Policy: briefing

Universal Credit and housing

Shelter's interim response to the Universal Credit regulations

Universal Credit - an overview

Universal Credit will change the way in which households receive financial support towards their housing costs. Both housing benefit (for tenants) and Support for Mortgage Interest (for homeowners) will be abolished and replaced with equivalent support under Universal Credit.

Shelter broadly supports the principle of Universal Credit, including the decision to provide support for housing costs within it. Attempting to retain a separate housing benefit would undermine Universal Credit's key aims of simplification and rationalisation.

Universal Credit aims to simplify the benefit system by unifying a number of means-tested benefits. This will mean claimants only have to report personal information and changes in circumstances to one agency. A single benefit will avoid the overlapping tapers that can reduce the financial returns from work and end the distinction between "working" and "non-working" households.

Shelter supports attempts to simplify the benefit system, and agrees that the rationalisation of different benefit streams is long overdue. But simplification must be driven from the point of view of the claimant interacting with the system. Many of the perceived complexities of the housing benefit system have evolved over time to recognise the complexities of individuals' lives. For example under the current rules HB can be paid even if a claimant has not been able to move into a home because of a delayed Social Fund payment. This ability to respond to complexity must not be lost in a move towards a one size fits all model.

Universal Credit is intended to make work pay and be seen to pay. The removal of active barriers to work is welcome. But the factors behind an individual's motivation and ability to work are complex and the debate must not over-simplify the extent to which people are influenced by – or even understand - the interaction between benefits and earnings.

The current housing benefit system does contain some work disincentives, notably the steep taper at 65% and the poor interaction with other benefits. In addition claims must be reassessed when a claimant moves into work, and readjusted for every change in income. This can make entering work, particularly insecure work, a bureaucratic and financially risky move. Shelter welcomes the way in which Universal Credit will enable a smoother transition in to and out of work. Due to its single taper, Universal Credit will also benefit tenants by reducing their effective marginal tax rate. This is welcome, although it is regrettable that the Universal Credit taper is likely to be set at 65% and not 55% as anticipated in the original Centre for Social Justice model.

How housing costs will be supported

Individuals will be eligible for support for housing costs if they are liable to make payments for accommodation which they occupy as their home. This must be on a commercial basis, so children living at home or people staying on an ad hoc basis with friends or relatives will not be eligible for support. There will be some discretion where households are not physically occupying the property at the present time, but this will be more restrictive than under the current housing benefit system.

Although Shelter accepts that the way in which households receive support for housing costs will change, the material amount of support must not be reduced further. Housing benefit for social and private tenants and Support for Mortgage Interest have all been cut back since the 2010 Emergency Budget and Spending Review and further cuts would risk poverty and homelessness.

Housing costs for private tenants

Support will be based on the existing LHA scheme, which is already used to calculate the majority of housing benefit claims among private sector tenants. Households will receive support based on the lower of their actual housing costs (core rent) or applicable LHA rate (cap rent). There is a

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considerable risk that the amounts payable under the cap rent will not provide adequate access to the private rented sector because of the decision to link LHA rates to CPI inflation from April 2013. Once carried forward into Universal Credit this will see the value of LHA erode, as historically CPI inflation has risen less quickly than rents. Research by Shelter and CIH found that after ten years a third of local authorities would become unaffordable for households on LHA/Universal Credit.

We recommend that the value of the housing component is reviewed before Universal Credit is fully rolled out, and rates up-rated accordingly if tenants are unable to access sufficient private rented housing. Up-rating should incorporate a review of BRMA boundaries to ensure an adequate range of neighbourhoods are affordable within a locality. As budgets allow, it would further simplify Universal Credit to base all awards for private tenants on the cap rent rather than core rent. This would effectively reintroduce the shopping incentive, but in principle we would expect few tenants to qualify for this because of the low level of LHA rates versus actual rents.

Housing costs for social tenants

In its explanatory notes to the Welfare Reform Bill, the Government ruled out further reforms to support for social tenants in the short to medium term, and the draft regulations confirm that support will be based on the existing housing benefit regime, incorporating the size criteria cut.

Shelter opposed reductions for under-occupying tenants because the cut is excessive and poorly targeted. In addition we are concerned that the move undermines Universal Credit's intention to simplify the benefits system, as tenants will have to report both the size of their property – involving complicated judgements around how box rooms, parlours and single bedrooms should be counted - and every change in household composition.

We do not support any more fundamental reforms to the treatment of social tenants at the present time, such as a move towards a flat-rate LHA style system for the social sector. In addition we would strongly oppose any move to curb support for tenants in Affordable Rent properties. The move to increase rents as a tool for new investment was a deliberate decision by CLG and low income households should not be made to pay the price for the government's reluctance to invest in housing.

Housing costs for home owners

Support for Mortgage Interest (SMI) will be an out-of-work payment only, payable after a waiting period. This contradicts Universal Credit's aspiration to end the distinction between working and non-working households and create a seamless transition between the two. This will have a potentially negative impact on work incentives, as low income homeowners will become liable for their entire mortgage payment when moving into work. However, within the current financial constraints we accept this as a reasonable restriction, as extending support to all low income homeowners would entail considerable costs. Homeowners will also benefit from a more generous disregard than that applied to tenants when moving into work, enabling them to keep more of their earnings.

