

Section 1 Contemporary issues

Chapter 4

Housing benefits, housing policy and social security – the long view

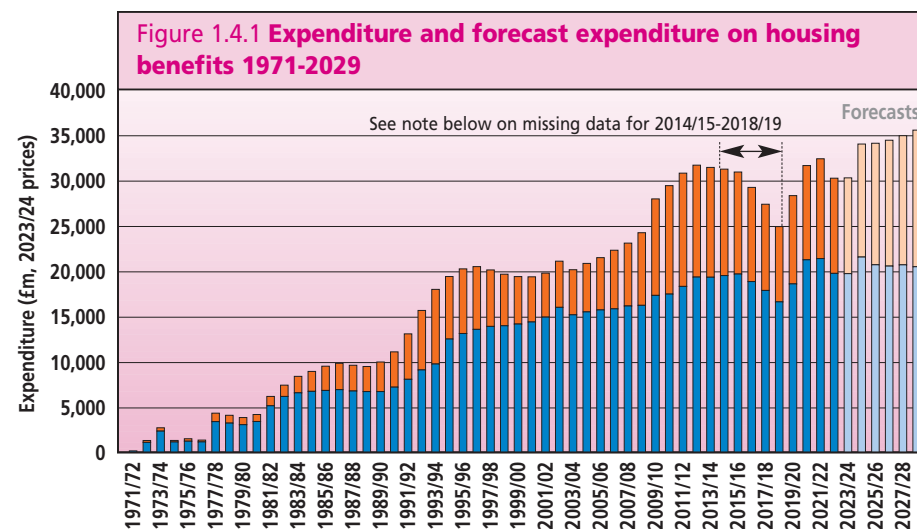
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Together housing benefit and the housing cost element of universal credit represent the largest government subsidy to housing. Since the late 1970s, their annual cost has grown from under £5 billion to more than £31 billion (see Figure 1.4.1 – both figures in 2023/24 prices). This represents around one-tenth of the entire social security budget, and dwarfs the total expenditure of departments, including the Home Office, Justice, Environment, and Business & Trade (see Compendium Table 16). It greatly exceeds the DLUHC budget for housing and communities. The numbers of claimants receiving housing benefits rose from 3.4 million in the late 1970s to 4.4 million in 1992/93 and 5.3 million in 2022/23 (Compendium Tables 110 and 111). The share of private tenants rose from around one-fifth in the 1970s, continuing until the early 1990s, but has since risen to more than one-third.

Since the formation of the Coalition government in 2010, and its adoption of the economic strategy of austerity, a series of changes to housing allowances sought to contain expenditure, within the wider context of ‘welfare reform’ the centrepiece of which was the phased introduction of universal credit, which merged six working-age benefits, including HB, into a single payment.

These changes to housing allowances attracted much attention in the run-up to their implementation, and aspects of them – notably the tightening of limits on eligible rents applied to the local housing allowance – continue to be controversial. They are monitored annually in Commentary Chapter 6 of the *Review*. However, these detailed analyses deal with the current situation and, by focusing on the immediate monetary effects on households, can neglect their wider and longer-term impacts.

This chapter examines the evolution of the UK’s system of housing allowances, identifying key milestones in their development whilst identifying the underlying objectives and guiding principles that underpinned these changes. This analysis involves placing housing benefits within the context of the wider social security system and their relationship with housing policy. In doing so, the chapter does not seek to explore every aspect of housing benefits. Rather, the purpose is to take stock of the role that housing benefits now play in the housing system and begin a discussion and debate about their future. After all, £30 billion is a lot of money.



Source: DWP (2023) Benefit expenditure and caseload tables 2023 – Outturn and forecast tables – Autumn Statement 2023.

Note: UC housing allowance not reported prior to 2019/20. This affects data over the period 2014/15-2018/19. Prior to 1987/88, rental support delivered through supplementary benefit is also excluded.

The origins of housing allowances

Housing allowances emerged in two forms in the inter-war period, highlighting from the onset two conceptually distinct, but in practice overlapping, functions: an *affordability function*, whereby the allowance improved the affordability of rent, and a *residual-income function*, whereby the allowance prevented post-rent income falling beneath a threshold.

As housing policy shifted in favour of slum clearance from 1930, local authorities were permitted to operate rent rebate schemes, so that rehoused households could afford rents on their new council homes. Unfunded by central government, these schemes sometimes took the form of differential rents, with better-off tenants charged more to cross-subsidise poorer counterparts; other local authorities used revenue from rates to reduce this trade-off. By 1939, almost 200 local authorities in Great Britain operated their own rent rebate schemes, with a variety of designs.¹ Whilst these represented a small proportion of authorities at that time (seven per cent), most large housing authorities operated a rebate scheme. Very rarely did rent

rebate cover all of a tenant's rent (Leeds being the outstanding exception), and after 1938, when central government began to regulate these schemes, a maximum rebate of 50 per cent of rent was introduced (along with an income limit). Consequently, local authority schemes were more closely aligned with an *affordability* function.

Meanwhile, recipients of means-tested unemployment assistance, who were normally excluded from local authority schemes, received more assistance: one-quarter of the 'dole' was assumed to be allocated to rent, and any rental payment above this and a fixed threshold was met in full. If the rent were lower than the threshold, the system clawed back the difference. A similar arrangement appears to have applied to public assistance. This design had the effect of protecting a household's post-rent income from being taken below a certain level – the *residual-income* (or safety-net) function.

