

Consultation Response Housing benefit reform

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Shelter

Shelter welcomes the Government's intention to radically reform housing benefit and the opportunity to take part in the design and implementation of these reforms. We fully support the objectives of creating a simpler and more transparent housing benefit system and increasing choice for housing benefit claimants. The Government's proposals are set out in Building choice & responsibility: a radical agenda for Housing Benefit, which follows the comprehensive statement in the Housing Green Paper, published in 2000. Shelter strongly supports the recommendations for reform detailed in the Social Security Select Committee's Sixth Report on Housing Benefit (27th July 2000).

These proposals should be seen in the wider context of policies to reduce homelessness, tackle social exclusion, promote opportunity and expand the role of the private rented sector in meeting housing need. There is clear evidence that the current system of rent restrictions is causing severe hardship, and in some cases homelessness, as tenants are being left with significant shortfalls between their housing benefit and rent. The recent independent Commission on Standards and Supply in the Private Rented Sector, established by Shelter and including representatives of landlords associations, concluded that housing benefit problems are a major factor in the failure of the sector to make a more effective contribution to meeting housing need. The new arrangements must address these problems and make choice a reality for tenants. It will therefore be critical that outcomes are effectively monitored.

This briefing sets out Shelter's key concerns and recommendations on the design and implementation of the pathfinders; the key outcomes that should be monitored; and some further unresolved issues for future reform.

Background

The current housing benefit system works on the principle of paying full rent for people on low incomes. In reality, however, housing benefit is restricted through:

- Local Reference Rent restrictions (rent officer determines if the rent is reasonable compared to the local area average)
- Significantly and Exceptionally High Rent restrictions (rent officer determines if the rent for the individual property is reasonable)
- Single Room Rent (young single people aged under 25 years receive only the 'average' for a single bedroom property with shared facilities)
- Non-dependant deductions (adult children aged over 16 years are expected to make a significant contribution towards the rent)

Rent Service returns for 1999 indicated that 70 per cent of private tenants had their benefit restricted. The average restriction was £19 a week. The impact of the Single

Room Rent restriction for young people was the most severe, with an average shortfall of £34 a week, which they had to pay themselves. (The Single Room Rent was renamed Younger Persons' Rent in July 2001). Non-dependants (adult members of a household) have to contribute significantly to the rent; the lowest deduction is £7.40 a week for non-dependants not in work.

The Rent Officer (Housing Benefit Functions) Order 2001 amended the way the Local Reference Rent restriction (LRR) is calculated, enabling the Rent Service to reduce the number of 'localities' used to determine the LRR. Neighbourhoods with high property values can now be grouped with those having lower private sector rents, resulting in an increased deviation between actual rents and the average and severe shortfalls for many tenants. In Stockport, for example, the consolidation of Rent Service areas into a single 'locality' resulted in hundreds of tenants experiencing shortfalls of up to £40 a week in their housing benefit.

In addition, those out of work or in low paid employment experience severe problems if their housing benefit is stopped or if an overpayment is recovered. Although Comprehensive Performance Assessments have noted some recent improvement, housing benefit administration remains in crisis in many areas. Fewer than two-thirds of applications are dealt with within the target time of 14 days. In 2000/01, the average time taken was 55 days and the worst performing authorities took up to 205 days to process a new claim. Many tenants are in rent arrears before they realise that housing benefit will not cover the full rent. The complexity of the regime of restrictions and deductions is a major cause of delay in the administration of new claims.

The Standard Local Housing Allowance

In Building choice & responsibility: a radical agenda for Housing Benefit, the Government proposes to introduce a flat rate Standard Local Housing Allowance (SLHA) for tenants in the private rented sector. Tenants will know in advance how much housing benefit they will be paid in their area, and will be encouraged to shop around for accommodation. Those who rent a property at a rent below the standard allowance, or who negotiate to reduce their rent below the standard allowance will be entitled to keep the difference. Those who take accommodation at a rent above the standard allowance will be required to make up the additional cost.

The proposed new system will end the significantly and exceptionally high rent restrictions, so the level of housing benefit will depend solely on the LRR or Younger Persons' rent restrictions. This system will be simpler, more transparent and fewer tenants will face shortfalls between their benefit and the rent they have to pay. The proposals retain lower levels of benefit for single people under 25, and the non-dependent deductions.

The Government plans to pilot the new approach in 10 pathfinder areas, starting from late 2003. Blackpool Borough Council, Brighton & Hove City Council, the London Borough of Lewisham and North East Lincolnshire Council have already agreed to be pathfinder areas. Conwy County Borough Council, Coventry City Council, Edinburgh City Council, Leeds City Council, Middlesbrough Council and Teignbridge District Council will decide on their involvement shortly. If successful the scheme will be rolled out nationally from 2005.

