Chapter 3

Another turn of the screw: the further effects of 'welfare reform'

Steve Wilcox

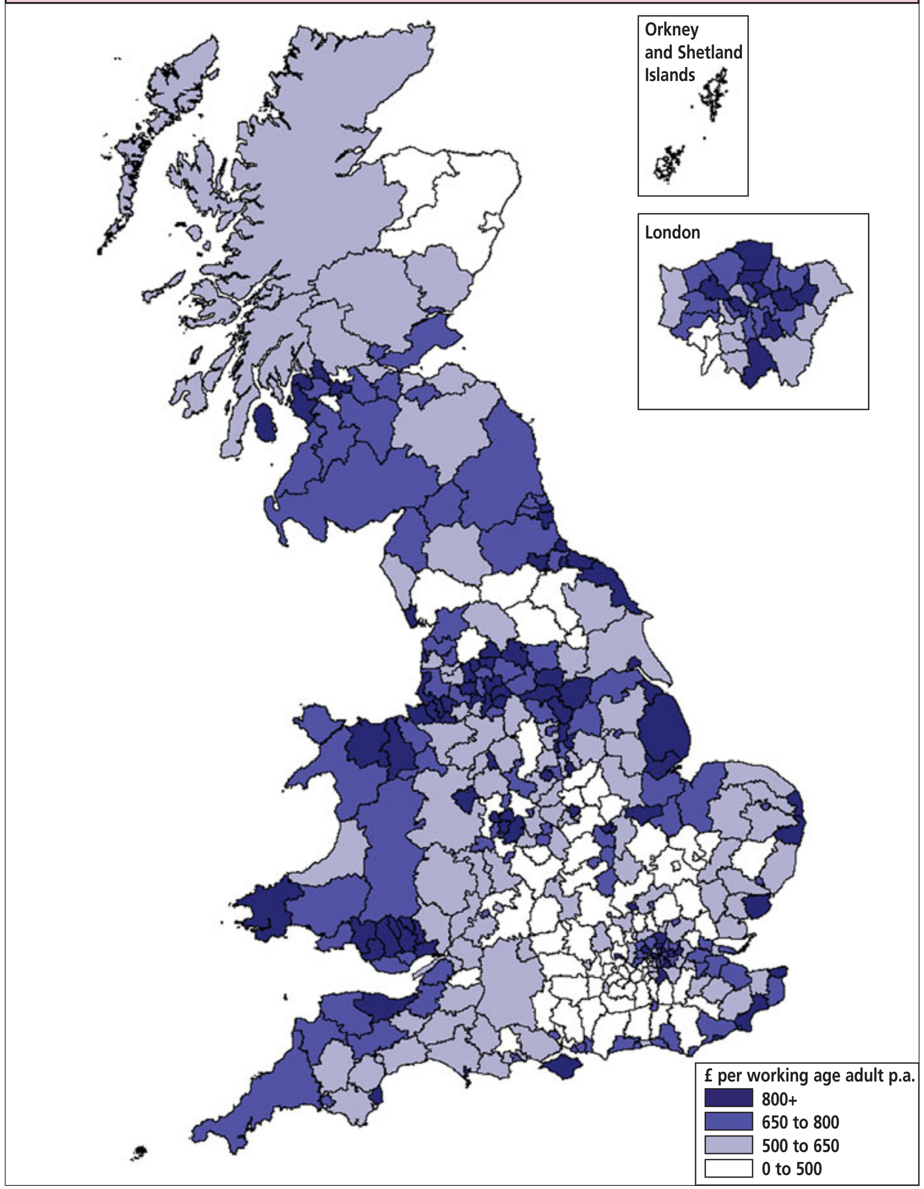
The coalition and conservative governments have introduced a raft of welfare reforms over the last five years, many of which have direct implications for lower income households and their capacity to secure or retain accommodation in all sectors of the housing market. In this chapter we examine each of the key measures in turn, covering both the earlier reforms introduced by the coalition, and the subsequent ones from the (pre- and post-Brexit) Conservative governments. The focus is initially on the more recent evidence on the impacts of the earlier wave of reforms, and then on the potential impact and characteristics of the reforms that have either just been implemented or are now planned. For more detail on the earlier reforms and their effects, readers are referred to the chapters on welfare reform in the 2015 and 2016 editions of the *Review*.

