

# Policy briefing Housing Benefit

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This looks at the way government policy supports, and often fails to support, people on low incomes to meet their housing costs. It analyses the balance between 'bricks and mortar' capital investment and subsidies paid to individuals, illustrating the negative impact of many years of reduced investment in social housing and increased reliance on Housing Benefit. It assesses the risks of the Government's Housing Benefit reform agenda and suggests alternative policy solutions.

# Shelter

# Key facts

- Housing Benefit helps nearly four million of the poorest households pay their rent, including over a million working households.
- Nearly two-thirds of council tenants now rely on Housing Benefit to help them pay their rent. 25 years ago, fewer than 10 per cent relied on rebates.<sup>1</sup>
- Government investment in housing across Great Britain has halved in real terms since 1979/80, from over £12 billion to £6 billion in 2003/04.<sup>2</sup>
- Although there has been an increase in investment since Labour came to power in 1997, the annual rate of social sector house building in Great Britain in 2003 was still only a fifth of that achieved in 1980.<sup>3</sup>
- The way housing is subsidised has also changed, shifting from capital investment in bricks and mortar to spending on Housing Benefit for low-income tenants. The Housing Benefit budget has trebled, from under £4 billion in 1986/87 to over £12 billion in 2003/04.<sup>4</sup>
- The complexity of claiming Housing Benefit means that up to 680,000 households fail to claim up to £1.4 billion in Housing Benefit each year.<sup>5</sup>
- It takes, on average, 33 working days to process a new Housing Benefit claim. The worst-performing authorities take more than 100 working days<sup>6</sup>, leading to rent arrears and evictions.

1 ODPM/national statistics (2004) Survey of English Housing Provisional Results: 2003–04, Housing Statistics Summary, Number 23, 2004, London: ODPM, Malpass, P. (1997) 'Rents within reach' in Goodwin, J. & Grant, C. Built to Last? London: Roof

2 Wilcox, S. (2004) UK Housing Review 2004/2005, Coventry/London: CIH/CML, Table 57b

3 *ibid.* Table 19h

4 *ibid.* Table 114

5 DWP/national statistics (2005) Income-related estimates of take-up in 2002/03, Table 2.1 and 2.2, London: DWP

6 DWP Housing Benefit Quarterly Performance Statistics 2004/05, Quarter 4 [http://www.dwp.gov.uk/asd/asd1/hb\\_ctb/performance.asp](http://www.dwp.gov.uk/asd/asd1/hb_ctb/performance.asp)

# Summary

Housing Benefit is a key element of the Government's third term welfare reform agenda, with a Housing Benefit Reform Bill included in the 2005 Queen's Speech. Fundamental reform is needed urgently, because the current system drives millions of people into poverty.

- Public spending on housing has undergone a massive transformation in recent decades. There has been a shift away from capital investment in social homes with affordable rents, towards spending on Housing Benefit, which is paid to individuals.
- The structure of Housing Benefit causes poverty traps. It undermines the Government's welfare-to-work agenda and policies to tackle child poverty.
- The Housing Benefit system is complex and bureaucratic, often resulting in rent arrears, debt and homelessness for the most vulnerable people.
- The introduction of the Local Housing Allowance is unlikely to improve choice and mobility in the social sector. In some areas, it could increase poverty and limit choice by reducing the number of homes affordable to the poorest households.
- Housing Benefit should be retained, but reformed and radically simplified.
- Greater investment in social housing for rent should be a key element of the Government's anti-poverty strategy.

# Policy context

## How the Government subsidises housing

There are two ways of helping people who cannot afford their full housing costs. The Government can subsidise the individual through Housing Benefit or Income Support Mortgage Interest (ISMI), or provide investment to build and maintain homes at below-market rents. The Government also funds a variety of low-cost home ownership schemes. In practice, a mixture of capital investment and personal subsidy are used to a greater or lesser degree.

Housing Benefit is paid to people on low incomes, whether they are in or out of work or rent in the social or private sectors. It is not paid to home owners, who receive only limited help through ISMI. The amount of Housing Benefit paid is based on income and savings, household circumstances and the amount of rent payable.

## Post-war subsidies for housing: 1950s–1970s

The way in which the Government should subsidise housing has been a subject of political debate since the first council homes were built in the 1920s. After the Second World War, William Beveridge's report on the post-1945 welfare state grappled with the problem of how to support people with the cost of their rent. At this time, the majority of the population rented from private landlords. The report concluded:

*'The extreme variation of rents, between regions and in the same region, for similar accommodation, is evidence of failure to distribute industry and population and of failure to provide housing according to needs. No scale of social insurance benefits free from objection can be framed while the failure continues.'*<sup>7</sup>

Beveridge's words still have resonance.

