Section 1 Contemporary issues

Chapter 1

Where austerity bites:

the current and future impacts of welfare reform on housing

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This chapter begins with a summary of the overall scale of welfare cutbacks made by the coalition government. It then looks at the effects of different welfare reforms, with particular emphasis on those that impact directly on support for people's housing costs. It concludes by discussing the likely future effects of these policies, as they continue to unwind, and the prospects for further reforms following the coming UK general election. One issue is the extent of greater devolution of decision-making on the structure of welfare benefits to national governments, which may have implications for England as well as the rest of the UK.

Overall scale of welfare cutbacks

As detailed in last year's *Review*, it has been estimated that in overall terms in 2015 the programme of welfare reforms will take some £19 billion pounds a year out of the pockets of low-income households (and out of the economy).[1] Within that, the individual welfare reforms vary significantly in their spatial impact, but taken together there is also a clear pattern in terms of those regions and localities where the overall impact of reforms and cutbacks will be greatest. While, on average, losses amount to £470 per year for every working-age adult across Great Britain, in fifty areas the losses average £600 or more for each adult, and in three areas the losses average £800 or more (Blackpool: £910; Westminster: £820 and Knowsley: £800).

A recent study has shown that the overall package of coalition government tax and welfare reforms has in broad terms been fiscally neutral, with the savings in welfare effectively being used to pay for tax cuts. It also showed that all those in the lowest half of the income distribution were net losers from the tax and benefit changes, while all those in the top half of the income distribution (except the top five per cent) made net gains. The biggest losers were those in the lowest three income deciles, where the impact of the benefit cuts far outweighed the gains from tax and state pension provisions.[2] It follows from this that the welfare cuts were emphatically a matter of policy choice, rather than an inevitable consequence of the economic downturn.

Based on this wider context, we focus on the most recent developments that have a direct relevance for homelessness and the housing market for low-income households.

Effects of changes to the local housing allowance

Changes to the local housing allowance (LHA) regime for private tenants led the way in welfare reform. They have applied to all new claimants since April 2011 and to all existing claimants for a period of almost 2-3 years, depending on their circumstances. The key initial changes were to set LHA rates based on thirtieth-percentile market levels, rather than market medians, and to set maximum caps that further reduced LHA rates in inner London. Since April 2013 LHA rates have been uprated by the lower of either inflation (based on CPI) or changes in market rents.

Administrative data on LHA claims are now available for the period to August 2014. Nationally, they show that the number of LHA claimants continued to rise after March 2011, but at a much slower rate than in the five years prior to the reforms. However, more recently numbers in England (but not Scotland and Wales) have begun to fall. In Great Britain as a whole the numbers of private tenants in receipt of housing benefit rose from 1,545,865 in March 2011 to 1,680,308 in May 2013, before falling back to 1,613,520 by August 2014. This represents a 4.4 per cent net increase over the 3½ years from March 2011.

While the working through of the lower LHA rates, and their further downward drift through CPI uprating, will both have contributed to the decline in LHA claimant numbers in England between May 2013 and August 2014, this period also saw a fall in the overall claimant count for jobseeker's allowance (JSA).

The rate of LHA growth in London from March 2011 to August 2014 was much less, at 2.3 per cent; and in inner London numbers have fallen by almost ten per cent since the end of 2011 when the new regime first began to apply to existing claimants. There has been an even sharper decline in the areas of central London affected by the caps on maximum LHA rates, with falls of some 30-35 per cent since March 2011 in Kensington and Chelsea and in Westminster.[3] As intended, the policy is making it much more difficult for lower-income households to secure or sustain tenancies in the PRS in the high-value areas impacted by the LHA caps.

There has also been a substantial decline in the numbers of younger, single households in receipt of housing benefit, following the extension of the (much lower) shared accommodation rate to single people aged 25 to 34. Between December 2011 and August 2014, 25-34 year olds in receipt of housing benefit in the PRS did fall by 17,400 (3.4 per cent), but that fall occurred entirely during the course of 2014 when overall claimant numbers were also falling. However over the same period the numbers of single people aged under 25 in receipt of housing benefit in the PRS fell throughout, and at a far greater rate – by 19.3 per cent by August 2014.

