



## **BUDGET JUNE 2010**

### **Briefing on Housing Benefit announcements**

#### **Summary of reforms**

##### ***Reforms not requiring primary legislation***

- The percentile of market rents used to calculate Local Housing Allowance (LHA) rates will be reduced from the median to the 30<sup>th</sup> percentile of local rents from October 2011.
- The maximum LHA payable for each property size will be capped from April 2011.
- Discretionary housing payments (DHP) will be increased from £10 million in 2011-12 to £40 million a year from 2012-13.

##### ***Reforms requiring primary legislation***

- LHA rates will be up-rated by the Consumer Price Index (CPI) from 2013/14.
- From April 2013 the receipt of full Housing Benefit (HB) for claimants who can be expected to look for work will be time-limited to 12 months and then reduced by 10% after 12 months.
- From April 2013 HB will be restricted for working age claimants in the social rented sector who are occupying a larger property than their household size.

#### **Overview**

Shelter would agree that there is room for reform and cost savings in the HB system, to make it less complicated and sensitive to changes in personal circumstances, as well as to remove barriers for claimants who are seeking employment. However, these budget measures are cause for serious concern.

Quite apart from the detailed issues set out below, this budget has failed to address the major underlying problems of the critical shortage of affordable housing and the flaws in the private rented sector (PRS). The increase in the HB bill over recent years is mainly due to the considerable growth in the number of people being housed in the PRS, where rents are almost double those in social housing. Therefore, if we are to reduce the HB bill in the long term we must continue to build more affordable housing.

## Further details

### ***Change to LHA rate calculations***

- These reforms will lead to a significant reduction in the amount of LHA received by every claimant, exacerbating the existing widespread problems with rent shortfalls and increasing barriers to accessing affordable accommodation.
- As at March 2010 just over 1 million households (1,015,330) are in receipt of LHA, so the number of people who may be affected is considerable.
- Even at current levels many households struggle to find accommodation within their budget and nearly half of LHA claimants face shortfalls of almost £100 a month between the LHA they receive and the rent they have to pay.<sup>1</sup>
- In a Shelter survey of landlords letting to LHA/HB claimants, 65% reported having tenants in rent arrears.<sup>2</sup> Clearly, many LHA claimants are already in a perilous situation which will only get worse once these new measures are implemented.
- We expect that many households will try to remain in their home and be forced to make financial sacrifices in order to do so. For those households already struggling to balance very tight budgets, a reduction in LHA will only push more of them over the edge, triggering a spiral of debt, eviction and homelessness. It will also force many households into overcrowded and sub-standard accommodation.
- The reduction in LHA rates will also affect people living in temporary accommodation whose housing costs are covered by LHA.
- The National Landlords Association has said, “The effects of these measures are likely to reduce choice for LHA tenants as LHA rates become unaffordable for the majority of PRS properties, pushing tenants to the lower, roguish end of the market.”<sup>3</sup>
- Tenants in the PRS already suffer from living with poor standards and unfair treatment from a minority of ‘rogue’ landlords. The lack of regulation in the sector and inadequate enforcement of existing regulation means that there is very little to hold landlords to account in this market.

### ***Up-rating LHA by the Consumer Price Index***

- Under the current system, the rate of LHA for each area is set by the Valuation Office Agency (VOA), which periodically reassesses the rates by looking at rises or falls in the median rents in each Broad Rental Market Area (BRMA).
- From 2013/14 the VOA will no longer play this role and instead LHA will be up rated by the CPI, which measures the change in the general level of prices charged for the average ‘shopping basket’ in the UK.

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<sup>1</sup> Parliamentary question 5 March 2010:

<http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100305/text/100305w0002.htm#10030529000282>

<sup>2</sup> Shelter, *Taking the Strain*, 2009

<sup>3</sup> [http://www.landlords.org.uk/pdf/free/Budget\\_Statement\\_2010.pdf](http://www.landlords.org.uk/pdf/free/Budget_Statement_2010.pdf)

- This is potentially very significant. Although rental costs are included in the CPI, the full impact of rent increases tends not to be reflected. This means the CPI may not increase at the same rate as average rents.
- To illustrate the point, over the period 1999 to 2007 the CPI increased by 15%, compared to a 44% increase in average rents. Had the LHA been set to increase in line with the CPI in 1999, it would be 20% below the level needed to rent the average property.<sup>4</sup>

### ***LHA cap***

- We accept that some limits are necessary, but the example used is exceptionally rare and misleading.
- With housing costs being so high, the unfortunate fact is that it is expensive to house large families, particularly in London and the South East.
- The £104,000 figure used in the Chancellor's speech is the current rate for a 5-bed property in the Central London BRMA. An example of the households eligible for this amount would be a family of two adults living with an elderly relative and six children under the age of 16 (if paired with same sex siblings over the age of 10).
- For families like these, the alternatives are either to crowd into a smaller living space, to rent cheaper substandard accommodation, or even to split up the family into smaller units.
- Over a million children live in overcrowded conditions - a third of whom live in London - and this figure continues to rise. The cap on LHA will only exacerbate this problem further.

### ***Housing Benefit limits for job-seekers***

- We do not agree that attaching sanctions to HB entitlement is the best way to encourage claimants to enter work. This unfairly penalises working age people who rent and fails to address the huge work disincentives that many HB claimants currently face.
- The vast majority of HB claimants are either pensioners, those with disabilities, people caring for a relative or hardworking people on low incomes, and only one in eight people who receive HB is unemployed.
- The way that HB interacts with other benefits and tax credits means that claimants who move into work face sharp withdrawal rates, leaving them little better off. The system is also highly sensitive to changes in circumstances and any fluctuation in income can affect a person's entitlement, leading to rent arrears and making low-paid short-term work a high-risk prospect.
- Before the government considers linking HB to job seeking, these barriers must be tackled.

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<sup>4</sup> CLG Live Table 740: Private Sector Rent Index, 2007 and Consumer Price Index, ONS, 2010

- In the context of rising unemployment, it would be hugely unfair to penalise people who simply cannot find work.

### ***Restrictions for under-occupation***

- In a world of constricted supply it is right that policies are put in place to also address demand for housing. This could include incentives to encourage under-occupiers to move, as long as a clear framework is in place to allow tenants to find suitable accommodation within a defined geographical radius.
- There are many reasons why claimants occupy larger properties, for example parents whose children have recently left home, and families with children who have medical conditions and need a separate bedroom. In some areas of the country, a surplus of void properties mean that households are allocated larger properties by RSLs and local authorities.
- Long term reforms to HB for working age social rented sector claimants must be closely linked to future developments in housing policy, as the current shortage in supply and restrictions to mobility in social housing makes it very difficult for people to move to alternative accommodation.

### ***Increase to discretionary housing payments***

- The increase in the DHP budget will be a welcome additional safety net to help support the thousands of claimants who will face shortfalls once the cuts to LHA are introduced.
- However, whilst we welcome the increase in DHP, it is only designed to be a short term measure and cannot provide sustained assistance for the huge numbers of claimants facing shortfalls.
- Moreover, as DHP is a limited annual funding stream, local authorities can only provide payments to claimants until their budget runs out. As claims are awarded on a time dependent rather than needs basis, the budget is unlikely to meet the huge extra demand that will be generated by the cuts to LHA.

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