From 1945 until 1972, the bulk of housing subsidy went into building council homes. New-build rates reached a peak of 300,000 homes in 1952. By the early 1970s, council housing made up nearly a third of the total housing stock in England.<sup>8</sup> Local authorities were urged to use their general housing subsidy to provide income-related rent rebates for their tenants.

It was not until the 1972 Housing Finance Act that a specific rent rebate subsidy was introduced for council tenants. This sat uneasily with the existing social security system of supplementary benefits for people on the lowest incomes, which included a rent element. One difficulty was that many households would qualify for benefit under

7 Beveridge, W. (1942) Social Insurance and Allied Services, CMND 6404, London: HMSO

8 English, J. 'Building for the masses' in Goodwin, J. and Grant, C. (1997) Built to last? Reflections on British Housing Policy, 2nd edition, London: Roof magazine

either scheme, and in different circumstances one scheme was more generous than the other. This inconsistency was only partly resolved by the introduction of Housing Benefit in 1982, which amalgamated the schemes.

A second attempt to reconcile the dual systems culminated in the Social Security Act 1986, which formed the basis of the current Housing Benefit system, introduced in 1988.

### **The Conservative years: 1980s–1990s**

The Conservative Government made a deliberate decision to shift housing expenditure away from bricks and mortar, and towards housing assistance for individuals. This was seen as a more efficient and sensitive use of subsidy, as well as a way to reduce the role of the public sector and the powers of local authorities. The approach was summed up in a House of Commons debate, during which the Minister for Housing, Sir George Young MP, stated:

*'We have made it clear that we believe that a more effective use of public resources is to move away from indiscriminate bricks and mortar subsidies towards more sensitively directed personal subsidies. It inevitably follows that the Housing Benefit bill will rise, but we believe that it is a more sensible use of public resources and will enable us to build more homes.'*<sup>9</sup>

However, the reduction of direct investment in social housing led to a dramatic fall in the number of social sector homes built, from well over 100,000 in 1980 to fewer than 30,000 in 1997.<sup>10</sup> Combined with changes to the way local authorities could finance the management of their housing stock, it also led to an increase in rents for people on low incomes, driving many into poverty. Local authority rents more than doubled in real terms between 1980 and 1997, increasing as a proportion of average earnings from seven per cent to 13 per cent. Over the same period, housing association rents increased as a proportion of average earnings from 12 per cent to 16 per cent.<sup>11</sup> The real incomes of the poorest tenth of the population, after housing costs, fell by eight per cent between 1980 and 1994, while real incomes among the population as a whole grew by 40 per cent.<sup>12</sup>

The shift away from bricks and mortar investment in social housing, combined with deregulation of private sector rents under the Housing Act 1988, also led to a vast increase in spending on Housing Benefit. The Government's response was to restrict the amount of rent that Housing Benefit would cover, through the introduction of the Local Reference Rent and Single Room Rent restrictions under the 1996 Housing Act and related regulations in 1997. This led to shortfalls and increased poverty for Housing Benefit claimants renting from private landlords.

9 House of Commons debate, Hansard, Wednesday 16 March 1994

10 Wilcox, S. (2004) UK Housing Review 2004/2005, Coventry/London: CIH/CML, Table 19h

11 *ibid.* Table 72

12 Hills, J. (2004) *Inequality and the State*, Oxford: Oxford University Press

## Post-1997

The incoming Labour Government did not significantly change this pattern of spending. Since 1997, although capital investment in housing has increased from £700 million to £1.6 billion, the number of social sector homes built has failed to keep pace, because land and construction costs have also risen. Only in 2004/05 is the Government likely to reach the annual levels of output it inherited in 1997.<sup>13</sup>

The Government's Housing Green Paper in 2000 acknowledged severe problems with the Housing Benefit system and recommended reforms to tackle its complexity and its potential for fraud. Importantly, it rejected the introduction of a flat rate of benefit, stating:

*'Breaking the link between housing support and actual rent has risks... Given these risks, a fully flat-rate scheme with no variation in support to take account of each individual tenant's actual housing costs does not look an attractive option. It would lead to some tenants having a significant shortfall in income to pay their rent, while others on very low rents would gain significantly.'*<sup>14</sup>

A House of Commons Social Security Select Committee Inquiry into Housing Benefit in the same year recommended a number of additional changes to make the system simpler and fairer, including:

- introducing a transparent and consistent system for setting Housing Benefit limits in the private rented sector, and easing the restrictions on private rents eligible for Housing Benefit;
- abolishing the Single Room Rent limits for people under 25; and
- reducing the rate of tax and benefit deductions for people moving into work.