Curiously, the Beveridge Report, which agonised over what he called the 'problem of rent'² and the subsequent establishment of the post-war social security system failed to overturn inter-war arrangements. This meant that at best a token sum for rent was included in contributions-based unemployment benefit:³

'... the Labour government's answer to 'the problem of rent' was to pay it in the safety net [means-tested National Assistance] but not for those on contributions-based benefits.'

Indeed, when the post-war Labour government implemented Beveridge's national insurance scheme, the rates of benefit were set around one-third lower than Beveridge had recommended. Moreover, since under the haphazard system of benefits uprating, national assistance benefit rates were sometimes higher than those for unemployment benefit, we can impute that there was effectively no allowance for housing costs in any of the core social security benefit rates. Rental support through social assistance schemes such as national assistance (later supplementary benefit) therefore played a vital income-maintenance function of ensuring that those in social assistance did not have their income taken below core benefit rates by their housing costs.

Many local authorities abandoned their rent rebate schemes in the 1940s and 1950s, in part reflecting the spirit of 'universalism' that saw council housing being promoted as a tenure for all classes.⁴ Meanwhile, forms of rent control were maintained in the private rented sectors. However, council rent rebate schemes became much more widely adopted after 1956 when rate contributions to Housing Revenue Accounts became discretionary, the then housing minister insisting that:⁵

'... housing is no longer synonymous with financial need. There is no doubt that the rents of a large number of council tenants are at present being subsidised to a larger extent than the individual tenant requires.'

This enabled local authorities to shift towards targeting housing subsidies to tenants in greatest need through rent rebates and, by the early 1960s, almost 40 per cent of English and Welsh authorities operated such schemes.⁶ Nonetheless, government guidance maintained that rent rebate schemes should *not* 'seek to remedy income deficiencies.' Rather, 'Their responsibility is the more limited, but very important one, of ensuring that rents charged are well related to the varying incomes and family responsibilities of tenants.'⁷

Therefore, the 'affordability' function of rent rebates was still emphasised, whilst income maintenance was the function of social assistance. Both national assistance and supplementary benefit, which replaced it in 1966, could pay the whole of a claimant's rent. Tensions existed between local rebate schemes and the national social assistance scheme, with negotiations between national social security agencies and local authorities intended to discourage local authorities from discriminating against tenants who, in the absence of local authority support, would be protected by the national scheme.⁸

The introduction and evolution of the national housing benefit system

What is formally called 'housing benefit' – a national scheme – was introduced in 1972 (for council tenants) and 1973 (for private tenants) by the Department of the Environment, in order to support a planned 'radical change in housing policy'.⁹ The department's white paper, *A Fair Deal for Housing*, envisaged moving towards a common method of rent setting between local authority and privately rented

housing, controversially seeking to remove the multiple anomalies between local authority rent structures. Observing that acute housing shortages had largely been removed, the white paper asserted that the government's 'central policy of subsidising people, not bricks and mortar will be carried out through the national rent rebate scheme'.¹⁰ Themes of fairness and choice were therefore associated with these reforms.

In the event, housing benefit was introduced as a national scheme (administered by local authorities), replacing the local authority rebate schemes, and extending assistance to private tenants. However, the integration of common rent setting in the local authority and privately rented sectors was controversial and subsequently abandoned by the incoming Labour government (1974-79) for which containing rents became an important component of its attempts to contain inflation.

The distinction was maintained between housing benefit (HB) broadly performing an affordability function (normally, maximum support was limited to 60 per cent of the rent¹¹) and rental support delivered through social security (supplementary benefit) performing an income-maintenance or safety-net function (hence all the rent could be met by benefit).¹²

Subsequently, the Conservative government elected in 1979 revived the policy of preferring means-tested personal support over general 'bricks and mortar' subsidies, by withdrawing recurrent subsidies from local authorities and so forcing rent increases and increased dependence on HB among council tenants. This reflected a shift from the priority attached to controlling prices directly in the 1970s to controlling public expenditure, which entailed withdrawing housing subsidies from local authorities and forcing rents to rise, with the consequence that HB entitlement rose too, producing a net saving (at least until the 1990s).

However, although administration of support provided by the DHSS was shifted to local authorities, the two separate schemes continued to operate – one reflecting the residual-income/ safety-net function, the other an affordability objective.

The key reform of housing benefit implemented in 1988 was part of a suite of policies that underpinned the transformation of the housing system under the 1970-97 Conservative governments.

A review of the social security system led to an alignment of three means-tested benefits that had grown up since the 1960s. Supplementary benefit, the baseline social assistance benefit since 1966, became income support, and family credit provided support for low-earning families with children. Housing benefit was reorganised into a single 'unified' scheme so becoming the sole source of rental support. Personal allowance rates were aligned with income support, so that a tenant with an income no higher than the baseline social assistance rate was entitled to have all of their (eligible) rent met by HB. This design represented an unambiguous reflection of a residual-income/ safety-net objective: rent should not take incomes below social assistance levels. The formula also implied that increases in rent would be fully compensated, giving rise to fears that it would support 'upmarketing' and remove any 'shopping incentive' for tenants to seek cheaper rents.

