

Consultation response

# Shelter's response to the Department for Work and Pensions consultation - 21st Century Welfare

October 2010

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This document contains information and policies that were correct at the time of publication.

Shelter is a national campaigning charity that provides practical advice, support and innovative services to over 170,000 homeless or badly housed people a year. This work gives us direct experience of the various problems caused by the shortage of affordable housing across all tenures. Our services include:

- A national network of over 40 advice services
- Shelter's free housing advice helpline which runs from 8am–8pm
- Shelter's website ([shelter.org.uk/getadvice](http://shelter.org.uk/getadvice)) which provides advice online
- The Government-funded National Homelessness Advice Service, which provides specialist housing advice, training, consultancy, referral and information to other voluntary agencies, such as Citizens Advice Bureaux and members of Advice UK, who are approached by people seeking housing advice
- A number of specialist services promoting innovative solutions to particular homelessness and housing problems. These include Housing Support Services which work with formerly homeless families; the Shelter Inclusion Project, which works with families, couples and single people who are alleged to have been involved in antisocial behaviour; and, prison services providing housing advice and support to offenders which enable them to acquire and maintain suitable accommodation on release, which reduces re-offending. The aim of these services is to sustain tenancies and ensure people live successfully in the community.

We also campaign for new laws and policies – as well as more investment – to improve the lives of homeless and badly housed people, now and in the future.

## Summary and Recommendations

While Shelter provides welfare and debt advice services that stretch beyond issues related directly to housing, this submission will largely restrict its focus to how this agenda could affect and improve Housing Benefit (HB)<sup>1</sup> and, to a lesser extent, Support for Mortgage Interest (SMI). This is because many of the aspects of HB discussed have parallels with other benefits, but mainly to ensure that the particular purpose of this benefit - to cover housing costs - is given due consideration and weight. Shelter considers it a fundamental principle for any welfare reform that any benefit provided for housing must retain a link to local housing costs. Any change to this principle would mark a substantial retrograde step in the provision of state support for housing. It would significantly increase poverty and spatial inequality and as such could not be supported by Shelter.

Shelter does support many of the principles underlying this reform agenda, specifically attempts to simplify the benefits system to create a more personalised, responsive scheme, and to reduce the barriers to working that are experienced by the minority of unemployed HB claimants. If a system of Universal Credits were able to combine these, while maintaining the distinct important features of HB, we would support it.

However, we are very concerned that the consultation paper notes the changes proposed in the Budget 'set out the first steps in trying to achieve these aims' whereas there is significant evidence that they will do otherwise. There is little indication that the budget changes will improve claimants' ability to gain employment and some will lead to significant increases in the levels of poverty and its concentration. We instead hope that the department uses this reform process to re-consider some of the earlier proposed changes.

Our response details the need for the reforms to:

- tackle the financial penalties of increasing income, by reducing the taper and increasing the earnings disregard;
- ensure housing benefit retains a clear link to local housing costs;
- redraw the BRMAs to better reflect local economies;
- allow claimants to decide whether their HB is paid direct to their landlord or not;
- help the transition into work by introducing 6 month fixed payments for people entering work and reducing the number of circumstances that must be reported;
- relax the 16 hour rule to encourage low or unskilled benefit claimants to increase their skills and qualifications;
- improve claimants' experiences by simplifying the housing benefit application process and improving the advice given to claimants; and,
- expand affordable social housing provision, as the long term solution to meeting housing need and making rents more affordable.

Also enclosed for consideration:

- Shelter commissioned Cambridge Centre for Housing and Planning Research, *How will changes to LHA affect low-income tenants in private rented housing*. 2010.
- Shelter, Crisis, CAB and Chartered Institute of Housing, *Briefing on transitional measures: mitigating the impact of the June 2010 LHA measures*. 2010.

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<sup>1</sup> HB refers to tenants claiming Housing Benefit in the Social Rented Sector and Private Rented Sector and Local Housing Allowance in the Private Rented Sector, unless specified otherwise.

## Housing Benefit and Work Disincentives

### 1. What steps should the Government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?

Housing Benefit (HB) helps over 4.7 million households pay their rent<sup>2</sup>, and the latest available break down shows this includes 14 per cent working households<sup>3</sup>. As such it forms a significant proportion of the UK's welfare bill. This reflects the increasing numbers of low-income tenants reliant on the private rental sector, due to a chronic shortage of affordable social housing, and rising costs in this sector, driven by the wider housing affordability problem. This in turn is, in part, a consequence of shift in policy in the late 1980s and early 1990s away from providing housing capital subsidy and low social rent growth to increased individual housing cost subsidy.

However, while the cost of HB to the Treasury in nominal terms has risen in the past two decades, when compared to all benefits, and to GDP, there has been no clear rising trend and certainly no 'ballooning'. The latest year of statistics does show an increase in spending relative to GDP, which is attributable to the recession and the rise in claimant numbers and rents in the PRS, but this is still well below the highs of the early – mid 1990s. In contrast, the HB bill increased significantly in the aftermath of the last recession - from 13% of all spend on benefits in 1992 to 16% in 1995<sup>[1]</sup>. We recognise that private rented sector costs are rising as a proportion of the HB bill but, as noted below, this needs to be solved by making rents more affordable.