The published housing benefit data show that the average payments made to private tenants have declined since the new LHA regime was introduced. A number of factors have contributed to this, including the LHA caps in inner London and the rise in the numbers of working claimants who receive partial, rather than 'full', housing benefit. However, one of the main findings of the DWP evaluation of the new LHA regime was that for existing claimants, only some 11 per cent of the fall was attributable to landlord rent reductions, with the bulk of the reduced entitlement having to be met by the claimants. For almost a half, this involved cutting back on other expenditure on household 'essentials', and nearly a third borrowed money from family or friends.[4]

It should also be recognised that while the LHA reforms are now fully operational, there will be a further time-lag before the long-term market responses to the reforms by claimants and landlords will be seen. Those responses will also change over time, as the CPI limits on uprating LHA look set to depress LHA rates relative to movements in market rents. More immediately, following a decision in the Budget 2013, in 2014/15 and 2015/16 LHA rates are being raised by just one per cent.

The benefit cap

The overall cap on welfare benefits was introduced in four local authorities in April 2013 and then rolled out on a phased basis, so that since the end of September 2013 it has operated across the whole country. The cap – set at £350 per week for single people and £500 for all other households – applies to out-of-work households below pensionable age, with a number of exemptions for households that include disabled people.

The limits particularly affect larger families, and households in London and other higher-rent areas. The official impact assessment estimated that some 58,000 households would have their benefits reduced as a result of the benefit cap, of which some 25,000 were expected to be in London. While the (median) average estimated benefit reduction was £62 per week, for a third of all cases the estimated reduction was greater than £100 per week.[5]

In practice, since its full implementation the benefit cap has affected only about half of the numbers of households estimated in the impact assessments. Numbers fluctuate slightly from month to month, but peaked at 28,434 in December 2013. By August 2014 the numbers had eased down to 27,241.[6] Changes of circumstances have seen continuous monthly flows of households into and out of the benefit cap. In total, almost 24,000 households had been subject to the cap at some point, but were no longer capped in August 2014. Of those almost two-fifths ceased to be affected as they were in work and had an open working tax credit claim. However, it is not clear how far the benefit cap, in itself, has contributed towards the movement of affected households into work, as changes in circumstances and moves in and out of often insecure and low-paid employment are an established pattern for many low-income households.[7]

As anticipated, the impact of the benefit cap has been greatest both in London (due to its higher housing costs) and on larger families. Of all the households impacted at some time up to August 2014, almost half were in London, and of the twenty authorities with the most affected households eighteen were London boroughs. In August 2014, just over three-fifths of affected households had four or more children, and a further one-fifth had three. Nationally, the impacted households were virtually evenly split between the social and private rented sectors.[8]

The 'bedroom tax'

Limits on the eligible rents for households in the social rented sector were also introduced in April 2013, based on the number of bedrooms households are deemed to require by size criteria, which are essentially derived from the social survey 'bedroom standard' measure established in the 1960s. Officially these limits have been designated as the 'spare room subsidy' limits or 'under-occupancy penalty' but are more widely referred to as the 'bedroom tax'.

To put this in context it should be recognised that 73 per cent of all households in Great Britain occupy dwellings with more bedrooms than specified by the bedroom standard. Within that, a far higher proportion of homeowners do so (85 per cent) than social sector tenants (43 per cent – for further details see Commentary Chapter 2).

