Chartered Institute of Housing

Chartered Institute of Housing response to the APPG on Poverty: Call for Evidence – Adequacy of social security

The Chartered Institute of Housing (CIH) welcomes the opportunity to respond to the APPG on Poverty call for evidence on the adequacy of social security. In recent years the sharp rise in foodbank use and emergency discretionary welfare has brought into sharp focus the adequacy (or lack of it) of social security benefits. More recently between the mini-budget and the Autumn Statement there was some speculation that working age benefits might not be fully uprated in line with inflation as well as discussion about whether the uprating mechanism was fit for purpose during times of high inflation. CIH welcomes the opportunity to respond to this call for evidence and to give our views about these important issues.

We represent housing professionals; therefore our response has a particular focus on how the social security system deals with help with housing costs as well as the level of benefits generally.

Summary

- The basic benefit rates are woefully inadequate to maintain a reasonable standard of living. The UC standard allowance is around £215 or £385 per week below the Joseph Rowntree Foundation Minimum Income Standard for singles and couples respectively, and the pension credit standard guarantee is around £60 or £100 per week below.
- The income required to fully participate in society changes over time as values and expectations change. What was acceptable 20 years ago might not be so today. There should be an independent commission established to review the adequacy of benefit rates at least every ten years.
- There has been a failure to fully uprate benefits in five of ten tax years 2013/14 to 2022/23 and as a result the UC standard allowance is currently worth about 14 percent less than its 2012 value (reducing to around ten percent immediately after the April 2023 uprating). Even when uprating is restored the ongoing losses from the years when uprating was suspended continue and are compounded.
- If the full uprating had been maintained, then after the April 2023 uprating the UC standard allowance would have lost only around 0.7% of its value. Small losses or gains in the real value each year are largely due to whether inflation is rising or falling after the September benchmark. Small losses would be less critical if the rates were more generous.
- The current uprating convention is a reasonable proxy to ensure benefits maintain their real value but only so long as the annual uprating is faithfully adhered to. If benefit rates have no inbuilt tolerance, then there may be a

need to review rates more than once year – maybe based on a high inflation trigger point.

- The comparison with April 2012 rates is of limited value due to the number and size of cuts that have taken place since. A straight comparison ignores the effect of the benefit cap where losses can run into £100s per week.
- The basic benefit and pension rates contain no element for housing costs. It is unreasonable to expect claimants to make up any shortfall from their UC standard allowance. Both tenants and homeowners are put under additional strain by the failure to adequately take account of housing costs.
- There should be a statutory requirement to uprate the local housing allowance annually in line with the 30th percentile rent.

Detail

Social security rates are assumed to be adequate (and the process of annual uprating tends to reinforce this view). Judgements about whether benefit rates are adequate or not depend on whether you start from an absolute or relative definition of poverty. It also depends on whether you take the view that benefits are merely intended to relieve poverty or to achieve some other standard of living (in which case it must be defined). Relative poverty can be described as "the absence or inadequacy of those diets, amenities, standards, services and activities which are common or customary in society".[1] If you take this view (as CIH does) then what is adequate changes over time as expectations change. Examples include mobile phones, and the provision of an adequate and affordable heating system. Apart from anything else a jobseeker without a mobile phone would find it very difficult to meet the claimant commitment for universal credit (UC) or new style jobseeker's allowance (JSA) and be at risk of being sanctioned.

The measurement of relative poverty (and the adequacy of benefits) is done empirically by compiling a standardised household budget. What should be included changes overtime as social attitudes change about what is essential. But this is not dissimilar to the approach taken by the Office for National Statistics (ONS) when they compile the Consumer Prices Index (CPI). There is no single nationally accepted standard as what is adequate but the two most recognised and used are:

- the Social Metrics Commission (SMC)[2] – measuring poverty
- the Joseph Rowntree Foundation (JRF) – the Minimum Income Standard (MIS)[3].

Of these MIS is the most generous. It is not a measure of poverty itself but is based on what the public has told its researchers is a sufficient income to afford a minimum

[1] Townsend, P (1979)
[2] https://socialmetricscommission.org.uk
[3] https://www.jrf.org.uk/report/minimum-income-standard-uk-2022

acceptable standard of living. Both SMC and JRF produce regular reports – the most recent of these is the JRF MIS for 2022. Although the MIS is above the poverty line it does at least provide a benchmark for comparison with the current benefit rates. The full MIS includes elements for rent and childcare – these have been stripped out to make the comparison. The results are in the tables below and are expressed in weekly amounts.

