Shelter

Welfare Reform & Work Bill

House of Lords Briefing

November 2015

Shelter helps millions of people every year struggling with bad housing or homelessness – and we campaign to prevent it in the first place. We're here so no one has to fight bad housing or homelessness on their own.

The Welfare Reform & Work Bill seeks to alter the support available to people facing bad housing or homelessness. We are concerned that some of the measures will make it harder for the people we help to find and keep affordable accommodation, putting many more at risk of homelessness.

Summary

1. The **Benefit Cap** has fundamentally changed. The cap is no longer made with reference to average earnings, making it punitive. It will now affect much smaller families in less expensive areas. This will increase the risk of homelessness and price out-of-work families out of whole swathes of the country.

2. **Support for Mortgage Interest** benefit payments for homeowners will be replaced by a loan. Little accompanying detail has been announced. Loans should not put people's homes at risk and mortgage holders should be able to choose between a reasonable and affordable payment plan and deferring payment until the sale of the property.

3. Removal of the **Family Premium** will lead to reduced housing benefit for working families, making it harder for them to manage the shortfalls as the value of LHA falls. The impact of this change, as well as restrictions on growing families, has not been modelled by the government and is of concern.

4. **Reducing Social Rents** is welcome; tackling the high cost of housing is the only sustainable way of reducing welfare spending. But house building – the only way to bring housing costs down in the long term – must not be undermined, reinforcing the need for the Affordable Homes Programme.

5. The redefinition of **Child Poverty** is worrying. The new definition risks under-estimating the rise in in-work poverty and downplaying income risks obscuring families' ability to pay for decent housing. It will be a missed opportunity if the new definition does not capture the impacts of high housing costs on family finances and bad housing on children's lives.

1) Reducing the Benefit Cap

Section 7, pg. 8.

Key points:

What do the changes to the benefit cap do?

- It will break the benefit cap's link with average earnings
- The cap will affect much smaller families in less expensive areas than before
- It will more than quadruple the number of capped households

What impact will lowering the cap will have on local authorities and homeless households?

- We expect homelessness to increase as a result of the reduced cap
- Councils will struggle to find affordable settled accommodation for capped households
- Homeless families will become stuck in temporary accommodation (including B&Bs)
- But temporary accommodation will become increasingly unaffordable because the cap remains in place even during times of crisis
- Councils will be forced to place homeless families far from their support networks

The Welfare Reform and Work Bill seeks to reduce the benefit cap for families with children from £500 per week to £442 in London and £385 outside of London. This will include housing benefit to pay rent. Shelter remains particularly concerned that the cap ignores the high and variable housing costs paid by families across the country. With more people affected, more will struggle to pay their housing costs.

The government's rationale for the original cap was to ensure people claiming benefits could not receive more than the average family earnt. The original cap, therefore, was made with reference to average family earnings and has affected over 66,000 households to date, mostly large households in relatively expensive areas. Households could escape the cap if they moved in to work, however, only a minority of these were actually able to do so.

The new lower cap, however, fundamentally alters the nature of the policy. The new cap no longer makes reference to average incomes. This new, arbitrary threshold will drastically change the impact of the cap; rather than affecting large families in expensive areas it withdraws support from small families right across the country. For example, the new cap would affect a family with 1 child living in Guildford or a family with 2 children living in Leeds or Plymouth. It creates a postcode lottery at the heart of the safety net, with whole swathes of the country being deemed excessive for support.

The DWP estimate as many as 90,000 additional households will be subject to the new cap. This group, despite already being on low incomes and deemed in need of state support, could have their housing benefit substantially reduced, even though they do not live in areas considered atypically expensive. This will needlessly risk homelessness.

Those affected by the new cap will increasingly be ordinary sized families in averagely priced areas, simply struggling to make ends meet. The new cap will put these families closer to losing their homes.

The effect on local authorities is also very worrying. Councils have a duty to rehouse families who lose their home through no fault of their own. Families will be placed in Temporary Accommodation (TA) while a council decides whether it owes them this re-housing duty and then until a settled home can be found. For some families the wait for re-housing can be considerable. Whilst in TA, councils charge families rent to cover their own costs and this is commonly paid for by housing benefit. In some cases councils have to top up additional costs out of their own funds or their limited pot of Discretionary Housing Payments.