As income rose above personal allowances, HB was withdrawn at a rate of 65 pence in the pound – a 'single taper' having been supported by housing pressure groups. This reflected a greater targeting of the benefit on lower-income households, and a narrowing of the affordability objective, which is indicated by the drop off in recipients immediately after 1988.

The narrowing of housing benefit's purpose towards primarily serving a residual-income/ safety-net objective was important in its own right, but a key feature of the new system's design whereby rent increases were met pound-for-pound facilitated the transformation of the housing system after 1988.

The reformed housing benefit system coincided with the 1988 Housing Act, which heralded an ambition to transform the housing system.

This Act marked the formal switch from local authorities to housing associations as the government's preferred providers of new social rented housing. To support

this switch, a new financial regime was introduced, ending 100 per cent capital grants to support housing association development and replacing these with smaller grants (which diminishing over time), with the balance made up by borrowing from banks or building societies (or issuing bonds). The greater cost of development for the housing associations had to be met through higher rents, which were permitted by replacing secure tenancies that required regulated fair rents to be charged, with assured tenancies on new lettings. Assured tenancies, whilst open-ended, were not subject to Rent Officer determinations of fair rents. Support from HB was important not only for limiting tenant hardship, but also for providing comfort to lenders who saw it as akin to a government guarantee.

The Act also liberalised new private sector tenancies, as with the housing associations, ending fair rents, but without supply-side subsidies, resulting in rents set by the market. The Act provided for both secure (assured) and fixed-term (assured shorthold) tenancies.

Both these changes implied a growth in the numbers of tenants paying higher rents. The change would be gradual, as existing tenants were protected by the legacy arrangements. When opposition parties questioned the move towards higher rents, the government referred to the housing benefit system as the guarantor of affordability. In an exchange in the House of Commons in 1991, the housing minister, George Young, stated:¹³

*'Housing benefit will underpin market rents – we have made that absolutely clear. If people cannot afford to pay that market rent, **housing benefit will take the strain** [emphasis added] ...I repeat that the housing benefit system exists to enable people to pay their rent. There can be no question of people losing their homes because they cannot afford to pay reasonable rents.'*

Ministers may have quickly regretted this commitment, as they soon sought to contain HB costs by restricting (without much success) reimbursement to local authorities to what was judged to be a reasonable market rent. In 1996 eligible private rents were limited to the local reference [i.e. median] rent (see below).¹⁴

Nonetheless, HB underpinned the growth in private renting and the proportion of households living in the private rented sector doubled to 20 per cent, and those housed by housing associations tripled to nine per cent by 2015 (see Compendium Table 17b). Whilst HB was by no means the only driver of these changes (most private tenants did not receive HB, and the growth of housing associations was driven by stock transfers as well as new build), HB was a powerful facilitator of the transformation of the housing system in a remarkably short period of time.

New Labour and the experiment in 'shopping incentives'

The Labour's governments of 1997-2010 largely accepted the legacy of the Conservatives' housing policies. They left the private rented sector lightly regulated and insecure for most tenants, and continuing to favour housing associations over local authorities as housing providers. Indeed, they accelerated the shift from councils to housing associations by encouraging stock transfers on a much greater scale than the Conservatives had, as part of an attempt to bring investment into social housing to raise it to the newly devised Decent Homes Standard.

Nor did these governments seek to shift housing benefit back towards playing more of an affordability function.

Labour's key innovation was to rebrand housing benefit in the private rented sector as a local housing allowance (LHA). The LHA emerged from a wide-ranging green paper which asserted that:¹⁵

'Housing benefit takes away responsibility from claimants. Housing benefit gives tenants little interest in the rent – provided it does not exceed local limits it can be reimbursed in full, often directly to the landlord. This means that some tenants are not even aware of how much rent is being paid.' (p.105)

The paper went on to discuss several ways in which housing benefit could be reformed to provide tenants with greater responsibility for their housing and to provide them with greater choice. It suggested that reform of HB in the social rented sector was also desirable but would need to wait until rent restructuring

had been completed for tenants to exercise informed choices. Although rent restructuring was implemented, HB reform did not take place in the manner that the green paper implied.

The LHA, introduced nationally in April 2008 following several pilots, replaced the system of limiting eligible private sector rents to the local average (local reference rent) with one whereby rents above this level would continue to be met by the tenant, but where the actual rent was below the LHA, the tenant would keep the balance of up to £15 per week. A difference between the schemes was that, under LHA, a tenant (or landlord) could look up the maximum rent in that area. The intention of this reform 'was to give claimants an incentive to shop around when looking for accommodation and thereby to become more active consumers in the rental housing market.'¹⁶

The LHA was based on a misnomer that tenants receiving HB had very much scope (spare cash) to exercise 'shopping' decisions. Whilst a tenant might economise on accommodation to gain an additional £15 per week, choosing to occupy more expensive accommodation above the LHA limit would often take their income below basic social assistance levels.

The LHA in this form did not survive long, with the intention to scrap the £15 shopping incentive to contain the growing costs of HB being first announced whilst Labour was still in government, in its 2009 Budget, although it was not withdrawn until April 2011. The longer-term impacts of this form of LHA would therefore never be revealed, but during its short lifetime some local authorities and housing charities reported that the publication of LHA rates led to many landlords raising rents to the LHA level:¹⁷

'... this means that landlords of poor quality properties are charging more than they would get on the open market. There is no real competition in the HB market as all landlords know what the local authority will pay.'

