



“Keep Moving”

Studying the introduction of announced changes to Housing Benefit, on a case study family as they are introduced over the next three years.

Key findings:

- Changes to Housing Benefit combined with the introduction of caps on overall welfare payments for out of work households could lead to families facing repeated falls in income over the next 3 years.
- If they stay where they are, an out of work Lone Parent with 3 children rent of £450 and Council Tax of £20 per week, could see their household income after housing costs fall to just £30 per week (just over a pound a day for each member of the household) by April 2013.
- Because of the changes being introduced at different times, some households may find themselves in a position where they need to move repeatedly – a few may have to move 3 times in 3 years in order to escape the impact of the changes.
- In addition to the housing benefit caps announced in the budget this year, the welfare caps effectively act as an additional, in and many cases, substantially lower, cap on housing benefit receipt. The analysis shows that a couple with seven children would be entitled to receive no help with their rent as a result of the welfare caps.
- Despite the Government’s intentions to substantially simplify the benefits system, (for instance, through the introduction of the “Universal Credit”,) the changes proposed actually create an extremely complicated system of transitions, where families will find it difficult to determine what their benefit entitlements should be from one year to the next.
- The introduction of LHA caps, and reductions in reference rents will affect large numbers of working households claiming Housing Benefit. A working Lone Parent, with 3 children earning £100 per week with a current eligible rent of £435 per week could lose £95 per week as a result of the introduction of the Housing Benefit caps – an amount equivalent to almost all of their earnings from work.

1) About Family Action

Family Action has been a leading provider of services to disadvantaged and socially isolated families since 1869. We work with over 45,000 vulnerable families and children a year by providing practical, emotional and financial support through over 100 community-based services across England. Additionally in 2009-2010 we distributed 4,218 grants totalling over £1,104,883 to families and individuals in financial hardship throughout the UK. Family Action won the 2009 Charity Awards Foundation award for effectiveness and jointly with CAB, Gingerbread and our sponsors Barclaycard the 2010 Third Sector Award for best corporate partnership for Horizons, an integrated welfare advice, training and educational grants package for lone parents. Find Family Action on the Web at www.family-action.org.uk.

Family Action works with vulnerable families in the home, providing early intervention services that strengthen families, assisting them to take more responsibility for their lives, parent their children, where appropriate, helping them to move towards employment. The changes overviewed in this paper would make that job harder by undermining the financial and housing security of families in receipt of Housing Benefit.

We are very happy to further discuss any aspect of this briefing. To contact us please e-mail sam.royston@family-action.org.uk or telephone 02072 417604.

2) Introduction

The Government have announced a number of changes which affect households claiming Housing Benefit to help with their rent. Most of these were announced in the June 2010 budget, however further announcements about the introduction of “welfare caps” were also made at the Conservative party conference which would also impact upon the amount of support which claimants will receive.

To summarise, these changes are:

April 2011:

- *From April 2011, Local Housing Allowance Rates will be capped at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per week for a three bedroom property and £400 per week for four bedrooms*
- *From April 2011, the five bedroom Local Housing Allowance rate will be removed so that the maximum level is for a four bedroom property.*
- *From April 2011, Housing Benefit claimants with a disability and a non-resident carer will be entitled to funding for an extra bedroom.*
- *The Government contribution to Discretionary Housing Payments will be increased by £10 million in 2011-12 and £40 million in each year from 2012-13.*

October 2011:

- *From October 2011, Local Housing Allowance rates will be set at the 30th percentile of local rents.*
- *Deductions for non-dependents will be uprated in April 2011 on the basis of prices. This will reverse the freeze in these rates since 2001-02.*

April 2013:

- *From April 2013, housing entitlements for working age people in the social sector will reflect family size.*
- *Housing Benefit awards will be reduced to 90 per cent of the initial award after 12 months for claimants receiving Jobseekers Allowance. This will be introduced in April 2013.*
- *From 2013-14, Local Housing Allowance rates will be uprated in line with CPI (rather than rental prices as at the moment).*
- *From 2013, household benefit payments for will be capped on the basis of median earnings after tax for working households, which is estimated to be around £500 per week by 2013. All Disability Living Allowance claimants, War Widows, and working families claiming the working tax credit will be exempt from the cap. The cap will apply to the combined income from:*
 - *The main income replacement benefits (Jobseeker's Allowance, Income Support, Employment Support Allowance);*
 - *Other means-tested benefits (including Housing Benefit and Council Tax Benefit);*
 - *Child Benefit and Child Tax Credit;*
 - *Other benefits (including Carer's Allowance and Industrial Injuries Disablement Benefit.*

This briefing discusses how these changes will lead to repeated income fluctuations for many low income households. The changes could lead to many families having to leave their home, and in some circumstances, families may find themselves in a position where they have to do so on more than one occasion- as the report shows, in some circumstances, from 2011, some families may have to move three times in three years. Whilst this situation would be unusual, it is certainly not impossible, and illustrates the complexity and confusion which the changes will cause to people's lives.

