TICKING THE BOX…

for a welfare system that works

SEPTEMBER 2014

ABOUT

Chartered Institute of Housing

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Ticking the Box for Housing campaign

Through 'ticking the box for housing', we're aiming to influence debate in the run-up to the 2015 general election - and ultimately the policies of the next government. We are challenging all political parties to put addressing the housing crisis at the centre of their manifestos and this document is part of our work to come up with the solutions that would enable them to create a housing system that works for everyone. For more information visit: www.cih.org/tickingthebox

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The problem of rising expenditure

Spending on personal housing costs support in the form of housing benefit (HB) has grown relentlessly over the past two decades, both in absolute and real terms. Using 2013/14 prices, it has risen from £16.5 billion in 1996/97 to £24.4 billion in 2012/13 – a 48 per cent real terms increase. Over the same period levels of unemployment, including long-term unemployment, have fallen.

Those 18 years have included two major economic downturns and, in the immediate period after each crash, spending has risen sharply as unemployment rises and peaks. But arguably the bigger cause for concern is that spending has failed to fall off significantly during the periods of growth in between.

The dominant factor in the long-term rise in spending is the growth in rents paid by claimants. High rents result in high HB awards but they also broaden the reach of the poverty trap, driving up the caseload to take in ever larger numbers of in-work claimants. In market-based tenures, rental growth provides the return on investment so rising rents during periods of economic expansion are to be expected.

However, this rental growth is not solely due to landlord rent rises or exclusively confined to the private sector – rents have risen almost as rapidly for social sector tenants. They are also the consequence of housing market restructuring to more expensive market-based tenures arising from policies such as stock transfer, housing associations relying increasingly on private finance and rent deregulation.

Other factors play a part in rising expenditure including the growth in insecure employment (such as zero hour contracts) and the falling real value of wages. Welfare is increasingly subsidising low pay and, in recent times, the fastest growing part of the caseload has been in-work claims. Changes in the caseload mix, such as a rising proportion of claims from London or from families, can also drive spending increases, albeit in a more subtle way that is less well understood.

Overall the rise in HB spending is largely due to housing and labour market restructuring and therefore the policy solutions that will most effectively bring it under control lie in policy areas outside welfare itself (for example, housing and employment). Further restrictions on entitlement may slow the rise in spending in the short-term but do nothing to tackle the causes of welfare dependency and are unlikely to have any significant impact in reversing it.

Reforming welfare to improve work incentives

Universal credit (UC) provides the best framework for alleviating the deepest part of the poverty trap, where work incentives are currently at their weakest. But reducing the rate at which benefit is withdrawn always comes at the expense of extending the range of incomes over which the withdrawal applies. There is no way around this but the effects are mitigated if rents are more affordable. To put it another way, the price paid for improved work incentives is that a higher wage is required to escape welfare altogether and that this gets worse as rents increase.

If the aim of welfare reform is to help workers with low or modest earnings become self-sufficient, then this sits uneasily with investment in new affordable homes being ever more dependant on market or near-market rents, such as those currently being provided through the Affordable Homes Programme (AHP).

This is not a marginal problem - a couple with two children with one partner working and paying an average market rent of £133.00 per week requires a salary in the higher-rate tax band to escape UC, putting them in the top 15- 20 per cent of all earners.

Evaluating recent reforms

Recent welfare reforms aimed at reducing the welfare budget have been solely achieved through restrictions on entitlement, without any consideration as to what is causing the rise in spending.

Worse still, welfare policy is being used in some cases to influence housing policy objectives, notably in the form of the bedroom tax where there is scant evidence as to its efficacy. In fact it is so poorly designed that it undermines housing demand where it is already weak but has only a feeble effect where housing is in short supply.

Conclusion and recommendations

Recent reforms to HB that rely on reducing entitlements are likely to have only a short-term impact on the overall long-term growth in spending.

This is because they fail to tackle the main drivers of increased spending:

- *long-term tenure restructuring to more expensive forms of housing and the decline of homeownership*
- *rental growth*
- *labour market trends, including less secure employment for workers in the bottom half of earners and wage levels at which workers can only meet their housing costs with help from HB.*

The reforms required to tackle the widening poverty trap are the same as those required to reverse rising spending and largely lie outside the welfare system. They require a fundamental shift in housing, labour market and regional policy.