The Committee also looked at longer-term reforms, including the introduction of a housing credit as part of the tax credit scheme. However, it also raised concerns about introducing a flat-rate Housing Benefit system.<sup>15</sup>

## The current reform agenda

The 2004 Spending Review announced a small increase in public expenditure on new social housing of £430 million in England over three years, and a target to increase the number of social homes built by 10,000 a year by 2007/08. However, this still falls woefully short of estimates of housing need.

Fundamental reform of rents is also underway in the social sector. The Government introduced a rent restructuring policy for social sector rents in England in 2001. This aims to bring council and

13 Housing Corporation (2004) Investment Bulletin 2004, London: Housing Corporation

14 DETR (2000) The Housing Green Paper: Quality and Choice: A decent home for all, London: DETR

15 House of Commons Social Security Committee (2000) Housing Benefit, Sixth Report, Volume 1, Reports and Proceedings of the Committee, London: The Stationery Office

housing association rents into line and to create a market-like structure that reflects property size and market value.<sup>16</sup> This process is due to be complete by 2010, although an official review last summer indicated that the target rents for the housing association sector remain well above council rent levels.<sup>17</sup>

The announcement of a Housing Benefit Reform Bill in the Queen's Speech confirmed the Government's commitment to radical reform of Housing Benefit. The Department of Work and Pensions' Five Year Plan aims to introduce a Local Housing Allowance (LHA) for all Housing Benefit claimants who rent privately, and to introduce pilots for the social rented sector by March 2008. The objectives of reform are to reduce barriers to work, increase tenants' choice and encourage them to take personal responsibility for their rent.

The LHA for private sector tenants is based on family size and property location rather than the household's rent. Whereas Housing Benefit claimants have the choice to get their benefit paid to their landlord, the presumption with LHA is that it will be paid direct to them. Exceptions are made where the local authority judges that the claimant is vulnerable or when they have eight weeks' rent arrears. The new scheme is currently being piloted in 18 local authority areas. The Housing Benefit Reform Bill is likely to include legislation necessary to introduce a similar scheme in the social rented sector.

The wider benefits agenda is focused on promoting individual responsibility, including benefit 'sanctions' related to individuals' behaviour. In 2003, the Government consulted on proposals to withdraw Housing Benefit from tenants accused of antisocial behaviour. Along with a wide range of agencies, Shelter opposed these proposals, on the basis that they would only exacerbate poverty and social exclusion, while doing nothing to tackle the behaviour itself. The Government has, for the time being, withdrawn these proposals.

16 The rent restructuring formulas are based on earnings, the size of dwellings and capital values. On average, rents are based 70 per cent on local earnings, weighted by property size, and 30 per cent on capital values of the properties.

17 Wilcox, S. (2004) 'From rent policy to local housing allowances?' in UK Housing Review 2004/2005, Coventry/London: CIH/CML

# Policy issues

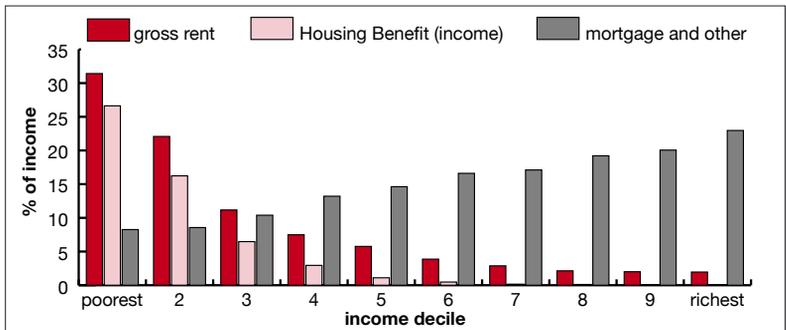
Housing subsidies should:

- enable households on low incomes to pay for their housing
- cover reasonable rents for decent quality accommodation
- ensure that work pays
- be transparent and accountable, and offer value for money to the taxpayer
- support wider objectives to promote social inclusion and end child poverty.

## Unaffordable rents cause poverty and unemployment

Unaffordable rents force many people into poverty. The poorest 10 per cent of the population spend over a third of their incomes on the rent or mortgage (see Graph 1).

Graph 1: Percentage of income spent on housing, and receipt of Housing Benefit, by income



Source: National Statistics, Family Spending (2002–2003 Expenditure and Food Survey)

Note: Mortgage expenditure includes payments for outright purchase, structural alteration, mortgage interest payments, water rates and council tax.

