

Housing Benefit Caps – the back story

What is Housing Benefit?

Housing benefit (HB) is a government payment made to those who cannot afford to pay their rent. Its current form was introduced in the early 1980s but it has been modified several times by subsequent governments. It is available, subject to a means test, to tenants of both private and social (council and not-for-profit) landlords. Claimants include low-paid workers, unemployed job-seekers, low-income pensioners and economically inactive adults such as the long-term sick, the disabled and full-time unpaid carers. As of November 2010, there were 4.8 million claimants of housing benefit, with 1.5 million of those renting in the private sector.

In 2008, the previous Labour government changed the way housing benefit was calculated for private tenants, introducing a system called the local housing allowance (LHA), which is administered by local authorities. LHA rates - the maximum amount of benefit that is paid in different local rental markets - are currently set at the median average (middle value) of a sample of rents in a local area. HB/LHA is administered by the Local Authority and then recouped from central government. The government is thus very aware of the total cost of HB to the exchequer (taxpayer). Since 1997 the bill has increased from £11.2bn in 1997/1998 to £20bn in 2009/10, and without reform it is predicted to reach £24.7bn by 2014/15.

What changes are being proposed?

Ministers have announced a host of new rules determining how housing benefit is allocated, with some of the most significant changes applying specifically to local housing allowance. Some of the measures came into effect on 1 April 2011; others will not be introduced until 2012 or 2013.

1 Caps on benefit.

The new basis for HB/LHA is:

A maximum weekly rate of LHA in any area has been introduced, based on the number of bedrooms a household qualifies for:

- £250 for a one bedroom property
- £290 for a two bedroom property
- £340 for a three bedroom property
- £400 for a four bedroom property.

This change is most likely to affect people renting in expensive areas like central London, where rents are likely to be much higher than these limits. Many people are likely to have to move to more affordable properties, or even to a cheaper area, to avoid falling into rent arrears.

All new claims for local housing allowance (LHA) from 1 April 2011 are affected, plus anyone whose circumstances change after 1 April 2011 so that they are entitled to housing benefit for a smaller home (for example someone in the family leaves home, or if they move to a different property), the new rules apply and LHA will be reassessed at the lower rates. Many of the changes will take effect on the anniversary of claims, when entitlement is reassessed. For example, if a claim was made on 2 May 2010, the anniversary will be 2 May 2011. This means the changes won't affect everyone at the same time.

In some cases, if people are worse off as a result, LHA will be calculated on the pre-April 2011 rent level instead of using the new, lower levels. People can benefit from this protection for up to nine months. After this time, LHA will be calculated under the new rules and benefit may be reduced. There is also some protection for people whose family size increases or in some circumstances where someone has died.

So:

- If a claim was made in April 2010, the anniversary of the claim will be in April 2011. The reduction in benefit resulting from the new rules could be delayed until nine months after this in January 2012.
- If a claim was made in March 2010, and reassessed in March 2011 under the old rules, it will be due for review under the new rules in March 2012. The reduction in benefit resulting from the new rules could be delayed until nine months after this in December 2012.

2 An end to 'Excess' payments.

Under the current system, people can be paid local housing allowance of up to £15 a week more than their rent - and keep the difference. This happens if the rent is lower than the amount allowed under LHA. From 1 April the maximum LHA payable is limited to the level of the rent.

3 Only 30 percent of properties will be affordable.

From 1 April 2011, maximum LHA rates in all areas have been reduced so that only three out of ten properties for rent in any area will be affordable for people claiming LHA. Affordable properties are likely to be concentrated in certain places, and some places will have none. For people already claiming LHA, this change will take effect up to nine months after the anniversary of the claim. Unless people can make up any shortfall, they will have to consider moving somewhere more affordable.

4 LHA payments for a new maximum of four bedrooms.

This change will affect larger households. Local housing allowance rates currently include a maximum payment for up to 5 bedroom properties. From 1st April 2011, the rates will be limited to payments for a maximum of 4 bedrooms.

5 Reduced LHA if you have non-dependents.

People who share their home with any adults who are not dependent on them – for example, adult sons or daughters, parents, relatives or friends, - will have their your LHA reduced – it is assumed that they should pay something towards your rent, whether they actually do so or not. This does not affect 'non-dependents' who are:

- under-25 and claiming jobseeker's allowance
- full-time students (while they are studying)
- pensioners claiming pension credit.

Non-dependent deductions have been increased from April 2011, and LHA has been reduced as a result from April 2011. People have to make up any shortfall between the new LHA payment and their rent.

From January 2012 people under 35 without dependents will no longer be entitled to LHA for a separate property; they will have to claim the Shared Room Rate – the imputed cost of a room in a shared house. This will affect many people who have been living independently for some years as well as people who are just moving into independent living after a time of homelessness.

From January 2013 the Government has said that no non-working household should be entitled to more in benefits than the average working household receives in wages. Overall benefit payments to households will be capped from 2013 and we expect this to be achieved through cuts to LHA. For larger families or those in expensive areas this will significantly reduce the amount of LHA.

Mitigation

Local Authorities have been granted additional funds to provide discretionary housing payments. A discretionary housing payment can be paid if the council believes that the person needs further help with housing costs beyond the LHA. This may include help with paying off arrears in some circumstances, or to help someone under 35 to stay in self-contained accommodation. The Local Authority does not have to make this payment and it cannot be assumed that anyone will receive additional help. Furthermore, if this is granted, it is likely to be only for a limited period to give people a chance to look elsewhere for cheaper accommodation.

Who will be affected?

- Larger families and people living in larger properties
- People who are deemed to be under-occupying their homes (e.g. two adults in a three bedroom home)
- People living in central/expensive boroughs
- Single homeless people under 35
- People who have been living in an area for a long time while property and rental values have risen around them.
- People who will have difficulty moving: people who depend on a local support network; people in low paid jobs who need to live close to their workplace; school-age children.

What is the impact?

Housing charities like Housing Justice argue the changes in the way LHA is calculated will force many claimants to move out of expensive areas - such as central London. Others (Boris Johnson) have warned of "social cleansing". However, DWP officials say it is impossible to predict the impact of the changes because so much depends on how people respond to a cut in income.

A BBC survey in December found that 13 councils in the capital were already re-housing people outside the city, and a study by Cambridge University has predicted that by 2016, just over a third (36%) of London neighbourhoods will remain affordable, while the other two-thirds will be largely unaffordable to low-income tenants supported by LHA.

The Chartered Institute of Housing (CIH) says the new measures are going to have "far-reaching effects on families and communities across the whole of the UK". "Where tenants face significant shortfalls the choice is going to be stark, find money from somewhere else or move. Given these are people on low incomes their ability to save by cutting back on other items is severely limited," says Richard Capie, the CIH's deputy chief executive (and former deputy chair of Housing Justice).

Westminster Council's own impact report suggests more than 4,000 children and young people will be affected, with many needing to move school. There are particular concerns about affected children who are on the child protection register and who may lose contact with social services if they move within or between Boroughs.

But the minister for welfare reform, Lord Freud, has told the BBC he does not expect large numbers of people to have to move and says the government has set aside £190m to help those affected by the changes. He added: "Under the current system, there are many families living in expensive housing - paid for with housing benefit, which ordinary hard working families cannot afford. This has got to change, which is why we are bringing in these new measures on 1 April." The DWP has said that they do not have a forecast of the behavioural effect of the benefit caps and changes on either landlords or tenants. The House of Lords, at the suggestion of Lord Best and supported by the Bishop of Hereford, has forced the government to agree to a review of these changes but this will not report until 2012.

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