Overall context

Before examining the individual measures it is appropriate to set the scene with a wider view on their potential combined effects. Research by Sheffield Hallam University has estimated that the total annual losses to low-income households will, by 2020/21, amount to £27.4 billion across Great Britain.[1] Within that figure, the individual welfare changes vary significantly in their economic and spatial impact. The areas most affected are mainly to be found in the older industrial areas of England, in the more deprived parts of London or among the least prosperous seaside towns. This spatial analysis (see Figure 1.3.1) makes the point that the incidence of benefit dependency is strongly related to regional economic and labour market structures and policies, and cannot be seen (or dealt with) through a narrow focus on work incentives and individuals' attitudes to labour market participation.[2]

But it should be noted that the Sheffield Hallam report was compiled before the 2016 Autumn Statement, which abandoned plans to reform personal independence payments and to introduce the 'pay to stay' for higher-income council tenants. It also made proposals to ease slightly the cuts to universal credit. In total these three policy changes are estimated to reduce the government's overall welfare savings by some £2 billion by 2020/21. However, this will still leave in place coalition and Conservative government reforms resulting in losses to claimants that will total £25.3 billion by that year.

Figure 1.3.1 **Spatial impact of welfare reforms**



Source: The uneven impact of welfare reform, Sheffield Hallam University 2016.

Welfare reforms are also primarily focused on working-age households, while almost without exception provisions for older households have been preserved. Analysis of the coalition government tax and welfare changes also shows that the negative impacts were disproportionately focused on lower-income households, with an eight per cent reduction in the incomes of those in the lowest-income decile, compared to an average of just two per cent for those in the upper half of the income distribution.[3]

This is happening in a context where poverty levels for working-age households are running much higher than in the years before the global financial crisis (GFC). This partly reflects the decline in disposable incomes immediately following the GFC, but also the more gradual impact of the growth of the private rented sector with its higher rent levels.[4] Thus for the last six years (to 2014/15) the numbers of working-age adults whose after-housing-costs incomes are 60 per cent (or more) below the (median) average have been running at close to eight million; this compares with around 6.5 million in the seven years to 2001/02.[5] Given the welfare and tax reforms now in train, it can only be expected that poverty levels will increase in the years ahead, notwithstanding the government's above-inflation increases in the minimum wage.

Against this background, the individual welfare reforms discussed in turn below are:

- local housing allowance for private tenants
- local housing allowance for social tenants
- the 'bedroom tax'
- discretionary housing payments
- the benefit cap
- universal credit.

Alongside each of these specific welfare policy reform areas there is a more general freeze on most working-age benefit rates for four years from 2016/17. This single measure is forecast to impact on nearly eight million households or individuals by 2020/21, each of which will incur an average loss of some £500 a year.[6] This is by far the largest item financially of the welfare measures announced in the 2015 Autumn Statement and is expected to save the government just over £4 billion a year by 2020/21.

Local housing allowance for private tenants

Changes to local housing allowance (LHA) for private tenants led the way in the welfare reform agenda, and 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 30th percentile market levels, rather than market medians, and to set maximum caps that further reduced LHA rates in inner London. While in 2013/14 those LHA rates were uprated by the lower of either inflation (CPI) or changes in market rents, subsequently in 2014/15 and 2015/16 they were uprated by just one per cent. Going forward, following a decision in the Summer Budget 2015, LHA rates are now being frozen for four years from 2016/17.

Administrative data on LHA claims is now available for the period to August 2016. Nationally, these 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 LHA reforms. However, more recently, numbers have begun to fall. In Great Britain as a whole the numbers of private tenants in receipt of housing benefit rose from 1,545,860 in March 2011 to 1,680,308 in May 2013, before falling back to 1,613,520 by August 2014, 1,526,914 by August 2015 and 1,434,250 by August 2016. As a consequence the numbers of HB claimants in the private rented sector are now lower than when the LHA reforms were introduced in 2011.