Table 1: households without children

	UC / pension credit	Minimum Income Standard	Result
Single aged 25+	£77.29	£293.28	-£215.99
Couple at least one aged 25	£96.10	£482.34	-£386.24
Single pensioner	£182.60	£245.20	-£62.60
Couple pensioner	£278.70	£381.90	-£103.20

Table 2: households with children

	UC plus child benefit	Minimum Income Standard	Result
Single one child	£166.02	£418.04	-£252.03
Single two children	£236.90	£511.71	-£274.81
Couple on child	£210.04	£530.82	-£320.78
Couple two children	£280.93	£621.14	-£340.21

Although the MIS is not the poverty line, the results illustrate why households on basic benefits are struggling. The MIS allows some headroom to take account of one-off costs and minor emergencies. The current rates leave no room for such contingencies and are clearly a factor in the exponential rise in food bank use.

The main observations from this (and from calculating in-work entitlement to UC) are:

- working-age households without children do worse than those with (one or two) children. And couples do worse than single person households. However, it is easier to attain a reasonable standard of living by moving into work for both childless households and couples. For example, both members of a couple can work, and both benefit from the income tax personal allowance.
- the outcomes for households with three or more children would be even worse due to the two-child limit.
- pensioner households do substantially better than working age households, but their incomes are fixed. It also requires a higher income from a private

pension rate to achieve a reasonable standard of living than from earned income (benefit is withdrawn at a much sharper rate for pensions than it is for earnings under UC).

What can be done

Standards and expectations change over time and all citizens should have sufficient means to participate in society and live an active life. Welfare benefit rates have not been properly reviewed since the start of the post-war welfare state. It is inevitable that over such a long period of time they would diverge from reasonable expectation – with or without regular up-ratings. We suggest that there should be a standing Commission (preferably one that has support of the main parties) that periodically reviews benefit rates on a five- or ten-year basis. In between, these regular up-ratings should be sufficient to ensure rates remain adequate. An alternative approach might be to tie benefit rates to a set proportion of the national minimum wage.

The alarming rise in the symptoms of poverty over recent years is not solely due to a failure to review the adequacy of benefit rates and to fully up-rate them each year. A substantial proportion of these symptoms – if not the largest part – is due to the very deep cuts that have been made in benefits over the past ten years. The amounts involved for each individual cut are often more than would be gained from the annual uprating. The main ones have been listed in the section below on uprating but there are many more.

Uprating process

The annual up-rating is the mechanism by which the Secretary of State is required by law[4] to review benefit and pension rates to see if they have retained their value and if not s/he is required to (or in some instances may) up-rate their value. There are four groups:

- those that must rise at least in line with earnings: these are the old and new state retirement pension and the standard minimum guarantee in pension credit
- those that must rise at least in line with prices: these include personal independence payment, disability living allowance, attendance allowance, carer's allowance, industrial injury disablement benefit and guardian's allowance. These are largely additional needs benefits.
- those which the Secretary of State may uprate: these include working age benefits such as universal credit, employment and support allowance and jobseeker's allowance; and

[4] Social Security Administration Act 1992, sections 150, 150A, 151A

- those parts of the above benefits that the Secretary of State is not required to review: these include the local housing allowance, non-dependant deductions and the earnings disregards/work allowance in UC/HB.

The Secretary of State does not have the power to bring forward an uprating if earnings or prices are negative. This happened most recently during the Coronavirus pandemic where there was no increase in earnings over the review period and required special legislation so that pensions could be uprated.[5]

Since April 2012 the uprating process has used the September consumer prices index (CPI) figure for the rise in prices and the May-July average weekly earnings (AWE) figure for the growth in earnings.[6] In addition, pensioners benefit from the 'triple lock' whereby the state pension is uprated by the higher of either CPI or 2.5 percent if this is higher than the AWE figure. This is a policy commitment but has no statutory basis. The overall effect of this policy is that pensions increase their real value over time (the ratchet effect).

The uprating itself is made by the annual uprating order and comprises all benefits under review, including those where uprating is discretionary. If Parliament rejects the order benefits remain at their current level. Therefore, if the Government chooses to uprate for working age benefits by a lesser amount MPs are powerless to stop it.