Black and minority ethnic groups, single parents and economically inactive groups are disproportionately affected by the high cost of their housing relative to their income.<sup>18</sup> After housing costs are taken into account, many more tenants are living below the poverty line. Among private tenants, the proportion of people whose incomes fall below the poverty line doubles once housing costs are deducted (see Table 1). This is because of the high level of their rent relative to their income and the inadequacy of Housing Benefit. In 2003/04, the mean amount of rent paid by social tenants was £61 per week before Housing Benefit (HB), with a £9 per week shortfall after HB was paid. The shortfall for private tenants was much greater, with an average rent of £89 per week before HB and £18 per week after HB.<sup>19</sup>

18 DWP/national statistics (2005) Households Below Average Income, An analysis of the income distribution, 1994/5–2003/04

19 ODPM/national statistics (2004) Survey of English Housing Provisional Results: 2003-04, London: ODPM, Table 17

**Table 1: Percentage in poverty, by tenure, 2003/04, GB**

	Percentage in poverty before housing costs	Percentage in poverty after housing costs
Local authority tenant	32	45
Housing association tenant	30	49
Private tenant	18	40
Owned with mortgage	9	11
Owned outright	21	15

Source: DWP (2005), Households Below Average Income, Tables 3.6 and 3.7

Note: Poverty is defined here as having an income below 60 per cent of the median income. Housing costs include rent, water rates, mortgage interest payments and service charges.

High rents also create barriers to people moving into low-paid work. Research by Holly Sutherland and Steve Wilcox has found that people's main concern when seeking work is to attain a level of earnings sufficient to cover essential outgoings, including the rent. This concluded:

*'(lower rents) would enable a far greater proportion of working tenants to "leap the ditch of the poverty trap with one bound" and take up a modestly paid job without any need for means tested help with housing costs'.<sup>20</sup>*

Although they are still below private rent levels, social sector rents in England have roughly doubled over the last 15 years. Rents charged for housing association properties were around 13 per cent higher than council rents in 2003.<sup>21</sup> Rent restructuring is likely to mean above-inflation increases for council tenants and for tenants living in high-demand areas, such as London. A three-year review conducted in 2004 recommended changes that would have meant even higher increases.<sup>22</sup> However, the Government announced that any policy changes arising from the review would be deferred for a year.

The problem of high rents is illustrated clearly by their impact on employment rates among homeless households placed in privately leased temporary accommodation. Shelter's survey of 400 households living in temporary accommodation in England found that 77 per cent were without work, compared to out-of-work rates of between 40 and 50 per cent among equivalent (recently homeless) households living in more affordable council or housing association homes.<sup>23</sup> High levels of rent, combined with the uncertainty and

20 Wilcox, S. & Sutherland, H. (1997) Housing Benefit, affordability and work incentives, para 7.1

21 Wilcox, S. (2004) UK Housing Review 2004/2005, Coventry/ London: CIH/CML, Table 72

22 London Housing (2004) Rent restructuring, response to 2004 consultation proposals, London: London Housing

23 Neuburger, J., Radebe, D., Mitchell, F. & Rayne, A. (2004) Living in limbo: survey of households living in temporary accommodation, London: Shelter

instability of being in temporary housing, were identified as barriers to seeking or sustaining employment or training. In recognition of this problem, the Government is supporting the Working Future pilot in three East London boroughs, which subsidises rents to reduce them to the level of local council rents.<sup>24</sup>

### Shelter recommends

Affordable rents can be achieved through a shift back to subsidies for social rented housing. This would enable an increase in the supply of social rented homes and, at the same time, stem the increase in rents charged to social tenants. Affordable rents would enable more people on low incomes to move into work and to escape poverty and benefit dependency.

The impact of rent restructuring on rent levels and affordability should be at the heart of any policy changes arising from the official review of rent restructuring conducted in 2004. Priority should be given to revising the formula so that rents are affordable to people on low incomes in all sectors and in all areas.