DWP estimated that the bedroom tax would impact on some 660,000 households across Great Britain as a whole, but with a disproportionate impact in the northern regions of England, as well as Scotland and Wales. It is also notable that almost two-thirds of the claimant households estimated to be affected involved a disabled claimant or partner. That estimate did not, however, include households with a disabled child.[9]

As with the overall benefit cap, the actual numbers of households impacted by the size criteria have proved to be some way below the levels estimated in the impact assessments, with no evidence that any more than a very small part of the difference could be attributed to households moving or otherwise changing their circumstances so as to avoid the 'tax'. Similarly, while some landlords have selectively redefined the number of bedrooms in some of their stock, the evidence shows that this has happened on only a very small scale.[10] The May 2013 figures showed just under 560,000 households subject to the size criteria limits (adjusting for initial under-reporting), of which some 443,000 were in England. Overall, social renting case numbers for May 2013 and the previous months offered no support for the impact assessment's suggestion that a substantial number of housing benefit claimants receiving modest levels of 'partial' benefit would be 'floated off' as a result of the size criteria deductions.

By August 2014 the numbers of tenants subject to the bedroom tax reductions in England had fallen by 16 per cent to some 370,000. As with the monthly benefit cap figures, it must be recognised that this is a net reduction in the numbers of tenants affected, with changes in household circumstances leading to some tenants becoming newly subject to the size criteria each month (i.e. when a child ceases to be a dependant), at the same time as other households cease to be subject to the same limits.

Of the 195,000 households ceasing to be affected by the size criteria over the period to December 2013, almost 90,000 ceased to claim housing benefit altogether, while nearly 62,000 had an increase in the numbers of bedrooms they were deemed to require. Just 18,740 moved into smaller accommodation within the social rented sector, while 3,600 moved into the private rented sector.[11]

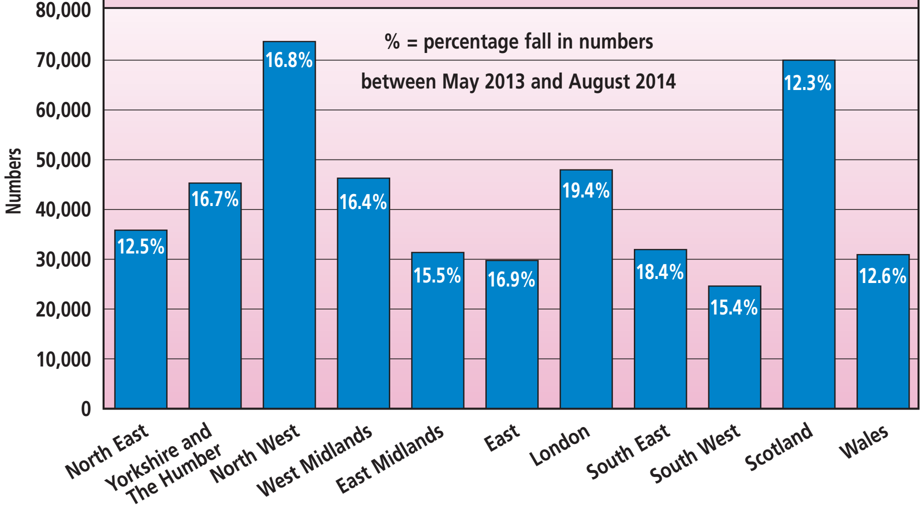
A number of reports have now provided evidence on the impact of the size criteria limits during the first six months of their operation, and some of the issues this has raised.[12] They confirm that the majority of affected tenants did not consider themselves to be 'over-accommodated'. This is not surprising given that, as noted above, the bedroom standard on which the size criteria are based is out of touch with contemporary social values and practice. The tightness of the size criteria inevitably result in a host of concerns about the circumstances in which additional bedrooms are needed, whether for disability or other medical reasons, or for carers of children of separated or divorced parents in circumstances wider than those recognised by the criteria.

A related issue is that the criteria assume that any bedroom can be shared by two children, regardless of how small it might be or the age of the children. This is in contrast to the statutory overcrowding criteria which clearly specify minimum space standards for rooms to be seen to be available either for single use or for sharing by children of different ages (albeit that the statutory criteria also take living rooms into account as well as bedrooms). Indeed a number of first-tier tribunal appeals have referred to the statutory criteria to hold that some rooms are too small to be considered bedrooms. This concern is highlighted by the data from the English Housing Survey showing that something like 30 per cent of all bedrooms in the social rented sector are too small to meet the statutory criteria for sharing by either two adults or by children aged over ten (see Commentary Chapter 2 for further details).