Since the CPI/AWE policy was introduced, the Government has brought forward legislation to temporarily suspend the statutory uprating on three separate occasions:

- capping the uprating (including tax credits) at one percent in the tax years 2014/15 and 2015/15;[7]
- freezing working age benefits and tax credits in the four tax years 2016/17 to 2019/20; [8] and
- switching the uprating basis of state pensions from earnings to prices in the tax year 2022.[9]

The failure to fully uprate working age benefits for the six years from April 2014 has been disastrous for claimants and has undoubtedly contributed to growing numbers who find it difficult to manage without calling on emergency support (foodbanks, discretionary welfare etc.). The restoration of uprating from April did not restore benefits to their 2012 real value so the losses are permanent and compounded in each year that prices rise.

[5] Social Security Benefits (Up-rating of Benefits) Act 2020
[6] Statement by Steve Webb, Pensions Minister, House of Commons, 6 December 2011, Hansard Volume 537, Col 163
[7] Welfare Benefits Up-rating Act 2013
[8] Welfare Reform and Work Act 2016, s. 11, 12
[9] Social Security (Up-rating of Benefits) Act 2021

CIH modelling of the uprating since 2012

CIH has modelled the uprating since 2012 to see how effective the link to September CPI is and to model the cumulative loss to working age benefits during the six years failure to uprate. The table shows the cumulative losses/gains arising from the different uprating policies since the adoption of the CPI uprating policy in April 2012.

Table 3: Comparison CPI inflation and uprating of pensions and benefits from 2012/13

Tax Year	CPI previous September	Working age benefits	State pension (triple lock)	Pension credit standard guarantee	Reference (HB Circular)
2012/13	5.2%	5.2%	5.2%	3.9%	A1/2012
2013/14	2.2%	1.0%	2.5%	2.5%	A2/2013
2014/15	2.7%	1.0%	2.7%	2.7%	A24/2013
2015/16	1.2%	1.0%	2.5%	2.5%	A18/2014
2016/17	-0.1%	0.0%	2.9%	2.9%	A13/2015
2017/18	1.0%	0.0%	2.5%	2.4%	A12/2016
2018/19	3.0%	0.0%	3.0%	2.9%	A10/2017
2019/20	2.4%	0.0%	2.6%	2.6%	A8/2018
2020/21	1.7%	1.7%	3.9%	3.9%	A1/2020
2021/22	0.5%	0.5%	2.5%	1.9%	A1/2021
2022/23	3.1%	3.1%	3.1%	3.1%	A11/2021
2023/24	10.1%	10.1%	10.1%	10.1%	Not yet issued[10]
Cumulative	138.0%	125.8%	152.9%	149.9%	

The table shows that since April 2012 working age benefit have declined in value by at least 8.8 percent (assuming the CPI policy would maintain their value), whereas pensions have increased in value by around 10.8 percent. The slightly lower increase for pension credit is due to the fact it falls outside the triple lock (but in most years it is increased by the same cash equivalent as the basic state pension to ensure entitlement is not lost due to the uprating).

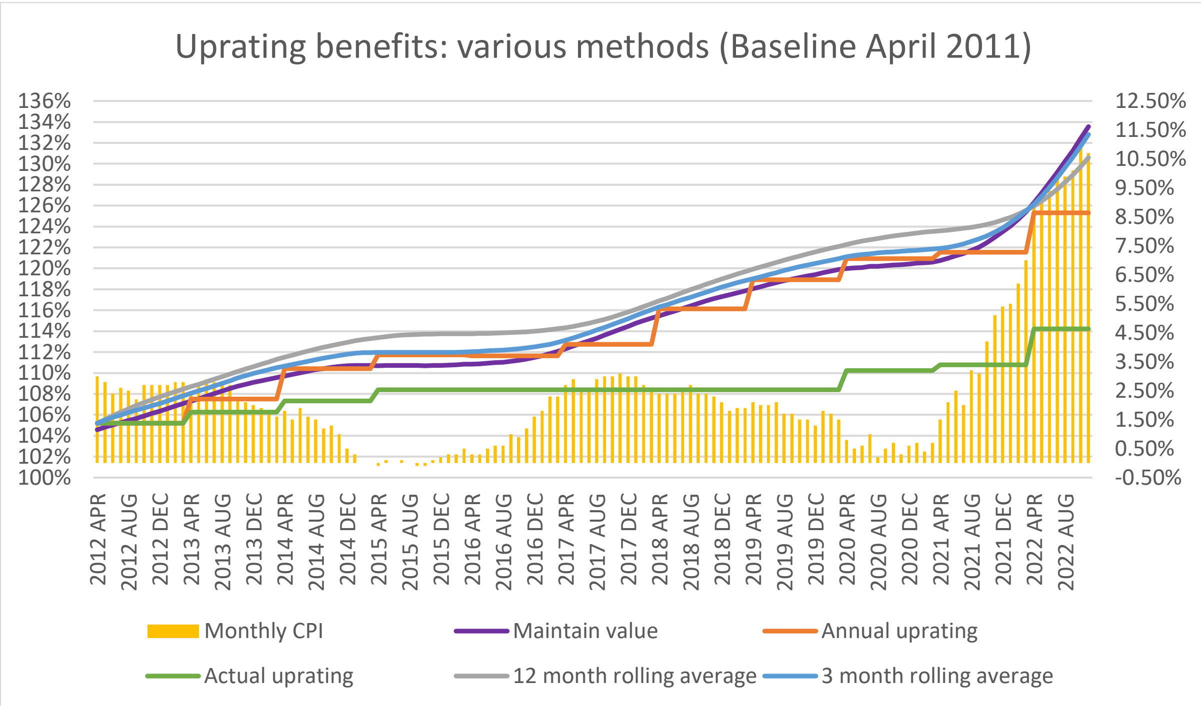
The main problem with basing the uprating on the previous September's CPI is that benefits won't maintain their real value if inflation starts to spike after September as happened in 2021 and has continued through October and November 2022 (the latest figures). To assess how effective the policy is at maintaining the real value of benefits we modelled uprating benefits monthly by the previous months CPI since April 2012 (using the previous April's figures as the baseline). The model included various uprating alternatives including the actual uprating for working age benefits,