Critical issues and recommendations on the framework for the pathfinders

The four key areas that need to work in order for the proposed system to provide choice to tenants and protection for vulnerable people are:

1. Accuracy, transparency and accountability in setting the standard local housing allowance
2. Localities drawn to reflect local sub-markets
3. Adequate procedures to identify vulnerable tenants and ensure that they do not lose out
4. Flexibility in the housing benefit system to enable claimants to act as consumers

1. Accuracy, transparency and accountability

It is critical that rent officer decisions are accurate, transparent and accountable, including decisions about the size and boundaries of localities used to calculate the SLHA, and the average rent for properties of different sizes in those localities. In its report on Housing Benefit in 2000, the Social Security Advisory Committee (SSAC) found there to be an "opaque and seemingly erratic approach to defining localities for the purpose of local reference rents in different parts of the country under current arrangements."

The SLHA must be sensitive enough to local rents to ensure that people in high cost areas don't lose out or face greater benefit shortfalls. Shelter has seen first hand the impact of the failure of the current local reference rents regime to adequately reflect local markets. Claimants can be left with significant shortfalls if the LRR does not keep pace with the local market or the areas over which the average is calculated are too large.

There is a strong case for rent officers to consult local authorities, advice services and landlords associations about the size and boundaries of localities. There is, however, a danger that the published SLHA will become the 'target' rent for an area, rather than reflecting the average in a local market. To make the scheme work, Shelter believes that supply side measures and regulation in the private rented sector must accompany

housing benefit reform to safeguard the bargaining position of tenants and make choice a reality for them. The Government should also ensure that:

- The SLHA is sufficient to meet the market rent for a property of an adequate size and reasonable standard
- Up to date market rental data is used to calculate the SLHA
- Local authorities and other local bodies are involved in rent officer decisions on the size and boundaries of localities
- Information is made publicly available on the size and boundaries of localities and on the average rent for different sized properties in a locality, for example by producing leaflets that can be picked up in post offices, CAB, and welfare and housing advice centres

2. Size and boundaries of localities

The size and boundaries of localities should reflect local areas in which households conduct their daily lives. The sizes of localities will impact on geographical mobility and on the Government's other objectives of promoting social inclusion and creating sustainable, mixed-income communities. The impact of creating large 'localities' as a basis for the SLHA, in the interests either of administrative simplicity or to force private tenants to conduct their accommodation search across several neighbourhoods, would be to increase area-based social exclusion. The Government should ensure that:

- The size and boundaries of localities are drawn to reflect local sub-markets - areas in which people shop, work, and their children attend school
- Localities do not cover neighbourhoods between which private rents differ sharply - effectively forcing housing benefit claimants to move to accommodation in a lower rent part of the locality where rents are closer to the average
- The size of localities reflects differences in the distribution of rents within regions and between local authority areas - in particular, a wider variation in rents paid by households in London should mean that smaller localities are used to calculate the average allowance

3. Protecting vulnerable tenants

The new arrangements must include adequate safeguards for vulnerable tenants. Some groups including elderly people and those with mental health problems or disabilities will not be in a strong position either to move or to bargain with their landlord over their level of rent. They may also have problems managing their finances and may face problems as

a result of not getting housing benefit paid direct to their landlord. Ministers have indicated that there will be safeguards for vulnerable tenants. The Government should ensure that:

- Groups that may have problems with money management or bargaining skills such as those with mental health problems or substance misuse problems are identified as vulnerable
- Groups that have mobility problems such as elderly people and those with disabilities are identified as vulnerable
- These groups retain the option of having their housing benefit paid direct to their landlord
- Discretionary housing benefit payments should be made to vulnerable claimants that are in need of financial assistance to meet their housing costs

4. Treating claimants as consumers

Shelter believes that housing benefit should enable claimants to act as consumers. One of the four principles of public service reform established by the Prime Minister is to 'expand choice for the consumer'. The Government has expressed its intention to create a housing benefit system that empowers tenants and allows housing benefit claimants to make choices like other tenants. The new housing allowance approach represents a step forward; but to deliver a real improvement there must be a choice of accommodation for tenants at or below the standard local housing allowance.

Household circumstances, living arrangements, job markets and housing markets are all subject to frequent changes. The existing housing benefit system is inflexible and bureaucratic. Claimants do not enjoy the same choices as others and often end up in arrears after late payments or if an overpayment is recovered retrospectively. The system needs to be more flexible. There is a tension here between measures to tackle fraud and making the system simpler, more flexible and more efficient. However, some measures can be taken to improve the system without affecting objectives on fraud. The Government should:

- Review the payment of housing benefit four weeks in arrears - this arrangement undermines the Government's stated aim of putting claimants on a similar footing to other tenants and means that tenants will start their tenancy in rent arrears
- Reduce the number of weeks rent arrears at which tenants can arrange to have their benefit paid direct to their landlord - eight weeks arrears is too long a period given that this is the same as the mandatory ground for possession for tenants with assured shorthold tenancies

- Make it easier for tenants to adjust their claim where their circumstances change- the benefit run on period for claimants moving in and out of work is a welcome step, and there is no reason not to extend this to other changes in circumstances such as relationship breakdown or an adult child moving out of home
- Move away from the week by week adjustment of housing benefit to changes in circumstances to setting it for six months at a time, like the Working Families Tax Credit - for all groups of claimants not just pensioners or those in paid work
- End the practice of recovering overpayments where claimants have provided the correct information on their circumstances - overpayment is often due to poor administration by the housing benefit department and can result in sudden, large rent arrears and eviction - Ministers should force local authorities to bear the consequences of maladministration.