A broader concern about the application of the size criteria is that in many areas there is a shortage of smaller social sector dwellings available for 'downsizing' transfers. DCLG data show just under 15,000 social sector tenants in England transferred in 2013/14 either in response to the benefit cap or the bedroom tax – just three per cent of those affected by the two measures. The constraint on the availability of smaller dwellings is more frequently found in parts of northern England and the East of England,[13] where there is a structural mismatch between the size of dwellings within the stocks of social landlords and the size of dwellings households are deemed to require under the bedroom tax criteria. In those areas, 'under-occupation' as defined by the size criteria has been an established practice supported by social landlords as a means of balancing the supply and demand for their larger dwellings.

In this context, some landlords have calculated that it would take them between five and thirteen years to provide smaller-size accommodation for all those households affected.[14] The regional dimension to the impacts of the policy is reflected in the distribution of the impacted households across Britain, with particularly high numbers in the North West region and in Scotland, as shown in Figure 1.1.1. This also shows the extent to which numbers have fallen over the period from May 2013 to November 2014, with a higher rate of reduction in London and the South East where there are both more opportunities for landlords to make 'downsizing' transfers, and greater labour market opportunities for tenants.

Figure 1.1.1 **Working age claimants impacted by the size criteria limits**



Source: DWP Housing Benefit Statistics, November 2014.

A landlord survey undertaken for DWP found that, after five months, only two-fifths of the impacted tenants were making rent payments in full, two-fifths were making good some part of the size criteria deductions, and one-fifth were not making any payment to cover the shortfall.[15] Almost three-fifths of the tenants were either reducing spending on household essentials, or running up debts, while one in four had borrowed money, mainly from family or friends, to help manage the shortfall. It must also be recognised in the early months of the operation of the bedroom tax, for about one in ten of the impacted tenants, their capacity to meet the shortfall was the result of successful claims for discretionary housing payments (DHPs – see also Commentary Chapter 2).[16] However outturn data for the first year shows that the number of DHP awards related to the bedroom tax was not far short of half of the total numbers of impacted tenants. DHPs are discussed further below.

While these surveys found problematic levels of rent arrears, at the time they were undertaken they had not led to significant levels of legal action or evictions. However, with time such actions must be expected to increase. Indeed, while other factors (and other welfare reforms) are involved, there was a clear and marked growth in the numbers of social landlord possession actions from the third quarter of 2013 onwards. Total social landlord possession claims in England and Wales were 18 per cent higher in 2013/14 compared to the year before the size criteria were introduced.

Finally in this section it must be noted that the Northern Ireland government has still not implemented, in whole or in part, the bedroom tax policy. This has been possible because Northern Ireland has formal devolved powers to set its own welfare policies, although in the past it has had a concordat under which it has broadly followed the decisions taken in Westminster for the rest of the UK. This has, however, put a great strain on the finances of the Northern Ireland government, as HM Treasury has sought to impose the costs of divergence from GB policy. Following negotiations, the Treasury has agreed that those costs can be spread over a run of years, on the basis that the policy will be introduced for 2015/16, but with substantial transitional support for existing tenants.[17]

Discretionary housing payments

Limited budgets for discretionary housing payments have been made available to local authorities to assist in cases where they recognise the household's requirements for additional bedrooms, but as inevitably is the case with such discretionary provisions, they are difficult to administer, their application is patchy, and in the past budgets have often been underspent.[18]

However, data for 2013/14 showed that while overall DHP budgets in the year were slightly underspent, this was rarely the case with the sums specifically provided to ease the impact of the bedroom tax. In total, English authorities spent 94 per cent of their DHP allocations, while spending was over 100 per cent in both Scotland and Wales largely because of the additional funds provided by the Scottish and Welsh Governments.[19]

In England three-fifths of total DHP awards were on bedroom tax cases, including households with disabled people living in specifically adapted accommodation. The percentage was a little higher in Wales, and in Scotland over four-fifths of all awards were on bedroom tax cases. This is far more than the funds provided by DWP for the size criteria, and clearly many councils chose to use their discretion to apply more funds for these cases, and as a result spend less on other cases.