[10] See House of Commons, Deposited Papers, 17 November 2022, DEP2022-0900

full uprating (without the six-year intermission), and a monthly uprating 12-month and three-month rolling average. The results are in the chart below.

The (yellow) bars in the chart show the monthly inflation rate and the lines the outcomes from various uprating methods. The monthly uprating (purple line) is the closest to ensuring that benefits maintain their real value throughout the year. The green (stepped) line shows the actual uprating for working age benefits, and the orange what would have happened if the policy of using September's CPI had been maintained – up to November 2022 (the latest available).

Since April 2011 working age benefits have had a nominal increase in value of around 14.2 percent (25.8 percent from April 2023). If benefits had maintained their real value, the nominal increase would be 33.5 percent (estimated 39.1 percent from April 2023). This means they have currently lost around 14.4 percent of their real value – reducing to an (estimated) 9.6 percent immediately following the April 2023 uprating.



The chart clearly shows that an annual uprating policy results in stepped increases that either run ahead or behind the real value throughout the tax year. In some years, such as happened in 2022/23, the uprating even failed to restore the real value at the start of the year. Whether the uprating results in the award being over or behind the real value largely depends on whether inflation is rising or falling in September or April. A monthly uprating based on a rolling average would smooth out the steps but exaggerate the discrepancy from the true value; the longer the period the greater the discrepancy (grey and light blue lines). A continuous monthly uprating would be administratively burdensome (and confusing for claimants). A quarterly uprating would produce a result like the three-month rolling average but with four (more gradual) steps than the single step produced by the annual uprating. If working age benefits had been fully uprated on an annual basis by an uprating in April, they would have lost only around 0.8 percent of their real value, but if inflation remains high, they will fall further behind each month until the next uprating. An alternative would be to require mid-year reviews if inflation exceeds a set figure.

Of course, the imperative for benefits to maintain their value throughout year in times of high inflation would be much less pressing if the rates were more generous in the first place. It should be noted that the above analysis ignores the other changes in benefits that have taken place since 2011 and which make comparisons much more tenuous. These changes include:

- the abolition of the family element in tax credits/UC (£10.50 per week)
- the two-child limit (£56.45 per week for each child)
- the benefit cap (varies, average circa £220 per week)
- the 'bedroom tax' for social renters and the numerous cuts to the local housing allowance for private renters (including the ongoing freeze);
- the abolition of the work-related activity component in ESA (£36.50 per week)
- the abolition of the savings credit element of pension credit (£14.48 per week)

Help with rent in welfare benefits

The post-war system of welfare was based on flat rate contributory benefits. But the rates did not include an amount for rent because of the wide variation in the costs in different parts of the UK. The solution was that rent was fully covered in the allowances for the social safety net – a policy that continues with UC (through the housing costs element) and for pension age claims with HB.

This policy worked reasonably well until the early 1990s when deregulation saw a rapid rise in private rents and maximum rent limits were introduced. Between 1996 and 2008 these limits were set individually by rent officers until replaced by the local housing allowance (LHA). Initially the LHA was based on the median (50th percentile) rent but was reduced to the 30th percentile from April 2011. The rationale for the 30th percentile is that it is the rough proportion of private renters in receipt of housing benefits (and so providing a reasonable guarantee that accommodation can be secured at or below the LHA rate).