Shelter has long argued that the current system of HB fails to ensure work pays for claimants as its structure undermines the income gains households should receive by entering or increasing employment. Indeed the consultation paper's and Secretary of State's recognition of this is to be welcomed. However, it should also be noted that 14 per cent of HB claimants are working households, who require support to meet housing costs. Only 12 per cent (one in eight) of HB claimants are unemployed, the remainder being largely made up of pensioners (one in four), disabled people, and carers<sup>4</sup>. It must also be remembered that HB is a safety net for anyone who is unable to pay their housing costs, which can be on a temporary or long term basis. This could be people who have worked and paid their own rent all their lives and then face a sudden loss of income, due to sickness, bereavement or job loss and have to rely on housing benefit to meet their housing costs. For many at present their claim will also have been triggered by a reduction in income due to having to work fewer hours or pay freezes. A combination of these factors will be present in the additional 236,000 working and 235,000 JSA claiming new claimants since November 2008. During the recession Shelter's advisers have seen an upturn in the number of households claiming HB because of redundancy, but who are committed to finding work. Reforms to housing benefit should not therefore be designed through a narrow prism of claimant groups.

#### *Improve the taper*

Households in receipt of HB face an immediate withdrawal of benefit when increasing their earned income. At 65% the HB taper is already steep but is then exacerbated by its interaction with other benefits. A household claiming HB and council tax benefit may lose 85 pence for every additional £1 earned. For households in receipt of additional benefits their marginal deduction rates, or the proportion of earnings that are lost to tax and benefit withdrawal, can be in excess of 90 per cent<sup>5</sup>. There is wide agreement that current tapers are far too steep<sup>6</sup>. When in-work costs such as travel and clothing are taken into account claimants can find they are materially worse off in work, particularly in the short-term. In-work costs are especially pressing for parents facing high childcare costs. According to the survey

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<sup>2</sup> Single Housing Benefit extract. June 2010.

<sup>3</sup>DWP figures June 2010.

<sup>[1]</sup> CIH/BSA. UK Housing Review 2009-10 Table 114. Wilcox. 2010.

<sup>4</sup>DWP figures June 2010.

<sup>5</sup> Centre for Social Justice, Dynamic Benefits: towards welfare that works. 2009.

<sup>6</sup> See: JRF. The Poverty Trade Off: work incentives and income redistribution in Britain. Adam, Brewer and Shephard 2006; Cabinet Office: State of the Nation report: poverty, worklessness and welfare dependency in the UK. 2010; and, CSJ. Dynamic Benefits: Towards welfare that works. 2009;

conducted by the Daycare Trust the average childcare costs for 25 hours per week is £88 in England, which is more than half gross average part-time earnings of £153 per week. In London this increases to up to £11,050 per year (£212.50 per week) for 25 hours childcare per week.<sup>7</sup>

We welcome the Government's recognition of the need to reassess the interaction between HB and earned income so that withdrawal rates are less aggressive. Government must ensure claimants retain the benefit of increasing earnings. This could also be achieved by increasing the earnings disregard, which has not been reviewed since 1988.

#### *Align payment levels with housing local costs*

For claimants living in the private rented sector, recent policy changes to LHA have caused further disincentives to work. Previous research by Shelter has found that the use of larger BRMAs to set the level of LHA in different areas has resulted in less equitable outcomes for claimants<sup>8</sup>. The use of large BRMAs often pushes households further away from good transport links and areas with access to employment and childcare. In this context it is especially worrying that the housing benefit reforms set out in the Government's Emergency Budget risk further pricing claimants out of areas with high employment opportunities.

The research Shelter commissioned from the Cambridge University Centre for Housing and Planning Research (CCHPR)<sup>9</sup> shows that the reforms in the Emergency Budget are not targeted in a way that is likely to lead to a significant increase in the number of LHA claimants in work. The opportunities for affected households to increase their incomes via employment will be limited, not least because we are in an economic downturn and the areas with the most employment opportunities (London and the South East) have the lowest proportion (13 per cent) of unemployed LHA claimants. Taking into account the low demand for labour<sup>10</sup> and high withdrawal rates, it is unlikely that many of the unemployed claimants who will be affected will be able to secure a viable job that either leaves them any better off or negates the impact of the cuts.

If BRMAs are to remain as a tool to set housing benefit rates for claimants in the PRS they must ensure claimants can live within a reasonable distance of employment centres and reduce practical barriers to work. The underlying principle of BRMAs should be to provide a geographical boundary which represents a recognisable and accepted housing market area and (under current changes to LHA) ensures at least 30 per cent of the PRS market is accessible to LHA claimants. There have been ongoing problems with the way BRMAs are set, which in some areas has led to LHA claimants being unable to afford the expected market share of properties in their community. The case for a review is even more powerful now: if BRMAs were drawn more fairly, this would help to even out the impact of the LHA rate changes and ensure at least 30 per cent of the total PRS market is available to claimants in each local authority area. For some this will mean lower payments as narrower rental areas better reflect local rents.