While the working through of the lower LHA rates, and the further downward drift of LHA rates through CPI uprating, will each have contributed to the decline in LHA claimant numbers between May 2013 and August 2016, other factors are also involved. Of particular note is the gradual rolling out of the universal credit (UC) regime. While in August 2014 there were only just over 10,000 people in receipt of UC, by August 2015 numbers had risen to just over 100,000 and by August 2016 to 350,000. Unfortunately very little detail is available about the characteristics of those claiming UC, although it is known that to date they are predominantly single people. There are, however, no data on the tenure of UC claimants, and, unless remedied, this failure will be an increasing restriction on the ability to review the impact of LHA rates in the years ahead.

Bearing in mind that limitation, the data still clearly show that the policy has, as intended, limited the ability of households to access the PRS in inner London, where the LHA rates for many areas have been restricted by the maximum national caps. The decline has been sharpest in those areas of central London affected by the caps on maximum LHA rates, with declines of some 35-40 per cent in Kensington and Chelsea and in Westminster between March 2011 and August 2015.[7] A further factor is that, since 2013, the wider benefit cap has limited the capacity of out-of-work households to obtain or sustain a tenancy in the PRS in high value areas (see below).

There has also been a substantial decline in the numbers of younger, single households in receipt of HB, following the extension of the shared accommodation rate (SAR) to single people aged 25-34. Between December 2011 and August 2014, numbers of single people under 35 in receipt of HB in the PRS in Great Britain fell by some 55,000 (27 per cent). Again the roll-out of UC, and the lack of available data on UC claimants, make it impossible to use the administrative data to judge how far the subsequent falls in the numbers of young single HB recipients in the PRS are a consequence of the low SAR levels or of the roll-out of UC. However the data do clearly show the marked impact of the SAR policy in the period before August 2014, and this is supported by research by Crisis.[8]

Local housing allowance for social tenants

Following the 2016 Autumn Statement, plans to introduce LHA caps on housing benefit levels in the social rented sector have changed. They will not now be introduced until April 2019. There are very considerable concerns about these proposals, however, particularly in respect of supported housing schemes. They will also have a wider impact in those parts of the country where there is no great difference between levels of social and private sector rents. And because the LHA rates are based on the number of bedrooms a household is deemed to require, rather than the size of the dwelling, there is also a potential impact on 'under-occupying' retired households that are not currently covered by the bedroom tax.

For supported housing schemes it is now proposed that while the LHA caps will apply, some additional funding will be devolved to local authorities so that they can make decisions about how to assist vulnerable people who need support. Detailed arrangements are now subject to consultation.[9] There are considerable concerns about how the changes might affect existing schemes as well as deterring the development of new ones.

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 the households are deemed to require. These were based on size criteria essentially derived from the social survey 'bedroom standard' measure established in the 1960s. Officially these have been designated as the 'spare room subsidy' limits, but they are now generally known as the 'bedroom tax', the terminology used here. A discussion of the context in which the bedroom tax was introduced can be found in earlier editions of the *Review*.[10]

The May 2013 figures showed initially just under 560,000 households subject to the size criteria limits across Great Britain (adjusting for initial under-reporting). By August 2014 the numbers of tenants subject to the reductions had fallen by 16 per cent to some 472,000. In the two years to August 2016 they fell by a further 11 per cent to some 422,500. This is a net reduction in the numbers affected, with changes in household circumstances leading to some tenants becoming newly subject to the tax each month (e.g. when a child ceases to be a dependent), at the same time as other households cease to be subject to it (e.g. for age reasons).

Early analyses of the impact of the scheme found that of the households ceasing to be subject to the tax only a very small proportion moved into smaller accommodation, predominantly in the social rented sector. They confirmed that the majority of those affected did not consider themselves to be 'over-accommodated,'[11] which is not surprising given that the 'bedroom standard' on which the bedroom tax is based is out of touch with contemporary social values and practice.