Councils are already struggling to secure enough TA due to a combination of limited funding and shortage of supply of self-contained accommodation, leading to an increase in B&B use or people being rehoused away from their local area.

The new benefit cap will increase demand for homelessness services and exacerbate the pressure on local authority supply of TA. For example, the London Borough of Enfield has projected that the number of their residents affected by the benefit cap will increase from 410 to 2,904, 12% of whom will be homeless families already living in TA.

With more homeless families affected by the cap, local authorities are likely to be forced into further subsidising the cost of temporary accommodation. This will be difficult for cash-strapped councils, increasing the incentive to place families in the cheapest areas far away from their support networks. It will also make it harder to permanently re-house homeless families as the benefit cap will make alternative housing options unaffordable. For larger families even social housing will be subject to the cap. The policy therefore risks the perverse scenario in which families are made homeless because of the benefit cap and then trapped in the limbo of temporary accommodation by the benefit cap at expense to the public purse.

Recommendation:

The Government should exempt newly homeless households from the benefit cap. This would allow councils to continue to procure nearby temporary accommodation and make it easier for them to move households into affordable accommodation. It will also help councils focus their DHPs and their own budgets on homelessness prevention.

2) Support for Mortgage Interest (SMI) Grant to Loan

Section 16, pg. 15.

Key Points:

- The benefit for homeowners will be replaced by a loan
- Loans must not become an additional burden for struggling households
- Clarity is needed on whether people can defer payment until the sale of a home without penalty
- SMI should not be delayed from 13 weeks to 39 weeks given financial costs to DWP are reduced

People who are out of work and struggling with mortgage payments may be eligible for Support for Mortgage Interest. This benefit covers the cost of a person's mortgage interest (but not capital repayments) up to a £200,000 capital limit.

The Bill seeks to turn new SMI payments in to loans from April 2018 onwards. Interest will be charged on the loans, which will be secured on the claimant's property as a 'second charge', effectively a secured loan on top of the existing mortgage.

Paying support through a loan rather than benefit payment may be a sensible reform in principle, given that SMI enables homeowners to retain an asset and potentially gain substantially from rising house prices. But it must be introduced in a way that does not exacerbate affordability problems. It is also vital that households are able to access independent advice to decide whether a loan is the best option for them.

The Budget indicated that a repayment plan will be agreed when a person's circumstances improve (for example they move into work) or when the property is sold. However, it is currently unclear which repayment mechanism the government intends to pursue. SMI should never make a household's situation worse – any repayment plan must be affordable and not compromise their ability to stay in their home.

The Budget also announced an increase in the waiting period for SMI eligibility to pre-recession levels - up from 13 weeks to 39 weeks. This will be done in accordance with regulatory powers within the Bill and will come into force in advance of the move from grants to loans. This will mean a significant and worrying delay in support for mortgage interest.

Once the loan scheme is introduced there is no need to make people wait for assistance and quicker access to credit could be beneficial, whilst waiting could increase the risk of people turning to toxic forms of debt, such as pay-day lenders or loan sharks, and risking arrears.

Recommendation:

The Bill gives huge scope for the government to set the terms of repayments but more details are needed about the government's intentions around repayments. Whilst a loan may help prevent the loss of a home, imposing unsustainable repayments could eventually tip people in to repossession and homelessness. Those who access SMI must be able to defer repayment until they sell their property, without pressure from the government to sell.

Increasing the 13 week waiting period to 39 weeks is unnecessary in the long-term. With SMI effectively becoming a form of low-risk, consumer credit, it should be readily available to those struggling to make repayments. The government no longer bears the risk of paying mortgage interest indefinitely with no hope of repayment. With this reduced risk, help should be made available sooner rather than later.

3) Removal of the Family Premium

Section 12, pg. 13.

Key Points:

- Removing the family premium from the housing benefit means test will lead to loss of income for low income working families
- The changes will affect working households only and will reduce housing benefit
- The loss of income will exacerbate the financial pressure created by falling LHA rates

The Summer Budget announced changes to the means test for housing benefit which will make it less generous for working families. The changes remove the family premium, which means families are assumed to need less to live on, and cap the allowance for children at two children, meaning the living costs of additional children are not taken into account. Already overstretched family budgets will have to be squeezed further if families are to pay the rent.

