



## **Housing Benefit Reforms and the Impact on Tenants in Wales**

A briefing paper

July 2011

## **1 INTRODUCTION**

This is the second in a series of briefings on the impacts of Housing Benefit Reform on tenants in Wales. The reform of the Housing Benefit system is part of a wider set of reforms contained in the Welfare Reform Bill. While this briefing focuses on the impact of housing benefit proposals, it is important to remember that the majority of social housing tenants are also likely to be adversely impacted by other proposals in the Welfare Reform Bill.

## **2 BACKGROUND**

In his Emergency Budget speech on 22 June the Chancellor of the Exchequer, George Osborne, announced a major reform of Housing Benefit from April 2011. This forms welfare aim to make the system fairer and more affordable.

The measures included:

- re-setting and restricting Local Housing Allowances
- increasing non dependent deductions
- reducing certain awards
- cutting Housing Benefit by 10% for those claiming JSA for more than one year. This has now been scrapped.
- restricting Housing Benefit for working-age claimants in the social rented sector who are living in a larger property than their household size warrants
- new maximum limits on housing benefit: from £280 a week for a one-bedroom property to £400 a week for a property of four or more bedrooms
- re-adjusting Support for Mortgage Interest (SMI) payments - currently 1.58 percentage points above the Bank of England Base rate; from October 2010 SMI will be paid at the Bank of England's published Average Mortgage Rate
- He also announced changes to how Housing Benefit is calculated. From April 2011, Housing Benefit is set in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI).

The Chancellor said that the combined measures would reduce the cost of Housing Benefit by "£1.8 billion a year by the end of the Parliament".

## **3 THE IMPACT IN WALES**

8% of individuals receive Housing Benefit in Wales. Of these 69% live in social rented housing and 31% in the private rented sector. While Community Housing Cymru supports the worklessness agenda and has called for a simplification of the benefits systems, we believe that the current proposals will have a detrimental effect on the most disadvantaged groups in society with many of these being driven into debt, falling into arrears or losing their

home. This is reinforced by a wide range of evidence presented from institutions across the UK and a study from the IFS which showed that changes will hit poor families hardest – it is anticipated that low-income families with children will suffer over a 5% loss as a percentage of net income.

CHC is also of the view that the current proposals are false economy and will put a further strain on public services offsetting any cost savings these reforms are intended to generate. This paper highlights specific proposals we believe will ultimately end up costing the government more not less money.

- **Under Occupation**

In Wales 40,000 social housing tenants are deemed to be under occupying their property. Under the Welfare Reform Bill the DWP plans to slash housing benefit for all tenants living in homes considered to be too large for their needs irrespective of how long they've lived there. The DWP has suggested that households will see their benefit reduced - by up to 15% for those with one 'spare' room and up to 25% for two or more 'spare' rooms. CHC anticipates that this will lead to Welsh claimants losing an average of £13 a week.

- **Expansion of the shared room rate**

The under occupation proposals are compounded by the restriction of the full flat housing benefit rate to those aged over 35. The shared room rate is lower than all other housing benefit payments and is currently paid to claimants under 25. The expansion of the rate to those over 35 will leave a significant number of individuals with a massive shortfall in their rent and again will lead to many of this group seeking to be rehoused.

We already know that demand for social housing in Wales far outstrips supply and those properties that do become available are also in high demand from people on housing waiting lists. A study by Alan Holmans<sup>1</sup> showed that there is already a current backlog of unmet housing need which is estimated at 9,500 households in Wales.

An Assessment by the DWP also suggested that there is a mismatch between property size and household composition and therefore social landlords will struggle to rehouse tenants successfully within the sector resulting in many falling into debt and risking eviction. Homelessness in Wales is already on the rise and these proposals will add to the pressure on homelessness services.

Even if a tenant is successfully rehoused then it risks uprooting people from the places where they have family and friends and would unfairly punish tenants whose children have grown up and left home. Some Associations in Wales already allocate an extra to young couples who may wish to start a family soon to avoid them having to move at a later date as this saves the tax payer money in the long term.