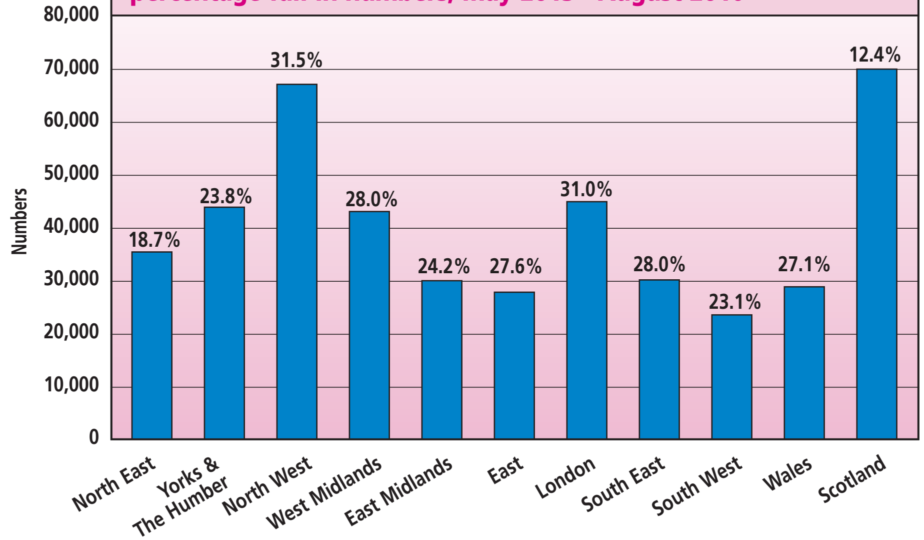
The tightness of the size criteria inevitably resulted in a host of concerns about the circumstances in which additional bedrooms were needed, whether for disability or other medical reasons, or for carers of children of separated or divorced parents in circumstances wider than those recognised by the criteria. Despite two recent Supreme Court judgements which made clear that in some circumstances disabled households do require an additional room, and that this cannot be left to be dealt with by discretionary housing payments, the criteria are still very narrow.[12] This is aggravated by the assumption that any bedroom can be shared by two children, regardless of its size or the age of the children.

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 some 20,000 social sector tenants transferred in 2013/14 either in response to the benefit cap or the bedroom tax – just four per cent of those impacted by the two measures. In 2014/15 transfers fell to some 12,000 and in 2015/16 numbers dropped again to a little below 8,000.[13]

Under-supply of smaller dwellings is more frequently found in parts of northern England, where there is a structural mismatch between the size of social sector dwellings and what households are deemed to require under the bedroom tax size criteria. In those areas, 'under-occupation' as defined by the size criteria has been supported by social landlords as a means of balancing the supply and demand for their larger dwellings.

The regional dimension of the impacts of the policy is reflected in the distribution of the affected households across Great Britain, with particularly high numbers in the North West of England, as shown in Figure 1.3.2. The figure also shows the extent to which numbers have fallen over the period from May 2013 to August 2016, with above average rates of reduction in London and the South East where there are more opportunities for landlords to make 'downsizing' transfers and greater labour-market opportunities for tenants. The lowest rate of reduction in England has been in the North East, which of all the English regions has the lowest proportion of one-bedroom dwellings in its social rented stock.[14]

Figure 1.3.2 **Claimants impacted by the bedroom tax and percentage fall in numbers, May 2013 - August 2016**



Source: DWP Housing Benefit Statistics, November 2016.

However by far the lowest rate of reduction has been in Scotland, which also has low proportions of one-bedroom dwellings, but where the more significant factor is the substantial funding provided by the Scottish Government to supplement the provision of discretionary housing payments (DHPs – see further below).

A landlord survey undertaken for DWP found that after a year, half of the affected tenants were making rent payments in full, two-fifths were making good some part of the shortfall, while just one in ten were not making any payments to cover the shortfall.[15] It also found that three-fifths were reducing spending on household essentials, while one in four had borrowed money, mainly from family or friends, to help manage the shortfall and nearly three in ten had made claims for DHPs (see below).