In Scotland and Wales the additional funds provided by their national governments were also very substantially devoted to bedroom tax cases. Across Great Britain as a whole some 255,000 DHP awards were made in bedroom tax cases – equivalent to virtually half of all households impacted by the bedroom tax.

Data on DHP spending for the first half of 2014/15 shows similar patterns, with just over half of total allocations in England and Wales committed during the first half of the year.[20] In Scotland, half-year commitments were already nearly double the level of DWP provision, and were already making substantial use of the additional £35 million DHP budget provided by the Scottish Government. In England and Wales councils had already allocated almost 70 per cent of their DHP allocations for bedroom tax cases in the first half of the year, and are again set to apply their discretion to boost spending on bedroom tax cases within their total DHP budgets.

This is a further indication both of the pressures resulting from the bedroom tax policy, and of the importance of the DHP provisions in softening (if somewhat unevenly) the impact of the policy. Particular concerns have also been expressed about some councils taking disability living allowance (DLA) into account when making the income assessments for DHP eligibility, and as a result denying DHPs to some of the disabled households living in specifically adapted accommodation.[21] Further concerns have been expressed about some of the variations in the ways councils have allocated DHPs – some created monthly limits, others allocated on a first-come, first-served basis, some added conditionality to the award, others did not, etc.[22]

Looking ahead, there are also concerns that the DWP's budgeted provision for DHPs will not be maintained in the years ahead, and that the time-limited awards for a proportion of impacted households will subsequently be allowed to lapse. Indeed the overall DHP for 2015/16 will be some 25 per cent lower than the current year, albeit that the bedroom tax element within the total has remained at £60 million.[23] Nonetheless this will reduce councils' capacity to switch DHP funds to boost the initial allocation for bedroom tax cases.

Universal credit

The universal credit (UC) regime is intended to combine several existing benefits, including housing benefit, and to radically simplify the structure of welfare benefits in the UK. A full account of the structural reforms was set out in the 2013 edition of the *Review*.

UC is now operational in a small number of pathfinder areas, but the overall timetable for rolling out the new regime has been deferred from what was originally planned, not least due to difficulties in developing the IT system for a still very complex scheme. The detailed regulations and operational requirements for the scheme were not finalised until quite recently. Poor management and lack of cost controls in the development of UC have been severely criticised in two reports from the National Audit Office.[24]

By the end of September 2014 it was operational in some 50 jobcentres in England, Scotland and Wales, with the roll-out across the rest of the country planned to take place at some time during the course of the following eighteen months. However, it will be mid-2016, at the earliest, before the scheme begins to apply to existing claimants. It must also be noted that all the DWP statements about the roll-out programme relate only to single claimants, and it is not clear how soon the roll-out will follow for 'more complex' household types.

Given the continuing delays, costs and administrative problems that have beleaguered the introduction of the scheme, there must also be some doubts as to whether it will continue in its current form under a new government following the 2015 General Election. The decision to devolve the treatment of housing costs to Scotland in the wake of the Scottish independence referendum could also potentially lead to changes in the way housing costs are treated across the UK as a whole. This is discussed further below.