24 This project is a partnership between the Greater London Authority, East Thames Group and the London boroughs of Newham, Redbridge and Waltham Forest. The DWP has released £2.28 million to support block grant payments to boroughs involved in the pilot. The funding will reduce the cost to 100 households in private rented temporary accommodation to the level of a council rent, over two years. See Greater London Authority (2005) *Homelessness in London 62*, January and February 2005

25 This is based on a worked example provided by Ian Walker, Fieldworker at Glasgow Shelter Housing Aid Centre

26 Adelman, L., Middleton, S. and Ashworth, K. (2003) *Britain's poorest children, severe and persistent poverty and social exclusion*, London: Save the Children

27 Kemp, P., Wilcox, S. and Rhodes, D. (2002) *Housing benefit reform: next steps*, York: JRF

### The Housing Benefit 'poverty trap'

The structure of the current Housing Benefit system also contributes to acute poverty traps. A person receiving Housing Benefit who begins work has their Housing Benefit and Council Tax Benefit withdrawn at a rate of 85p for each additional £1 of income earned. For example, a single mother who moves into part-time work could go from having all her rent covered by Housing Benefit to paying three-quarters of her rent. In total, she would keep only £50 a week more than if she stayed on benefits, part of which would have to pay for travel, childcare and work materials.<sup>25</sup>

In-work benefits (including tax credits) are taken into account when assessing entitlement to Housing Benefit. Entitlement to Housing Benefit is therefore affected when changes are made to the most modest of incomes, and income gains from tax credits are often wiped out. This means that moving into work is not always an escape route from poverty. Research has found that children in families that make two or more transitions between work and benefits are one of the groups at greatest risk of severe and persistent poverty.<sup>26</sup>

One potential solution to this is to incorporate a housing element into the tax credit system. Research carried out by Peter Kemp, Steve Wilcox and David Rhodes<sup>27</sup> has shown that a housing tax credit could significantly improve the interaction between Housing Benefit

and tax credits and reduce the high rates of benefit deduction for people in low-paid work. If designed to be tenure-neutral, this could also help to lift low-income owner-occupiers out of poverty. The research proposed two models.

- A full housing credit, which would replace Housing Benefit and operate alongside the current Child Tax Credit (CTC) and Working Tax Credit (WTC). This would be simpler and would promote work incentives by reducing the highest rates of marginal benefit deduction. However, the danger is that large numbers of households not in work could be faced with shortfalls between the benefit paid and their rent, as with any system of flat-rate benefits for housing.
- A partial housing tax credit, which would complement rather than replace Housing Benefit, and would be aimed at people in low-paid work. A flat-rate contribution (say, 20 per cent of average housing costs) would be paid as a tax credit. Households whose incomes were insufficient to cover the remainder of their housing costs would apply for Housing Benefit. This would again improve work incentives by reducing the number of households facing high rates of marginal tax deduction and would be likely to be more generous to those not in work than a full credit.

The impact of problems with the design and administration of WTC and CTC would need to be resolved before more resources are shifted into the tax credit system. For example, people on low incomes typically budget on a weekly basis. Tax credits are calculated annually based on current household income. This can lead to overpayments if households' incomes increase over the year. End-of-year adjustments to recover overpaid tax credits can mean that a household's income is substantially reduced the following year, leading to poverty and debt.

## Shelter recommends

The structure of Housing Benefit undermines the income gains to households from tax credits and from working. Housing Benefit should be retained, but the way it interacts with the tax credits system and other benefits should be reformed.

One option would be to disregard tax credit income when assessing eligibility for Housing Benefit (this would require legislative change). Another would be to increase the value of earnings disregards<sup>28</sup> when calculating Housing Benefit entitlement and increase them in line with annual price increases. Both options would cost more than the current system, but would send out an important message that work pays.

A housing element in the tax credit system could be another way to increase in-work incomes for low-wage households. This could reduce dependency on Housing Benefit for working tenants and provide some help with housing costs for poor home owners. This should complement rather than replace the existing Housing Benefit system, since any fully flat-rate system would be too crude to take in variations in rents between areas and properties. Current problems with existing tax credits would have to be resolved before additional resources were shifted into the tax credit system.

## The complexity and administration of Housing Benefit

People who claim Housing Benefit often face difficulties in meeting the bureaucratic requirements of the scheme. The Verification Framework, designed to combat fraud, means that large amounts of information must be collected and verified by local authorities before Housing Benefit is paid. But rather than effectively targeting fraud, it has unintentionally created barriers to vulnerable people claiming and receiving Housing Benefit. For example, a young person using Shelter's advice services submitted multiple bank statements requested by the council's Housing Benefit department. He was already in receipt of means-tested benefits, so his income had been verified once already by the DWP. A series of requests for additional pieces of evidence over a number of months delayed his claim, leading to large rent arrears and the threat of eviction by his landlord.

