentives could be improved by addressing the current rate of earnings disregard (the amount of earnings that claimants can keep before Housing Benefit starts to be reduced). The standard single person's disregard rate has not been uprated from its current level of £5 since 1988. Shelter believes that the

⁴ Stephens M, Whitehead C and Munro M, *Evaluation of English Housing Policy: Lessons from the past, challenges for the future for housing policy*, ODPM, January 2005

⁵ House of Commons Official Report, 9 Mar 2006 : Column 1716W

⁶ Kemp P, Wilcox S, and Rhodes D, *Housing Benefit reform: next steps*, York: JRF, 2002

⁷ Stephens M, Whitehead C and Munro M, *Evaluation of English Housing Policy: Lessons from the past, challenges for the future for housing policy*, ODPM, January 2005

⁸ Harker L, *Delivering on Child Poverty: what would it take?*, DWP, November 2006

standard rate of earnings disregard should be increased and a mechanism should be introduced to uprate this disregard annually in line with living costs. The number of claimants that would benefit from such a change is estimated to be in the region of 90,000⁹ at a cost of £20 million per annum.¹⁰

Changes of circumstances

For many of our clients, fears about what will happen to their Housing Benefit when starting work is a major disincentive to employment. The Hills review of social housing highlighted how a general lack of knowledge over the operation of the Housing Benefit system and fears that it would take a long time to sort out payments on return to work or if a job failed to work out remain key. Hills argues that if Housing Benefit were paid in such a way that payments were fixed for longer periods regardless of a change of circumstances then this might both provide reassurances to those claiming it and reduce the administrative burden of frequent reassessments and recovery of overpayments. We welcome this fresh thinking on the Housing Benefit system and believe that such a solution could be workable. However, such an approach should not be undertaken to the detriment of those claimants who find themselves in a deteriorating situation where rapid adjustment to the benefit is required. In such a scenario, the system would need to retain a level of flexibility to ensure that hardship or arrears build up did not result. An alternative to fixing Housing Benefit for longer periods might be to allow fluctuations in set income within a certain band without this affecting entitlement.

Single Room Rent and benefit shortfalls

As part of its welfare to work agenda Shelter believes the DWP should reconsider its position on the Single Room Rent (SRR) and its LHA equivalent the Shared Room Rate. The SRR restricts the amount of Housing Benefit payable to single people under the age of 25 in private rented housing to the average cost of a room in a shared house. As a result of this, thousands of young people have been left with serious shortfalls between their benefit and the rent they owe, and are at significant risk of rent arrears, eviction and homelessness. The SRR is intended to act as a work incentive, to stop unemployed young people accessing a better standard of accommodation than their employed peers could afford. However, recent DWP research found it acts as a barrier to employment concluding that it

'undermines efforts to get young people into employment by not providing them with the stable housing base they need to take up training and jobs'.¹¹

For those young people subject to the SRR 80 per cent experience a shortfall between their benefit level and their rental level with the average level of shortfall at £45 a week.¹² Such shortfalls increase the risk of rent arrears, eviction and homelessness and hinder the establishment of a stable base from which to find work. The more recent Shared Room Rate of the Local Housing Allowance, available to young people in the Pathfinder areas, has only marginally increased the maximum benefit available. Shelter has campaigned alongside Centrepoin, Child Poverty

⁹ House of Commons Official Report, 28 Feb 2006: Column 691W

¹⁰ House of Commons Official Report 02 Feb 2006: Column 664W

¹¹ Research into the Single Room Rent Regulations, Research Report No 243, DWP, 2005

¹² Hills J, *Ends and means: the future roles of social housing in England*, CASEreport 34, ESRC Research Centre for Analysis of Social Exclusion, February 2007

Action Group, Citizens Advice, Crisis and the YMCA for this restriction to be dropped. The total cost of implementing this change is estimated to be at least £20 million per year¹³.

The problem of Housing Benefit shortfalls is not simply confined to young people. Others have their rent restricted due to non-dependant deductions¹⁴ or because of restrictions in the amount of rent that can be covered for a private landlord¹⁵. As Hills noted, for all claimants potentially subject to rent restrictions 54 per cent faced a shortfall averaging £24 per week in 2005-06.

Temporary accommodation and Working Future pilot

At present nearly 90,000 households live in temporary accommodation in England. The rent on which Housing Benefit can be paid in these cases can be much higher than the limits for the private rented sector; in London, for instance, £300 per week is common¹⁶. Due to such high rents the poverty trap and work disincentive effects are much more acute. The Working Future pilot project in East London acknowledges the poverty trap effect for homeless families in temporary accommodation, and as an alternative, pays a block grant to local authorities to enable them to charge the families involved rents at social housing levels. This project is currently small scale and is cost neutral for those cases where the families would not have moved into work. Shelter is supportive of the pilot and has called for it to be rolled out more widely. It is a means by which the worst poverty trap effects of temporary accommodation can be addressed whilst the high numbers of households in temporary accommodation are reduced. Even if the Government meets its temporary accommodation target there will still be roughly 50,000 households remaining in temporary accommodation by 2010, who would benefit significantly from the extension of this approach.

¹³ House of Commons Official Report, 18 Apr 2006: Column 407W

¹⁴ Non-dependant deductions are deductions based on expected contributions to the rent from other members of the claimant's household. Apart from the claimant, each adult member of the claimant's household (non-dependant) is expected to make a contribution to the rent. A minimum deduction of £7.40 for each non-dependant is applied up to a maximum deduction of £47.75. In practice, some claimants find it difficult to get contributions from adult children or from family members staying on a temporary basis, particularly where non-dependants are claiming benefits themselves. Shelter believes that the legislation should be amended to exempt household members from non-dependant deductions if this would bring them below income support levels. The cost estimate for this is £22 million per year (House of Commons Official Report, 27 Feb 2006: Column 246W). In addition we believe the top two rates of non-dependant deductions should be removed at an estimated cost of £10 million per year (House of Commons Official Report, 2 Feb 2006: Column 664W).

¹⁵ In many areas, very few properties are available at or below the Local Reference Rent. Shelter found that fewer than one in 10 properties were advertised at or below the level of the Local Reference Rent in one local area. (Source: Reynolds L, *On the Right Path? Shelter's research on Housing Benefit Pathfinders – Interim Findings*, Shelter, 2005.) Shelter believes the formula for setting the Local Reference Rent (or the new Local Housing Allowance) should be reviewed so that a fair share of the market is accessible to people on Housing Benefit in each local area.

¹⁶ Hills J, *Ends and means: the future roles of social housing in England*, CASEreport 34, ESRC Research Centre for Analysis of Social Exclusion, February 2007

Conclusion

Recent reports by both Lisa Harker and John Hills have highlighted the potential of Housing Benefit reform to improve work incentives and to reduce child poverty. Whilst we are conscious of the constraints on public expenditure we believe that if the Government is serious about tackling child poverty and work incentives it should carefully consider the Housing Benefit reform options outlined above. DWP retains responsibility for a key aspect of housing policy and must work with CLG to deliver a coherent package of housing and welfare to work policy. Further analysis and recommendations can be found in Shelter's Housing Benefit Policy briefing and strategy paper which also make wider recommendations for simplification and improvements to the Housing Benefit system aside from work disincentives¹⁷.

¹⁷ Neuburger J and Long G, *Policy briefing – Housing Benefit*, Shelter, December 2004 and Shelter, *Housing Benefit Strategy*, 2005