Reforms are required that tackle the causes of growing HB spending. This requires a reversal in the long-term trend of tenure and rent restructuring through tenure transfers and the creeping conversion of low-cost rented housing into more expensive homes at market or near-market rents. This would require:

- a substantial increase in the supply of social rented homes, with higher new build grant rates so that rents are low enough for tenants to have a realistic prospect of escaping welfare. The provision of homes for affordable rent should be refocused on a much narrower cohort of people in work and not in the lowest earnings bands
- a stronger formal tie-in of welfare and housing policy to start rebalancing subsidy back from personal support towards investment in supply. To encourage this, DCLG should be able to draw on savings made by reforms they agree with DWP
- removal of HM Treasury restrictions on the use of capital receipts from right to buy sales to allow for full one-for-one replacement to help achieve a better balance of low-cost and market rented homes to meet demand
- greater flexibility for landlords to use the proceeds from market-based products to reinvest in new social homes
- receipt of grant to be made conditional on landlords being able to demonstrate that their rents are genuinely affordable: including taking account of future rent increases
- in the medium-term, government should consider basing UC for private tenants on a proportion of the rent to introduce a degree of incentive for rent restraint. However, this should not be used by the government as a Trojan Horse for further restrictions on entitlement. CIH would oppose this change unless it was accompanied by a substantial uplift in the standard allowances that

was proven to adequately cater for different rent levels and different broad rental markets without an erosion of living standards. Initial costs could be met by phasing in the reform as the economy improves and unemployment declines. In the social sector to execute this policy successfully would require good communication between DCLG, the social housing regulator and DWP to ensure consistency between the rent framework and the welfare system.

- repeal the bedroom tax, which is an exceptionally poorly designed and ineffective policy measure for encouraging the better use of the social housing stock.

Alongside changes to boost the supply of affordable homes and restrain the long-term growth in rents, wider economic reforms are required that would help reverse welfare dependency:

- a rebalancing of the labour market by redirecting subsidies away from welfare payments that supplement low pay, towards employer incentives that encourage a living wage. Social landlords should show leadership by paying wages that are above the living wage and ensure that their contractors and service providers do the same
- outside London and the South East there is a need for greater investment in infrastructure and skills to stimulate economic growth and bring down unemployment. Investment could be targeted at markets where there is a high concentration of housing benefit claimants.

SECTION 1 Where are we now?

The UK's social security system, founded in 1948, was based on entitlement by contributions paid rather than means-test - a flat rate contribution in return for a flat rate benefit.

However, subsequently the importance of means-testing has grown, undermining the contributory principle. The growth of means-testing has resulted in an increase in the number of households who receive benefit. Originally benefits provided a basic income for individuals experiencing temporary periods of unemployment. As means-testing has increased, support has been extended to working families too, in the form of tax credits.

One of the key challenges faced by the fledgling social security system was how to take account of rent. Unlike other essential items, rent varied across the country, so a flat-rate of benefit based on an average rent would leave people in expensive areas out of pocket, while those in cheaper areas would have a surplus.

The solution was to meet claimants' actual housing costs, based on a means-test. At a time when housing supply was in keeping with the level of demand, and when the majority of the housing stock was privately rented and subject to rent controls, help with rent was provided by including an allowance in 'national assistance' (a predecessor of income support). This ensured people experiencing unemployment were able to meet their housing costs.

A dysfunctional housing system

A key factor in the size of today's benefit bill is the country's massive shortage of genuinely affordable housing. The stock of affordable social housing has been decimated by the right to buy and the failure to replace homes sold under it, while the removal of rent restrictions in the private rented sector and reduced security of tenure have led to this becoming a much less affordable and stable housing option.

Government figures on house building across all tenures show a long-term steep decline in England since the 1980s. As a result of both a growing population and the failure to build sufficient stock, various sources estimate that around 240,000 additional homes are required each year, for the next three decades, in order to meet newly arising demand in England, compared to 137,780 actual housing starts in the 12 months to June 2014 (DCLG 2014 House building statistics).

It is clear that a building programme of this magnitude requires policies for planning, land supply and extensive capital investment, which extend beyond a single parliamentary term and whose details are well beyond the scope of this paper.