The Family Premium will be removed from the housing benefit calculation for new claimants from April 2016. This is an income allowance worth up to £17.45 per week for families with children and was designed to reflect the increased cost pressures families face. We are disappointed that the DWP has not produced any modelling on the impact. Shelter calculates that a single parent working part time (20 hours a week) at the new national living wage would lose around £11 per week.

The housing benefit means test will no longer reflect the additional costs of a growing family from April 2017. New claimants will not be eligible for a 'child allowance' for third or subsequent children. This reflects new restrictions on tax credits for more than two children. It will reduce the amount of housing benefit larger families are eligible for. Again, we are disappointed that DWP has not modelled the financial impact of this.

Recommendation:

We are concerned that these changes, which affect working households only, will reduce affordability at a time when housing benefit is already increasingly inadequate. This will make it even more important that LHA rates reflect actual rents so families are not left with shortfalls. LHA rates should reflect the actual cost of renting and not be frozen for four years.

4) Reducing Social Rents

Section 21, pg. 19.

Key points:

- Shelter welcomes the reduction in rents for tenants in social housing
- Lost revenues for housing associations or local authorities wanting to build reinforces the need for the Affordable Homes Programme to be maintained so homes to rent can still be built
- It is welcome that housing benefit savings are being sought by reducing the cost of housing and this approach should be taken further by investing in genuinely affordable housing to shift public expenditure from benefits to bricks over time

The Welfare Reform & Work Bill seeks to reduce social rents by 1% for four years. This is good news for those on low incomes in social housing, whose rent will be reduced. The policy will also mean large savings on the welfare budget for the Department of Work and Pensions and is preferable to further cuts to housing benefit that are borne by tenants.

Tackling housing costs in this way, however, must not undermine the viability of house building itself. Many housing associations and local authorities use social rent revenues to fund the building of more homes. The Office for Budget Responsibility estimates the reduction in social rents could result in 14,000 fewer homes being built, whilst the National Housing Federation estimates the loss to be as much as 27,000.

The UK already builds less than half of the houses it needs, reducing the number of homes built – even if rents are reduced for some in the meantime – will not bring down the cost of welfare sustainably in the long term. Housing associations and local authorities, therefore, need continued access to alternative forms of funding, such as the Affordable Homes Programme, to continue to build homes to rent.

We are particularly worried about the impact on supported housing providers, who provide accommodation and services for homeless households among other vulnerable groups. The government has partially recognised this risk with a limited exemption from some supported housing providers.

Reducing the benefits bill can only be sustainably achieved through reducing the cost of housing, which this policy recognises and seeks to do. Further long-term reductions in housing benefit can be achieved if the government invests in genuinely affordable social housing. This will reduce reliance on the expensive private rented sector, meaning working households are less likely to require a housing benefit top-up and reducing the cost of housing people who continue to require support.

Recommendation:

For those local authorities and housing associations who use revenues from social rents to fund house building, the importance of the Affordable Homes Programme is reinforced. AHP funding should be protected, if not increased, to ensure the building of affordable homes to rent continues, helping to alleviate the high cost of housing and subsequently welfare spending.

All specified accommodation should be exempt from the reduction, in order to ensure supported housing providers can continue to work with vulnerable households.

5) Changing the definition of Child Poverty

Section 6, pg.6.

Key point:

- The new definition fails to capture the true extent of child poverty, most notably the cost of housing for low income families

The government proposes to redefine child poverty. The Bill will abolish the existing four indicators based on family income and reframe child poverty in relation to behaviour, (such as unemployment, addiction and family breakdown).

This new definition fails to capture the true extent of child poverty and in particular the impact of the cost of housing on low income families. We are particularly concerned that it will downplay the recent growth of working poverty at a time when changes to housing benefit and tax credits will penalise many working households and reduce their income.

Recommendation:

In order to develop a true picture of the extent of poverty in the UK we need a clear focus on the structural and financial causes of poverty, with the impact of rising housing costs front and center – as well as supporting families and addressing barriers to work and progression.

Moving to a multidimensional measure should also capture the importance of overcrowding, poor conditions, stability and security on the development of families. Reliable datasets exist for many measures of housing need, making this suitable for inclusion in what risks becoming a nebulous measure of life chances.

If you are interested in helping Shelter oppose these changes, or for more information, please contact Scott Dawes on 0344 515 2052 or email Scott_Dawes@shelter.org.uk