



## **Changes to Housing Benefit as a result of the Welfare Reform Bill**

### **Briefing paper**

#### **1. INTRODUCTION**

This is the third in a series of briefings produced by Community Housing Cymru on the effect of the UK Government's welfare reforms on housing, and on Housing Benefit in particular. While this briefing focuses on changes being made to Housing Benefit, it is important to remember that the changes made by these reforms are far more wide-ranging, and social housing tenants are likely to be adversely impacted on several fronts. In Wales, 71% of those in receipt of Housing Benefit also receive other forms of support.

#### **2. BACKGROUND**

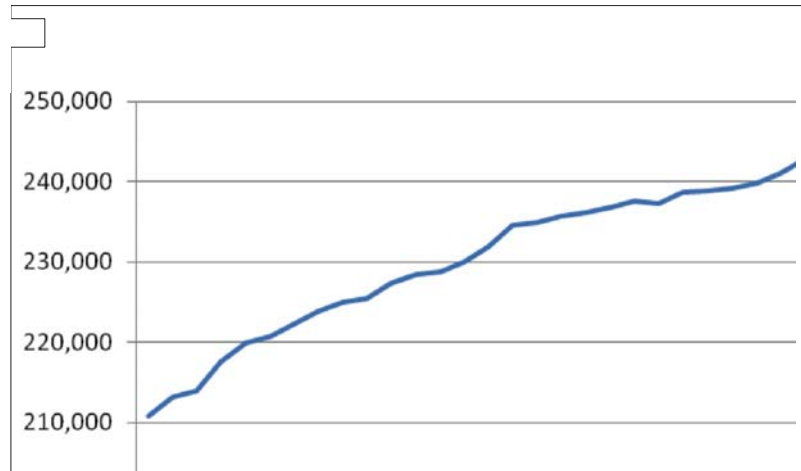
The changes to support for housing costs are taking place in the context of a housing crisis in Wales, in which a shortage of supply and rapidly rising demand is making both privately-rented and owner-occupied housing unaffordable for many. The context includes:

- An estimated 90,000 people are currently on housing waiting lists in Wales, with 284,000 new homes required in Wales between 2006 and 2026 (101,000 in the social-rented sector).
- The number of people statutorily homeless is rising – up 13% in the first quarter of 2011 compared with 2010.
- 5,030 owner-occupied homes were repossessed in Wales in 2011.
- Building of owner-occupied homes is currently at its lowest rate since the Second World War.

### 3. HOW IS HOUSING BENEFIT CHANGING?

244,350 homes – around a fifth of all homes in Wales - receive Housing Benefit, and this has been increasing in recent years (Fig.1). Of those who claim the benefit, 69% live in social rented housing with the remaining 31% in the private rented sector.

**Fig. 1: Number of Housing Benefit recipients in Wales (2008-2011)**



Source: NOMIS, 2011

Numerous changes are being made to Housing Benefit, which will affect different types of tenant in different ways. Some (under current legislation) have already been implemented, with further changes to follow after the passing of the Welfare Reform Bill through Parliament. The changes are as follows:

#### **From April 2011**

- New private tenants cannot claim benefit for rent which is above that of the cheapest 30% of accommodation in their area (replacing the previous cap of 50%).
- Benefit paid to private tenants will be restricted to a limit for a particular size of property (e.g. £290 per week for a 2 bedrooomed property).
- Tenants in the private rented sector will be limited to accommodation with a maximum of four bedrooms.
- Non-dependent deductions from an individual's rent will increase where other adults living with the claimant are not deemed to be part of the family for benefit purposes. This typically applies to the claimant's own adult children, who are working or claiming benefits in their own right.

- The amount deducted from HB if non-dependent adults live in the same household as the claimant is increased (in stages).

### **From January 2012**

- The age threshold for the shared accommodation rate for tenants in receipt of Local Housing Allowance (LHA) will be increased from 25 to 35. This means that single claimants up to the age of 35 will have their LHA rate based on a room in a shared property rather than a self contained one bedroom property. There will be exceptions for some disabled claimants, certain people who have previously been homeless, and ex-offenders who could pose a risk to the public.