One option is to align with local authority boundaries which would also assist Local Authorities in meeting their homelessness duties and prevention strategies. Any changes made to the boundary areas need to be made on the basis of a full impact assessment of how these changes would affect claimants' levels of shortfalls and access to affordable housing. The Valuation Office Agency would be best placed to do this.

#### *Make rents more affordable*

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<sup>7</sup> Daycare Trust, Childcare costs in 2010

<sup>8</sup> Shelter. A Postcode Lottery?: Part 1 of a study monitoring the implementation of Local Housing Allowance. 2009

<sup>9</sup>Fenton, A. (2010) *How will changes to Local Housing Allowance affect low-income tenants in private rented housing?* Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge.

<sup>5</sup>The average recent long-term projections of independent forecasters published by the Treasury in May predict negligible falls in claimant unemployment before 2013; the Office of Budget Responsibility's forecasts do not see unemployment rates returning to pre-recession levels until 2015.

Unaffordable rents themselves push people into poverty, while cheap rents theoretically reduce welfare dependency, as claimants can more easily envision earning sufficient income to afford their rent without state support and benefit withdrawal is less aggressive. However, households with the lowest incomes spend a quarter of their income on housing costs compared to just 7% for higher income households<sup>11</sup>. With high rents, many more tenants find themselves below the poverty line once housing costs are taken into account<sup>12</sup>. At present levels a further 2.4 million people are driven into poverty because of the high relative cost of their housing<sup>13</sup>, yet are omitted from official figures using the standard poverty measure. In more expensive areas such as London this becomes more pronounced. This is particularly true for households in the private sector, due to high rents relative to income and the increased shortfall between housing benefit levels and actual rent<sup>14</sup>.

The “cost” of work is also greatest for households in the more expensive private rented sector than in social housing. Professor John Hills estimated that a couple with two children with a rent of £120 a week would be just £23 a week better off if their earnings increased from £100 to £400 per week. For a couple in the SRS with a typical rent of £60 a week the income gain would be £55. Research has found that lower rents would enable more households to “leap the ditch of the poverty trap with one bound” and allow people to take modestly paid work without relying on benefits to meet their costs<sup>15</sup>. Previous research by Shelter demonstrates that low rents do help people transition into work; 77 per cent of recently homeless households in temporary accommodation in the PRS were out of work compared to 40 and 50 per cent of recently homeless households who had been placed in council and housing association homes<sup>16</sup>.

This also highlights the undesirability of any attempts to raise rents in the SRS towards market levels. Shelter recommends that any Government committed to tackling poverty and worklessness seeks in the first instance to increase the supply of affordable homes.

## **2. What aspects of the current benefits and Tax Credits system in particular lead to the widely held view that work does not pay for benefit recipients.**

Shelter welcomes the Government’s recognition of many of the structural problems in the housing benefit system, as outlined in our response to question one. According to Government estimates a single person working 16 hours on the minimum wage is only £7.21 a week better off than if unemployed once housing costs are taken into account<sup>17</sup>.

However, Shelter is concerned that ministers are promoting a distorted view of worklessness and housing benefit excesses. HB is claimed by many working households as well as pensioners and other groups not expected to work; only 12% of all claimants are unemployed<sup>18</sup>. The HB reforms set out in the June Emergency Budget have been, in part, justified by a few unrepresentative examples highlighted by the media (which could have been dealt with far more targeted and modest proposals). Rather than living a life of luxury funded by the taxpayer nearly half of all LHA claimants already face a shortfall, averaging £100 a month<sup>19</sup>. This is due to high costs in the PRS and a shortage of more appropriate social housing.

## **3. To what extent is the complexity of the system deterring some people from moving into work?**

The complexity of the Housing Benefit system does create legitimate concern among some claimants that they will be financially worse off while transitioning into work or if navigating short-term work.

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<sup>11</sup> National Statistics, Family Spending 2009. 2010.

<sup>12</sup> IPPR, In-Work Poverty in the Recession. 2010

<sup>13</sup> National Statistics (2010) Households Below Average Income: an analysis of the income distribution 1994/5-2008/09, DWP)

<sup>14</sup> Survey of English Housing 2003-04.

<sup>15</sup> Wilcox and Sutherland, Housing Benefit affordability and work incentives. 1997.

<sup>16</sup> Shelter, Living In Limbo: survey of households living in temporary accommodation. 2004

<sup>17</sup> Shelter, Housing Benefits, not Barriers

<sup>18</sup> Survey of English Housing 2007/08.

