

## Memorandum to the Work and Pensions Select Committee on the impact of the changes to Housing Benefit announced in the June 2010 Budget

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve outcomes for low earners by delivering change in areas where this income group is currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing low earners
- developing practical and effective policy proposals
- engaging with policy makers and stakeholders to influence decision-making and bring about change

### Summary

- Too rich to access social housing and too poor to access home ownership, 740,000 low earning households live in the private rented sector (PRS). This tenure provides a temporary, preferable, bolthole for some people. For others it can provide a long-term home, often not out of choice.
- Affordability is an issue for this group, in part because of low take-up of Housing Benefit (HB): The Department for Work and Pensions (DWP) estimate that half of those in work who are eligible do not receive it.<sup>1</sup> Just seven per cent of low earners currently receive HB which, administrative issues aside, provides a welcome source of support.
- We recently conducted qualitative research into low earners experiences of the PRS. Our findings highlights a number of potential implications of the Government's announcements:
  - **Supply of PRS accommodation and choice:** many low earners are already experiencing difficulties accessing the PRS due to poor local supply, lack of decent accommodation and few landlords willing to let to this market. The Governments proposed changes to Local Housing Allowance will further reduce choice for low earners and may encourage landlords to stop letting to this group entirely.
  - **Affordability:** decisions about where to live were not based on economic criteria alone. In fact, location was the most important consideration for respondents when choosing

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<sup>1</sup> DWP, 'Supporting people into work: the next stage of Housing Benefit reform', December 2009: <http://www.dwp.gov.uk/consultations/2009/supportingpeopleintowork.shtml>

where to live, to be near the local school, work, friends and family. People talked about the physical and mental upheaval of moving and were not prepared to move to areas of cheaper rents. At the same time, the lack of affordable local supply meant that many were over-stretching themselves financially and they were susceptible to arrears. The Government's proposals assumes that people will move to areas or accommodation with cheaper rents, but our research suggests people will stay put and struggle to make up the difference themselves, in order to provide stability for themselves and their children.

- **Demand for social housing:** making changes in one aspect of the housing market has implications for other parts of it. By further marginalising the private rented sector through cuts to Housing Benefit, demand for social housing is likely to increase among a group who currently receive little of the overall housing subsidy. At a time when reliance on the PRS is likely to increase subsidies to support rents will be as important as subsidies to assist people into home ownership.

## Introduction

1. 'Low earners' is the term the Foundation uses for the group of people who are 'too rich' to qualify for state support yet often 'too poor' to access the benefits of private markets. At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.<sup>1</sup> Around 3.8 million households fall into this category in the UK, equivalent to around 7.4 million adults.
2. The Foundation has found that low earners face distinct challenges across a range of areas because they are:
  - squeezed by the mixed economy
  - particularly exposed in the current economic context
  - at risk of being overlooked by policy makers
3. In housing, squeezed between home ownership and social housing roughly, 740,000 low earning households live in the private rented sector. While only 7 per cent of low earners in the PRS currently receive Housing Benefit, many more are entitled to it: DWP estimate that half of those in work who are eligible do not receive it.<sup>2</sup> These low earners often receive partial Housing Benefit. However, the temporary and insecure nature of their work can mean periods of full and partial Housing Benefit as they cycle in between low pay and no pay.
4. We have recently undertaken qualitative research, based on 40 interviews with low earning tenants, to consider their experiences in the private rented sector. Our findings provide some insight into the implications of the Government's recent announcements.

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<sup>2</sup> DWP, 'Supporting people into work: the next stage of Housing Benefit reform', December 2009: <http://www.dwp.gov.uk/consultations/2009/supportingpeopleintowork.shtml>

5. Our submission focuses on the effect of the proposals on:
  - a. Supply of PRS accommodation and choice within the market
  - b. Affordability
  - c. Demand for social housing

#### **Supply of PRS accommodation and choice within the market**

6. Many of the low earners we spoke to were experiencing problems finding suitable PRS accommodation in their areas. Poor local supply and a lack of decent properties were frequently cited by respondents in the research. Families were experiencing particular problems:

*"There's not a lot of private renting and even less in the ranges that we are looking for. Either it's totally unacceptable or it's acceptable and out of our price range" (Chris, 21)*

*"The places I was looking at were not nice at all, and the ones that were decent were just too expensive" (Charlotte, 28)*

*"There's not much family sized rented accommodation in the area, unless you are in a really good job, which I'm not" (Clare, 43)*

7. These problems were further compounded for recipients of HB who, as well as trying to find decent accommodation, were also having to find a landlord willing to let to them.