3) Change 1: From April 2011 as a result of Housing Benefit caps and the removal of fifth bedroom rate

The proposed LHA caps, and the removal of the fifth bedroom rate, are due to be introduced in April 2011. At this point, Local Housing Allowance Rates will be capped at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per week for a three bedroom property and £400 per week for four bedrooms or more.

At this point new claims will be assessed on the basis of the new rates. In addition, as housing benefit claims come up for reassessment (which is usually on an annual basis (CPAG, 2010, p268)) they will also find their reference rent reduced if it is greater than the caps.

Therefore, during the course of the year, households will see their Local Housing Allowance reduced when they reach their reassessment date. For instance, take the following example:

Samantha Jones is a Lone Parent, living in London with her 3 children. She makes a claim for Housing Benefit in June 2010, they have rent of £450 per week for a 3 bedroom privately rented house¹. The applicable LHA rate for a three bedroom property in their Broad Rental Market Area (based on the median rent for the area) is £435 per week. As a result, their maximum Housing Benefit entitlement is £435 per week. Samantha has to make up the £15 shortfall on her rent from her own disposable income².

Samantha is in work; she works 16 hours per week and earns £100. She doesn't have any childcare costs, because she has family locally who take care of the children. Since she is in work, she faces means tested deductions from her Housing Benefit. Her total income package is as follows:

*Housing Benefit - £422.98
Council Tax Benefit (CT of £20pw)- £16.30
Tax Credits - £216.16
Child Benefit - £47.10
Net Earnings - £100*

Total income after housing costs (of £470): £332.54

The claim is reassessed in June 2011³. At this point the median rent for a three bedroom property in this area is still £435 per week, however the introduction of Housing Benefit caps in April 2011 means that their eligible rent is reduced to £340

¹ The example is based on the reference rent for a 3 bedroom property in the Inner North London Broad Rental Market Area for October 2010. A full list of reference rents is available from the VOA website at: http://www.voa.gov.uk/LHADirect/Documents/LHA_percentile_rates_Oct_2010.html

² This situation is by no means unusual. Shelter estimate that nearly half of LHA recipients receive a shortfall between their LHA and their rent

<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/memo/hb/hb72.htm>

³ Incomes throughout are based on benefit levels in October 2010.

per week. As a result, all her other benefits remain the same but she loses £95 per week from her Housing Benefit (notably an amount almost exactly equivalent to her earnings from work).

Since her Landlord refuses to reduce the rent on the property, this reduces her total income after housing costs to £237.54

Samantha finds it very difficult to afford the additional £95 per week from an already tight budget. As a result of the changes the family move into a smaller 3 bedroom property in Outer North London, where typical private rental prices are below the £340 cap (at £299.18). Though this means moving away from her job, and from her friends and family, and although Samantha has concerns about the quality of the flat, the rent for this property is £299.18 per week, making the full rent eligible for assistance through the Local Housing Allowance. This brings her total disposable income up to £347.54.

However, as a result of the move away from her work, and in particular, away from her family who provided free assistance with childcare whilst she is at work, Samantha finds that she has to leave her job. This reduces her income again, this time to £255.56 per week.

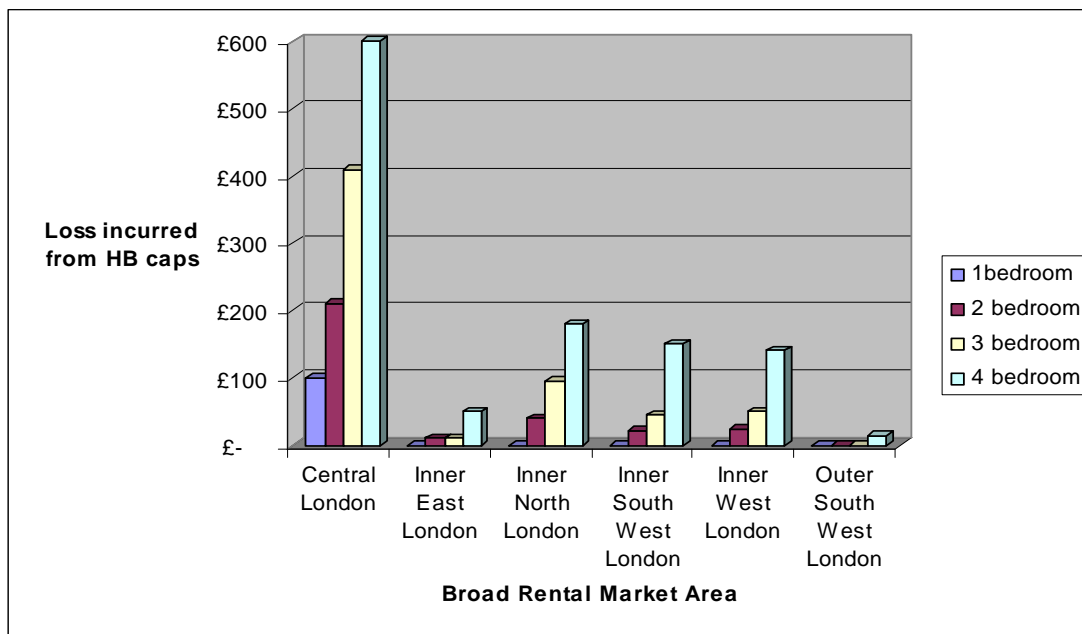
The introduction of the LHA caps (and the removal of the fifth bedroom rate) are estimated to affect 17410 claimant households in London (11% of LHA recipients in the city). Samantha's loss is only slightly above the average, since these households are estimated to lose an average of £81 per week. The removal of the fifth bedroom rate will affect an additional three and a half thousand claimant households outside of London.