If the rent is higher than the LHA rate the tenant must make up the shortfall out of their UC standard allowance (or pension credit). The shortfall is often more than the increase received from the annual uprating and this is exacerbated during periods when LHA rates aren't uprated in line with changes to local rents. As was noted above, LHA rates fall outside the statutory uprating although the convention is that they are recalibrated each April using local rent data up to the previous September. But because LHA rates fall outside the statutory uprating it doesn't always happen. The failure to uprate is not a rare occurrence: in the 15 tax years since the LHA was introduced it has happened nine times (including 2022/23). And each time it does it compounds claimants' problems with managing their money since the shortfall has to be made up out of their standard allowance which has no element to cover housing costs. LHA rates were last reset in April 2020 but have been frozen at their same cash rate since (which will continue during 2023/24). Apart from being obviously unfair to private renters, freezing LHA rates is also in direct opposition to the principle that benefits should be targeted to those most in need. When LHA rates are frozen shortfalls open in those markets that are most under pressure.

Freezing or failing to uprate shrinks the pool of homes that are available at or below the LHA rate from at least 30 percent of homes to a lower figure. The longer the freeze occurs the smaller the pool of affordable homes becomes. CIH has processed the data from the rent officer data set (the list of rents) for each broad rental market area (BRMA) in England. The results are set out below.

Table 4: Percentage of English BRMAs where less than 20 percent of homes are within the LHA rate

Shared accommodation	One bedroom (self-contained)	Two bedrooms	Three bedrooms	Four bedrooms
89%	36%	28%	23%	21%

In April 2022 for every category of dwelling at least one in five BRMAs had less than 20 percent of homes are available within the LHA rate. For the shared rate it is nearly nine in every ten BRMAs. In seven out of ten BRMAs less than 10 percent of shared properties available and in one in every ten BRMAs there are no shared properties within the LHA rate. The situation across all categories of dwelling from April 2023 is expected to worsen considerably because rent inflation started to spike after September 2021.

Help with housing costs for owner occupiers

Help with housing costs for low-income owner occupiers is very limited. Other than council tax support owners are only entitled to receive limited help with their housing costs as follows:

- If they are pension age:
    - with their service charges and/or ground rent (if payable) as part of their appropriate minimum guarantee (guarantee credit), and/or

- with their mortgage interest as a repayable loan (secured as a charge against property). But interest payments are capped at a home loan of £100,000 and interest is calculated at the standard rate (as at 01/06/2022, 2.09 percent);
- if they are working age and have had no earned income for at least nine months:
  - with their service charges (but not their ground rent), and/or
  - with their mortgage interest as a repayable loan (secured as a charge against property) but interest payments are capped at a home loan of £200,000 with interest calculated at the same standard rate as state pension credit.

Mortgage interest payments are called support for mortgage interest (SMI) and are only available to out-of-work homeowners after a waiting period of nine months – although it was announced during the Autumn Statement that the zero earnings rule would be abolished, and the waiting period reduced to three months from Spring 2023.[11] Given these restrictions on entitlement very few homeowners receive it. As of November 2021, only around 14,000 households in Great Britain receive SMI compared to 230,000 before April 2018 (when SMI became a repayable loan).

Some concession is made to in-work UC claimants who benefit from the higher rate work allowance which is not available to renters. Apart from that low-income homeowners must manage their housing costs out of their basic benefit (UC standard allowance and any other elements). Any mortgage payment protection insurance (MPPI) received reduces the UC award by the same amount. Deducting £1 for £1 any MPPI payments seems somewhat perverse. On the one hand Government seeks to encourage private insurance through the waiting period but on the other there is little incentive to do so because their award is reduced by the same amount.

Other housing costs: help with council tax

From April 2013 council tax support was moved outside the social security system. Any spending by councils is reimbursed by cash limited grants which fall under Departmental Expenditure Limits (DEL) rather than demand led Annually Managed Expenditure (AME)). Since local authorities are no longer fully funded, they usually balance the books restricting entitlement for working age claimants to a fixed percentage of their gross liability. The shortfall must be covered by the council taxpayer out of their inadequate benefits. Less than 100 councils in England now provide full coverage. Typical shortfalls for claimants receiving maximum UC are £10 to £15 per month but can be as high as £30 or more.

[11] HM Treasury, Autumn Statement 2022, CP 751, para 5.16

About CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support, and knowledge they need. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world. Further information is available at: www.cih.org.

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