*"I did look at some places but they didn't want to take Housing Benefit, the sheer mention of it and you are penalised. I think people look upon people who claim housing benefit as people who are not contributing in a way, but I am massively contributing - my wages essentially pay my half the rent" (Clare, 43)*

8. There were several implications of this constrained access. In a few cases people were lying about receiving HB, or managing to conceal it through the direct payment of HB to themselves:

*"I do prefer it coming to me, because then in some cases the landlord doesn't have to know, but you don't want people knowing how much help you are getting and things like that." (Sarah, 25)*

9. Others reported feeling insecure and in a weak bargaining position because they had such limited options. Razia said of her previous landlord:

*"Yeah, he was probably the only one that accepted it at the time, he knows that anyone who is on housing benefit, he can put pressure on. Many landlords don't accept housing benefit, and when you've got 4 kids, nobody wants to know" (Razia, 28)*

10. The problems experienced by recipients of Housing Benefit in accessing private rented accommodation are well documented. Research by Shelter<sup>3</sup> found from a survey of 110

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<sup>3</sup> Shelter (2009) 'For whose benefit? A study monitoring the implementation of Local Housing Allowance', London: Shelter

landlords that 60 per cent would not accept Local Housing Allowance claimants. Evaluation of the LHA also found that seven per cent of landlords and agents contacted via newspapers directories preferred non-housing benefit claimants, but even among landlords who were contacted via their benefit-recipient tenants, 52 per cent preferred not to let to this group.<sup>4</sup>

- 11. The Government's proposals to introduce an upper Housing Benefit rate, and the calculation of Housing Benefit at the 30<sup>th</sup> percentile is likely to further constrain choice for Housing Benefit recipients by restricting them to the lowest 30 per cent of the market and making some areas, particularly London, inaccessible. It could also hamper supply of PRS accommodation as landlords will either have to reduce rents or stop letting to the Housing Benefit market completely.**

### **Affordability**

12. The low earners we spoke to who were receiving Housing Benefit felt it was a welcome source of support, often helping to keep them afloat:

*"My rents affordable, but only because of the benefits I get" (Sarah, 25)*

*"Yes, housing benefit has helped; it takes the pressure off because you know there is some money coming in. But it's a nightmare really because I'm on my own; I haven't got any rich relatives that are going to give me say £100, I'm literally on my own" (Clare, 43)*

13. When we asked people what criteria they had when looking for accommodation, it was very apparent that decisions were not based on economic criteria alone. In fact, location was the most important factor, to be near a local school, friends, work and family.

*"It was mainly location to be honest, when we were living in Coventry before, we were quite a way outside the city centre, so it used to take a while to get into town for a drink and taxis were expensive. Where we are now is very close to the city centre and I've grown up around this area when I was younger, so I really wanted to try and get back to it" (Sean, 32)*

14. The result of this was that, in areas of higher rents, people sometimes over- stretching themselves to live in a chosen locality and were not prepared to move to an area of cheaper rents because of the upheaval this would create. The thought of having to move was anxiety provoking, particularly where there were so few other options in the area. This was especially true when they had lived in the property for a long time or had already moved into the PRS following a crisis and wanted to maintain some continuity for the sake of the children.

*"The renting here is a bit more expensive than where I was, but I'd rather pay that little bit extra for the kids to be safer and there's a nice park around the corner. It does mean I drive 12 miles a day for school, but it's worth it. A lot of people say I'm mad, but I didn't want to move their*

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<sup>4</sup> Rhodes, D. and Rugg, J. (2005) 'Working with the LHA: Landlord and Agents' Early Experiences of the LHA in the Nine Pathfinders Areas, London: Department of Work and Pensions

*school and for them to have that upheaval. The last thing I would want is not having a house for the two kids. If you're on your own you can sort something out for just yourself"* (Katie, 32)

*"I've been here 19 years... we didn't intend on staying this long but I've moved all my life, I just don't want to move"* (Liz, 48)

*"If I had to move I would probably have to move to a place in a much worse state of repair and pay less, but you get what you pay for. We would have to move the kids from school; I dread to think about it. I don't think we would be able to find somewhere. I mean we have got a dog and the kids love the dog. I don't think we could find somewhere that would accept pets, we'd be bugged"* (David, 40). "

15. A lack of affordable local supply, coupled with a low-income and limited buffer of savings meant that some respondents were susceptible to arrears, particularly following a change in circumstances. The result of this was that tenants felt trapped in debt and unable to move.

Clare, 43, works as a part-time carer. She moved into PRS accommodation with her three sons when she left an abusive marriage. She lives in an affluent area and so her rent was high, but she did not think that moving from the area was an option for her with three children in school, and one of the reasons she wouldn't consider social housing:

*"I think if I had just declared myself homeless I would've been housed, but maybe not in my area and I don't drive and I've got 2 younger children who are still in education. There are not that many council houses here to be fair and there is a 10 year waiting list"*

She receives £400 per month in Housing Benefit but this leaves £750 per month to cover herself, taking up all of her earnings. She has converted her lounge into a bedroom for a lodger and was using the £200 rent he gives her each month, plus her benefits, to pay the bills and other expenses.