### **From April 2013:**

- Size criteria will apply in the social rented sector. This means that people considered to be under-occupying their properties will have their Housing Benefit reduced. There will be a 14% cut in Housing Benefit for those who under-occupy by one bedroom, and a cut of 25% for those under-occupying by two or more. This change only applies to working-age tenants, but is still expected to affect around 40,000 social housing tenants in Wales.
- A limit on claimants' total benefit entitlement of £500 per week for a family, or £350 for a single person. According to projected figures, this will affect 2,000 properties in Wales – home to around 3,000 adults and 7,000 children.
- Local Housing Allowance (LHA) – which is currently linked to the Retail Price Index (RPI) measure of inflation - will be linked to the Consumer Price Index (CPI). This will see a reduction in the increases of LHA across the UK, and will not fully account for the cost of housing. Between 1999 and 2007, CPI increased by 15%, while average rents for the same period went up by 44%.

### **From April 2014 – December 2017**

- The new Universal Credit will be phased in across the UK. The DWP intends to pay claimants one monthly sum, to include all of their individual benefits, in an attempt to replicate the receipt of a monthly wage. Housing Benefit will be included in these payments.
- The Universal Credit system will also see the housing benefit element paid directly to tenants, rather than allowing tenants to opt for it to be paid to the landlord as they currently can.

(N.B. Six local authority areas – including Torfaen - have been identified and will be used to pilot the direct payments scheme to feed back to the Department of Work & Pensions and trial how the system works in practice.)

#### **4. THE IMPACT OF THE CHANGES**

Community Housing Cymru believes that these changes will have a detrimental effect on the most disadvantaged groups in society, with many being driven into debt, falling into arrears or losing their home. This is reinforced by a wide range of evidence presented by institutions from across the UK, and a study by the IFS which has shown that low-income families with children will face a net income loss of over 5%.

- The introduction of penalties for those who under-occupy social-rented housing will see up to 40,000 people lose an average of £11 per week if they do not find an appropriately-sized alternative property. An assessment by the DWP has suggested that there is a mismatch between property sizes and household composition, and therefore social landlords will struggle to re-house tenants successfully within the sector. This could result in many falling into debt and risking eviction, which would add to the growing pressure on homelessness services.

There is also a danger that if appropriate accommodation is found, it will not be in the location where the claimant is current living. This policy risks uprooting people from the communities in which their friends and family live, and will unfairly punish single parents who have a spare room for a visiting child, along with those whose children have grown up and left home.

- The expansion of the shared-room rate to include those up to 35 years of age will affect around 3,080 people in Wales, with an average loss of £24 per week.
- Almost all private sector claimants (48,000 people) will lose out when HB is calculated using the cheapest 30% of rents rather than the average - typically losing £9 a week.
- 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 set to increase dramatically.
- The cumulative effects of aligning Local Housing Allowance with CPI rather than RPI aren't yet known, but based upon one year's worth of calculations all claimants across the UK will lose £5.50 per week.

#### **5. CONCLUSIONS**

The welfare reform changes made by UK Government, in particular the changes to Housing Benefit, will impact on tenants and communities and will also affect the capacity of housing associations to develop new homes and regenerate deprived communities. While the reforms apply to England, Scotland, and Wales, CHC believes that Wales will be disproportionately affected by these changes. When combined with public sector cuts and the wider welfare reform agenda, the cumulative impact could devastate many communities.

At each stage of the Welfare Reform Bill's passage through Parliament, CHC has highlighted its concerns about a number of the changes being proposed. We are particularly concerned about increased homelessness, as well as the impact on young people and families. UK Government Minister Eric Pickles warned that 40,000 people could be made homeless by these changes, but CHC believes that things could potentially be far worse. In Wales alone, there are already 90,000 on social housing waiting lists, and a further 40,000 homes will face the added pressure of under-occupancy penalties.

The UK Government has pledged to increase the budget for Discretionary Housing Payment to cover the shortfall in rent payments that these reforms will cause, and while we welcome this increase, this is only designed to be a short term measure and cannot provide sustained assistance for the numbers of claimants facing shortfalls. This is a limited annual funding stream, and with claims being assessed on a time dependent basis rather than needs-based, it is likely that the funding will fall short of meeting the extra demand generated by cuts to Housing Benefit and Local Housing Allowance.

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**Other changes to in the Welfare Act are noted below:**

**From January 2011**

- **Health in Pregnancy Grant**

Change: abolished

A one-off payment of £190 paid to pregnant women to help prepare for the birth. Not means tested so is available regardless of income and capital. Abolition follows a move by the Government to restrict availability of universal benefits.