It was also claimed by Crisis that since the median rent was recalculated each month, the tendency of rents to rise to the LHA rate created an upward spiral.¹⁸

This anecdotal evidence to an extent contrasts with the evaluation of the LHA pilots which identified 'only a modest degree of rental convergence towards LHA levels' albeit over a rather short (two-year) period.¹⁹ However, the experiment in 'shopping incentives' misleadingly reinforced the precedent set by the local reference rent that it is reasonable for tenants to meet some housing costs out of their baseline social assistance incomes.

Undermining the safety net

The design of the reformed housing benefit system introduced in 1988 indicated that its function was to prevent post-rent incomes being taken below a minimum set by social assistance rates. Local authorities, which administered HB, were permitted to limit payments where they considered rents to be unreasonably high or accommodation was underoccupied, and from 1990 central government subsidy could be restricted in these circumstances.²⁰ However, these measures were clearly intended to prevent abuse and were intended to be used exceptionally, and in any case the local authority could subsidise any shortfall itself. As noted above, the first real attempt at limiting eligible rent came with the introduction of the local reference rent, which limited it to the median, in 1996.²¹

From 2011, the Coalition government's austerity policy signalled cuts to benefits, including LHA. Consequently, the safety net function of LHA has effectively been abandoned. The LHA rate was reduced from the median to the 30th percentile of rents in broad rental market areas in 2011 (when national caps were also imposed). From 2013 it was uprated by the Consumer Price Index (CPI) on an annual (as opposed to monthly) basis, so ending a relationship between the benefit and actual rents. Ministers indicated that this uprating policy brought LHA in line with other benefits, although other benefits are not intended to cover housing costs which is reflected in their exclusion from CPI; there is little logic in uprating a benefit intended to help with housing costs by an index that expressly excludes them!

Apart from some areas of very high rent increases which attracted targeted affordability funding,²² the LHA was increased by a maximum of one per cent in 2014 and 2015, before being frozen (along with other working-age benefits) for four years from 2016. During the Covid-19 pandemic, it was restored to the 30th

percentile of rents, but again frozen in April 2021, before being restored to the 30th percentile in 2024 (but on the premise that it will not be updated the following year).

The effect of reducing the LHA rate from the median to 30th percentile of rents narrowed the range of accommodation that a claimant could occupy without further reducing their post-rent income, possibly taking it below the basic personal allowances within social assistance benefits. Whenever uprating policy allowed the rate to fall below the 30th percentile the issue became more acute, depending on the levels of rent inflation. Consequently, the gap between the average rent and the 30th percentile rent rose from £3 per week in 2013/14 to £17.20 in 2019/20. It was removed when it was restored to the 30th percentile in 2020/21, but had risen to £14.30 by 2023/24.²³ If, as seems probable, this pattern is repeated, a tenant choosing a property when the 30th percentile is being used for benefit purposes can anticipate that a gap will emerge over time. Recent research by the Urban Big Data Centre suggests that the twin effect of restricting access to social rented housing so shifting many low-income households into the private rented sector, and then limiting eligibility, has contributed to the shift of lower-income populations out of central city areas, so contributing to the ‘suburbanisation of poverty’.²⁴

Extending the squeeze to the social sector: the ‘bedroom tax’

The post-2010 austerity policy led to attempts to contain housing allowance costs being extended to the social rented sector.

The government proposed in 2015 to extend LHA limits to the social rented sector, but this was abandoned. Certainly, this would have sat uneasily beside the parallel budgetary squeeze on affordable housing capital expenditure which centred on the shift towards higher Affordable Rents in the English social sector, in an effort to make a (much diminished) capital subsidy stretch further.

Rather, the government sought to contain housing allowance expenditure by making deductions from working-age tenants’ rents where they were judged to be underoccupying their property from April 2013.²⁵ The government had anticipated

that almost one-third of working-age social tenants in receipt of housing allowances would be affected. Part of the government’s argument in favour of what it calls the ‘removal of the spare room subsidy’ (more commonly known as the ‘bedroom tax’) was that underoccupation in the social sector was unfair on more suitably sized households on the waiting list.

However, for the policy to save money, it required tenants not to downsize. An evaluation suggested that around 17 per cent of households affected by the bedroom tax in 2013 were no longer affected the following year, most commonly because they had found work, increased their earnings, a friend or relative had moved in, or children had reached an age where they were no longer expected to share a room with a sibling of the same sex.²⁶ Opportunities to downsize were limited within the social sector,²⁷ and very few affected households moved into private rented accommodation, whilst many of those affected reported cutting back on essentials including energy and food, as well as travel and leisure. Although rent arrears rates were very high (55 per cent) among those affected, many of these households had been in arrears before the policy was implemented, and there was no discernible increase in evictions. So the main effect of the policy seems to have been to reduce affected tenant incomes, taking the post-rent incomes of those with previously full entitlement below social assistance levels.

The backdoor squeeze through the benefits cap and two-child limit

Meanwhile, government identified further ways to reduce housing allowance expenditure indirectly. The principal mechanism has been the benefits cap, which applies a limit to the overall amount of benefit income that a non-working working age household can receive. The benefits cap was fully rolled out in September 2013, and was lowered in November 2016, and uprated by inflation in April 2023 (but with the expectation that it will remain at this level for some years, the legal requirement being for a review every five years). Outside London it is currently £22,020 for couples and lone parents and £14,753 for singles. Higher rates of £25,323 and £16,967 apply in London. When it was introduced, ‘excess’ benefits were clawed back by reducing HB entitlement. Since universal credit (UC) – which incorporates the housing allowance – has now been fully rolled out (since December 2018), it is mostly clawed back through this mechanism.

