

A radical new approach to Housing Benefit



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- 1 Housing Benefit has long been criticised as an extremely complex benefit that does little to promote personal responsibility. Delays in processing, and the uncertainty that claimants have about the level of support that they can receive, can act as barriers to work. In addition, payment is made directly to the landlord in the majority of cases, which does nothing to assist tenants in developing the essential financial and budgeting skills they need when moving into work.
- 2 We have already made good progress in tackling uneven administration and we have introduced measures to align Housing Benefit with other benefits and tax credits. However, more radical reform is needed to simplify Housing Benefit and ensure it supports our wider objectives for welfare reform. The central element of Housing Benefit reform is therefore the introduction of Local Housing Allowance. This approach is currently being tested in 18 local authority areas and we will build on this experience to develop a scheme suitable for national roll-out across the deregulated private rented sector.
- 3 Housing Benefit plays an essential role in underpinning the Government's wider goals of tackling poverty, promoting work for those who can, and addressing social exclusion. It provides help with rental costs for almost 4 million low-income tenants (both in and out of work), for people of working age (and their families), and for pensioners. However, Housing Benefit reform over the past 20 years has been largely reactive and has lacked a long-term strategic direction. This has led to Housing Benefit becoming an extremely complex benefit that does little to promote personal responsibility and can actually act as a barrier to work in some cases. As such, Housing Benefit is often seen to undermine rather than underpin the wider goals of welfare reform. At an annual cost of over £13 billion, Housing Benefit should be doing more to help lift people out of poverty and to promote opportunity.
- 4 Housing Benefit is also a passive benefit. Most claimants have their Housing Benefit paid directly to their landlords, which means that they have no personal responsibility for their rent and many are unaware of how much rent is actually paid on their behalf. This does nothing to prepare claimants for moving into work and undermines the relationship between landlord and tenant. In addition, the complexity of the Housing Benefit rules, delays in processing and the uncertainty that claimants have about the level of support that they can receive, can all act as barriers to work.