<sup>19</sup> Shelter, The path to success?: Shelter’s research on housing benefit reform. 2006

Administrative problems, discussed in further detail in response to question four, create anxiety and the potential for delayed payments. Benefits must be re-calculated when a claimant enters work and this can cause a temporary shortfall while claims are processed. The system is highly sensitive, meaning claimants must report any change in income even if small or short-term. This creates delays as payments are suspended and recalculated and claimants may fear administration problems will place them into arrears and the threat of eviction. The benefit system is not suited to the reality of much low-paid work, which can be insecure, variable and short-term. Claimants also have understandable anxiety about how they will manage their finances before their wages are paid and how quickly benefits can be reinstated if a job does not work out.

Proposals set out in the last consultation on HB, *Supporting people into work: the next stage of Housing Benefit reform*, suggested fixed period awards for those customers in work for six months. We were strongly in favour and still maintain support for the proposal as it would help mitigate barriers to work mentioned above. Payments would be fixed at the level received prior to starting work and would not fluctuate, unless the claimant reported a significant drop in income. If employment continues, average wages for these first six months could be used to set the benefit level going forward. Previous surveys by Shelter of LHA claimants has suggested that this would make more than half of unemployed claimants more likely to consider starting work<sup>20</sup>.

The system should be less sensitive to minor changes in income to incentivise claimants to take up temporary employment or ad hoc additional hours, which can provide valuable skills and experience as a precursor to more stable employment. The Government should also seek to narrow the range of circumstances that trigger a change in entitlement. This will protect claimants against delays in payments and enable them to anticipate changes in their net income.

The 16 hour rule is also in need of review if the Government wishes to help people escape poverty. Current restrictions mean people over 18 cannot claim HB if they are studying for more than 16 hours per week, even if this would improve their job prospects. Relaxing this rule for people without basic skills or qualifications would encourage claimants to improve their skills, making it more likely they would be able to find work that lifts them out of poverty – and benefits - in the long-term. More broadly, any conditionality imposed as part of a universal credit should ensure people can maximise their skills and long-term earning potential, rather than focusing purely on driving claimants into low-skilled minimum wage work.

## Principles for reform

### 4. To what extent is a structural reform needed to deliver customer service improvements, drive down administration costs and cut the levels of error, overpayments and fraud?

Shelter's clients regularly report frustration with the current HB system and improvements are necessary to improve customer service. Previous research by Shelter found that 28 per cent of LHA claimants feel the current process is too complex and 27 per cent complained of incomplete or confusing information<sup>21</sup>. Our experience with clients has found that HB is often the root cause of problems with rent arrears, unnecessary evictions and avoidable court costs.

It is important not to overstate the cost of benefit fraud versus other errors. Government figures show that overpayments due to fraud are outweighed by overpayments due to mistakes made by officials and customers<sup>22</sup>. Between April 2008 and March 2009 fraud in the HB system accounted for 1.5% of total HB expenditure compared to 3.4% made by official error<sup>23</sup>. Worryingly, claimants surveyed by Shelter

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<sup>20</sup> Shelter, *For Whose Benefit?: A study monitoring the implementation of LHA*. 2009.

<sup>21</sup> *Ibid.*

<sup>22</sup> Department of Work and Pensions, *Getting Welfare Right: tackling error in the benefits system*. 2007.

<sup>23</sup> DWP, *Estimates of Fraud and Error across all benefits in 2008/09*

said they felt unable to challenge the mistakes made by Local Authorities<sup>24</sup>. Overpayments due to bureaucratic mistakes can leave many low-income households struggling to budget when these are recouped. Where customer error does occur and leads to overpayment this is often due to the complexity of the system, with claimants not sure which changes are necessary to report or assuming that information is shared between officials. This will be particularly important for a Universal Credit where overpayment and repayment levels could apply across the board and therefore be much higher.

Any reforms must ensure that the housing benefit system is easily understood by claimants and officials. This would incentivise claimants to enter work or increase their earnings, as they would be able to easily calculate the impact this would have on their income. Forms should be standardised and standard letters should be reviewed to ensure the information sent to clients is comprehensible.

### **Case Study: An example of poor communication of benefit changes.**

Recent changes to the rate at which Support for Mortgage Interest (SMI) is paid mean that claimants will see a 40% reduction in their support, a huge change for struggling homeowners who may find themselves more vulnerable to arrears and repossession. But claimants have only received official notification of the change a few weeks before it is due to be implemented. Furthermore, the communications sent by DWP are riddled with jargon and inaccuracies, leaving borrowers anxious and confused. Such basic errors mean that front-line advice staff spend huge amounts of time dealing with mistakes and misunderstanding.

#### *Improve customer service*

Claimants' experiences of interfacing with the benefit system do not match the level of customer service expected for the 21st century. Many claimants have to attend housing offices for lengthy appointments to report a change in circumstance, which can be problematic if working full time. Alternatively claimants may try to report changes by phone and be made to confirm the change in writing, potentially causing delays and frustration. LHA claimants surveyed by Shelter reported that dealing with Local Authorities is time consuming and confusing and service can be impersonal.