Despite recent improvements in administration, the complexity of the system continues to contribute to long delays in local authorities' processing of Housing Benefit. The most recent data show that it took an average of 33 days to process a new claim.<sup>29</sup>

28 An earned income disregard is the amount of earnings that claimants can keep before Housing Benefit starts to be reduced. This is £5 for a single claimant, £10 for a couple and an additional £5 per child or young person. These levels have not been updated with the cost of living. An increase would mean that people would keep more of their earnings

29 DWP Housing Benefit Quarterly Performance Statistics 2004/05, Quarter 4 [http://www.dwp.gov.uk/asd/asd1/hb\\_ctb/performance.asp](http://www.dwp.gov.uk/asd/asd1/hb_ctb/performance.asp)

There is still massive variation across the country, and some authorities continue to perform very poorly. A recent report by the Prime Minister's Strategy Unit found that deprived areas are more likely to have long processing times.<sup>30</sup>

The number of tenants facing possession action has increased dramatically in recent years. In 2003, more than 180,000 tenants in England and Scotland faced court action by their landlord and the threat of being evicted from their home.<sup>31</sup> Nearly all these cases relate to rent arrears. Research by Shelter found that Housing Benefit problems were a factor in 70 per cent of arrears possession cases across three county courts.<sup>32</sup>

### Shelter recommends

The Housing Benefit system needs radical simplification to meet the needs of claimants. Shelter has developed practical proposals for reform, based on first-hand experience of advising claimants, including:

- reducing and simplifying the requirements of the Verification Framework and instead investing in dedicated staff to target large-scale fraud
- reducing the number and rates of non-dependant deductions (expected contributions from adult household members) and capping these at a maximum of 50 per cent of the rent due
- narrowing the range of changes in circumstances that trigger a change in entitlement.

For a full set of recommendations, see <http://shelter.org.uk/hbstrat2005/>

### Local Housing Allowance in the private rented sector

The Local Housing Allowance (LHA) scheme was introduced for private-sector claimants in nine 'Pathfinder' local authorities in England, Scotland and Wales between November 2003 and February 2004. Nine more local authorities implemented the scheme from April 2005. The Government has a target for all private tenants to move on to the LHA scheme by March 2008.<sup>33</sup>

Shelter supports the objectives of the LHA. However, we have concerns about the way in which the LHA is set and the size of areas it covers. We believe that the Government should consult fully on the national roll-out of the scheme across the private rented sector,

30 Prime Minister's Strategy Unit/ODPM (2005) Improving the prospects of people living in areas of multiple deprivation, London: Strategy Unit, Figure 4.3

31 Court Service data for England, 2003. Scottish Executive National Statistics (2004) Scottish Housing Series Statistical Bulletin, HSG/2004/4, Edinburgh: Scottish Executive

32 Neuburger, J. (2003) House Keeping: Preventing homelessness through tackling rent arrears in social housing, London: Shelter

33 DWP Five Year Strategy 2005, PSA 9

after the evaluation of the nine Pathfinder schemes is complete. We also believe that the Government should consult separately before considering similar reforms to the social rented sector.

The Government is evaluating the Pathfinders over a two-year period: its evaluation includes large-scale surveys with tenants and landlords. Early results indicate that the transition has been relatively smooth. The Government has also suggested that some households have gained, typically because they are overcrowded and are entitled to an LHA on a larger property. However, it is likely that a significant proportion continue to face shortfalls, given that 60 per cent of claimants in the Pathfinder areas had their Housing Benefit fixed below their rent level before the scheme started.<sup>34</sup>

Shelter has been monitoring the effects of the LHA in four of the areas, focusing on its impact on affordability and access. The monitoring has found that unacceptable variations remain in the levels of LHAs across the different areas, which are set using the same formulas as for Local Reference Rents and Single Room Rent. In one area, Conwy, fewer than 10 per cent of properties have been affordable at LHA rates since the schemes commenced. Some of the main problems caused by the Housing Benefit system - landlords being unwilling to let to those claiming benefit, unaffordable rents, and long claim-processing times - all remain. It is also still the case that young single people on Housing Benefit face particular difficulties gaining access to private rented housing.<sup>35</sup> At a national level, recent government research has found that the Single Room Rent restrictions continue to prevent young claimants from obtaining accommodation in the private rented sector.<sup>36</sup>

34 DWP (2004)  
Claiming Housing  
Benefit in the Private  
Rented Sector, the  
baseline experience of  
claimants in the nine  
LHA pathfinder areas,  
London: CDS

35 Reynolds, L. (2005)  
On the Right Path?  
Shelter's research  
on Housing Benefit  
Pathfinders – Interim  
Findings, London:  
Shelter

36 Department of  
Work and Pensions  
(2005) Research into  
the Single Room Rent,  
London HMSO

## Shelter recommends

The Government should review regulations that lead to inconsistent and inequitable Housing Benefit rates in different areas, which have not been changed under the new LHA system. The LHA should be set so that a fair share of the market is accessible to people on Housing Benefit. This would begin to tackle the problem of affordability and lack of access to private rented housing for low-income households.