---

<sup>1</sup> Holmans, A. Housing Need and Demand in Wales, 2010

### *Impact on Families and Young People*

Currently neither the under occupation proposal or the expansion of the shared room rate have consider the needs of single parents. Both these proposals could significantly undermine a tenants custody arrangements. Additional concerns have been raised about their failure to account for the needs of families who are foster carers. - children in foster care cannot be included in the occupancy calculation. If this proposal goes ahead then there is a possibility that a perverse consequence could be an increase in overcrowding. Concerns have also been raised by youth groups that if young people are forced to share with younger siblings this will have a negative impact on their relationship and their capacity to study for exams.

- **Non –Dependent Deductions**

Deductions from an individual's rent, where other adults live with the claimant not deemed to be part their family for benefit purposes (typically the claimant's own adult children who are either working or claiming in their own right), are also set to increase dramatically. This will mean tenants who are sharing their home with other adult(s) will need to collect more money from the other adult(s) to contribute towards the rent, or make up the difference from their own money. The rates of deduction are particularly severe where the occupier earns more than £200 per week (nearly everyone in full time work). In many cases the deduction level will be such that it will disqualify the tenant from housing benefit altogether even where the tenant is on a qualifying passport benefit (e.g. income support, pension credit). Research in Scotland has shown that less than one in five households received "dig money" as part of their income and in half of cases non-dependents are not working. Therefore the contribution they are likely to be able to make is limited.<sup>2</sup>

CHC is concerned that these changes will be an incentive for tenants to encourage their children to leave home and a disincentive to voluntary sharing. It may also mean individuals are less willing to care for their elderly parents in their own home and will hinder tenants' own ability to deal with under-occupation. This will result in a particularly harsh dilemma: if the tenant allows the occupier to stay they could lose all of their benefit entitlement and if they force the occupier to leave this will mean they're likely to be hit with underoccupation penalties.

- **Direct Payments.**

The existing benefits system allows benefit to be paid direct to landlords where the tenant chooses to do so. Currently the vast majority of tenants in receipt of housing benefit choose to have their benefit paid directly to their landlord. This arrangement has been crucial in enabling social landlords to enter the banking and capital markets for finance at very competitive pricing. The availability of capital at competitive rates has been central to the delivery of Welsh Government affordable housing aspirations and will be even more important as we enter an era of austerity and cuts to the public purse.

---

<sup>2</sup> SHFA Impact of proposed Welfare Reform on HA/Coop tenants 2011

The Council of Mortgage Lenders has said that changes to the existing arrangements for calculation and payment of housing benefit could have an impact on lenders and investors appetite and the pricing of private finance. The CML has said that changes to the existing arrangements for calculation and payment of housing benefit could see lending rates for private finance rise by 100 basis points.

The Welfare Reform Bill includes a proposal for all benefits to be rolled up into a universal credit. The universal credit is designed to simplify the benefits systems and “make work pay”. However, we understand that separating the housing benefits from the other elements is proving to be an impossible task due to the taper as people move in and out of work.

DWP has already acknowledged that direct payments to landlords will be considered for tenants with high levels of arrears, however, predicting the risks of tenants building up significant arrears is far from easy. Retaining the option for tenants to choose to have the housing element of their Universal Credit paid direct to landlords is crucial and a move away from this would be a denial of consumer choice. A recent pilot by London and Quadrant (L&Q) Housing Trust in England, paying benefit directly to tenants, found their arrears as a proportion of their rent roll increased from 3 to 7 % and was also unpopular with tenants. L&Q estimated that if this pilot was replicated across the whole of their stock then arrears would increase from £2.5m to more than £6m. CHC believes that the impact of the proposed Universal Credit changes will be worse due to the lack of local housing benefit offices and monthly payments.

- **Local Housing Allowance and Temporary Accommodation**

Currently, 48,710 people in Wales receive Local Housing Allowance (LHA). The DWP estimates that 48,530 of these will lose out under the package of reforms due to come into force in 2013.