In total 21060 claimant households will lose an average of £74 per week as a result of the caps and the removal of the 5th bedroom entitlement.

The following chart shows, for key Broad Rental Market Areas in London the losses faced by households in receipt of their current local reference rent (the current maximum housing benefit they are typically entitled to receive), as a result of the introduction of caps on housing benefit payments.

Although the losses incurred for households in central London dwarf other areas of London, the losses in other areas are nonetheless severe. For example, a household receiving LHA at the local reference rent in the Inner West London BRMA would lose £135 per week. Even in a 2 bedroom house they would lose £25 per week – a substantial cut for families on the lowest incomes.

Chart 1: Weekly losses incurred from introduction of LHA caps when compared to current local reference rents



Although some households may receive help with their shortfall in housing benefit receipt through the increased help the Government is making available through discretionary housing payments, this additional assistance is inadequate to cover the numbers of people affected by both the introduction of LHA caps, and by the reduction in reference rents to the 30th percentile of local rents.

4) Change 2: October 2011 - reduction in reference rents

From October 2011, Local Housing Allowance rates will be set at the 30th percentile of local rents. From this point, new claims for HB will be assessed on the basis of both the LHA caps, and the 30th percentile reference rent (whichever is lower). In addition, again, as housing benefit claims come up for reassessment, they will also find their reference rent reduced if it is greater than the 30th percentile of local rents.

In many areas which had already seen reductions in housing benefit entitlement through housing benefit caps, the introduction of the 30th percentile rule will have no impact (since the local reference rent, even at the 30th percentile of local rents, is higher than the caps.)

However, in some places, households can be affected by both the LHA caps introduced in April, and also by the reductions in reference rents introduced in October. This could happen for one of three reasons:

1) The caps are lower than the household's reference rent based on median local rents, but are higher than the 30th percentile of local rents. As a result, Housing Benefit entitlement is reduced to the relevant LHA cap in April 2011, and then to the 30th percentile of local rents in October 2011 – claimant households who have a

redetermination of their Housing Benefit entitlement between April and October would have entitlement reassessed.

2) The household was affected by the removal of the fifth bedroom entitlement. In many cases (including outside of London) households will have their Housing Benefit entitlement reduced as a result of previously being entitled to a 5 bedroom property, but having this reduced to an entitlement to a 4 bedroom property. In cases where their HB redetermination happens between April and October, they are then likely to have their entitlement reduced again the following year, after the reference rent for four bedroom properties is reduced to the 30th percentile of local rents.

3) Households move to a new area between April and October 2011. In such cases they may move from a property affected by the LHA caps but not by the 30th percentile reduction, to a property not affected by the LHA caps but affected by the reduction to the 30th Percentile.

Samantha's family have now moved from Inner to Outer South West London:

Samantha's claim for Housing Benefit is reassessed in June 2012. At this point the applicable LHA rates have been reduced to the 30th percentile of rents for the area. This reduces their relevant LHA rate from £299.18 per week, to £276.16 per week. As a result, they lose £23.02 from their Housing Benefit.

Since all their other benefits remain the same, Samantha's family see their disposable income reduce from £255.56 per week, to £232.54.

Now out of work, and with money extremely tight, Samantha again finds it difficult to pay the difference between their rent of £299.18 per week and their new reference rent of £276.16 per week. As a result, her family move to a new property. Again, this time with great difficulty, they are able to find a property, this time in the same area, for £276 per week.

This increases her disposable income to around £255.56 again.