The Government should abolish Single Room Rent restrictions for people under 25, which restrict Housing Benefit to the average level for shared accommodation.<sup>37</sup> These restrictions cause widespread hardship and homelessness among young people. The restriction of young single people to a broadly corresponding 'shared room' rate under the LHA scheme would have the effect of continuing restricted access to accommodation.

The Government will publish an evaluation of the scheme after two years. It should wait for the full results of this before deciding the final design of the LHA scheme for private tenants.

## Local Housing Allowance in the social rented sector

It is likely that the Housing Benefit Reform Bill will pave the way for the extension of the Local Housing Allowance to the social sector. This will be piloted, indicating a more cautious approach than in the private rented sector. A flat-rate LHA scheme in the social sector would introduce restrictions that currently apply only in the private rented sector. At present, social tenants do not usually face restrictions on Housing Benefit if their rent is above average or if they are living in a larger home (with a higher rent) than they require.

Some people could benefit from the introduction of a flat-rate scheme. Households living in cheap or overcrowded homes would be able to keep the difference between their LHA and their rent. However, larger numbers of people are also likely to lose out. Households in larger homes with above-average rents would face a shortfall between their LHA and their rent. In contrast, the private sector LHA has been introduced in the Pathfinder areas so that no one faced an actual reduction in their Housing Benefit entitlement. The Government's intention is that tenants will be able to shop around for accommodation with rents at or below the level of their allowance. In practice, this is unrealistic in high-demand areas, such as London, where properties are often massively over-subscribed under choice-based lettings schemes. An equivalent

37 This is the conclusion of recent government research into the Single Room Rent. *ibid*

was the restriction, introduced in April 1998, on Council Tax Benefit to cover Council Tax on properties up to, but not above, band E. This was scrapped in 2003 because it caused hardship to low-income households, particularly in London, and prevented homeless households being allocated properties in more expensive bands.<sup>38</sup>

Rent restructuring is likely to result in rent increases for many council tenants, and for tenants in more expensive areas and better properties. Last year's review of rent restructuring also found that target rents for housing associations will be higher than anticipated, and that marked variations will remain between social landlords operating in the same area.<sup>39</sup> A flat-rate Housing Benefit system could therefore mean that the poorest tenants are prevented from moving into better neighbourhoods with more expensive properties, undermining the Government's objective to promote mixed communities. Rent restructuring is not planned in Scotland, so that differences between rents for different properties, and therefore shortfalls, would be arbitrary.

38 New Policy Institute (2003) *The Council Tax Poverty Trap – measuring the impact of Council Tax Benefit Restriction*, London: ALG

39 Wilcox, S. (2004) 'From rent policy to local housing allowances?' in UK Housing Review 2004/2005, Coventry/London: CIH/CML

## Shelter recommends

The current system, linking Housing Benefit to individual rent levels in the social sector, should remain. This is a vital safety net for millions of households. A flat rate of Housing Benefit for claimants renting in the social sector would mean that substantial numbers would see their Housing Benefit restricted below the level of their rent. This would cause shortfalls and reduce access to better properties and areas for the poorest tenants – problems that currently face Housing Benefit claimants in the private sector.

A flat rate of Housing Benefit would not provide choice in areas without enough social housing. In London and other areas of shortage, social tenants have very few opportunities to move or to make positive choices about their housing. If the planned pilots are going to genuinely test a flat-rate LHA scheme, the effects would have to be tested in areas with a shortage of social housing.

Shelter believes that the Government should pursue schemes that rely on tenants moving through their own choice, rather than being forced by financial hardship to do so. Choice-based lettings and mobility schemes such as MoveUK<sup>40</sup> can improve the amount of information and choice that social tenants have, as long as safeguards are included to support vulnerable people and ensure that homeless people are not disadvantaged. Above all, the supply of social housing needs to be increased to create more opportunities for choice and mobility within the sector. This can be achieved through investment in building more social homes or by buying and renovating existing properties.

## Paying Housing Benefit direct to claimants, not landlords

Under the existing system, regulation 94 of the Housing Benefit (General) Regulations 1987 allows claimants to have payments made direct to their landlord, by ticking a box on their application form. However, under the new LHA scheme, Housing Benefit is normally paid to tenants rather than to landlords.

