Chapter 6
Help with housing costs

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Whilst much high-level policy debate focuses on the need to improve the affordability of housing through supply, this chapter examines changes in the way in which households on lower incomes or who experience loss of income are assisted by the state. The benefit cap, originally introduced in 2013 was lowered in November 2016, and we now have data to assess its impact across the country. Meanwhile as universal credit continues its roll-out, the chapter looks 'under the bonnet' at the detailed effect of some of its provisions. Finally, we consider how the scheme of assistance to homeowners for their mortgage interest costs has changed from cash payments to a loan system.

Benefit cap

The benefit cap was announced in 2010 by the then Chancellor George Osborne as part of the coalition government's programme of welfare reform, aimed at reducing the budget deficit. It was introduced in April 2013 but lowered from 7 November 2016 (see Table 2.6.1).

The cap applies to the benefit income of working-age claimants, their partner and children who are within the claim. The cap does not apply to universal credit (UC) claimants if they have earnings equivalent to 16 hours per week at the minimum wage over the whole month; they have a disability or health condition that exempts them from all the work-related requirements; or if they care for someone with a severe disability. As a general rule all income is calculated for the cap, even where benefits are reduced for deductions (e.g. third party deductions).

Table 2.6.1 **Original and revised benefit caps**

		Single		Family	
		£ per annum	£ per week	£ per annum	£ per week
Previous cap – April 2013	Great Britain	**18,200**	**350**	**26,000**	**500**
Current cap – November 2016	London	**15,410**	**300**	**23,000**	**440**
	Rest of GB	**13,400**	**260**	**20,000**	**380**

Source: The Benefit Cap, House of Commons Library.

The DWP's impact assessment of the revised cap suggested that 88,000 households (including 244,000 children) would be affected across Great Britain. This represents 64,000 more households and 161,000 more children than under the original cap. Whereas the original cap mostly affected households living in areas with high rents and those with larger families, the new cap was expected to further reduce the benefits of those households and to spread the impact to areas with lower rents.

The revised cap has now been operating long enough to examine its actual impact. Table 2.6.2 takes August 2015 and August 2018 as reference points to assess the impact of the original and revised benefit caps – each leaving sufficient time for the change to 'bed down'. Many more claimants were affected by the revised cap across all regions of Great Britain in August 2018 compared to three years previously, with numbers increasing by almost 150 per cent from 23,379 to 57,755. In August 2015 in all regions, lone parents represented more than half of

Table 2.6.2 **Households affected by benefit cap by region and country, 2015 and 2018**

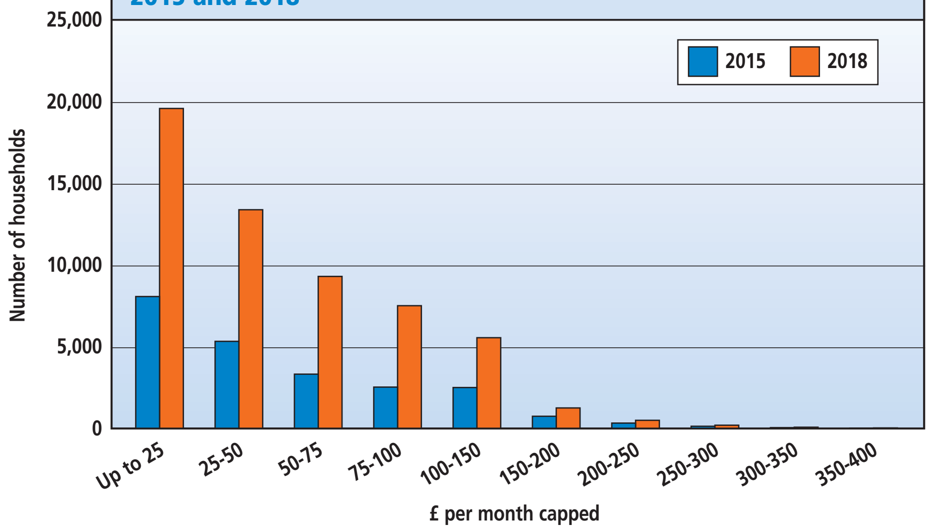
	Total household nos. capped Aug 2015	...of which single with dependent children	...per cent of total	Total household nos. capped Aug 2018	...of which single with dependent children	...per cent of total
London	**10,377**	**7,002**	**67%**	**13,757**	**8,613**	**63%**
South East	**2,419**	**1,726**	**71%**	**7,252**	**5,858**	**81%**
West Midlands	**1,947**	**1,031**	**53%**	**6,675**	**4,835**	**72%**
North West	**1,684**	**1,023**	**61%**	**5,648**	**4,263**	**75%**
East of England	**1,539**	**1,034**	**67%**	**5,032**	**4,019**	**80%**
South West	**1,012**	**680**	**67%**	**3,197**	**2,533**	**79%**
East Midlands	**898**	**546**	**61%**	**3,125**	**2,419**	**77%**
North East	**647**	**367**	**57%**	**2,419**	**1,787**	**74%**
Scotland	**840**	**440**	**52%**	**3,137**	**2,069**	**66%**
Wales	**699**	**412**	**59%**	**2,873**	**2,198**	**77%**
Total	**23,379**	**15,054**	**64%**	**57,755**	**42,052**	**73%**