Around 775,000 claimant households will lose out as a result of setting LHA rates at the 30th percentile of rents, each losing an average of £9 per week. More than 113,300 of these households will be in London, each losing an average of £17 per week.

5) Change 3: April 2013 - the introduction of welfare caps

It has been proposed by the Treasury, that the benefits cap for out-of-work households will be introduced in 2013. It has been suggested benefits will be capped at around £500 per week. Although limited details are known at present, the Government has suggested that the cap will apply to all out of work benefit recipients, except those receiving DLA or who are War Widows.

With the Treasury proposing that benefit income above the welfare caps would be deducted from Housing Benefit receipt, the welfare caps effectively act as a further Housing Benefit cap for out-of-work households, which will vary depending upon the claimant’s household size.

The following chart shows the effective Housing Benefit caps which would be applied by capping welfare receipt at £500 per week. It shows that the caps are variable depending on household size, with larger households having lower effective caps.

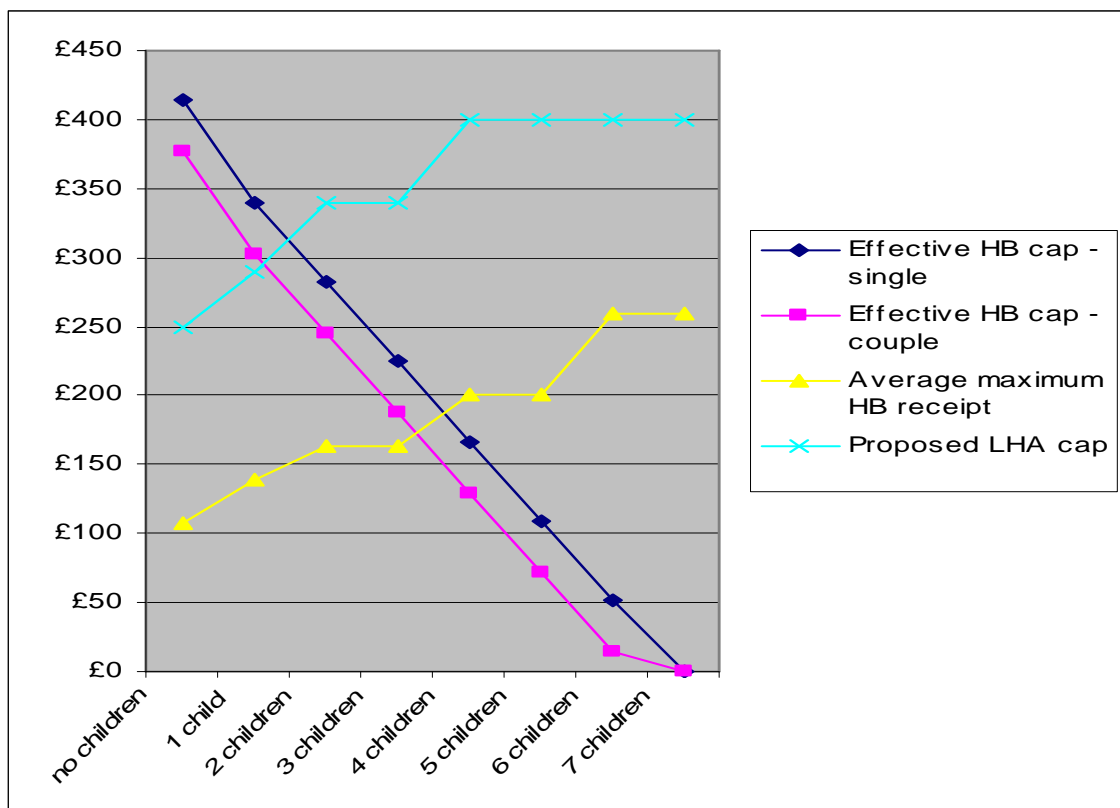
These effective caps are compared to current average maximum Housing Benefit receipt nationally, and to the levels of the proposed LHA caps.

The findings show that the effective HB cap is lower than current national average maximum HB receipt for households with 4 or more children.

It also shows that in expensive areas (where the housing benefit cap will apply,) the welfare cap gives an effective Housing Benefit cap which is lower than the proposed Housing Benefit cap maximum entitlement for households with two or more children.

The welfare caps would mean that a couple with six children would receive only £14 in Housing Benefit. Neither a couple nor a Lone Parent with 7 children would receive any help with their housing costs.

Chart 2: Plotting the impact of “welfare caps” as effective housing benefit caps⁴



⁴ Calculations assume property sizes as follows: no children (1 bed), 1 child (2 bed), 2 children (3 bed), 3 children (3 bed), 4 children (4 bed), 5 children (4 bed), 6 children (5 bed), 7 children (5 bed). Council Tax is assumed at £20 per week.