SMI will continue to be paid according to a flat rate interest rate based on the Bank of England standard rate. This creates affordability problems for homeowners with higher interest loans, as is common in the sub-prime market. It would strengthen the safety net for homeowners to base support on their individual interest rate, subject to a cap, and we do not think this would overly complicate Universal Credit.

Several questions remain around the treatment of housing costs for homeowners. We recommend Mortgage Interest Direct is retained so that payments are made direct to lenders, and that the waiting period does not revert to the pre-recession level of 39 weeks.

Direct payments

Universal Credit is intended to mimic a monthly salary and will be paid in one lump sum, from which claimants must budget for their monthly rent as well as other living expenses.

The majority of LHA claimants currently receive their housing benefit award directly, although the move from fortnightly to monthly payments and lose of a clearly identifiable 'housing benefit' could create some additional budgeting challenges. The move will have greater implications for social tenants, who can currently choose to have their housing benefit paid directly to their landlord.

There are sound practical reasons why someone on a low income may not wish to handle a significant sum of money: they may be unable to open a bank account or be restricted to a basic bank account which does not allow direct debits; pre-existing debts or bank charges may absorb HB payments, leading to arrears; or the constraints of budgeting on a very low income may result in understandable trade-offs, particularly if other debtors are more aggressive than their landlord.

Due to the perceived risk of arrears, compulsory direct payments may encourage private landlords to demand a premium, driving rent inflation, or discourage them from engaging with the housing benefit sub-market at all. Landlord payments are also attractive for social landlords as they guarantee a secure income stream which allows them to borrow at lower rates, supporting new supply. The DWP has decided that its philosophical vision for Universal Credit as a tool to nudge people in to work should take precedence over these concerns.

The extension of direct payments to social tenants should be carefully reviewed as the roll-out of Universal Credit progresses. The findings from the 2012 Demonstration Projects must be incorporated into the final policy detail to ensure adequate safeguards for tenants who will genuinely struggle to manage their budget or who are already in arrears. Private landlords also need confidence that tenants will not be able to run up extensive arrears. Ultimately housing benefit is a tool to ensure low income households can afford adequate housing and this core aim should not be lost in the pursuit of the wider welfare reform agenda.

Non-dependants

Universal Credit will radically change the way in which young people living at home are expected to contribute towards their housing costs. Currently if an individual on housing benefit shares their home with a non-dependant a deduction is made from their award, on a sliding scale based on the non-dependant's income. Some households are exempt from non-dependant deductions, including when the non-dependant is under 25 years old and on JSA or ESA.

Universal Credit will no longer take the non-dependant's income into account when calculating the deduction, leading to a highly regressive system where the lowest earners contribute proportionally far more than those in well-paid work. Most non-dependants will contribute an expected £780 a year towards their household's rent. Young unemployed people will not be exempted from deductions, removing a safeguard they enjoy under the current regime.

We welcome the decision to exempt people under 21 from deductions. But due to lower levels of benefits payable to under 25s Shelter recommends that an exemption is extended to all people under 25 and in receipt of JSA or ESA. Young people living at home are not entitled to claim housing benefit themselves, and many struggle to contribute towards housing costs, leading to breakdown within families, unplanned and chaotic moves and, in the worst instances, youth homelessness.

Benefit cap

The overall benefit cap will be incorporated into Universal Credit. Shelter is opposed to the cap because it takes no account of the unavoidable differences in housing costs created by variations in tenure and location.

Households "in work" are exempt from the cap. We are disappointed that "in work" under Universal Credit will be defined as 16 hours at the minimum wage. This contradicts Universal Credit's original aim to reward households for taking up small amounts of work as a progression to fuller employment and to treat working and non-working households equally.

Universal Credit delivery

Universal Credit will be introduced for new claims for out of work claimants from October 2013 and rolled out to all working age claimants by 2017. From April 2014 new claimants who are in work will claim Universal Credit. As such there will be no new claims for housing benefit for working age claimants after April 2014.

Existing claimants will be moved on to Universal Credit when they report a change in circumstances or as part of a managed migration process. Full details of how this migration will be managed are yet to be confirmed.

Universal Credit is intended to adjust automatically to fluctuations in income. This will be achieved by integrating with HMRC's Real Time Information (RTI) system, which will allow real-time reporting of employee's earnings. RTI will be used to supply DWP with up-to-date information on an individual's earnings, which will be used to automatically recalculate a Universal Credit award. RTI is currently being piloted and HMRC intend to roll it out to all employers by October 2013. Clearly there is a risk that delays or emerging problems in RTI could impact on Universal Credit and undermine DWP's aim of an automatic benefit.

Universal Credit is a bold but high-risk programme to deliver. There are real advantages to simplifying the benefit system and improving the way in which working households are dealt with. But we would urge DWP to keep delivery under review. Timescales may need to be adjusted if it becomes apparent that key functionality is not in place.

Next steps

This is Shelter's initial assessment of the Universal Credit proposals. We will submit a more detailed response to the Social Security Advisory Committee and will publish this in due course. In particular regulations on occupation requirements; protection for households who have recently lost employment or suffered bereavement; and direct payment safeguards all need further scrutiny.

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