While these early 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, while other factors (and other welfare reforms) are involved, there was a clear and marked increase in the numbers of social landlord possession actions from the third quarter of 2013 onwards. Total social landlord possession orders in England were 17 per cent higher in the twelve months following the introduction of the bedroom tax, compared to the year before, although they did then fall back again in 2014/15 and 2015/16.[16]

Discretionary housing payments

Limited budgets for discretionary housing payments (DHPs) have been made available to LAs to assist households affected by welfare reform, but as is inevitably the case with such discretionary provisions, they are difficult to administer, their application is patchy, and in the past budgets have often been underspent.[17]

However, while data for 2013/14 showed that overall DHP budgets in the year were still being 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 those in Wales spent 106 per cent and in Scotland 176 per cent of their allocations.[18] Welsh and – to a much greater extent – Scottish councils were supported in this by additional funding provided by their respective governments.

By 2014/15 English authorities were spending 99.5 per cent of their DHP allocations, while in Wales the equivalent was 104 per cent. Following a substantial further increase in funding from the Scottish Government, councils there spent more than three times their DHP allocations in that year – just over £50 million against allocations of just over £15 million.[19]

In 2015/16 English authorities again increased their proportionate spend, to 102 per cent, including additional self-funded amounts by some authorities. Meanwhile, spending by Welsh councils eased back to 99 per cent of allocations; but once again Scottish councils with their government's support continued to spend more than three times their allocation from the DWP – just over £49 million against an allocation of £13.3 million. Nonetheless within that overall picture, while 121 English and Welsh councils spent beyond their DHP allocation, more did not make full use of it. Indeed 83 councils spent less than ninety per cent, including 30 that spent less than three-fifths of their allocation.[20]

In England and Wales 44 per cent of total DHP spend in 2013/14 was committed to bedroom tax cases, including households with disabled people living in specifically adapted accommodation. This is far more than the specific finance provided by DWP, and clearly many councils use their discretion to apply more funds to such cases and as a result have less for other ones, such as LHA and benefit-cap related cases, a pattern repeated in subsequent years.

While in 2015/16 the spend on bedroom tax cases in England and Wales was still 46 per cent of total DHP spend, actual spending reflected the cut in the overall DHP allocation from £165 million in 2014/15 to just £125 million in 2015/16. With the very substantial support provided by the Scottish Government, explicitly intended to mitigate the bedroom tax in full, this measure accounted for almost 90 per cent of the total DHP spend by Scottish councils.

Within this broader picture there are continuing concerns about a minority of councils failing to make (more or less) full use of their allocations, and about some councils taking disability living allowance awards into account when making the income assessments for DHP eligibility. As a result they are denying DHPs to some disabled households living in specifically adapted accommodation.[21]

The overall DWP budget for DHPs in 2016/17 has been increased to £150 million, but this is in the context of the further cuts to welfare benefits announced in the 2015 Summer Budget and Autumn Statement, and in particular the freezing of LHA rates and the lowering of the maximum benefit cap.

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 operates across the whole of Great Britain. The cap – set at

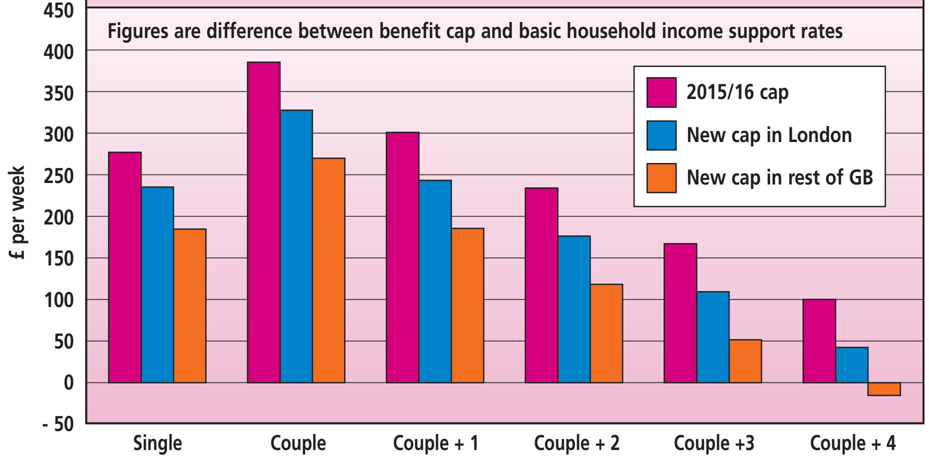
£350 per week for single people and £500 for all other households – applies to out-of-work households below pensionable age, with a number of exemptions for households with disabled people.