Source: Author calculations created from DWP StatXplore data.

households capped; across GB as a whole, they represented almost two-thirds (64 per cent) of those having their benefits restricted. Under the revised cap, the representation of lone parents among the households capped rose above 60 per cent in every region and to almost three-quarters (73 per cent) of total households capped. In this respect the measure appears to be poorly targeted as lone parents are the group least likely to be able to avoid the cap by moving into work or working more hours, because of caring commitments.[1]

Of the total of those capped, the distribution in terms of amount capped per month is shown in Figure 2.6.1 (for the whole of Great Britain, at the same two dates). Under both the 2013 and 2016 caps, the greatest numbers are found in the category showing losses up to £25 per month. By 2018 the numbers in each category had increased with the greatest proportionate increase being in the category showing losses of £75-100 per month. Given that a high percentage are lone-parent households least able to avoid the cap, most of those affected will have difficulty in making up such large losses.

Figure 2.6.1 **Numbers of claimants capped by amount per month, 2015 and 2018**



Source: Author calculations created from DWP StatXplore data

The benefit cap was introduced in Northern Ireland later than in the rest of the UK – on 31 May 2016. Although the same caps are used, in November 2016 the Northern Ireland Executive introduced a 'supplementary payment' to go to claimants with children until 31 March 2020, to protect children's welfare and avoid the disruption that seeking cheaper accommodation might cause.

Universal credit

Although greatly delayed, the roll-out of universal credit reached a landmark point in December 2018 when the 'full digital service' reached every postcode area in the UK. This means that all new claimants, other than those with a severe disability, must now claim UC rather than any one of the six legacy benefits that it is replacing. This contrasts with the situation that prevailed up until April 2016 when new claims for UC were mostly limited to single people and couples (often with no housing costs) in 'gateway' areas, which were not fully digitalised

Overall, the numbers of households claiming universal credit across GB have almost doubled from 575,763 in August 2017 to 1,003,384 by August 2018.

Table 2.6.3 **Numbers of households claiming universal credit**

Country	August 2017		August 2018	
	All claims	With housing costs	All claims	With housing costs
England	**471,476**	**231,274**	**853,680**	**496,174**
Wales	**23,275**	**7,615**	**47,564**	**24,898**
Scotland	**55,798**	**26,494**	**102,139**	**61,640**
Total	**575,763**	**265,442**	**1,003,384**	**582,859**

Source: DWP Stat-Xplore. Total includes cases of unknown origin or housing cost status.

The DWP anticipates that the pilot phase of transferring claimants currently in receipt of legacy benefits ('managed migration') will start in July 2019, with the full process running from early 2020. The DWP are employing a 'test and learn' strategy with universal credit and feel this approach justifies the repeated delays. The government is committed to ensuring that anyone who moves into UC as a result of managed migration will not lose out in cash terms. Transitional protection is promised to eligible claimants, to safeguard their existing benefit entitlement until their circumstances change. Following examples of acute hardship caused by the new system and fearing a rebellion from Conservative backbenchers, Amber Rudd, the current work and pensions secretary, promised that managed migration proper would not start until after an evaluation of the pilot phase. During this phase, no more than 10,000 households will transfer from existing benefits to UC, to test the adequacy of the process. Even so, the government still expects full roll-out to be achieved by 2023.