Shelter recommends that Local Authorities should aim to deliver a personalised service for claimants, including one-to-one support and advice when required, including signposting to employment and money advice. This is particularly important for vulnerable claimants with more complex cases and who value face-to-face advice. Government must resist the temptation to make cuts in this area and factor in the long-term cost savings of timely advice.

Reform should aim to reduce the financial hardship and anxiety that can be created by tackling delays in processing claims. The average time to process a new claim, while vastly improved, is still 23 days and this can increase to an average of 59 days in the worst performing Local Authorities<sup>25</sup>. This is an unacceptable delay for households operating on a tight budget. Claims are also suspended as soon as a change in circumstance is reported. Recalculations take an average of 5 days, rising to 17 days in the worst performing Local Authorities, putting claimants at risk of rent arrears<sup>26</sup>.

As the department is considering combining several benefits into a Universal Credit, this would seem to be an opportune time to examine whether the payment processing improvements mentioned above might be better attained through a more national system of administration, akin to other benefits.

#### *Allow claimants to decide how their benefit is paid*

A personalised service should include restoring tenants' choice about who their housing benefit is paid to. Many tenants and landlords would prefer payments to be made directly to landlords to reduce rent

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<sup>24</sup> Shelter, 2009.

<sup>25</sup> Shelter, Housing Benefit Not Barriers

<sup>26</sup> Ibid.



arrears and help with household budgeting. SMI is paid directly into mortgage accounts, a system which works well for lenders and borrowers. Initial surveys indicate that many private landlords may exit the HB market in light of the Emergency Budget cuts and this reform could be one way of encouraging landlords to remain in the sector. The private, social and lender sectors all require some degree of direct payments to landlords/lenders for more vulnerable clients. Given the advantages, it makes sense to extend this option to all claimants.

## 5. Has the Government identified the right set of principles to use to guide reform?

### *The principle of payments linked to local housing costs*

HB is a very different from some of the other benefits considered in the consultation paper in that it is intended to pay for a specific cost: the vital human need for housing. It is therefore fundamentally important that benefit payments are linked to local housing costs. Shelter considers this a red-line, which if crossed would mark a significant retrograde step in the coverage of the welfare state.

Therefore, any attempt to reform housing benefit must start from the principle that payment levels should reflect the cost of housing. This will require local levels of HB to reflect rents in the surrounding area. Absorbing housing benefit within a universal benefit risks losing this link and flat payments to claimants based on income rather than housing costs could leave many unable to afford a suitable property or remain within their current property during a temporary drop in income. Similarly, we believe that Support for Mortgage Interest, or any new equivalent benefit, should more accurately reflect actual interest rates paid by claimants, not nominal rates that result in over or under payments.

The decision to up-rate LHA in line with the CPI is potentially disastrous and will, over time, severely exacerbate shortfalls between payments and rents. This applies both to the overall rates of LHA and to the rate at which the new maximum caps for each property size are set. Although rental costs are included in the CPI they account for only a small proportion of the 'basket of goods' used to measure price changes<sup>27</sup>, meaning that the CPI has historically not increased at the same rate as average rents. Between 1997/98 and 2007/08, average rents increased by 70 per cent, but over the same period CPI increased by only 20 per cent<sup>28</sup>. The linking of LHA with CPI will mean large parts of the country will become no-go areas for people on LHA, especially those areas that provide the greatest employment opportunities for existing benefits claimants.

The link with CPI presents a fundamental change to the nature of state housing support. No longer will LHA be based on local housing costs, which it is intended to meet, but rather a much lower national measure of inflation. The almost inevitable consequence of discarding this link will be to concentrate claimants in areas of low rents away from employment opportunities and undo attempts to establish mixed communities. An issue the Secretary of State has previously, rightly, drawn attention to as it damages communities and individual life chances<sup>29</sup>.

### *Use benefit conditions appropriately*

Because of its intrinsic link to local housing costs, housing benefit is an inappropriate tool to incentivise unrelated behaviour, such as job-seeking. Practically and morally, it is very short-sighted to place a household at risk of losing their home because of a failure to find work. The cost of temporary accommodation outweighs immediate financial gains and there are additional negative impacts for health and well being<sup>30</sup>.

### *Maintain support for those unable to work*

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<sup>27</sup> In 2010 'actual rentals' were given a weight equivalent to 5.7 per cent of the total basket of goods used to measure changes in CPI. <http://www.statistics.gov.uk/articles/nojournals/weights-article-2010.pdf>

<sup>28</sup> CLG Survey of English Housing 2007/08

<sup>29</sup> Foreword. CSJ, Housing Poverty: From Social Breakdown to Social Mobility, 2008.

<sup>30</sup> Shelter, Living in Limbo. 2004

Shelter is concerned at the Government's rhetoric that benefit reforms must achieve "fairness" between benefit recipients and taxpayers. It is not effective to set HB at a level deemed "appropriate" by others if this will not reflect housing costs. Further, claims that it is unfair for taxpayers to pay for housing for those who do not work ignores the significant proportion of housing benefit claimants in employment and the number of pensioner claimants, as well as those who could afford their accommodation were it not for a temporary loss of income. Moreover many claimants have additional needs which restrict them to certain housing, for example a disabled pensioner in a previously adapted bungalow, and this requirement may not be apparent to observers.