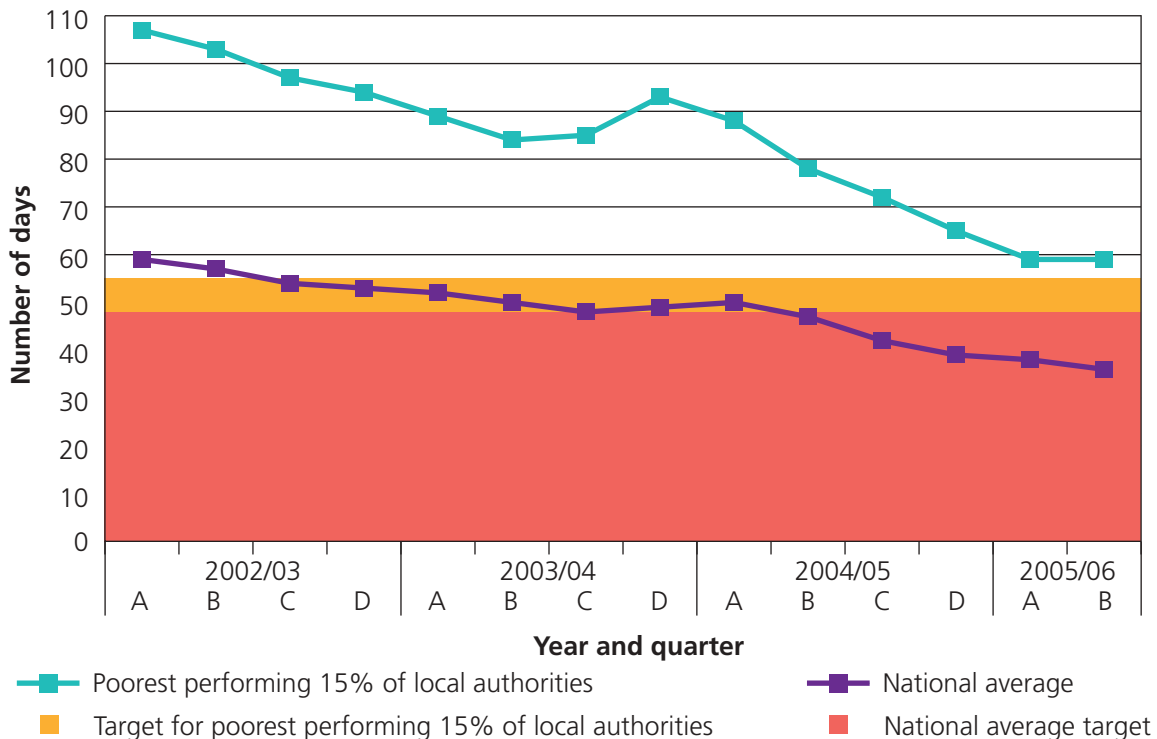
The challenge

Progress so far

- 5 Radical reform of Housing Benefit is under way. In 2002, the Government published *Building choice and responsibility: A radical agenda for Housing Benefit*,³⁶ setting out our overall strategy for reform of Housing Benefit and our progress up to that time.
- 6 The most pressing problem was uneven administration. In too many local authorities, the delivery of Housing Benefit fell below acceptable standards. There were many reasons for this, but lack of investment, lack of strategic priority, and the sheer complexity of the benefit rules all played a part.

- 7 Over the past few years, we have been working with all 408 local authorities to improve Housing Benefit administration, combining clear performance standards with regular inspection and practical support. We have started to see real improvements, and have developed and published clear national performance standards for Housing Benefit to reflect good practice. The Benefit Fraud Inspectorate publishes reports on its inspections of Housing Benefit services and has provided additional free consultancy to authorities with the most serious administrative problems.

Figure 6.1: Average number of days taken to process a new claim for Housing Benefit or Council Tax Benefit by quarter



Source: Housing Benefit Management Information System

- 8 The Government has invested in the Performance Standards Fund to support local authorities in improving their administration of Housing Benefit and Council Tax Benefit. More than £161 million is being invested in around 370 local authorities, helping them to recruit and train new staff, to develop innovative approaches to streamline processing of claims and to purchase new IT equipment. While many of our initiatives are still in their early stages, the experience so far suggests that there is already a positive impact on performance and on the service provided to customers and landlords.
- 9 Since 2001/02, the average time taken to process new claims³⁷ for Housing Benefit and Council Tax Benefit has been reduced by over three weeks, with some of the greatest improvements seen in the poorest performing authorities. However, there is more to do, which is why the Government has set a new Public Service Agreement target to cut processing times, with a focus on the poorest performing authorities. We are committed to reducing the average time taken to process a Housing Benefit claim to no more than 48 days nationally, and across the bottom 15 per cent of local authorities to no more than 55 days by March 2008. We have also set a stretching performance standard to process new Housing Benefit claims within 36 days.
- 10 The Housing Benefit reform strategy is not just about improving administration of the benefit, it is also about continuing to simplify the system and better align the rules with those of other benefits, Pension Credit and tax credits. People who really need the help that Housing Benefit offers may be reluctant to apply for their entitlements because of the complexity of the system.
- 11 In order to simplify the system we have:
 - eliminated the requirement for Housing Benefit recipients to renew their claim every year;
 - made the transition to work simpler by extending entitlement to a four-week 'run-on' period for Housing Benefit and Council Tax Benefit to recipients of incapacity benefits and Severe Disablement Allowance;
 - removed the need for the vast majority of people moving into work to complete a fresh claim – this is now treated as a change of circumstances;
 - ensured that people are better off in work by providing for tax credit awards to be taken into account as current income, rather than using complicated attribution/retrospection rules;
 - made it easier for people claiming Pension Credit to claim Housing Benefit/Council Tax Benefit by shortening the claim form from 26 to three pages; and
 - introduced a system that allows people of working age to make a claim for Housing Benefit/Council Tax Benefit through Jobcentre Plus at the same time as they make a claim for Income Support, Jobseeker's Allowance or incapacity benefits. This system will be rolled out by the end of 2006.

Objectives of Local Housing Allowance

Fairness – Local Housing Allowance bases the maximum amount paid to tenants on the size, composition and location of the household. Therefore, two households in similar circumstances in the same area will be entitled to similar amounts of benefits.

Choice – Tenants are able to take greater responsibility and choose how to spend their income in a similar way to tenants who are not in receipt of benefits. Like other tenants, they are able to choose whether to rent a larger property, or to spend less on housing and increase their available income.

Transparency – The current link between Housing Benefit and individual rents is complex and does not set out clearly what level of state support is available for people on low incomes. A clear and transparent set of allowance rates helps tenants (and landlords) know how much financial help is available from the state. Tenants are able to compare how much support is available towards their housing costs in different areas and for different property sizes.

Personal responsibility – Empowering people to budget for and to pay their rent themselves, rather than having it paid for them, helps develop the skills unemployed tenants will need as they move into work. Currently, around 40 per cent of Housing Benefit payments in the private rented sector are made to tenants, with the remainder paid straight to landlords. The Government believes that, wherever possible, Local Housing Allowance should be paid to tenants, as are most other benefits and tax credits.