There has been a succession of problems reported by those claiming UC such as the long waiting time, having to repay any advance payment of benefit and higher 'third party deductions' (TPDs) which may be taken from a claimant's benefits in order to repay debts, such as rent, utilities or council tax arrears (see box).

Third party deductions (TPDs)

Under legacy benefits a third party deduction rate is permitted that is equivalent to five per cent of the personal allowance of a single claimant aged 25 or over plus any ineligible charges (fuel, water, etc.), and a claimant's consent is required should the amount exceed 25 per cent.

Under UC, the same five per cent rate applies per deduction, but for rent arrears may rise to between ten and 20 per cent of the standard allowance. If the maximum number of TPDs is applied, then up to 40 per cent of the standard allowance may be deducted. In a concession, this will be reduced to 30 per cent from October 2019 (unless the claimant's interests would merit a greater proportion).

However, with other deductions (such as repayment of advance payments) also being taken from benefits, the minimum that a claimant can be left with is just one penny per month to ensure that they have access to passported entitlements such as free prescriptions (in England).

However, there have been some recent concessions. A seven-day period between the claim being made and eligibility commencing was abolished in February 2018. Nonetheless, universal credit is still paid monthly in arrears, and new claimants are advised that they should expect to wait 5-6 weeks before they receive any money. Advance payments are intended to help during this period. The government increased the advance from 50 per cent of estimated entitlement to 100 per cent in January 2018, with claimants able to receive advance payments within five days of applying. Recovery periods for the advance (as it is paid as an interest-free loan) have been increased from six to 12 months and from October 2021 this will be extended to 16 months. A further concession was signalled in January 2019 when some piloting of more frequent payments was announced.

The government has also increased the amount that can be earned while claiming UC (the work allowance) before being tapered away, now set at 63p in the pound since April 2017. The work allowance is rising from £2,376 for claimants in receipt of the housing costs element (the UC equivalent of housing benefit) to £3,444 from April 2019. However, work allowances were removed altogether for non-disabled claimants and those without children in April 2016. The Treasury estimates the cost of raising the work allowance as rising from £545 million in 2019/20 to £1.7 billion in 2023/24, and it is expected to benefit 2.4 million households, on average by £630 per year.

As universal credit was rolled out, temporary accommodation (TA) was initially covered by UC housing costs element for private renters which meant that assistance was capped by the LHA rates. However, TA's short-term nature along with its often higher costs meant that arrears were inevitable and unsustainable, both for provider and tenant. In response, the government brought TA back under housing benefit legislation, by extending the end date of HB when a claimant migrates to UC. This came into force in April 2018 but has not resolved the longer-term arrangements for paying for TA.

Another key concern about UC compared to housing benefit was the payment of the housing costs element to the tenant, other than in exceptional circumstances (in England and Wales). From December 2017 the government made it easier to have the housing costs element paid directly to the landlord (both social and private landlords), using so-called 'managed payments'. Paying rent to the landlord may be thought necessary where the tenant displays significant 'vulnerabilities' such as addictions or difficulties in budgeting. It can also be requested by the landlord where tenants have certain levels of arrears. Tenants granted managed payments are offered personal budgeting support. The presumption is that most will be helped towards making their rent payments themselves.

In January 2018, the government extended the simplification measures to private landlords so that they are no longer required to gain explicit consent from the tenant before requesting a managed payment. Nonetheless, in 2018, whilst 33 per cent of social tenants in receipt of UC had their rent support paid directly to their landlord, this was the case for just five per cent of private tenants. This prompted the secretary of state in January 2019 to signal that she would further facilitate direct payments to landlords. Without making clear what changes will be made, she promised to '...consider what else to do, because I am determined to help keep people in their homes'.[2]

A longitudinal survey commissioned by the DWP and published in June 2018 gives an interesting insight into how claimants are coping with UC. Even though a high number of claimants felt confident in managing their money, including their housing costs, over one-third had experienced difficulties with housing cost payments over both stages of the survey (just over 1,000 claimants were surveyed and interviewed in each stage). Half had experienced difficulties with all bills and housing costs.[3] This is echoed in reports from local authority landlords that where UC has been rolled out rent arrears have grown exponentially.[4]

The Scotland Act 2016 enabled the Scottish Government to vary the frequency of UC payments. Across Scotland claimants can choose to be paid either monthly or twice-monthly, and to have their housing costs paid direct to their landlord, although many opt not to because it means their first payment is only half their award. The Northern Ireland Executive has used its powers to vary the way in which UC can be paid: twice-monthly payments will be available to all households as the default, with monthly payments available on request.