Numbers impacted fluctuate slightly from month to month, but peaked at 28,434 in December 2013; by August 2016 the numbers had eased down to 20,041.[22] Changes of circumstances have seen continuous monthly flows of households into and out of the benefit cap. In total, some 59,400 households had been subject to the cap at some point, but were no longer capped in August 2016. Of those some 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 into work of households affected by it, 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.[23]

As anticipated, the effect of the benefit cap so far has been greatest in London, due to its higher level of housing costs, and for larger families. Of all the households impacted at some time up to August 2016 close to half were in London (44 per cent); over a half had four or more children (55 per cent) and over a fifth (22 per cent) had three children. Total spend on DHPs related to the benefit cap in 2015/16 was £14 million – well below the £25 million nominally allocated to mitigate this measure by DWP (see above).

However since November 2016 the new government has reduced the benefit cap to £23,000 in London, and £20,000 throughout the rest of Great Britain (and £15,410 and £13,400 respectively for single people). These lower caps mean that couples with three children, as well as those with four or more children, will not be able to obtain housing benefit even for an average social sector rent, whether in London or elsewhere (see Figure 1.3.3). The DWP impact assessment suggests that for Great Britain as a whole the numbers affected by the cap will increase fivefold to some 115,000, and that three-quarters of those newly affected will be outside London.[24]

Figure 1.3.3 **Tightening of the maximum benefit cap (maximum benefit available to meet housing costs)**



Source: Author calculation.

Recent analysis by CIH of the effects of the benefit cap concludes that:[25]

- 116,000 families with between 1-4 children are affected
- of those, nearly 60 per cent are in the social sector
- in London the cap even affects 6,000 one-child households
- even in the cheapest parts of the country, the North East and Wales, over 12,000 1-4 child families are affected.

Universal credit

The universal credit (UC) regime combines several existing benefits, including housing benefit, and aims to radically simplify the structure of welfare benefits in the UK. A full account of the structural reforms is found in earlier editions of the *Review*.

The new regime is now operational nationally for single-person claimants, but is only starting to be rolled out in a small number of areas for couples and families. The overall timetable for rolling out the new regime was substantially – and repeatedly – deferred from the original plans, not least due to difficulties in developing the IT system for a still complex scheme, where the detailed regulations and operational requirements were not finalised until quite recently. Poor management and lack of cost controls have been criticised in reports from the National Audit Office.[26]

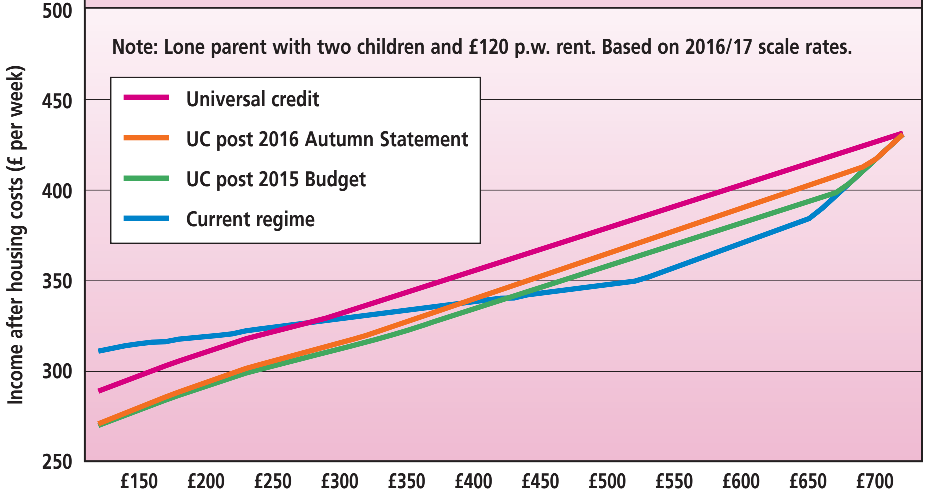
It is still the case that the great majority of current UC claimants are single people. Even now UC is only available for new claims by couples and families with children in just over 125 Jobcentre areas.[27] In theory the roll-out for all new claimants is due to be completed by September 2018, with existing claimants being switched over to UC between 2019 and 2022.