	Effective HB cap - single	Effective HB cap - couple	Average maximum HB receipt	Proposed LHA cap
no children	£415	£377	£107	£250
1 child	£340	£302	£139	£290
2 children	£282	£245	£164	£340
3 children	£224	£187	£164	£340
4 children	£167	£130	£201	£400
5 children	£109	£72	£201	£400
6 children	£52	£14	£260	£400
7 children	£0	£0	£260	£400

Unfortunately, since moving to a new area, Samantha has been unable to find employment. Whilst Samantha is out-of-work, the introduction of welfare caps could again affect Samantha's family:

With eligible rent of £276 per week, and Council Tax of £20 per week, the Jones family's overall benefit entitlement is £551.56 per week⁵.

As a result of the welfare cap, Samantha's benefits are cut to £500 per week, losing her £51.56 per week. This deduction is made from her housing benefit, and she is left with £224 per week in help with housing costs.

In her current accommodation, this reduces her family's disposable income to £204 per week.

Samantha is unable to find affordable housing at the price offered in her area. However having moved away from friends, family and her children's school, to a new area, she does find housing costing £200 per week. Average rental prices in this area are considerably lower than where she moved from, and the reference rent for this property is also £200. As a result her disposable income is increased again to £255.56.

⁵ Based on benefit entitlements in October 2010.

6) Change 4: April 2013/2014 - 10% reduction in Housing Benefit for households receiving Job Seeker's Allowance (JSA) for more than 12 months.

The Government have yet to lay out detailed proposals for the introduction of the scheme to reduce Housing Benefit by 10% for households receiving JSA for more than 12 months. In particular, although they have specified that the new rules will be introduced in April 2013, it has not been specified whether they will apply to claimants who have received JSA for 12 months at the point at which they are introduced, or whether they will “start the clock” for JSA claimants, in April 2013.

If it is the latter, then (assuming she remains unemployed) Samantha's family will have the reduction in Housing Benefit applied the following year, in April 2014. Assuming this to be the case:

Samantha is still unemployed in April 2014. At this point, she has been on JSA for a full year, since her youngest child turned 5 at the start of 2013. Samantha's Housing Benefit receipt is still £200 per week, and as a result is reduced by £20 per week in 2014 to £180.

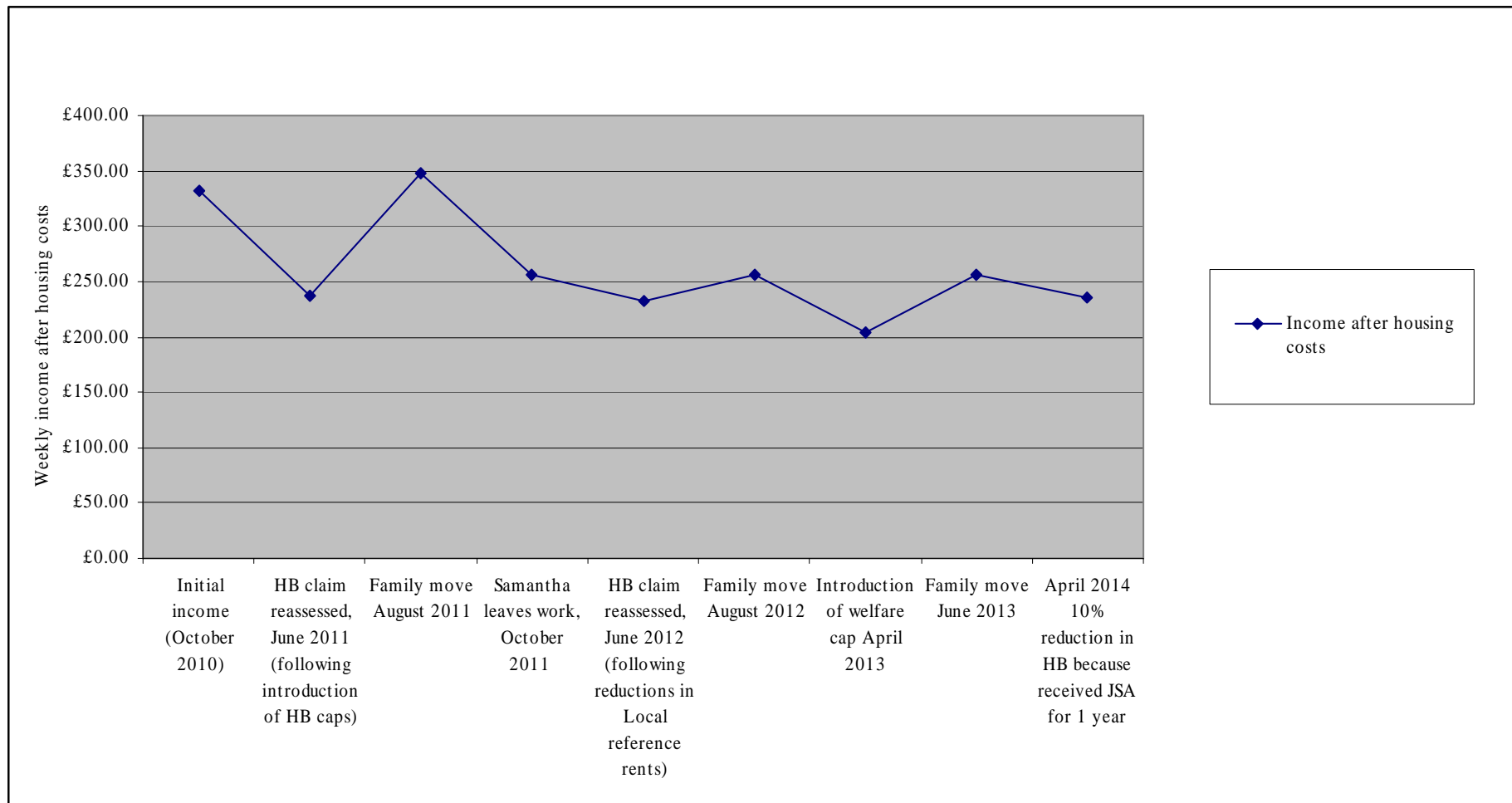
As a result her disposable income is reduced again from £255.56 to £235.56.