Split payments (paid into separate bank accounts) will be possible between different people within the same household. Direct (managed) payments to landlords for rent are available to all claimants by default, with a direct payment to the household only available on request to those who satisfy certain criteria.

Support for mortgage interest (SMI)

Historically, homeowners have been entitled to financial support to meet their mortgage interest costs through the main means-tested social security benefit such as supplementary benefit, income support, etc. During the housing market recession of the early 1990s, when homeowners were confronted by the 'perfect storm' of rapidly rising interest rates, falling house prices and rising unemployment, and in a period when many households had high loan-to-value mortgages, claims for what is known as support for mortgage interest (SMI) soared. In its aftermath, the government sought to shift responsibility for payment risk onto borrowers themselves. The Sustainable Home Ownership initiative aimed to increase take-up of mortgage-payment protection insurance to more than half of all borrowers, whilst a waiting period of 39 weeks was introduced for working-age SMI claimants (those in receipt of pension credit had no waiting period.) This system was intended to provide private cover for payment difficulties in the expectation that these would be relatively short-term. Coverage peaked at around 47 per cent of first-time buyers and 36 per cent of all new borrowers, but with fewer than one-quarter of all mortgages covered.[5] Thereafter coverage fell away due to bad publicity for the products on offer and the Office for Fair Trading's decision to investigate all payment protection policies.

But even had the coverage been wider, it seems unlikely that the government could have avoided intervention when confronted with the kind of systemic shock represented by the global financial crisis (GFC) in 2008. It immediately reduced the waiting time for SMI from 39 to 13 weeks, and doubled the mortgage ceiling to £200,000 for working-age applicants (it remained at £100,000 for those on pension credit). At this juncture also, the standard interest rate was frozen at 6.08 per cent. Since 2015, the waiting period has increased again to its pre-GFC 39 weeks and the amount of interest that could be paid was reduced to 3.63 per cent then eventually to 2.61 per cent in June 2017.

The number of claims peaked in 2009/10 at 235,000, and declined to 136,000 in 2015/16. The cost of SMI peaked at £536 million in 2009/10 and fell to £280 million in 2015/16.[6] In 2017/18 the DWP reported that of the estimated 108,000 who may be eligible for SMI, 90,000 were actually claiming it at a cost of £156 million.[7] The scale of assistance required post-GFC was lower than in the 1990s, when claims peaked at 550,000 (in 1993) and costs at over £1 billion (1995). This may be attributed to fewer highly levered borrowers going into the crisis (the pricing out of would-be first-time buyers was already well-established by 2008), the aggressive reduction in interest rates by the Bank of England, and the adoption of quantitative easing which was intended to support asset prices. Possessions were further limited by the requirement from the courts for lenders to exercise greater forbearance than in the past.

A successful emergency operation, however, did not resolve what the DWP had long-regarded as being an unsatisfactory system, with the tail of long-term, or even perpetual, claims looking more like a form of support for asset acquisition rather than income support. The government still considered the scheme was 'unsustainable'; while wanting to mitigate the risk of repossession it also wanted better value for the taxpayer. Thus, since April 2018, SMI is no longer a benefit and has been replaced by what are really loans for mortgage interest (LMI) although DWP persist in retaining the name SMI. The new scheme is estimated to achieve a net saving of £255 million by 2020/21.[8]

