

**Cartrefi
Cymunedol**



**Community
Housing**

Cymru

Proposed Housing Benefit Reforms and the Impact in Wales

- A briefing paper

October 2010



1 INTRODUCTION

In his Emergency Budget speech on 22 June the Chancellor of the Exchequer, George Osborne, announced a major reform of Housing Benefit from April 2011. This forms part of larger 2011 welfare reforms that aim to make the system fairer and more affordable.

The measures include:

- re-setting and restricting Local Housing Allowances
- increasing non dependent deductions
- reducing certain awards
- cutting Housing Benefit by 10% for those claiming JSA for more than one year.
- restricting Housing Benefit for working-age claimants in the social rented sector who are living in a larger property than their household size warrants
- new maximum limits on housing benefit: from £280 a week for a one-bedroom property to £400 a week for a property of four or more bedrooms
- re-adjusting Support for Mortgage Interest (SMI) payments - currently 1.58 percentage points above the Bank of England Base rate; from October 2010 SMI will be paid at the Bank of England's published Average Mortgage Rate

2 CHANGES TO HOW THE RATE OF HOUSING BENEFIT IS SET

He also announced changes to how Housing Benefit is calculated. From April 2011, Housing Benefit will be set in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). Both are measures of inflation published monthly by the Office for National Statistics. The CPI measures the average changes in the prices of consumer goods and services in the UK from month to month. It is the main UK measure of inflation, and forms the basis for the government's inflation target. The RPI is similar in nature to the CPI, but differs in the type of goods covered and how it is calculated. The RPI includes mortgage interest payments and housing depreciation, while the CPI does not

The Chancellor said that the combined measures would reduce the cost of Housing Benefit by "£1.8 billion a year by the end of the Parliament".



3 THE IMPACT IN WALES

236,110 (8%) of individuals receive Housing Benefit in Wales. Of these 69% live in social rented housing and 31% in the private rented sector. While Community Housing Cymru has supported arguments for welfare reform, in particular, a simplification of the benefits systems, we believe that the current proposals will:

a) have a detrimental affect on the most disadvantaged groups in society with many of these being driven into debt, falling into arrears or losing their home.

This is endorsed by a study from the IFS which showed that changes will hit poor families hardest – it is anticipated that low-income families with children will suffer over a 5% loss as a percentage of net income.

We know that a reduction of 10% in Housing Benefit for tenants in receipt of JSA for more than one year will leave those individuals with difficult choices about how they make up their housing cost. Under increasing financial pressure, and limits on their ability to move to cheaper accommodation, it is likely that rent arrears will increase. While eviction is only ever used as a last resort in the social housing sector an every effort will be made to assist with transfer this does not apply to the private rented sector. It is also the case that if rent arrears are not managed Associations may also be forced to take legal action.

The public sector, is the largest employer in Wales and in the face of proposed cuts there is already a freeze on recruitment in the public sector and therefore the opportunities these individuals have to find employment are also reduced in the current economic climate.

Financial penalties for those currently under occupying will also have an adverse impact on those on low incomes. It will affect those actively seeking a new property as much as those who are not. Many housing associations already offer incentives to tenants who are living in properties that are too large for them.

From 2012, single people under 35 will also be paid a shared room rate rather than a rate for a full flat. The shared room rate is lower than all other housing benefit payments and is currently paid to claimants under 25. It is based on the amount of rent charged for a single room with shared use of the rest of a house. This will mean more individuals will only get half their rent paid leaving a massive shortfall to attain from other income.

b) lead to an increased demand for social housing at a time when there is already a backlog of unmet demand

Currently, 48,710 people in Wales receive Local Housing Allowance (LHA). The DWP estimates that 48,530 of these will lose out under the package of reforms due to come into force in 2011-2012.

The changes entail calculating LHA rates at the 30th percentile of private sector rents in the area instead of the current method, which bases LHA rates on the average private rent and up-rated the LHA rate by the CPI as opposed to the RPI. The LHA will also be capped at £250 a week for a one-bedroom home, £290 for two bedrooms, £340 for three bedrooms and £400 for four bedrooms. In Neath Port Talbot, 99 per cent of those renting two-bedroom homes would lose out. In Gwynedd, the average loss for those renting four-bedroom homes would be £23 per week. Those renting three-bedroom homes in Conwy, Denbighshire, Ceredigion, Vale of Glamorgan, Ynys Mon, Gwynedd, Newport, Cardiff and Bridgend would lose between £10 and £16 a week.