- **Child Trust Fund**

Change: abolished

The Child Trust Fund was a savings and investment scheme started in 2002 to encourage parents to save for their child's future. The Government plan to introduce a Junior ISA scheme in Autumn 2011 but no money will be provided.

- **Educational Maintenance Allowance**

Change: No new applicants

- **Support for Mortgage Interest**

Change: temporary changes to the Support for Mortgage Interest Scheme which were due to come to an end in January 2011 will be extended until January 2012. These include a reduced waiting period of 13 weeks and an increase in the eligible mortgage capital limit to £200,000.

**From April 2011**

- **Child Benefit**

Change: Child Benefit rates to be frozen for three years

- **Disability Living Allowance**

Change: there is a new qualification criteria for the higher rate mobility component of Disability Living Allowance to cover those with a severe visual impairment

- **Housing Benefit**

Changes:

Baby element of family premium will no longer be available

Local Housing Allowance (LHA) restricted to four-bedroom rate regardless of household size. About 8,000 households will be affected by this limit, according to the Department for Work and Pensions (DWP). Applies to new claimants. Existing claimant's will have their LHA rate reduced on the anniversary of their claim.

£15 excess rule will be removed. This is the rule that if a person's LHA rate is higher than the rent they are paying, they can keep the difference up to a maximum of £15 a week.

An extra room will be allowed in the 'size criteria' used to determine LHA if a person has a disability and requires over night care from a non-resident carer.

Existing claimants and those who claim Housing Benefit before 1 April 2011 will receive transitional protection from the maximum rate and 30th percentile changes (see above) if they would be made worse off. This means the existing amount of Housing Benefit they are receiving won't be changed until nine months after the anniversary date of their claim, or nine months after the date their rate is reviewed if they require more bedrooms after these changes come into force, but before the anniversary date of their claim. The protection doesn't apply for people where their rate is reviewed because they need fewer rooms (except if due to a death) or those who move address.

Discretionary Housing Payments (DHP) budget is to be £30 million for 2011/12 (an increase of £10 million) to offer some assistance to those most affected by the cuts to Housing Benefit.

- **Pension Credit**

Change: maximum Pension Credit Savings Credit award to be frozen for four years

- **State Retirement Pension**

Change: the State Retirement Pension rate will be increased through a 'triple guarantee' – which means that the pension will be increased each year by the highest out of the earnings inflation rate, the prices inflation rate (using the Consumer Price Index) or 2.5%.

- **Sure Start Maternity Grant**

Change: Sure Start Maternity Grant will only be available for the first child, unless it is a multiple birth or the new child is the only one in the family under 16.

- **Tax Credits**

Changes:

There will also be a slight increase in the rate at which Tax Credits are withdrawn as a person's income increases. They will lose 41p from their maximum entitlement for every £1 of income over the relevant threshold

If your income rose by £25,000 during the award year this would not affect your award, now they will only ignore increases of up to £10,000. This is likely to lead to more Tax Credit overpayments

The baby element will be removed from Child Tax Credit (CTC)

There will be some changes to the way the family element of Child Tax Credit is awarded, claimants with incomes over £40,000 will be affected

The child element rate is to be increased by £255

The percentage of childcare costs that parents can claim through the childcare element of Working Tax Credit (WTC) will be reduced from 80% to 70%

The basic and 30 hour elements of WTC will be frozen for three years

People aged 60 or over will be eligible for Working Tax Credit by working 16 hours, the rule had previously been 30 hours

- **Uprating**

Change: Consumer Price Index (CPI) will replace Rossi and Retail Price Index (RPI) as the tool used to decide benefits increases in April each year (also known as uprating). The Government's reasoning for this change is that CPI is a better measure of inflation and a more appropriate measure for benefit claimants as it does not take account of housing costs. This change is expected to result in £6billion savings per year by 2015.

Institute for Fiscal Studies (IFS) analysis found that only 23% of claimants will be protected by this change, the rest will be paying for things not covered by CPI so there will be a real loss of income over time. This change saves the Government the most money out of all things announced. CPI was just 3.1% in September 2010 and this is the figure that will be used for uprating benefits in April 2011, at that time RPI was 4.6%.

- **Income tax**

Change: the tax-free personal allowance will rise from £6,475 to £7,475 for people under 65. The basic rate limit will be reduced so that higher-rate payers don't benefit from the increased



personal allowance. For 65-74 years olds the allowance will be £9,940 and for over 74 year olds it will be £10,090

#### **From Autumn 2011**

- **Junior ISA**

To encourage parents to save for their children, the Treasury is to offer a tax-free children's saving account in Autumn 2011.