Financial inclusion – Ideally, we want people to have their housing payments paid into a bank account and to set up a standing order to pay the rent to their landlord. This has the advantage of being a safe and secure method of payment and provides certainty for landlords that rent will be paid.

Improved administration and reduced barriers to work – For working-age tenants, Local Housing Allowance provides greater certainty about what help is available in and out of work. A simpler system also helps speed up administration of housing payments, giving tenants more confidence when starting a job that any in-work benefit will be paid quickly. A more transparent system may also improve the ability of individuals to move between areas and to take advantage of employment opportunities.

12 However, we can only make limited improvements without fundamental and radical change to the structure of Housing Benefit.

14 Local Housing Allowance bases housing support payments on a system of standard maximum allowances, varying according to the size of the household and location of the property. Benefit will be paid to the tenant rather than to the landlord in most cases.

Local Housing Allowance

13 Local Housing Allowance is at the heart of our radical programme for further reform in the private rented sector.

15 Our objectives fully reflect wider principles for welfare reform. The overarching purpose is to transform passive housing support into an enabling provision that places responsibility and choice firmly in the hands of tenants and that strongly encourages financial inclusion and the development of skills that can help smooth the transition into work.

Impact of Local Housing Allowance in pathfinder authorities

16 This new and much simpler way of calculating housing payments for tenants was initially introduced for mainstream private rental properties in nine pathfinder authorities, the first of which began testing Local Housing Allowance in November 2003.

Local Housing Allowance: pathfinder experience to date

- The introduction of Local Housing Allowance has generally been smooth in all nine of the original pathfinder authorities.
- By paying benefit to tenants rather than to landlords, Local Housing Allowance is giving personal responsibility for managing rental costs and payments to around 87 per cent of the 45,000 tenants in the pathfinder authorities.
- Procedures for identifying and assessing where payment should be made to the landlord (because the tenant is vulnerable or is in arrears) seem to be working well in each pathfinder authority.
- Across the pathfinders, most tenants have payments made into a bank account.
- Most landlords have not seen an increase in management costs.
- The baseline survey shows that 61 per cent of unemployed tenants in pathfinder authorities who are paid directly believe they will move into work, compared with 44 per cent of unemployed tenants who have their benefit paid to the landlord.
- A minority of landlords appear to be leaving the Housing Benefit rental market. However, other landlords are embracing the new Local Housing Allowance market and there is no noticeable impact on supply.
- Landlords are no more likely to require deposits or references under Local Housing Allowance than they were previously.
- Improved joint working and communication between Housing Benefit departments and local stakeholders have been reported, in preparation for the introduction of Local Housing Allowance.
- There has been very little impact on homelessness levels, threats of eviction or tenancy terminations on tenants in the pathfinder areas.

- 17 A comprehensive and independent evaluation of these nine pathfinders is nearing completion, and seven reports have been published so far.³⁸ We expect final reports to be published later this year.
- 18 The evaluation is tracking the administrative and operational impact of Local Housing Allowance as well as wider housing market effects in each pathfinder authority. It is also taking account of the different conditions that prevail in Scotland and Wales. A series of regular surveys and interviews with tenants, landlords, key local authority staff, rent officers, Jobcentre Plus staff and welfare organisations is being carried out. This information is being used to identify areas where Local Housing Allowance policy requires adjustment, prior to a national roll-out across the private rented sector.
- 19 Between April and July 2005, a further group of nine local authorities began implementing Local Housing Allowance for private sector tenants, to enable good operational practice to be developed prior to implementation of Local Housing Allowance nationally.

Issues for consideration before roll-out in the private rented sector

- 20 Evidence from the evaluation, as well as the experiences of pathfinder authorities, highlight three main elements of the scheme that we need to examine further to ensure that they fully meet Local Housing Allowance objectives. While the general principles of Local Housing Allowance have been successful, there are issues, such as excessive cash gains, work incentives and longer-term financial stability, that need to be considered.

Capping Local Housing Allowance

- 21 In pathfinders, claimants are able to keep the difference between their Local Housing Allowance payment and their rent costs. In some areas, claimants are able to receive large cash sums over and above the amount they need to pay their rent. There is a concern that this is fundamentally unfair and that it could have serious implications for work incentives. We are therefore considering whether the amount of Local Housing Allowance that tenants can receive above the level of their rent should be capped. This will make the system fairer, protect work incentives and remove any incentive for people to overcrowd their property in order to gain financially.

Size criteria

- 22 In the pathfinder authorities, a claimant's maximum Local Housing Allowance rate depends on the number and mix of occupiers in their property.