SECTION 2 Welfare expenditure

Expenditure on welfare and personal housing costs support

The 2010 coalition government's overriding objective is to reduce (and eliminate as soon as possible) the budget deficit. The June 2010 Budget and subsequent budget and spending reviews (renamed Autumn Statements) have formed the central part of this strategy, achieved through a sustained drive to reduce public expenditure.

Efficiency in public spending and spending on housing

Since 1979 successive governments have reduced the level of capital grants for investment in rented housing ('bricks and mortar subsidy') while increasing expenditure on revenue support for personal housing costs (i.e. HB) for those on low incomes ('personal subsidy').

The rationale for the switch to personal subsidy is that this is more economically efficient because support is only received by those who need it, eliminating the 'deadweight' cost. Further, it is argued, protecting personal incomes allows rents to be raised without affecting standard of living and the increased revenues can be reinvested in new or existing stock.

At the same time as the switch from capital investment, since 1990 government policy has actively pursued a restructuring of the rented housing market. In 1990 the public sector accounted for 60 per cent of all rented housing. By 2012, 52 per cent of rented housing was in the private sector. During this period the social sector has lost over 500,000 homes by failing, due to Treasury restrictions, to replace homes lost through the right to buy on a one-to-one basis. At the same time, through a process of stock transfer, housing associations became the dominant social tenure, accounting for 58 per cent of the depleted stock (up from just 14 per cent).

Tenure restructuring has a big impact on welfare spending because of the large differences in rents. Social housing, especially council housing, has historically charged low rents – around 40-50 per cent of market rents. But even this masks the rent restructuring that has taken place within the tenures over the same period, arising from deregulation, sector rent restructuring and cost pressures as capital grants have been withdrawn with an increasing trend towards market-based rents in social housing.

Figure 1: Average rents by tenure In England 1990-2012

	1990		2012	
Tenure	Weekly rent	Rent as % of average earnings	Weekly rent	Rent as % of average earnings
Private	£46.67	17.5%	£167.00	27.0%
Housing association*	£28.97	10.9%	£83.63	13.5%
Local authority	£23.74	8.9%	£73.62	11.9%

** Social (low-cost) rents only. From 2011 many new lettings have been made under the HCA 'Affordable Homes Programme' based on 80 per cent market rents. In 2012 the average weekly affordable rent was £113.68, 18.4 per cent of average earnings.*

Source: UK Housing Review 2014, table 72.

The combination of tenure and rent restructuring drives HB expenditure in a number of ways:

- *transfer between private and social tenancies: as the social sector shrinks more will rent privately and will require higher levels of support if they lose their employment or are trapped on low wages*
- *transfer between housing association and local authority tenancies: this takes place both naturally (because housing associations build the majority of new social homes) and en bloc through stock transfers. 1.26 million properties in England have been transferred over this period*
- *from 2011 a growing number of new lettings by social landlords in England have been at 'affordable rents', set at up to 80 per cent of full market rents*
- *rent increases outstripping inflation: as rents rise so does HB spending because HB covers 100 per cent of the marginal cost on existing claims*
- *widening of the poverty trap: higher rents extend the range of earnings over which households on low and modest incomes qualify for HB, expanding the caseload.*

All of these effects will drive real-terms increases in expenditure – independently of wider changes in the economy, such as falling unemployment, that would otherwise reduce it. More subtly these drivers can be magnified through natural variation in the way restructuring occurs. For example, private rents in London are nearly double the rest of the country and social rents are around 30 per cent higher. Small changes in composition of the caseload generated, for example, by regional differential growth rates in each sector or in the rates of unemployment, can drive a significant increase in expenditure. In other words, the higher the proportion of the caseload that is in London and the South, the higher the overall expenditure.

The effects of overall changes in caseload and the resultant shift in the composition of expenditure are summarised in figures 2 and 3.