7) Summary – the impact of the Housing Benefit changes, and the introduction of welfare caps, on Samantha Jones' family

The following chart summarises the impact of all of the changes over time on Samantha Jones' family.

As can be seen, the changes cause repeated income fluctuations throughout the next four years. As a result, they add considerable complexity to the benefits system, making it extremely difficult for a family like Samantha's to know how their income will change over time.

Chart 3: Samantha Jones family income from October 2010 to April 2014⁶



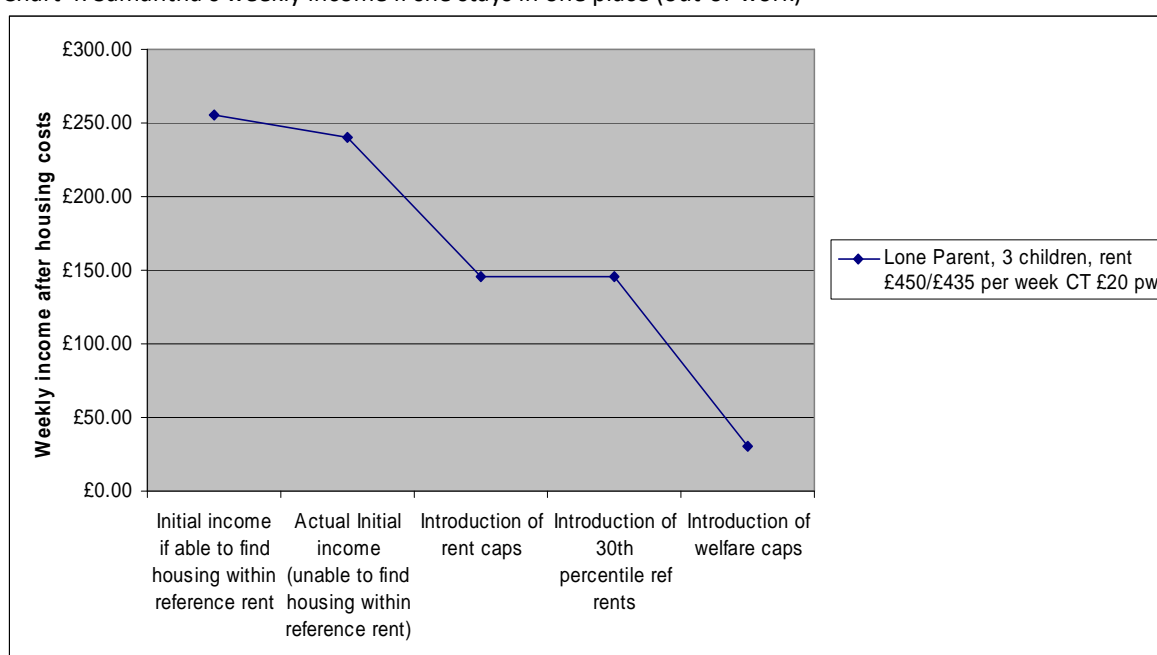
⁶ At benefit rates for October 2010

5) The Other alternative – what if Samantha doesn't move?