Shelter has raised concerns about removing the option of direct payments to landlords, because many tenants do not have bank accounts, or have difficulty managing their money. Poor administration of Housing Benefit could also cause problems in some areas, where the burden of responsibility and risk would be passed on to tenants. The Government's survey of 3,000 claimants in

40 The ODPM Five Year Plan proposes a national MoveUK scheme to help tenants who want to move to find a job or home in another area. It also aims to help elderly people move from high-demand areas to retirement homes

the Pathfinder areas before the scheme began found that 98 per cent of them who had Housing Benefit paid to their landlord wanted this to continue. Key reasons were convenience, fear of budgeting problems and the security of knowing that rent will eventually be paid.<sup>41</sup>

In the nine original Pathfinder areas for the LHA scheme, 90 per cent of tenants now have Housing Benefit paid direct to them, compared with 50 per cent before the scheme started. Additional resources for benefits and debt advice have been provided to support this change. The Government's six-month update on the progress of the Pathfinder schemes concluded that it is too early to assess the impact of direct payments on rent arrears.<sup>42</sup>

At present, around 60 per cent of social tenants receive Housing Benefit. Over 90 per cent have it paid direct to their landlord or, if they are council tenants, rebated directly from their rent. Results from a pilot project conducted by London & Quadrant Housing Association suggest that rent arrears would be likely to rise significantly, with increased legal action by social landlords putting many tenants at risk of eviction.<sup>43</sup>

### **Shelter recommends**

It is right that tenants should be empowered to take responsibility for their finances and their employment and housing choices. However, changing the method through which the Government pays Housing Benefit is unlikely to have a significant impact. Instead, the Government should build on measures to tackle financial exclusion, including help to access and use financial services, improving financial literacy and increasing the availability of independent financial advice.

To improve work incentives, the Government should improve the interaction between Housing Benefit and tax credits and should radically simplify the Housing Benefit system. Options are outlined earlier in this briefing.

Tenants should be able to opt to have Housing Benefit paid directly to themselves or their landlord. Under the LHA scheme for private tenants, any additional Housing Benefit, above the level of the rent, would need to be paid to the tenant.

41 DWP (2004) Claiming Housing Benefit in the Private Rented Sector, the baseline experience of claimants in the nine LHA pathfinder areas, London: CDS

42 DWP (2004) Delivering the LHA. A summary of the early experiences of implementing the LHA in nine pathfinder areas, London: CDS

43 See Inside Housing, 27 May 2005, page 13

# Conclusions

Shelter believes that the arguments set out in this paper make a compelling case for reforming the way the Government subsidises housing.

The priority must be to tackle the shortage of affordable rented accommodation. Greater investment in social housing and a shift back to subsidising bricks and mortar will bring long-term benefits.<sup>44</sup> Affordable rents will enable people to enter work and escape poverty. Social sector rent restructuring must be based on a formula that ensures rents are low enough for working people to be able to cover their rent.

Housing Benefit should be retained but reformed. The relationship between the tax credit system and Housing Benefit must be addressed to improve work incentives and reduce poverty traps. One option is to disregard tax credit income when assessing Housing Benefit. Another would be to introduce a housing element into the tax credit system, although problems with current tax credits would need to be addressed.

The bureaucracy and complexities of the Housing Benefit system must be tackled. Building on recent improvements, further simplification measures would make a significant impact, and should be pursued alongside other reforms. Shelter has produced a detailed set of recommended reforms based on our experience of advising clients. See <http://shelter.org.uk/hbstrat2005/>

The Government should take the opportunity of Housing Benefit reform in the private rented sector to review radically regulations that lead to inconsistent and inequitable rates for private tenants in different local areas, and should abolish the Single Room Rent restrictions for single people under 25. This is the conclusion reached by recent government research into the Single Room Rent.<sup>45</sup>

The Government should also review whether the Local Housing Allowance is the right way forward for social housing, and design pilots to enable the scheme to be genuinely tested. The Government should pursue initiatives to increase choice and mobility in the social sector, which rely on tenants' moving through their own choice, rather than being forced to do so through financial hardship. Above all, the supply of social housing must be increased to promote choice and mobility within the sector.

44 In 2004, Cambridge University estimated that 55,000 additional social sector homes were required each year at an additional cost of £3.5 billion. These figures are due to be updated for 2005. Holmans, A., Monk, S. & Whitehead, C. (2004) Building for the future – 2004 update, London: Shelter

45 Department of Work and Pensions (2005) Research into the Single Room Rent, London HMSO

## Bad housing wrecks lives

We are the fourth richest country in the world, and yet millions of people in Britain wake up every day in housing that is run-down, overcrowded or dangerous. Many others have lost their home altogether. Bad housing robs us of security, health, and a fair chance in life.

Shelter believes everyone should have a home.

We help 100,000 people a year fight for their rights, get back on their feet, and find and keep a home.

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We can only do this with your help.

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