The changes entail calculating LHA rates at the 30th percentile of private sector rents in the area instead of the current method, which bases LHA rates on the average private rent and up-rated the LHA rate by the CPI as opposed to the RPI. The LHA will also be capped at £250 a week for a one-bedroom home, £290 for two bedrooms, £340 for three bedrooms and £400 for four bedrooms. In Neath Port Talbot, 99 per cent of those renting two-bedroom homes would lose out. In Gwynedd, the average loss for those renting four-bedroom homes would be £23 per week. Those renting three-bedroom homes in Conwy, Denbighshire, Ceredigion, Vale of Glamorgan, Ynys Mon, Gwynedd, Newport, Cardiff and Bridgend would lose between £10 and £16 a week.

A study showed that within two years of the changes coming into effect it is projected that no properties will be available that can be fully paid for with LHA. This will have a significant effect on those claiming benefit in the private rented sector as there will be fewer properties available to them in their area where their full rent could be covered. Tenants in private sector accommodation will have to make up a shortfall in their rent from their income. If they are unable to do this they could either move to a more affordable area risking the polarising of lower income groups or they enter into debt and

risk losing their home. This will undoubtedly raise demand for social housing which is already limited in supply.

Some housing associations have entered into private sector leasing schemes to increase the supply of homes available to tenants. The proposed reforms mean that private landlords will be wary of entering into these arrangements or may pull out of existing arrangements due to the likelihood of rent arrears. We already know that one rural housing association in Wales has refused to enter into a contract with some private landlords as the contract will not be financially viable under the new LHA rules.

There are also concerns about the application of the LHA to temporary accommodation which is **not** deemed to be supported housing and therefore exempt. If the LHA rate applies to temporary accommodation and services charges are not covered by Government then these schemes will be financially unviable in future.

### **3 CONCLUSIONS AND RECOMMENDATIONS**

Housing benefit reform will impact on tenants, communities and the capacity of Housing Associations to develop new homes and regenerate deprived communities. While the proposed reforms will apply in all UK regions, CHC believes that, when combined with public sector cuts and the wider proposals in the Welfare Reform Bill the cumulative impact in Wales is likely to be disproportionately higher than in other UK regions. One of our members has calculated that their tenants stand to lose £750,000 per annum in housing benefit entitlement and others have come up with similar figures - on average losses are calculated at £400,000.

CHC is particularly concerned about the impact on homelessness as well as the impact on young people and families. Eric Pickles has warned the Government that Welfare reform risks making 40,000 families homeless and that the estimated £270m saving from the benefits cap will be wiped out by the need to divert resources to help the newly homeless. CHC believes the figures are potentially much higher than this as 40,000 tenants in Wales will be hit by the under-occupation clause alone.

- **Actions the sector is already undertaking to support tenants**

In certain cases some housing associations will write off rent arrears and subsidise the cost through their own income. However, with public spending cuts and Social Housing Grant being in short supply, if non-existent, in Wales over the next couple of years the sector is already facing the prospect of shrinking development programmes. Therefore any further increases in rent arrears will adversely impact on their capacity to subsidise capital programmes as well as their ability to invest heavily in wider community regeneration activities.

We are also working with our members on developing a strategic approach to supporting tenants adversely affected by these reforms and are encouraging them to share ideas on how tenants can make potential cost savings.

- **Recommendations**

While this briefing is specifically focused on the impact of housing benefit reforms the cumulative effect of these reforms, for a significant number of tenants, is likely to be far more serious. We therefore recommend:

- allowing tenants choice around direct payment to landlords. This should be available to all tenants not just those who are particularly vulnerable or have high levels of rent arrears.
- allowing social renters an additional room in the occupancy calculation. This would be particularly helpful for teenage children and would support arguments around the “fairness agenda”. Allowing an additional room for absent parents, with access rights for teenage children, would also have a marginal impact on housing benefit.
- ensuring the cost of service charges in temporary accommodation continues to be met by government
- retaining the application of the full flat housing benefit rate to anyone over 25.

Amanda Oliver

Head of Policy and Research

July 2011