Figure 2: Change in make-up of housing benefit caseload 1992-2011

	1992		2011	
Tenure	HB caseload (Thousands)	HB caseload as % of total HB caseload	HB caseload (Thousands)	HB caseload as % of total HB caseload
Private	948	21.9%	1552	31.8%
Housing association	341	7.9%	1862	38.2%
Local authority	3038	70.2%	1462	30.0%
Total	4327	100.0%	4876	100.0%

Source: UK Housing Review 2014, tables 115a, 116a; UK Housing Review 2002/2003, table 112a

Figure 3: Change in composition of housing benefit expenditure 1997/8-2011/12

	1992		2011	
Tenure	HB caseload (Thousands)	HB caseload as % of total HB caseload	HB caseload (Thousands)	HB caseload as % of total HB caseload
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Source: National Archives: http://webarchive.nationalarchives.gov.uk/20130107093842/
http:/statistics.dwp.gov.uk/asd/asd4/h_tables_autumn_2012_211212.xls

Other caseload composition factors

As with changes in the regional caseload, other changes in the caseload composition can also drive expenditure increases such as the ratio of out-of-work to in-work claims or the ratio of childless households to families. Out-of-work claimants on a passport benefit (such as income-based jobseeker's allowance) receive the full rent, whereas in-work claimants (because their income is higher) only receive partial help. Likewise, families have higher awards than childless households because their needs allowance is higher and they require a larger home (and so have a higher rent). The important point to recognise here is that external factors such as natural fluctuations in the economic cycle (or some other factor affecting caseload mix) can cause the average award to rise even when rents are falling. For example, rising unemployment results in a higher proportion both of out-of-work claims and family claims because it affects only working-age households.

Because of the complexity of the changing caseload and the natural variation over the economic cycle it is almost impossible to identify precisely the full range of factors that drive expenditure and their relative influence (which, in any case, will vary over time). However, by comparing figures for spending, caseload and caseload characteristics at fixed points in time it is possible to identify with reasonable confidence what are likely to be the biggest factors driving spending: for example, by comparing years that are at roughly similar points in the economic cycle and appear to broadly have similar caseload mixes.

Very steep rises in expenditure occur following an economic downturn (in part because of the composition effects described above). Undoubtedly this is a big challenge for policy makers and the long-term sustainability of welfare because the greatest need occurs at precisely the point when the economy is least able to support it. However, the steep rise in jobseeker claims that occurs following a downturn is not so problematic when the impact of these cases on expenditure is viewed over the whole economic cycle. In fact, unemployment has been far less severe during the recent downturn (1.6 million and 4.7 per cent at its peak) than the previous recession (2.9 million and 10.3 per cent).

That an economic downturn results in steep rises in expenditure is uncontroversial – but, all things being equal, real-terms spending should fall significantly as the economy recovers: yet recent experience is that it has not. Our spot analysis suggests rental growth within tenures is one of the biggest factors driving long-term increases in expenditure, and this growth was relatively unaffected by the recent recession (unlike mortgage costs: see UK Housing Review Briefing Paper pg. 11). Long-term tenure restructuring (for example, caseload transfers from local authority to housing association or private renting) is a significant driver of expenditure, but it is probably less significant than intra-tenure rental growth (confirmation of this and the relative importance of each would require regression analysis).

Over the past 20 years or so, rental growth has outstripped inflation by around 2.5 per cent each year. And this has not been confined to the private rented sector (albeit growth rates are slightly higher) as social sector rents have grown in real terms by around two per cent. Compounding these rates of growth over 20 years results in a real-term increase on a static caseload of between 45 per cent and 65 per cent. But the overall effect is likely to be greater because it extends the range of earnings over which housing support applies, resulting in a growing caseload.

SECTION 3 WORK INCENTIVES AND THE POVERTY TRAP - PRINCIPLES

Any discussion around the subject of work incentives and welfare inevitably raises the issue of the 'poverty trap', especially where those payments include help with housing costs (notably HB). In fact the linking of the poverty trap and housing costs support has become so ubiquitous that it is often raised as a problem without understanding exactly what it means.

In simple terms, the poverty trap is the difficulty faced by welfare claimants in escaping poverty through their own effort. The trap occurs because, as pay rises, benefit is proportionally withdrawn (at a rate known as the 'taper') so that the overall income gain is only a fraction of the increased earnings. The benefit taper combines with tax deductions to produce a very high overall marginal effective tax rate (METR). The higher the METR the more difficult it is to escape the trap by increasing your earnings and therefore, the deeper the trap is said to be.

However, the solution raises a dilemma. The depth of the trap is eased by reducing the benefit taper but this has the effect of extending the range of incomes over which it applies and therefore, the numbers of workers affected by it. In other words, reducing the depth of the trap is always at the expense of extending its width. There is no right or wrong answer – the appropriate taper rate is a political judgement whereby the overall cost and numbers affected has to be balanced against the work incentive effect.