In August 2023, 1.5 per cent of UC claimants were subject to the benefits cap, with the highest proportions in London (three per cent) and the lowest in Scotland (0.5 per cent) – underlying the importance of rents in taking households over the cap.²⁸ These amount to more than 83,000 households, about half of whom live in London and the South East. However, the total (or cumulative) number of households affected since the cap was introduced amounted to almost 671,500 by August 2023. The benefits cap disproportionately affects lone parents, who make up 70 per cent of the total. Around one-fifth are couples with children.

Apart from taking post-rent incomes below social assistance levels, a perverse effect of the benefits cap is to negate enhancements to other elements of benefit entitlements. This was seen most strikingly when the UC rate was increased temporarily by £20 per week during Covid-19 lockdown, contributing to the numbers of households claiming UC affected by the cap to surge from just over 40,000 to a peak of more than 160,000 – although it should be remembered that the numbers of UC claimants overall also surged. Similarly, when LHA rates have been restored to the 30th percentile after periods where they have been frozen or lagged behind rent increases, households that are capped or are on the threshold of the cap do not benefit. Indeed, the standard upratings of UC rates are also of no benefit to those households affected by the cap. However, since it is usually the housing-cost element that takes the claimant over the cap, it can be seen as another housing-cost-related limitation.

Although not clawed back through housing support, it is also worth noting the impact of the policy that limits the child element in benefits to the first two children (counting children born after 6 April 2017). This affects almost 410,000 households (most of them with someone in work) containing 1.5 million children.

Mitigation of cuts through discretionary housing payments

The government initially increased the budget for discretionary housing payments (DHPs) to mitigate the impact of reductions in housing support. DHPs are allocated by local authorities in England and by the devolved administrations in

Scotland and Wales. The UK government increased the budget for DHPs across Great Britain from £30 million in 2011/12 to a peak of £180 million in 2013/24. Some £140 million was allocated for use in England and Wales in 2019/20, but this was reduced to £100 million in 2021/22. Although an increasing number of local authorities are opting to top-up DHPs with their own funds,²⁹ this does not fully compensate for the cut in central government support, and there is evidence that the proportion of successful claims has fallen.³⁰ In 2019/20, mitigating the effects of the benefits cap accounted for 38.7 per cent of DHP spending, mitigating the bedroom tax for 29 per cent, and mitigating LHA limits for 19.4 per cent.³¹

The Scottish Government, which is committed to fully mitigating the bedroom tax, spends considerably more per capita on DHPs than is the case in England and Wales. The DHP budget in Scotland is expected to be £83.4 million in 2023/24, with the cost of mitigating the bedroom tax taking 83 per cent of the total.³² Cases involving the benefits cap assume around 7.5 per cent of the total, leaving the balance (just £7.9 million or 9.4 per cent) for other cases.

Savings achieved

The government's restrictions to housing allowances (i.e. HB and equivalent support through UC) initially succeeded in greatly slowing down the rate of increase in expenditure, which had grown by almost one-half in real terms in the decade to 2010/11. Expenditure (in 2023/24 prices) was £28.1 billion in 2009/10. By 2022/23 it had risen to £31.4 billion – a rise of 12 per cent in 13 years (see Figure 1.4.1). However, in 2028/29, DWP forecasts that expenditure will have risen to £37.1 billion – an increase of 18 per cent in six years, possibly reflecting higher take-up, especially among private tenants.

An analysis of the savings brought about by the restrictions to housing allowances and other measures since 2010 suggests that, by 2025/26, these will amount to around £6 billion, net of DHPs and the Covid-19 increase. However, the largest component of savings arose from the policy of reducing social rents in England by one per cent a year for four years up to April 2020.

Why undermining the income-support function of housing allowances matters

The Work and Pensions Committee is undertaking an inquiry into the adequacy of benefit levels and whether a consensus can be reached for what constitutes ‘adequacy’. This follows the growing evidence of destitution, reliance on foodbanks and the need for ‘sticking plaster’ measures during the pandemic and the cost-of-living crisis.

The DWP refuses to make an assessment of the adequacy of benefit levels, arguing that:³³

‘Income related benefit rates are not determined by individuals’ living costs...

‘There is no objective way of deciding what an adequate level of benefit should be – each household will always have different requirements depending on their circumstances... Every claimant’s requirements vary and to attempt to base rates upon personal expenditure of individual recipients would produce an unfair and unsustainable system.’³⁴

Elsewhere the DWP states explicitly that ‘The current rates of income-related benefits do not represent a minimum requirement, and are not described as such in legislation or government literature.’³⁵

However, stating that benefit rates such as the standard allowance within UC ‘do not represent a minimum requirement’ suggests only that they are arbitrary. It seems incredible that expenditure on social security which is rising to £279 billion (see Compendium Table 16) should have no rational basis, and the quest to find one seems compelling.