Concerns about the impact of UC on rent arrears have been reinforced by the experiences of the social landlords involved in the DWP direct payment demonstration projects. Over the eighteen months of the programme, average rent payment rates across the projects were estimated to be 5.5 per cent lower than would have been the case without direct payments.[28] While rates of underpayment declined over the course of the projects, under-payments were also erratic and difficult to predict (and therefore manage), reflecting the complexities and challenges of unforeseen circumstances on low-income households' budgets.

While the original UC regime would not in itself have involved any further reduction in benefit levels, it would have still involved gainers and losers relative to the current regimes, albeit that existing claimants would be provided with transitional protection.[29] However the potential work-incentive credentials of UC have been undermined by the reforms announced in the Summer 2015 Budget. These involved, alongside other changes, a reduction in the permitted earnings levels before working claimants begin to be subject to a 'tapered' reduction in their entitlement.

While the pre-Brexit Conservative government backtracked on its proposals for tax credit cuts in the 2015 Autumn Statement, it confirmed that the cuts to UC allowances would go ahead. The lower UC 'work allowances' came into effect in April 2016. The higher child allowance for a first child within UC will be removed

Figure 1.3.4 **Impact of universal credit reforms on total net income after housing costs**



Source: Author calculation.

from April 2017. The 2016 Autumn Statement partly offset those cuts by reducing the UC taper rate from 65 per cent to 63 per cent (also from April 2017), but this will only have a marginal impact for households in lower-paid employment, as illustrated in Figure 1.3.4 which shows the case of a lone parent with two children.

As can be seen, for those earning less than £260 a week even the initial UC scheme would have left them worse off when compared to the existing tax credit and housing benefit system. But with the cuts to UC they would have been left worse off unless they earned more than £400 per week. With the lower taper rate announced in the 2016 Autumn Statement this is now the case unless they earn more than £370 per week.

The disadvantages are much less pronounced for couples with children but it is also the case that the lower taper rate does little to offset the impact of the cuts to the UC allowances that will remain in place. A couple with two children would have been better off under the original UC regime (compared to housing benefit), provided that they earned over £150 per week – but with the lower work allowances partly offset by the lower taper rate they will need to earn over £210 per week to be better off under the revised plans for UC.

The failure to include council tax benefit within universal credit, and the difficulties and complexities of the various replacement schemes in England, also detract from the simplification and incentive objectives of the scheme.

Scotland, Wales and Northern Ireland

Welfare reforms have, in varying degrees, operated rather differently in Scotland, Wales and Northern Ireland. The differences in Wales have been rather modest. Effectively it has retained the old council tax benefit scheme, and thus avoided the complications with the variety of cut down 'council support schemes' now operating in England. In its first year the Welsh Government also provided an additional £1 million for DHP expenditure by councils in mitigation of the bedroom tax.[30]

The differences in Scotland have been rather greater. It has followed through from the substantial sums it provided for DHPs to mitigate the bedroom tax (see above), and has now been granted limited additional devolved powers over welfare policy which it is committed to using to effectively nullify the bedroom tax. As in Wales, it has also continued with its existing council tax benefit scheme. It also plans to make universal credit payments available twice monthly (rather than monthly) and to make direct payments of the housing element within UC to social and private landlords.[31] However, looking ahead, the Scottish Government is seeking wider powers over welfare policy, going beyond the limited powers that were granted following the close call in the Scottish independence referendum.