Available in cash or stocks and shares, the 'Junior ISA' will be a replacement for the Child Trust Fund, which was abolished on 1 January 2011. However, the Government will not provide any money to put in the account.

#### **From October 2011**

- **Income Support**

Change: to claim Income Support as a lone parent your youngest child must be under 5. Many lone parents will have to claim Jobseeker's Allowance unless they qualify for Employment and Support Allowance or Income Support for another reason. This will affect existing claimants from April 2012.

#### **From Winter 2011**

- **Winter Fuel Payment**

Change: Winter fuel payments will be reduced for the winter of 2011/2012.

The payments for people who have reached female state pension age were temporarily increased in 2008 from a maximum of £200 to £250 and, for people aged 80 and over, from a maximum of £300 to £400. This increase was renewed in subsequent Budgets until this year which means the payments will return to the £200 and £300 level.

#### **From April 2012**

- **Contributory Employment and Support Allowance**

Change: people in the Work Related Activity Group of Employment and Support Allowance will have their claims limited to one year. They will have their family income and savings assessed to see if they qualify for the means-tested version of the benefit.

- **Disability Living Allowance**

Change: the mobility component of Disability Living Allowance will be removed from those in residential care.

- **Housing Benefit (HB)**

Change: a further £40million per year will be added to the Discretionary Housing Payment budget. £10 million was added in April 2011.

- **Income Support**

Change: existing Income Support claimants who are eligible because they are lone parents will be transferred to other benefits if their youngest child is aged five years or over.

- **Tax Credits**

Changes:

Further changes to the way Tax Credits are calculated so that the credit is withdrawn faster as income rises

50+ element removed from Working Tax Credits (WTC)

If your income falls by up to £2,500 during the Tax Credit award year, the amount you get will not be revised to see if you are entitled to a higher Tax Credit payment.

You will only be able to backdate new applications and changes of circumstances for up to one month instead of three.

Increase of child element by £110

Couples with children must work at least 24 hours a week between them, with one working at least 16 hours to qualify for WTC.

### **From January 2013**

- **Child Benefit**

Change: families will not be entitled to Child Benefit if there is a high-rate tax payer in the household.

### **From April 2013**

- **Council Tax Benefit**

Change: reduce spending on Council Tax Benefit by 10% and localise it providing greater flexibility to local authorities.

- **Disability Living Allowance (DLA)**

Change: A consultation launched in December 2010 proposes to replace DLA with a new benefit called Personal Independence Payment (PIP).

This will involve the introduction of 'objective assessments' to decide eligibility. The intention is to target support on those most in need through this benefit.

The Government is hoping for a 20% reduction in expenditure by 2017 by bringing in this process. All working-age claimants will be reassessed.

- **Tax Credits**

Change: Any rise in income of £5,000 or more during the award year will be taken into account

- **Universal Credit**

The current complex system of working-age benefits and Tax Credits is to be gradually replaced by a new benefit called Universal Credit.

In addition, there will be a cap on the amount of benefits a working-age household can receive, capped at the level of the average working family income after tax – with the exception of those households that include a Disability Living Allowance claimant, war widow, or Working Tax Credit claimant

## **From 2015**

- **State Retirement Pension**

Change: Means-tested pensioner benefits will be replaced by a new flat rate 'Citizen's Pension' which is not linked to national insurance contributions. A single pensioner will receive £140 per week and a couple will receive £280 per week.

These rates are more generous than the current State Retirement Pension. Current SRP rates can be topped up with means-tested Pension Credit to ensure a minimum income of £137.35 per week for a single pensioner and £209.70 per week for a couple. The new 'Citizen's Pension' will only apply to those who retire on or after the date the reform is introduced, not to people already receiving their pensions at that date. The current pension system will run alongside the new one until the last person receiving a pension under the current system dies. According to the Government, this is because it would be too expensive to offer the increased flat rate pension to existing as well as future pensioners.

**From April 2016:**

- **State Pension Age**

Proposed Change: plans to bring women's pension age in line with men's will be sped up from April 2016 so that women's pension age reaches 65 in November 2018. Pension age for men and women will then increase to 66 from December 2018 to April 2020. Government are also considering increasing the pension age further still after this.