The Joseph Rowntree Foundation’s (JRF) work to establish ‘consensual’ minimum standards, most recently through an ‘Essentials Guarantee’ is instructive. By identifying what items the public agree are essential, and costing them by observing how much lower-income households actually pay to obtain them, provides a rational basis for assessing the adequacy of benefits such as UC. On this

basis, JRF suggests that the Essentials Guarantee for a single person (excluding housing costs) would be £120 per week in 2023/24 (compared to a UC standard allowance of £85 per week on the over-25 rate), and £200 per week for a couple (compared to £134 with UC).³⁶ These very substantial gaps between benefit levels and the Essentials Guarantee would be even greater for claimants aged under 25, who receive a lower rate of UC. It should be noted that exceptional cost of living payments have been made to recipients of most income-related benefits (although not HB) since 2022, and these currently amount to £900 per year (about £17.31 per week) or £1,200 (£23.08 per week) for pensioners.³⁷ These end in April 2024.

JRF argues that the Essentials Guarantee should be a minimum level below which UC should not fall, even after any deductions for sanctions or utility arrears. It is noteworthy that one of the most radical attempts to reduce poverty in recent decades was the decoupling of pensioners from the working-age social assistance system through the introduction of what is now called pension credit. The rates for pension credit are substantially above those for UC (and indeed the Essentials Guarantee), amounting to weekly amounts of £201.05 for singles and £306.85 for couples (in 2023/24).

The question of housing costs is not addressed explicitly, but the clear logic of a system such as the Essentials Guarantee is that housing costs should not take incomes below the guaranteed rates. Certainly, some view as to what would constitute an excessive rent or excessively large house would be needed, but the clear logic is for a return to the longstanding pre-2010 (or arguably pre-1996) practice that within the social assistance system benefits should be based on actual rents, since the standard allowances do not make provision for housing costs.

Conclusions: ways forward

The discussion so far has focused on the principles that have underpinned government assistance with housing costs, in particular how the affordability function of assistance was first narrowed to a residual-income/ safety-net function in the 1980s, and particularly since 2010 the safety-net function has been undermined, so that tenants’ incomes are taken below already-inadequate basic benefit rates because housing assistance is no longer calculated in relation to the

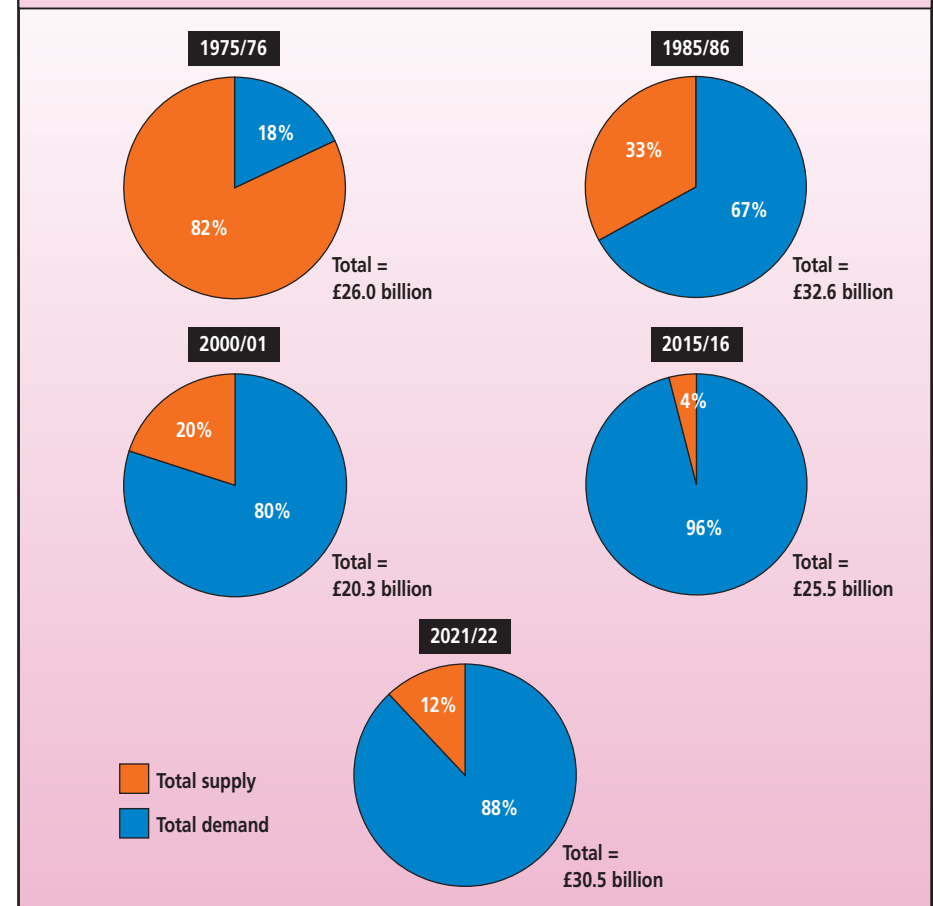
actual rent paid. A true safety-net function would require both a return to support based on actual rents and a review of the adequacy of core benefit rates. However, the paradox is that the cost of HB has grown enormously since the 1980s, and although rising costs have to an extent been contained, the likelihood is that they will rise in the long run as the cohort of people who have been priced out of homeownership and those rationed out of social rented housing reach retirement age, with the prospect of paying market rents for the remainder of their lives. As their incomes fall in retirement, dependence on housing assistance becomes much more likely.