By far the greatest differences, however, have been in Northern Ireland, which has long had fully devolved powers over welfare policy, albeit in a context where they are tied to a concordat with the UK government that required them to self-finance any policy variations. In practice, at least until recently, the Northern Ireland Executive did more or less automatically follow the Great Britain policy lead, although it has continued to make direct payments of housing benefit to private landlords.

However, Northern Ireland's government was unable for some time to reach agreement either on implementing many of the Whitehall welfare reforms or on how to fund any differences. After prolonged negotiations a deal was struck under which the benefit cap, the bedroom tax and other welfare reforms will be introduced in Northern Ireland, but with HM Treasury providing a substantial additional budget to enable Northern Ireland to fully mitigate the bedroom tax, and to substantially mitigate or modify at least some of the other reforms.[32]

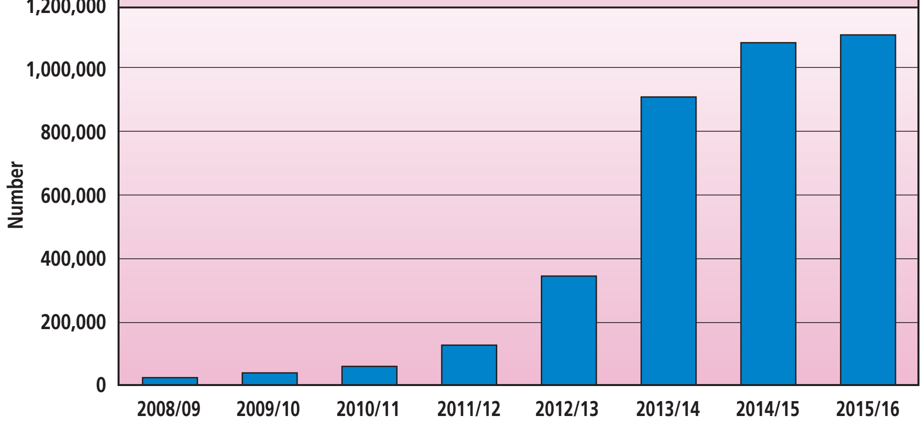
The mitigation budget was set at £135 million in 2016/17, and at £150 million a year for the following three years. Following that deal the NI Executive set up a working group under the leadership of Professor Eileen Evason to bring forward welfare mitigation proposals within that budget limit. The working group reported early in 2016 and recommended that, in addition to the full mitigation of the bedroom tax, there should also be full mitigation of the benefit cap over the four years of the deal. It also made a number of other recommendations relating to universal credit, personal independence payments, benefits sanctions and other areas.[33] In the main these recommendations have been agreed although some are still under consideration.

The extent of the devolved governments' differences in welfare policy, and the Scottish desire for further devolution, are an indication of the way in which UK welfare policy has moved away from consensus.

Conclusion

This chapter does not attempt, in the space available, to cover every element of the government welfare reform agenda. For a discussion of the council support schemes in England, and the impact of benefit sanctions, see the 2016 edition of the *Review* (and the forthcoming 2017 *Homelessness Monitor* for England). Both these schemes add further to the pressures on the budgets of lower-income households. One indication of the financial pressures is the sharp rise in the use of the emergency foodbanks operated by the Trussel Trust, as shown in Figure 1.3.5.

Figure 1.3.5 **Three-day emergency food supplies provided in each year**



Source : The Trussel Trust.

The vulnerability of low-income working-age households, that are the focus for the various welfare reforms, is further underlined by their low levels of savings, and proportionately high levels of arrears in one or more bills. In 2014/15 over five million working-age adults in the lowest-income quintile (the lowest fifth) had no savings. Moreover 1.5 million were in arrears on one of more of their bills – comprising just over half of all working-age adults with arrears.[34]

If the various welfare reforms all press down on the incomes available to households in and out of low-paid work, in some cases they also have a direct negative impact on their capacity to secure or keep a home. It is clearly important to keep these impacts under review – and in that context the failure to provide information on the housing and other characteristics of universal credit claimants is a major shortcoming. It detracts from the otherwise relatively good record of DWP in providing data on claimants' circumstances.

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