The current size criteria state that a claimant's Local Housing Allowance rate should be based on:

- **one bedroom each for:**
 - every adult couple;
 - any other adult aged 16 or over;
 - any two children aged under 10;
 - any two children of the same sex aged 10 to 15; and
 - any other child;
- **and**
 - 1–3 occupiers for 1 living room;
 - 4–6 occupiers for 2 living rooms; and
 - 7 or more occupiers for 3 living rooms.

23 Since testing of Local Housing Allowance began, we have become concerned that the current size criteria reflect neither the reality of the property market nor the expectations that families not on benefits would have about their accommodation. Properties with three living rooms may be very scarce and difficult to obtain in many areas. This contributes in some areas to the large amounts of Local Housing Allowance that people are receiving above their rent.

24 We are considering an adjustment to the size criteria so that a claimant's benefit and Local Housing Allowance rates are calculated according to the number of bedrooms needed, rather than the number of living rooms. This is a simpler, more intuitive approach that will more accurately reflect the reality of the wider rental market.

Local Housing Allowance rates

25 There is concern that the way in which Local Housing Allowance rates are set does not accurately reflect the range of rental properties of a particular size in an area. In pathfinders Local Housing Allowance is set at the mid-point between the highest and lowest rents in an area (excluding extreme high and low rents). This does not reflect the actual distribution of available accommodation in any given price range – there may be only a small number of properties at the lower end of the market. This method also makes Local Housing Allowance rates very susceptible to any changes at the top or bottom end of the market.

26 We are considering setting Local Housing Allowance rates at the median rent to ensure that they reflect the distribution of rents in an area. We also want to ensure that there is stability in Local Housing Allowance rates to give tenants greater certainty about the level of help they can receive.

The median rent is the rent that is halfway up the distribution of all rents in an area. For example, in an area with 13 available houses with rents of:

£50, £60, £90, £95, £105, £105, £150, **£150**, £150, £200, £200, £200, £200,

the median rent would be £150 as this is in the middle of the distribution. In contrast, the mid-point would be £125.

27 This means that claimants can be confident that Local Housing Allowance levels actually reflect the middle of rents in the housing market in which they live. In addition, as the median calculation is less influenced by changes at the very top and bottom of the market, we also expect it to provide more stable Local Housing Allowance rates. This will give greater certainty to tenants about the level of help they can receive in the longer term.

Roll-out across the private sector

28 It is important that we move carefully in planning a roll-out of Local Housing Allowance. The national scheme would need to differ in some aspects from the pathfinder model, in order to take account of the lessons learned from the early phase. We also want to ensure

that evidence and experience from the ongoing evaluation are taken into account as implementation progresses. We are considering ways of applying Local Housing Allowance only to new claimants, so that existing claimants can continue to claim Housing Benefit under the current rules until, for example, they move house or have a break in claim. This will ensure the best chance for a smooth roll-out of Local Housing Allowance, giving local authorities time to gradually introduce the system and minimise the risks involved in implementing a change on this scale. It will also enable local authorities to reassure existing tenants, communicate the benefits of Local Housing Allowance and encourage them to take advantage of the improvements that Local Housing Allowance brings. We want to look carefully at the arrangements for migrating existing Local Housing Allowance claimants in the pathfinders onto the national Local Housing Allowance scheme, and wish to discuss with the pathfinders the most appropriate way of doing this.

- 29 We will continue to look carefully at private sector issues as part of the evaluation process, before taking any final decision on extending the benefits of Local Housing Allowance across the deregulated private rented sector.

Reform in the social housing sector

- 30 It is essential that Housing Benefit contributes to the wider welfare reform agenda by supporting our aspiration of an employment rate equivalent to 80 per cent of the working-age population, rather than acting as a barrier to work. This is particularly

relevant in the social housing sector, where working-age tenants are significantly more likely to be either unemployed or inactive than those in other tenures. Social housing tenants are much more likely than private sector tenants to be claiming Housing Benefit (60 per cent and 22 per cent respectively) and twice as likely to be without work. This level of economic inactivity makes it necessary to consider the case for reform of Housing Benefit in the social housing sector.

- 31 We are testing Local Housing Allowance private sector tenants in 18 local authorities and intend to use this approach nationally. However, we need to consider whether a similar approach would be appropriate for social housing sector tenants, or whether there are other options that will support greater choice and responsibility.
- 32 We are aware that there are significant differences between the private rental market and social housing, and between the social housing sectors of the UK devolved administrations. Many complex factors will need to be taken into account before a decision is made on exactly how we take forward reform in this sector. Proposals need to be developed with caution and over a longer timescale.

Question 12:

How should Housing Benefit be adapted to meet our welfare reform objectives for tenants in the social housing sector?