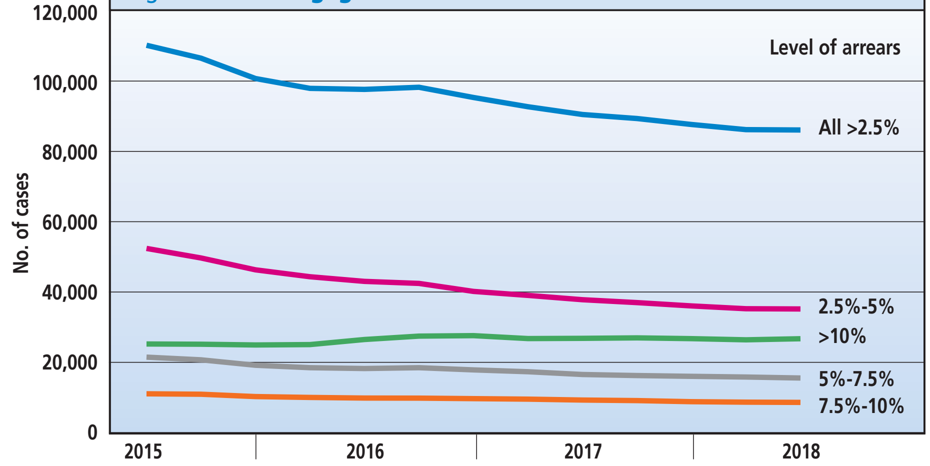
Existing recipients were invited to make an application for a loan by Serco, who operate the LMI loan on the DWP's behalf. Loans are charged interest daily, linked to the cost of gilts (forecast at 1.5 per cent for 2018/19). The loan is repaid on the sale or transfer of the home or when the recipient can afford to make a full or partial repayment once they move into work. There are also significant differences if eligible through legacy benefits or universal credit, the main being the 'zero earning rule' (not including shared-ownership claimants) which means that if the claimant takes any work they will have to go through the 39 weeks waiting period again if they wish to re-claim.

In November 2018, the DWP estimated that 102,000 households may be eligible for LMI, but only 17,000 had signed a loan agreement with a further 5,000 agreeing to the loan in principle. Take-up is worryingly low but at present it is too early to assess if this will result in more repossessions (see below). Due to low take-up the government is allowing those who change their mind to have an eligible loan backdated to 6 April 2018.

Figure 2.6.2 shows the downward trajectory of homeowners' mortgage arrears in recent years. Arrears in excess of 2.5 per cent of outstanding balance declined by more than a fifth in the three years to Q3 2018 at which point there were 77,600 households in this position. This represents less than one per cent of the nine million homeowner mortgages outstanding. Whilst the number of mortgages 2.5-5 per cent in arrears declined by one-third there has been a small (six per cent) upward drift in the number of mortgages with arrears of more than ten per cent, over the same period.

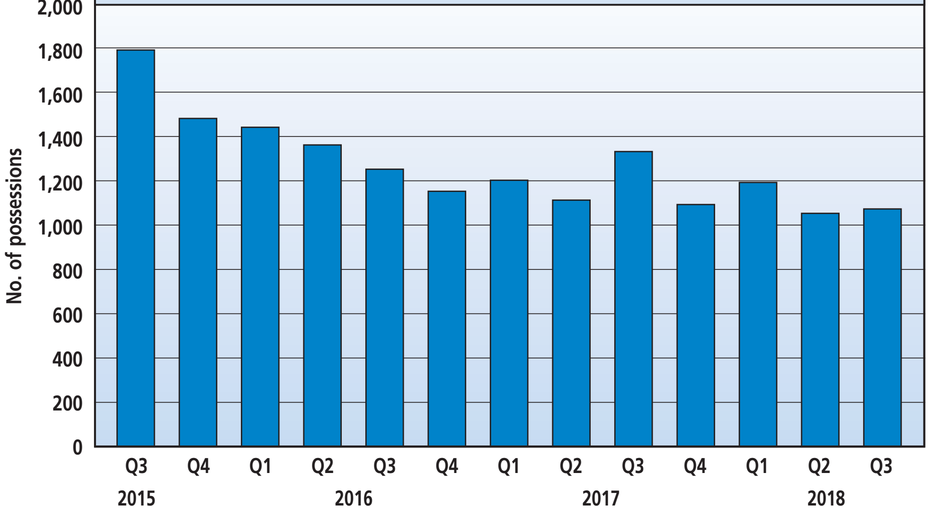
Figure 2.6.3 records the number of homeowner possessions, also over the period 2015-18. The tendency has also been downwards although there have been some rises (especially in Q3 2017). However, the possession levels in Q2 and Q3 2018 were the lowest of the 13 quarters in the period, and represent an annual rate of about 0.05 per cent of the total number of homeowner mortgages.