Samantha has the alternative of staying in her current accommodation rather than moving to somewhere with a lower price. The following chart illustrates how Samantha's income would be affected if she chose to remain in the same accommodation throughout the period discussed (the first point on the chart shows what her income would be if she had managed to find a place to rent at a price equivalent to her local area's initial reference rent.)

The two charts represent the Jones family's income were Samantha in-work throughout, and if she were out of work throughout.

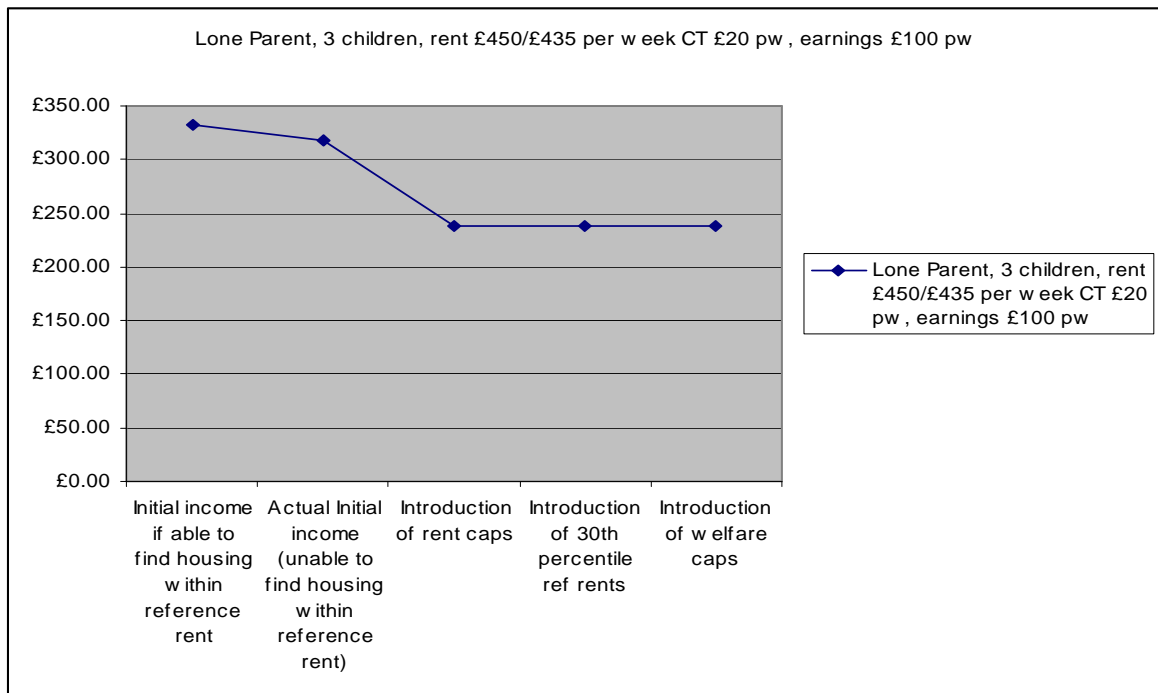
Chart 4: Samantha's weekly income if she stays in one place (out-of-work)



As can be seen, if Samantha is out-of-work then she has very little prospect of remaining in her current home. Her income after housing costs reduces substantially following the introduction of LHA caps. Staying put she is unaffected by the introduction of the 30th percentile reference rent change (since for this area, the 30th percentile of reference rents is lower than the LHA cap.)

However, following the introduction of welfare caps in 2013, her income after housing costs is reduced to just £30 per week. This amounts to just £7.50 for each household member per week (or just in excess of £1 per day).

Chart 5: Samantha's weekly income if she stays in one place (rent £450, CT £20) (In-work earning £100pw)



In-work her situation is substantially improved. However it would still be extremely difficult for Samantha to stay in her original home since she loses £95 per week as a result of the introduction of the LHA caps.

6) It doesn't end here - the result of uprating of reference rents with CPI rather than based on average rents.

The budget announced that from 2013, Local Housing Allowance rates will be uprated in line with the CPI, rather than assessed on the basis of average rents in an area.

In many areas, rental prices rise much faster than the CPI. According to Shelter, between 1997/98 and 2007/08, average rents increased by 70%, but over the same period CPI increased by only 20%⁷.

As a result, over time, some areas will become increasingly unaffordable for Housing benefit claimants. Some may see increases in their rents which the Local Authority will not cover through housing benefit. This could happen to Samantha:

Although the disruption caused by having to move area was very difficult, Samantha and her family slowly settle into their new area. For the first two years at their new home this is fine. However, at the end of the second year,

⁷ <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/memo/hb/hb72.htm>

the landlord puts up the rent by 10% (£20pw). Since it has been uprated with CPI rather than rental prices, the local reference rent has only risen by 3% (£6 per week) and the Local Authority say they are unable to pay the difference. Samantha finds it difficult to find the additional £14 per week, but she manages. However, when the same thing happens again, three years later, she finds it very difficult to cope.