Shelter welcomes the intention to support those most in need and believes protecting the most vulnerable should be central to benefit reforms. However, aggressive incentives to move welfare claimants into work by cutting benefit levels will penalise groups unable to increase their own income, such as pensioners and the disabled, as well as those already working hard on low-incomes. Furthermore, one-size-fits-all tools often fail to take account of local structural problems such as low levels of job opportunities and poor transport links.

#### *Tackle poverty*

It is very disappointing that the principles for reform do not explicitly include decreasing the number of working households in poverty. The number of such, including those with children, has been rising in recent years, and high rents increase the likelihood a household will be in poverty after housing costs<sup>31</sup>. Reducing poverty, particularly child poverty, should remain central to the Government's aims. In this context it is troubling that the reforms laid out in the Emergency Budget in June will increase the number of households living in poverty. Research carried out by the University of Cambridge found that proposed cuts to LHA will mean an additional 84,000 households have less than £100 a week to live on after housing costs, including 54,000 households with children<sup>32</sup>. Up to 269,000 households will be pushed into financial difficulty and it can be expected that up to half of these will be forced to move or become homeless. For low-income households benefits represent a significant proportion of all income and benefit cuts have a considerable impact on poverty levels.

#### *Create mixed communities, not concentrations of poverty*

Although this consultation document attempts to clarify the Government's principles for reform, in wider discussions Ministers have referred to the belief that cutting housing benefit will bring down rents in the private rented sector. This is not supported by the available evidence. Research commissioned by Shelter from Cambridge University found there may be some scope for landlords to reduce rents but this would depend on numerous conditions which have not been evaluated by the Government<sup>33</sup>. In fact, HM Treasury's impact assessment of the emergency budget cuts explicitly note that they do not consider changes having any affect on rents in the next four years.

Shelter has commissioned CCPHR at Cambridge University to consider this issue in more detail and will publish the findings shortly. However, we would expect that there will be some downward pressure on rents, but only in those areas where poverty is already concentrated. In towns where LHA claimants make up a high proportion of private tenants one would expect to see rents fall in line with benefit drops; though only so far as it is then viable for landlords to maintain their investment in the area. However, in areas where LHA claimants make up a far lower proportion of private tenants and where there are multiple sources of competition for rental properties (e.g. young professionals, students etc) we would expect the impact on rents of the cuts to be negligible to non-existent. The combined impact therefore of these changes will be to see claimants move to poorer areas and drive up concentrations of claimants and poverty.

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<sup>31</sup> IPPR, In Work Poverty in the Recession. 2010

<sup>32</sup> Cambridge Centre for Housing and Planning Research, How will changes to LHA affect low-income tenants in private rented housing. 2010.

<sup>33</sup> Cambridge Centre for Housing and Planning Research, 2010.

*Ensure there are always adequate transitional arrangements*

Shelter remains opposed to many of the reforms already laid out in the emergency budget, which will push families into poverty. Over time they also risk restricting housing benefit claimants to an increasingly narrow band of poor quality housing, as past trends indicate CPI-led increases to Local Housing Allowance will not keep pace with rising rents. Should the changes regrettably go ahead, Shelter and other housing organisations have proposed transition measures to protect vulnerable households<sup>34</sup>.

**6. Would an approach along the lines of the models set out in chapter three improve work incentives and hence help the Government to reduce costs and tackle welfare dependency and poverty? Which elements would be most successful? What other approaches should the Government consider?**

Shelter welcomes the proposals to improve work incentives through a unified taper. This should make it appreciably easier for claimants to calculate how much additional income they can gain from taking up employment or increased hours. Currently these calculations often require detailed knowledge of the complex array of tapering rules for each benefit.

While recognising the budget deficit reduction targets, we would encourage the department to make this taper as generous as possible to ensure that it is not only simple but effective. Also, an increased earnings disregard (which has not been updated since 1988) would act as a starting bonus for people taking on the first few hours of work.

The statement that particular consideration will be given to the most vulnerable and their benefit levels is to be welcomed:

"It would not, however, be our intention to use Universal Credit reform to reduce the levels of support for people in the most vulnerable circumstances. At the appropriate stage, we will assess the impact of our proposals on vulnerable groups."

While we appreciate the need to focus on employment, it has to be continually remembered that a large number of working age claimants are unable to work for legitimate reasons. The commitment above should also be extended to not just cover those that are directly vulnerable, but also those who are unable to work because they care for vulnerable people informally.

It should also be noted that incentives are not sufficient in themselves to make work possible and profitable for many claimants. This reform process needs to go hand in hand with improvements to employment support services and access to child care.