*"I'm living off my benefits and the lodger's money, whatever I can really. I just live a basic life, I don't have my hair done, I just have to make sure that my kids are ok, that they have clean clothes, that kind of thing. My mum struggled as well, so I'm quite used to that"*

Clare got into arrears when she broke her arm and was out of employment for six weeks. The outcome of this is that she feels trapped and unable to move: if she leaves she will not be able to get help from the council because she would be deemed 'intentionally homeless', and she wouldn't be able to move to another PRS accommodation because she wouldn't be able to get a reference from her current landlord:

*"You get into a situation where you kind of get trapped because if you become in debt with your landlord, which I am a little bit, then they won't give you a council house, but I also cannot get a reference from my landlady to move into a smaller property because I'm in debt here"*

16. Kathleen was in a similar situation.

Hayley moved out of her council house because her children were getting to an age which they could crawl, and she was worried that her flat wasn't child friendly. She heard about a scheme that would help people move into private rented accommodation by assisting with the deposit. She called the Local Authority and they put her in touch with an agent who identified a place for her. At the time she was on Income Support and was told she would receive Housing Benefit to cover the rent and would only need to cover £40 herself. It turned out that this actually £140. She is now in £2,000 worth of arrears and feels there is no way out of it.

*"If I had a deposit I would go, but I don't. Plus I would have CCJ's against me because I haven't paid the rent, which will affect the next property I go to. And I won't get help from the Council because I would've made myself homeless"* (Kathleen, 25)

17. While some people spoke about the disincentives to increase their hours at work, because of the HB taper, others were happy to work longer hours because they were proud to be working and enjoyed their jobs. However, many people had had their hours reduced at work following the recession, making it all the more difficult to get out of debt.

*"I was full time, but now I'm 16 hours a week, they said we're not earning enough money at the moment"* (Kathleen, 25)

**18. The Government's proposals regarding the calculation of Housing Benefit will mean that low earners living in accommodation with rents above the 30<sup>th</sup> percentile will have to make a choice to move from their existing accommodation, potentially to another area, or make up the difference in rent themselves. The former would cause significant distress for some families, and the social and economic costs would be considerable. The latter seems more likely and would mean that, unless people can find more hours at work, they will stay put and struggle. This could potentially creating bigger costs in other parts of the budget if arrears and homelessness follow.**

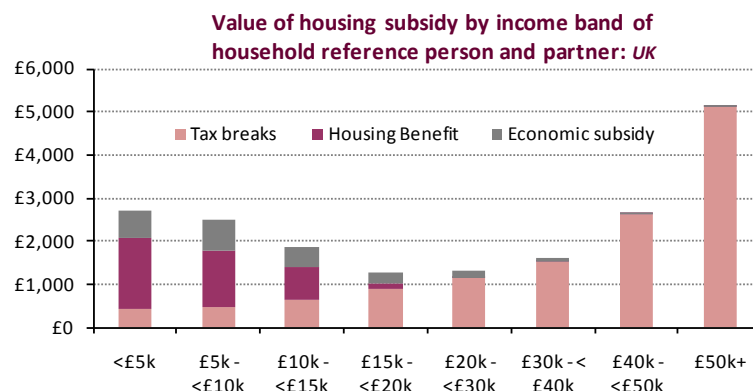
### **Demand for social housing**

19. Many of the low earners we spoke to were not living in the private rented sector out of choice. Their preference was to move into home ownership, with its greater security and investment potential, or social housing because of cheaper rents and greater security of tenure. However, the opportunities for this were limited:

*"I would rather get in a council place. They're a lot cheaper. After 5 years you get a chance to buy them."* (Sarah, 25)

*"Having your own home is about the security it gives you. Having a little place which you know is yours, nobody can take it from you, and you haven't got anybody to answer to. Kind of a king of his castle"* (David, 40)

20. This is reflected in the statistics: among the 40 per cent of private renters who do not expect to buy their own home, just 4 per cent said this was because they preferred the flexibility of renting.<sup>5</sup>
21. At the same time, the actual subsidy that people in this income bracket receive for their housing is far lower than for higher income groups. And reliance on the PRS is likely to increase: the Building and Social Housing Foundation have forecast that, if existing drivers of PRS growth continue, 20 per cent of households will be private rented by 2020, with the private rental sector outgrowing the social housing sector by 2013.<sup>6</sup>



- 22. Making changes in one aspect of the housing market has implications on other parts of it. By further marginalising the private rented sector through changes to Housing Benefit it could increase demand for social housing, particularly among a group who are already struggling within the PRS and receiving very little of the overall housing subsidy.**

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<sup>5</sup> CLG, *Survey of English Housing Preliminary Report: 2007-08*, Tables 16 & 17

<sup>6</sup> Pattison, B; Diacon, D and Vine, J (2010) 'Tenure trends in the UK housing system: will the private rented sector continue to grow?', Building and Social Housing Foundation