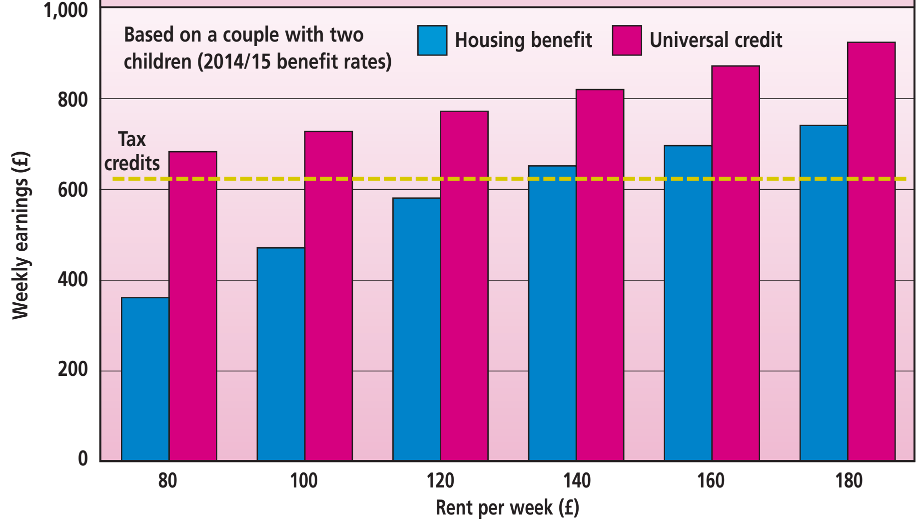
The concerns have been reinforced by the experiences of social landlords involved in the DWP direct payment demonstration projects. After twelve months' operation, average rent payment rates across the projects were estimated to be 6.6 per cent lower than would have been the case without direct payments. Thirty per cent of all tenants reported that they were behind with their rent payments.[25] While rates of underpayment declined over the course of the projects, underpayments were also erratic and difficult to predict (and therefore manage), reflecting the challenges of unforeseen circumstances for low-income households' complex budgets.

While the UC regime will not, in itself, involve any further reduction in benefit levels, it will still create winners and losers relative to the current regimes, albeit that existing claimants will be given transitional protection.[26] However, UC will not mitigate the effects of other ongoing benefit reductions, such as the real-terms cuts in levels of non-dependant deductions.

Though the reforms are intended to promote transparency and to incentivise people to work, their impact on incentives will actually be mixed. On the one hand, the removal of the confusing overlap of tax credit and housing benefit tapers, which can leave some households with only some 5p for every additional £1 of earnings, is welcome; but a consequence of the reform is that eligibility for UC will extend much further up the income scale than under the current housing benefit regime (see Figure 1.1.2). The failure to include council tax benefit within universal credit, and the difficulties and complexities of the varying replacement schemes now introduced across England, also detract from UC's objectives to simplify and incentivise.

A further consequence of the shallower but more extended UC poverty trap is that an increasing proportion of social sector tenants in low- to moderate-paid work will be brought within the scope of the welfare system, and this will be further exacerbated by the extension of the Affordable Rent regime in England, obliging an increasing proportion of social sector tenants to pay higher rents (see Commentary Chapter 4, page 66).

Figure 1.1.2 **Rents and earnings required to escape benefit dependency**



Source: Author calculation.

Other benefit reforms

Other welfare reforms, not directly related to rent or mortgage costs, also have the effect of reducing claimants' disposable incomes. The changes include the rigorous sanctions regime now being applied in respect of jobseeker's allowance (JSA) and employment and support allowance (ESA), and the council tax support schemes in England already noted.

Both of these have been shown to combine to produce very severe levels of poverty, and have been linked to everything from an increased dependence on soup kitchens and food banks, through to claimant suicides. As (or if) the universal credit scheme is rolled out, it also has implications for the ability of claimant households to manage their rental payments, without triggering the as-yet unproven administrative processes to enable such payments to be made direct to private and social landlords. The council tax replacement schemes were discussed in last years' edition of the *Review*, and a discussion of the JSA and ESA sanctions regime can be found in the latest edition of *The Homelessness Monitor: England*.[27]

A further unresolved issue on the horizon is potential reforms to the arrangements for Support with Mortgage Interest (SMI). Already homeowners currently working very few hours and thus still eligible for JSA and ESA together with SMI, will see that entitlement disappear with the introduction of universal credit. Instead they have only the benefit of a rather higher income disregard than is provided for working tenant households.[28] But beyond this, the development of a coherent policy to replace the continuing 'temporary' suspension of the nine-month delay before SMI becomes available to out-of-work claimants remains illusive.[29]

The cumulative impacts of welfare reform and future prospects

The full effect of all these measures has yet to be felt, as at least some affected households either have savings or family or other resources that they can initially call on to mitigate the impact. However as time goes on this inevitably becomes more problematic, and at the same time government support for DHPs, and for English council tax support schemes, is being reduced.