As we have seen the changes that have placed upward pressures on HB costs have arisen from housing policies adopted in the 1980s, and the design of housing benefit introduced to facilitate them. So far as the 'let housing benefit take the strain' strategy is concerned, the public expenditure chickens have well and truly come home to roost. Overall, the UK spends approximately the same amount as it did in the mid-1970s on housing policy including housing benefits. However, the balance has shifted fundamentally, as shown graphically in Figure 1.4.2.

In 1975/76, 82 per cent of government housing expenditure was focussed on 'supply-side' subsidies, and just 12 per cent on 'demand-side subsidies' (of which homeowners' mortgage interest relief was the largest element). By the mid-1980s, demand-side subsidies took the largest share (although mortgage interest relief still exceeded housing benefit). By 2015/16, almost 96 per cent of housing subsidy was demand-side and this was almost entirely accounted for by HB, mortgage-interest tax relief having been phased out by 2000. Whilst our most recent estimate (for 2021/22) suggests that there has been a shift in favour of supply-side subsidies (principally due to new measures to stimulate private housebuilding), demand-side subsidies (virtually all in the form of housing benefits) remain dominant, at 88 per cent of the total.

The big policy challenge is that over this period and especially since 1988, the main subsidy for housing has become divorced from housing policy, and it has ceased to be used strategically or (arguably) effectively. DWP, which has no direct responsibility for housing, finds itself seeking to contain the costs of its principal

Figure 1.4.2 Estimated balance between demand and supply subsidies in England, 1975-2022



Source: Historic data from UK Housing Review 2018, prices updated; 2021/22 estimates by the Review's authors, using government statistics.

Note: Totals are for housing-related central government spending and are all at 2022 prices.

subsidy. Meanwhile DLUHC bears no immediate concern for the cost of HB, to the extent that, when faced with cuts to its capital budget, it devised a new form of sub-market rental housing (Affordable Rents) that spread subsidy more thinly, pushed up rents, and placed upward pressure on housing benefits.

The most effective measure for containing expenditure on housing benefits was the Treasury's enforced reduction of social rents in England. But since there is no such thing as a free lunch so far as housing is concerned, the effect was also to reduce social landlords' capacity to borrow to build new affordable housing and upgrade existing stock, implying more pressure falling on the private rented sector and – indirectly – more calls on housing benefits.

There have always been tensions between housing policy and social security, but never have the two systems appeared to be so disjointed. Policy debate, too, has become very narrowly focussed on immediately important issues, notably the uprating of LHA limits. It seems extraordinary that reform of the private rented sector is envisaged with hardly any thought given to how housing benefits might be deployed to aid the transition to a more secure, higher quality and affordable tenure.

As Beveridge noted more than 80 years ago, social security cannot fully compensate for a dysfunctional housing system and, in an echo of today's 'levelling up' debates, regional economic imbalances:³⁸

'The extreme variation of rents, between regions and in the same region, for similar accommodation is evidence of the failure to distribute industry and population and of failure to provide housing according to needs. No scale of social insurance benefits free from objection can be framed whilst the failure continues. In this, as in other respects, the framing of a completely satisfactory plan of social security depends on a solution to other social problems.'

Social security – currently in the form of HB and UC – can only do so much heavy lifting. In the present context, joining up housing and social security policy would help to change departmental incentives. For example, investment in social housing becomes more attractive as a form of preventative expenditure if decision-makers have an interest in containing HB costs. Similarly, strengthening the safety-net function of HB becomes more attractive if the decision-makers have a direct interest in preventing homelessness and the costs of temporary accommodation that arise from it. A shared understanding of the trade-offs between social rent

risks, investment in stock and HB costs may lead to more strategic approaches than the 'beggar thy neighbour' incentives that were exposed during the rent reduction period. Tenancy policy may also be seen in a different light when the sheer cost of paying HB to a generation of pensioners paying market rents becomes unavoidable.

It is important to acknowledge that 'the system still does much to shelter low-income households from the impacts of the market',³⁹ whilst it is now failing as a safety net and remaining expensive. Things cannot continue as they are, and it is hoped that this chapter helps to inform the in-depth discussion that should soon take place.

Notes and references

- 1 Wilson, G (1939) *Rent Rebates*, Fabian Research Series No. 28, Third Edition, London: Victor Gallanz.
- 2 Namely, that rent has three characteristics that differentiate it from other forms of household expenditure: rents vary across the country, between families within the same area, and cannot be reduced during a temporary interruption of earnings. See para. 197 in Beveridge, W. (1942) *Social Insurance and Allied Services*, Cmnd. 6404. London: HMSO.
- 3 Timmins, N. (2023) *Why has the UK's social security system become so means-tested?*, IFS Deaton Review of Inequalities. London: IFS, p.4.
- 4 In this context Marion Bowley commented, 'After the agitation and trouble over the application of the means test to claims for unemployment assistance in the years before the war, it seems to be seeking trouble gratuitously to introduce one at all generally for housing policy.' Bowley, M. (1945) *Housing and the State 1919-1944*. London: George Allen & Unwin Ltd., p.219.
- 5 Duncan Sandys, quoted by Parker, R. (1967) *The Rents of Council Housing*, Occasional Papers on Social Administration No. 22. London: London School of Economics, p.13.
- 6 Parker, *op.cit.*, pp.47-48.
- 7 Ministry of Housing Circular 46/67, quoted in Parker, *op.cit.*, p.73.
- 8 Parker, *op.cit.*, Chapter 7
- 9 Secretary of State for the Environment, Secretary of State for Wales (1971) *Fair Deal for Housing*, Cmnd. 4728. London: HMSO, p.4.
- 10 *Ibid.*, para. 41.
- 11 'High rent' schemes existed in more pressurised markets. See Stephens, M. (2005) 'An Assessment of the British Housing Benefit System', in *European Journal of Housing Policy*, Vol. 5, No. 2, pp.111-129 (DOI: 10.1080/14616710500162582).