A study showed that within two years of the changes coming into effect it is projected that no properties will be available that can be fully paid for with LHA. This will have a significant effect on those claiming benefit in the private rented sector as there will be fewer properties available to them in their area where their full rent could be covered. Tenants in private sector accommodation will have to make up a shortfall in their rent from their income. If they are unable to do this they could either move to a more affordable area risking the polarising of lower income groups or they enter into debt and risk losing their home. This will undoubtedly raise demand for social housing which is already limited in supply.

Some housing associations have entered into private sector leasing schemes to increase the supply of homes available to tenants. The proposed reforms mean that private landlords will be wary of entering into these arrangements or may pull out of existing arrangements due to the likelihood of rent arrears. We already know that one rural housing association in Wales has refused to enter into a contract with some private landlords as the contract will not be financially viable.

Deductions from the claimant's eligible rent where other adults live with claimant who are not part their family for benefit purposes (typically the claimant's own adult children who are either working or claiming in their own right) are also set to increase dramatically. This will mean tenants sharing their home with other adult(s) will need to collect more money from the other adult(s) to contribute towards the rent, or make up the difference from their own money. The rates of deduction are particularly severe where the adult occupier earns more than £200 per week (nearly everyone in full time work). In many cases the deduction level will be such that it will disqualify the tenant from housing benefit altogether even where the tenant is on a qualifying passport benefit (e.g. income support, pension credit). These changes will be an incentive for tenants to encourage their children to leave home and a disincentive to voluntary sharing. It may also mean individuals are less willing to care for their elderly parents in their own home. They will hinder tenants' own ability to deal with under-occupation and will result in a particularly harsh dilemma: if the tenant allows the occupier to stay they could lose all of their

- c) Limit the capacity of the sector to build new homes and invest in community regeneration**
-

In certain cases some housing associations will write off rent arrears and subsidise the cost through their own income. However, with public spending cuts and Social Housing Grant being in short supply, if non-existent, in Wales over the next couple of years the sector is already facing the prospect of shrinking development programmes. Therefore any further increases in rent arrears will adversely impact on their capacity to subsidise capital programmes as well as their ability to invest heavily in wider community regeneration activities. A study by Alan Holmans¹ showed that there is already a current backlog of unmet housing need which is estimated at 9,500 households in Wales.

4 CHC's RESPONSE

The proposed reforms will apply in all UK regions and the impact will, to a greater or lesser extent, be the same with the most vulnerable being hardest hit. For this reason CHC has joined forces with The Scottish Federation of Housing Associations, the National Housing Federation and the Northern Irish Housing Federation in order to launch a UK-wide campaign against these proposals and find a fairer system that does incentivise work but also protects those who are most vulnerable.

We have also joined forces in Wales with Shelter Cymru, Mind Cymru, Citizens' Advice Cymru, Gofal, Cymorth, Chartered Institute of Housing, the National Landlords Association and the Welsh Tenants Federation, and issued a joint statement to say that the cuts will disproportionately affect the most vulnerable in society and lead to greater social and economic costs in the longer term.

There is also an on-line petition you can sign see link
<http://www.gopetition.com/petition/39584.html>

5 NEXT STEPS

Actions for CHC

- Dispelling the myth that those in receipt of HB are unworthy or scroungers of the state. Only 22% of LHA claimants are unemployed. The majority of tenants in receipt of HB are the elderly and disabled.
- Make the case for job creation which is meaningful
- Highlight that the proposals are false economy and will actually lead to more demands on the state
- Come up with alternative models in conjunction with the sector which:
 - Allow for a smooth transition
 - Are realistic about direct payments
 - Focus on quick and quality services
 - Are of real value and benefit the client group

¹ Holmans, A. Housing Need and Demand in Wales.

- Allow for long term stability irrespective of political changes

Actions for members

- Mapping out which of their tenants will be hit
- Provide advice and support to tenants about what the Association will be doing to mitigate the impact of the cuts. Reinforcing messages that social landlords will be doing all the can to support tenants
- Working with LAs to discuss the management of increases in homelessness including proposals for central administration of HB in future.
- Consulting with the private rented sector on existing leasing scheme/ bonds etc.

Amanda Oliver

Head of Policy and Research

October 2010