Difficult as this is, the future prospects for welfare policy are even less encouraging, whatever the results of the May 2014 UK General Election. It would not appear that any party is prepared to challenge the cap that the coalition has placed on total welfare spending, and all three main parties are therefore set to embark on a further round of welfare benefit cuts. The political differences are rather about the extent and shape of these further cutbacks, and at the time of writing details of the different proposals are still in short supply.

There are, however, positive prospects for some easing of the bedroom tax, as this is now only supported by the Conservatives among the three main parties. Moreover, with at least a measure of control over housing welfare costs now due to be passed to Scotland, there must be every expectation that, north of the border, the days of the bedroom tax are numbered.

It is also clear that both Northern Ireland and Scotland are set to continue to make housing cost payments direct to social landlords as part of the arrangements for rolling out universal credit in those countries. This will raise further questions about the approach still to be applied in England and Wales.

More generally the degree of devolution of welfare policies cannot yet be taken as settled. Clearly in Scotland there is an appetite for much greater devolution of these policies, and the greater the extent of devolution in Scotland, the bigger the questions to be asked about how far welfare policy in Wales should continue to be dictated wholly from Westminster. A related – and difficult – issue that will have to be resolved alongside increased devolution of powers over the treatment of housing costs is a budgetary settlement defining the contribution that HM Treasury will continue to make towards the costs of that support.

Amidst all these uncertainties there are – in broad terms – only four ways in which the housing costs element of welfare provisions can be contained. The first is to impose more rigorous limits on the levels of both social and private rents eligible for support – although in both cases this has implications for supply. It would also raise questions about social rent policies currently in operation across the UK, and in particular about the Affordable Rent regime in England.

The second would be to impose further restrictions on numbers of households eligible for support with their housing costs, whether through outright exclusion – such as for younger single people – or the application of additional conditions – such as lowering the overall benefit cap from its current levels, as proposed by the Conservative Party (who intend to reduce it to £23,000).

A third method, which would reduce the numbers of working claimants (that have risen substantially in recent years), would be to increase the taper rates, whether for the existing housing benefit and tax credit schemes or for universal credit. As seen above there is a trade-off here between incentives in the form of marginal deductions from earnings, and incentives in the form of increased prospects of moving beyond any requirement for support through in-work benefits.

A final option, that would also reduce the numbers of working claimants, would be to substantially increase in real terms the minimum wage, and/or to spread the adoption of Living Wage policies by more public and private sector employers.

If some of these measures are to be expected, it should again be stressed that they are all a matter of political choice; they are not in any way an inevitable consequence of either past or future budgetary constraints.[30]

All of these uncertainties also have implications for social landlords. They can no longer be confident that they can pursue rent and development policies on the assumption that 'housing benefit will take the strain'. Some have already recognised this, and have begun to adapt their overall strategies and policies. On the one hand, this involves the development of more active welfare policies to enable social landlords to support their mission towards the households no longer effectively supported by government welfare policies. On the other, it involves changes to allocations and development policies, and organisations' wider strategies and missions, to reduce their exposure to the risks now associated with making provision for households dependent on welfare benefits.[31] These options are not necessarily mutually exclusive, but if social landlords do move away from supporting 'at risk' households on any scale this would represent something of a return to the selective role that characterised the council housing sector back in the first two decades following the 1914-1918 war.[32]

About the only certainty is that both the character and composition of the welfare state will continue to change, and alongside that, so too will the character and composition of the social rented housing sector.

Footnotes

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