Shelter does not have a clear preference on the three models identified in the paper, but would again stress the need for whichever future model is constructed for it to contain a robust mechanism by which claimants receive housing payments relative to local housing costs. However, it is important to note that Mirrlees model contains an unacceptable drop in starting income for claimants, not off-set by the increased work incentives as it would cover many unable to work permanently and many more who will require payments for periods between employment.

**7. Do you think we should increase the obligations on benefit claimants who can work to take the steps necessary to seek and enter work?**

When considering an increase in conditionality it is important to be sensitive to both claimants unable to work and those unable to take on full time hours for legitimate reasons. Many of the claimants of benefits included within this consultation are those with work inhibiting disabilities or significant caring

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<sup>34</sup> Shelter, Crisis, CAB and Chartered Institute of Housing, Briefing on transitional measures: mitigating the impact of the June 2010 LHA measures. 2010.

duties. Those with caring responsibilities are often unable to take on full time hours either because of the nature of the care they provide or because of associated prohibitive costs like childcare. Therefore any additional benefit conditions should not be through one-size-fits-all rules that fail to be flexible to important aspects of people's lives.

There is a danger that a unified system of benefits will mean benefit reductions are made across the board, whereas it is important that the any penalties as a result of conditions are aligned with the appropriate benefit stream. Specifically, the department should not continue with or extend the principle set out in the emergency budget that failure to secure employment should result in cuts to people's housing benefit. Having a secure and affordable home is a vital human need that does not vary with one's employment status. There is a danger that if this is extended people will be forced into destitution. Benefit cut induced poverty does not only harm the individual concerned but also their children and anyone else dependent on their care.

**8. Do you think that we should have a system of conditionality which aims to maximise the amount of work a person does, consistent with their personal circumstances?**

See answer to question seven.

Also, as set out above, high rents lead to significant benefit withdrawal rates and therefore work disincentives. The subsidised and non-means tested nature of social housing rents provide tenants with clear incentives to increase their income. While this can be tempered by the location of some social homes away from employment opportunities, this attribute should not be lost in any reform to the system of housing subsidies.

The Government should not be distracted by headline figures for worklessness in social housing. Due to the scarcity of social housing following years of inadequate investment, Local Authorities inevitably allocate the scarce resource according to greatest need. This "screens in" tenants who are the most vulnerable and can be least expected to work. Previous research by Shelter has demonstrated that the security and affordability of social housing can be an incentive for formerly homeless households to work, when compared with their counterparts in the PRS<sup>35</sup>.

**9. If you agree that there should be greater localism what local flexibility would be required to deliver this?**

Shelter does not believe there is clear evidence that a more localised approach to the setting and administration of benefits would be beneficial for claimants and the taxpayer. In fact there is reason to believe that more national processing of payments maybe more beneficial.

As has been outlined above, the current administration of HB is plagued with problems. Forms are often long and complex; communications can be inappropriately timed and inaccurate; and, processing times intolerably long. That claims take an average of 23, but sometimes 59 days to complete is unacceptable given modern technology and the position it places claimants in; with many starting a tenancy already an eviction-threatening period of weeks in arrears.

Administration systems also vary by local authority making claims unnecessarily complex for claimants moving area (which the Government wishes to encourage) and making it more difficult for service providers to gather sufficient information to issue appropriate advice.

Whilst Shelter would not wish to see a reduction in availability of local offices for people to talk about their claim face-to-face, particularly important for more vulnerable claimants, there is a case to be considered for more national administration of some aspects of HB. For example, the use of a national application form should reduce design costs, improve its comprehension and aid the work of advisers providing vulnerable clients with assistance with its completion.

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<sup>35</sup> Shelter, Living In Limbo: survey of households living in temporary accommodation. 2004

Shelter adamantly believes that HB, and therefore the housing cost element of a universal credit, should be calculated with direct reference to local housing costs. However, this does not translate into a belief that payment levels should be locally-set. There would be an inevitable risk if this happened that benefits would be subject to a postcode lottery. People's ability to access a secure and affordable home should not fall further from being a national right.

Locally decided upon benefit levels would probably increase complexity to prevent 'benefit-shopping' and provide perverse incentives to Local Authorities, including possibly through the calculation of local Government formula grant. Furthermore, any perceived benefits of a localised system would likely be offset by the increased local costs associated with amplified local benefit communications, staffing and computer systems.

**10. The Government is committed to delivering more affordable homes. How could reform best be implemented to ensure providers can continue to deliver the new homes we need and maintain the existing affordable homes?**

Increased housing supply is the main long term solution to cutting housing benefits. The recent rises in HB are in significant part due to the reduced availability of social housing and increased use of, and rents in, the private sector. Increases in supply will over the long term reduce rents and house prices meaning that far fewer numbers of people are forced into poverty by the need to meet their housing costs. Unfortunately, housing supply is currently at record lows. The NHF has predicted that next year's total supply will reach the lowest level since 1923<sup>36</sup>.