- 12 An anomaly existed for many tenants who were eligible for either scheme. This created a 'better off' problem for tenants who would have been treated more generously by the alternative scheme. See Stephens (2005), *op.cit.*
- 13 Housing association rents, *Hansard*, 30 January 1991, Vol. 184, Column 940 (<https://hansard.parliament.uk/commons/1991-01-30/debates/66b98a89-6d0a-436a-a1a6-1edd08ad1914/HousingAssociationRents>).
- 14 The scope of housing benefit was also narrowed. Most full-time students were excluded from social security, including housing benefit, in 1990, and support for asylum seekers was shifted from DWP to the National Asylum Support Service in 2000. See Stephens (2005), *op.cit.*
- 15 DETR (2001) *Quality and Choice: A Decent Home for All. The Housing Green Paper*. London: HMSO (www.gm1housing.co.uk/documents/DETR%20Quality%20and%20Choice%20-%20A%20Decent%20Home%20for%20All%202000.pdf).
- 16 Work and Pensions Committee (2010) Fifth Report – Local Housing Allowance. Session 2009-10, para 139. London: HoC.
- 17 *Ibid.*, para. 137
- 18 *Ibid.*, para. 135
- 19 Wilcox, S. (2008) *Local Housing Allowance Final Evaluation: The housing and labour market impacts of the Local Housing Allowance*. London: DWP.
- 20 Hobson, F. (2023) *Local Housing Allowance (LHA): help with rent for private tenants*. London: House of Commons Library Research Briefing.
- 21 The narrowing of eligibility of single person households living in the private rented sector is not discussed further here for reasons of space. The single room rent (introduced in 1996) limited eligible rents for single private tenants aged under 25 to those of a room in a shared house. The threshold was raised to 35 with the shared accommodation rate in 2012. See Hobson, F. (2022) *The Shared Accommodation Rate in Universal Credit and Housing Benefit*. London: House of Commons Library Research Briefing.
- 22 See Chartered Institute of Housing (2018) *Missing the Target. Is targeted affordability funding doing its job?* Coventry: CIH (www.cih.org/media/sdbhwzjp/missing-the-target-final-290818.pdf).
- 23 Hobson, F. (2023) *op.cit.*
- 24 Bailey, N., Livingston, N. & Chi, B (2023) 'Housing and welfare reform, and the suburbanization of poverty in UK cities 2011-20', in *Housing Studies* (DOI: 10.1080/02673037.2023.2266398).
- 25 By 14 per cent where there was one spare bedroom, and by 25 per cent where there were two or more.
- 26 Clark, A., *et al* (2015) *Evaluation of the Removal of the Spare Room Subsidy. Final Report*. London: DWP (www.gov.uk/government/publications/removal-of-the-spare-room-subsidy-evaluation-final-report).
- 27 The issue of underoccupation in social rented housing is not new. Regulations applying to Scottish local authorities' rent rebate schemes in the 1930s stated that rebates should not be given to tenants who were underoccupying their council properties, but only if 'the local authority can offer him alternative accommodation suitable and adequate for his requirements' (quoted by Wilson, 1939, *op.cit.*, p.41).
- 28 Statistics in this section are from DWP benefit cap and two-child limit statistics.
- 29 Top-up spending for councils in England and Wales is limited to 2.5 times its annual grant.
- 30 Fitzpatrick, S., *et al* (2023) *The Homelessness Monitor: England 2023*. London: Crisis.
- 31 DWP Discretionary housing payments data tables.
- 32 Since it is Scottish Government policy to mitigate the bedroom tax on a blanket basis, it might be questioned why DHPs are still used for this purpose especially now that the power to vary the housing cost element in UC is available. However, this would not alter the cost of mitigation.
- 33 DWP (2023) Written evidence from the Department for Work and Pensions BPI0095, House of Commons Work & Pensions Committee Inquiry: Benefit Levels in the UK. London: HoC.
- 34 Historically, Seebohm Rowntree attempted to establish an objective minimum income required to achieve 'merely physical efficiency' in the first of his three studies of poverty in York. However, in subsequent studies he conceded that it was impossible to remove culturally determined necessities from the calculation, which points to the logic of seeking to identify a 'consensual' minimum standard – one accepted by the majority of the population.
- 35 DWP Freedom of Information request 2205/2013 (https://assets.publishing.service.gov.uk/media/5a75594840f0b6360e473690/FOI.2205._pub_summary_template.pdf).
- 36 JRF and Trussell Trust (2023) Written evidence from the Joseph Rowntree Foundation and the Trussell Trust BPI0062, House of Commons Work & Pensions Committee Inquiry: Benefit Levels in the UK. London: HoC.
- 37 See www.gov.uk/guidance/cost-of-living-payment
- 38 Beveridge, *op.cit.*, para. 216.
- 39 Bailey, N., *et al* (2023) *op.cit.*