Figure 2.6.2 **Mortgage arrears 2015-18**



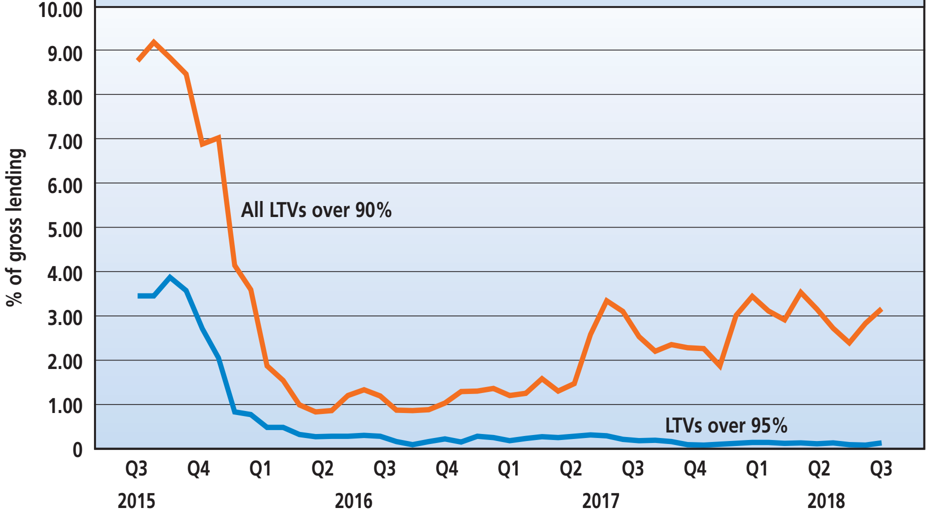
Source: UK Finance.

Figure 2.6.3 **Homeowner possessions 2015-18**



Source: UK Finance.

Figure 2.6.4 **Mortgage loan-to-value ratios 2007-18**



Source: Bank of England/ FCA.

The current situation appears benign. Interest rates are low and not expected to rise rapidly. Macro- and micro-prudential regulations introduced after the GFC clearly limit risks. Although numbers of impaired-credit mortgages rose in 2018 they represent only 0.6 per cent of gross lending in Q3 2018, whereas they were consistently above three per cent throughout 2007.[9] Very little lending takes place with loan-to-value (LTV) ratios in excess of 95 per cent. Although LTVs in excess of 90 per cent have recovered somewhat they remain at only one-third of the 2007 level (see Figure 2.6.4).

However, experience after the 1987 and 2007 crises shows how quickly the situation can change. There is every reason to concur with the conclusion of *Challenges for our Home Ownership Safety Net* that 'A mortgage specific safety net system has thus proved necessary here in the past and is likely to be required in the future'.[10] It might be further cautioned that the scope for the government's response to a shock is more limited now compared to 2007, because the ability to cut interest rates is more limited, an extensive quantitative easing programme has already taken place and has yet to be reversed, and the fiscal deficit built up after 2008 has only just peaked.

Notes and references

1 See Hood, A. & Joyce, R. (2016) *A tighter benefit cap*, IFS Observations, 6 November. London: IFS (www.ifs.org.uk/publications/8717); Johnsen, S. & Blenkinsopp, J. (2018) *Welfare Conditionality: Sanctions, Support and Behaviour Change Final findings: Lone parents*. York: ESRC (www.welfareconditionality.ac.uk/wp-content/uploads/2018/05/39273-Lone-parents-web.pdf).

2 Rudd, A (2019) *Universal Credit: personal welfare*. A speech delivered by the Secretary of State for Work and Pensions, 11 January (see www.gov.uk/government/speeches/universal-credit-personal-welfare).

3 DWP (2018) *Universal Credit Full Service Survey*. London: DWP.

4 An early study in East Lothian (see www.parliament.uk/documents/commons-committees/work-and-pensions/Written_Evidence/East-Lothian-Council-response-and-update-on-welfare-reform-and-Universal-Credit-December-2016-February-2017_Redacted.pdf) and more recently Flintshire (see https://www.publicfinance.co.uk/news/2018/11/rent-arrears-soar-among-universal-credit-claimants).

5 Williams, P., Wilcox, S. & Whitehead, C. (2017) *Challenges for our Home Ownership Safety Net: UK and International Perspectives*. London: UK Finance.

6 *Ibid*.

7 Wilson, W., Kennedy, S. & Keen, R. (2018) *Support for Mortgage Interest (SMI) scheme*. Briefing Paper Number 06618.London: House of Commons Library (see https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06618).

8 *Ibid*., p.26.

9 Bank of England/Financial Conduct Authority (2018) *MLAR Statistics: Residential Loans to Individuals (regulated and non-regulated)*. London: BoE.

10 Williams, *et al*, *op.cit*.