Shelter has recently published a report highlighting that much of the affordable housing that is currently delivered is not affordable to people earning low incomes<sup>37</sup>. Shelter has therefore called on Government to prioritise public support for developments that deliver social rented homes. The delivering of social rented homes will make the biggest proportional contribution to providing secure affordable accommodation for vulnerable and low income groups and therefore in time reducing the HB bill by reducing the reliance on the private rented sector.

HB costs in the social sector are intrinsically linked to rent levels and policy; they provide an income stream for Government through the Housing Revenue Account system; and, rents' future projections are integral to the ability of housing associations to raise private finance to help affordable housing grant go further. Therefore, any changes to social HB need to given detailed consideration to ensure they do not either create less savings than imagined for central Government, threaten the financial viability of housing associations or make it extremely difficult for them to raise private finance to support the Government's affordable housing delivery ambitions, alongside not impoverishing thousands of claimants.

Shelter would consider it irresponsible if specific reforms are rushed out in time for the CSR announcements and therefore not given due time for consultation and development. There is therefore a case to argue for delaying the integration of HB within the first round of development of the universal credit, or reforming it a later stage when reforms have been robustly modelled.

**11. What would be the best way to organise delivery of a reformed system to achieve improvements in outcomes, customer service and efficiency?**

Shelter continues to argue that the benefit system should be less sensitive to changes in circumstances. When claimants do have to report significant changes to income or household arrangements this should be simplified. A potential benefit of a Universal Credit would be that claimants would not have to report a change in circumstances to multiple agencies.

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<sup>36</sup> National Housing Federation. House building to hit lowest levels since 1923. February 2010.

<sup>37</sup> Shelter. The Forgotten Households: Is Intermediate housing meeting affordable housing needs. 2010.

There are though potential problems with a household-wide claim for universal credit. This will rely on the lead claimant being aware of the income and needs of all household members, which may not always be shared. Paying benefits to a lead household claimant poses problems for households experiencing domestic violence, as money could be withheld by the perpetrator. This will be particularly problematic if a lease is assigned to the victim but universal credit paid to the perpetrator, as it is not uncommon for perpetrators to run up debts in their victim's name.

Shelter continues to argue that reform should reinstate the option for Local Housing Allowance claimants to have their benefit paid directly to their landlord. In the case of Universal Credit a delivery mechanism for the housing benefit portion would have to be designed from the outset to accommodate this. This could be achieved simply by extending the mechanism to be put in place to allow direct payments for vulnerable claimants. Since direct payments to landlords were abolished, both tenants and landlord associations have consistently campaigned for their reinstatement. Many claimants have experienced understandable cash flow problems if delays in other benefits or unexpected costs have forced them to use rent money to meet other essential needs. For landlords, the risk of arrears is inevitably higher and there is evidence that this has deterred many landlords from serving the housing benefit market<sup>38</sup>. This is problematic for tenants as restrictions from landlords further reduce the narrow band of housing that is affordable to them.

Issues of supply in the housing benefit market are set to become more pressing, with landlords expected to react negatively to planned LHA cuts. A survey of landlords by London Councils and the London Landlord Accreditation Scheme found that, contrary to Government aims, the majority of landlords in the capital will not reduce rents by even a small amount in response to LHA cuts<sup>39</sup>. 78% said they would evict tenants or not renew tenancies for rent arrears over £10 a week and only 4% would consider dropping rents if rent arrears reached £20 a week, with nine in ten opting for eviction. However, the survey found that 46% of landlords would consider reducing rents if direct payments were reinstated to them. London Councils estimates this could save 22,000 London households from eviction. Shelter has previously argued that direct payments would also reduce landlord anxiety surrounding rent arrears. This is set to become a greater concern as LHA cuts reduce the amount of income claimants have for rent payments.

## **12. Is there anything else you would like to tell us about the proposals in this document?**

It is important that, whichever options are chosen, this reform process is not rushed. The proposals within the consultation document will affect millions of people, with official figures amounting to 5.9 million working-age claimants<sup>40</sup>, including many vulnerable groups. Any changes demand proper staging and robust impact assessments.

Given the number of claimants affected by changes to all the benefits it is proposed a universal credit would include, Shelter considers it essential that reforms are staged. One possible route to doing this would be for the changes to only cover new claimants for the first few years to help iron out inevitable implementation problems.

All changes must be communicated clearly and promptly to claimants. Standard letters must plainly set out the expected change in the amount and way benefits will be paid. Communications must be planned far in advance to allow claimants to plan for any drop in income and to prevent tenants signing new tenancy arrangements which they may not be able to afford to service. It is likely that any reforms will create considerable anxiety among claimants and communication materials should point people towards further sources of advice. Shelter would welcome the opportunity to discuss any planned communication strategies to ensure they meet the needs and expectations of our service users.

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<sup>38</sup> DWP. Local Authority Omnibus Survey Wave 20. 2010

<sup>39</sup> London Councils and London Landlord Accreditation Scheme. The impact of housing benefit changes in London. 2010

<sup>40</sup> DWP figures February 2010.

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