Key outcomes to monitor

Objective quantitative outcomes should be monitored in pathfinder areas at the start and end of the pilot and compared to trends and outcomes in similar 'control' authorities where the new system has not been piloted. Critically, tests need to be applied as to whether the level of the allowance is sufficient to meet the market rent for a well-managed property of an adequate size, reasonable condition and within a reasonable distance of an area to which the applicant has existing work, family or social connections. Also, there need to be tests as to whether the standard local housing allowance is being paid at a level sufficient to encourage landlords into the market and to ensure that existing landlords gain a normal return on their asset.

Shelter is keen to be closely involved in monitoring the impact of the SLHA, resulting benefit shortfalls and the availability of accommodation at rent levels set in a particular area. Our network of Housing Aid Centres gives us a strong presence in many of the pathfinder areas, and we believe we are well-placed to contribute to the evaluation of the scheme, particularly on issues relating to rent arrears, possession actions and the experiences of vulnerable tenants.

Unresolved issues for future reform

There are a number of issues that the Government should consider beyond the design and implementation of the pathfinders, including:

1. Using information from the pathfinders to inform wider implementation of the scheme
2. Integrating the system with new tax credits
3. Ending the Single Room Rent/ Younger Persons' Rent restriction

4. Reforming the regime of Non-Dependant Deductions

1. Wider implementation

Information from the evaluation of the pathfinders should inform wider implementation in the private rented sector. Specifically Ministers should consider:

- Increasing the level of the SLHA if the tests indicate that existing levels are insufficient
- Allowing direct payments to landlords if the SLHA proves to impact negatively upon landlords' willingness to let to housing benefit claimants
- Changing the definition of 'localities' if the SLHA increases segregation between richer and poorer households and neighbourhoods
- Review of the design and administration of the scheme if evictions of housing benefit claimants by private landlords increase

2. Integration with tax credits

In 2003, the Government will introduce the Child Tax Credit, Working Tax Credit and Pension Credit. This offers an opportunity to better integrate the housing benefit and tax credit systems in terms of assessment periods and the treatment of income and savings. This would help reduce administrative problems, and minimise poverty and unemployment traps resulting from the rapid rate of withdrawal of housing benefit with increases in earned and tax credit income.

- A simple option would be to ignore income from tax credits for the purposes of housing benefit assessments, so that the income from tax credits would be a clear fixed bonus and would not cause a near corresponding decrease in housing benefit
- A more radical option would be replacing housing benefit with a housing credit scheme, in which the credit is an additional payment on top of the 'baseline' tax credits. Under this system there would be only one taper at a rate somewhere between the 55 per cent rate for Working Families Tax Credit and the 85 per cent withdrawal rate for housing benefit.

3. Single Room Rent/Younger Persons' Rent restriction

The standard local housing allowance for young single people will be equivalent to the existing Younger Persons' Rent. Rent Service statistics show that in 1999 young people faced an average shortfall of £34 a week due to the restriction, causing financial hardship, debt and in some cases, eviction.

Research published by the DETR and DSS in 1999, provides a thorough analysis of the impact of the SRR. Among the key findings were that, "Few tenants were successful in negotiating lower rent levels with landlords, either before they took on the tenancy or during the course of the tenancy.... The majority of tenants when surveyed, were making up the shortfall either out of their (Jobseekers Allowance/Income Support) or borrowing."

These findings are supported by more recent research by the Institute of Revenues, Rating & Valuation, which found that the limited reform of the Younger Persons' Rent restriction (covering a shared living room as well as a shared toilet and kitchen) in July 2001 has had made little difference in practice. Shelter's own housing advisers have not noticed any significant increase in the amount of housing benefit available under the Younger Persons' Rent restriction, and report that young people still experience significant benefit shortfalls, rent arrears and homelessness.

Shelter believes that the Government should abolish the Younger Person's Rent (Single Room Rent) restriction.

4. Non-dependent Deductions

Non-dependant deductions are based on the assumed contribution that adult household members make to the rent. More than 80 per cent of non-dependants in households subject to this deduction are the son or daughter of the tenant. The current system has six bands of deductions based on the income of the non-dependant. It is complex and makes unrealistic expectations of contributions that non-dependents make toward the rent.

The Social Security Committee found evidence of the confusion, family strife and hardship resulting from non-dependant deductions in their current form and recommended that the number of rates be substantially reduced by abolishing the higher rates of deduction and that for working non-dependants, deductions are set for fixed periods with a safety net provision for people whose circumstances worsen during the review period.

Shelter believes that the Government should simplify the regime of Non-Dependant Deductions to ensure that the system is fair and workable.