As a result Samantha and her family (and other families like hers) have to move on again....

7) Policy recommendations

A number of policy adjustments could help to reduce the impacts of the Housing Benefit changes on a family like Samantha's making the changes simpler for claimants to understand, reduce the income fluctuations that they cause, and reduce the likelihood that families have to move home repeatedly. Such adjustments include:

1) The new Housing Benefit rules should only apply to new claimants, and when people move home

When the Local Housing Allowance was introduced in April 2008, the rules only applied to private sector tenants who were:

- New claimants.
- Claimants who move home.

However, for the new Local Housing Allowance rules changes:

“The changes will apply to new customers from the date they come into effect and to existing customers from the anniversary of their claim unless they have a change of circumstances which requires the local authority to re-determine the maximum rent.”⁸

We believe that the changes to LHA announced in the budget should be amended so that they only affect new claimants and those moving home. This change would avoid forcing families like Samantha's to move to avoid the new rules.

⁸ DWP (2010) “Housing Benefit Amendment Regulations 2010”

2) The Government need to ensure clear guidance is produced which will help to ensure that benefit claimants are clear about what all the changes will mean for them, and what their options are.

The changes as outlined by the Government, produce an intensely complicated system of changes, which benefit claimants could find very hard to follow. The Government needs to ensure that clear information is produced throughout the period in which changes are introduced, in order to ensure that families are clear about:

- What the changes are.
- When they are taking place.
- What they will mean to them.
- What they can do to minimise the impacts of the changes.

Repeated and unexpected changes are particularly likely to mean that households are unable to sufficiently prepare, and face severe income fluctuations, and/or have to move home repeatedly.

3) Discretionary Housing Payments should be substantially increased to help those households who are affected by the new rules

Discretionary Housing Payments are a cash limited fund to help families which are affected by a shortfall in their rent. We welcome the announcement in the budget that the Government plans to substantially increase its contribution to the amount of Discretionary Housing payments to be made available to Local Authorities. The allocation of assistance with DHP (currently £20 million per year,) is to be increased by £10 million in 2011/12 and £40 million from 2012/13 onwards.

There is evidence that this is insufficient. For instance, the Chartered Institute of Housing note that the total increase in spending is less than 2.5% of the total package of housing benefit cuts announced in the June budget⁹.

London Councils argue that “to avoid significant numbers of tenant evictions and manage the migration an increase of £20 million is necessary for the 2011/12 DHP pot, and that £18 million of that should be directed to London.”¹⁰

⁹ Chartered Institute of Housing (2010) “*Briefing Paper on the impact of changes to Housing Benefit and Local Housing Allowance in the budget*”

¹⁰ <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/memo/hb/hb64.htm>

4) The introduction of the LHA caps and the removal of the 5th bedroom rate should be moved to October 2011.

This would both give households more time to prepare and would bring it into line with the introduction of the reduced reference rents at the 30th percentile of local rents.

The caps on LHA payments, and the removal of the 5th bedroom rate are due to be introduced in April 2011. We are concerned about these changes being brought into place so soon, and believe that households should be given longer to prepare for the changes.

In addition, in some cases, claimants may be affected by both the Housing Benefit caps, or the loss of the 5th bedroom rate, and then (when their claim comes up for reassessment the following year,) by the change to measuring LHA rates at the 30th percentile of local rents. The circumstances in which this could occur are outlined on page 6 of this report.

5) The LHA caps, and the LHA rates at the 30th percentile of local rents, should be uprated in line with rental prices.

Currently, the Government has determined that reference rents will be uprated with the CPI from 2013-14.

Shelter note that “CPI has historically failed to increase at the same rate as average rents. Between 1997/98 and 2007/08, average rents increased by 70%, but over the same period CPI increased by only 20%”¹¹

LHA rates (and the LHA caps) should continue to be uprated with local rental prices to ensure that, even when they have made efforts to find affordable housing, households like Samantha’s do not find it increasingly hard to pay their rent.

6) The welfare caps announced at the Conservative party conference should be varied to reflect local rents for benefit recipients.

At the 2010 Conservative party conference, George Osborne announced a cap of around £26000 per year (£500 per week) on welfare payments to many out of work households. This cap is going to have a particularly severe impact on households with high rents.

These caps should be varied to reflect the location of benefit recipients. Without this change, many families who have already faced housing problems as a result of the Housing Benefit caps could again face substantially reduced help with housing costs as a result of the introduction of welfare caps in 2013.

¹¹ <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/memo/hb/hb72.htm>