The case for reform: HB, tax credits and UC

The strong association of the poverty trap with housing costs support arises because the trap is deepest for welfare claimants on HB. This is largely due to its high taper rate (65 per cent). But the problem is compounded by tax credits, which count as income for HB and are withdrawn concurrently. The combined effect is that across the range of incomes where the basic rate of tax, tax credits and HB apply, the METR is in excess of 90 per cent.

The compounding effect of tax credits limits the practical reform options. Halving the HB taper – an option that would be prohibitively expensive – would only reduce the METR to 85 per cent, hardly a powerful work incentive. The only practical solution is to combine all means-tested support into a single benefit with a unified taper so there are no concurrent withdrawals. This model is the basis for UC and results in an improved METR of 76 per cent. It also ensures that across the range of earnings where the basic rate of tax and UC apply, the METR is constant, helping workers predict with greater certainty the effect of an increase in their pay.

The poverty trap, housing policy and the new model of welfare

Since the poverty trap under UC is shallower, it extends over a wider range of incomes. This is not a criticism of welfare or UC policy, it naturally follows if the priority is to eliminate the deepest part of the poverty trap.

Exactly how far the (shallower) trap extends up the earnings scale is determined by the UC maximum award (as well as the taper). The maximum award is determined by the family size, the rent paid by the claimant and other special circumstances (for example, disability). For private tenants the rent element is subject to a maximum set by the appropriate local housing allowance rate.

Since the maximum award depends on the rent, the higher the rent the greater the range of incomes over which the trap extends. The downside of a shallower taper resulting in a wider poverty trap is mitigated by low rents because the width of the trap is proportionate to the rent. More recently government policy for securing investment in new homes has become far too reliant on raising rents towards market rates. Under UC this will extend the poverty trap to unacceptably high wage levels. Ideally, rents should allow workers in the bottom half of earners to have a realistic prospect of escaping welfare dependency through their own efforts.

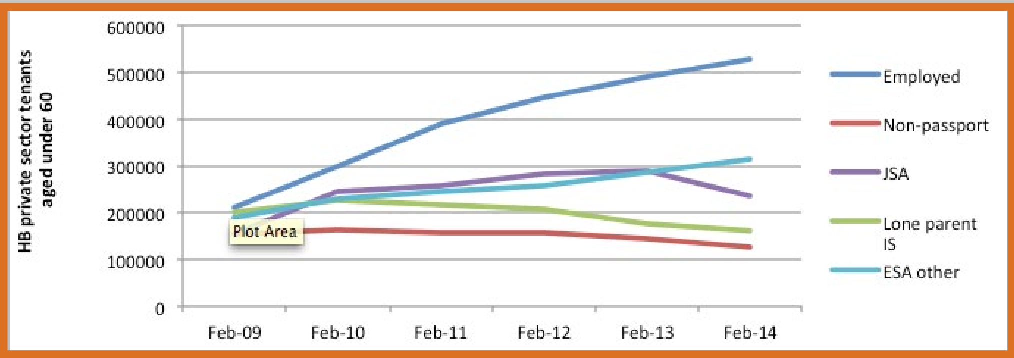
Given the political consensus for deregulated private rents, the case for greater investment in low-cost rental social housing is powerful. It enhances the improved UC work incentives limiting the poverty trap to an acceptable range of incomes, reducing the numbers of workers caught in it, and so acts as a brake on UC (and HB) spending.

The scale of the widening poverty trap

The widening poverty trap is not just a marginal problem. Average market rents already mean that the majority of single-earner households and a substantial minority of dual-earner households cannot ever realistically escape welfare dependency while bringing up children. And in high rent areas this problem is even worse. For the majority of workers in the bottom half of earners, the only realistic prospect of escaping welfare dependency is in having housing at (low-cost) social rents.

The concern that welfare dependency is engulfing an ever-wider cohort of workers is supported by trends in DWP's caseload statistics. Over the past five years the fastest growth in the HB caseload has taken place in new in-work claims (figure 4) - up by nearly 600,000 to over one million. This trend is consistent across all rented tenures and in all countries and regions of Great Britain. In the social rented sector in-work claims have doubled in every country and region; likewise in the private rented sector, where in some regions the caseload has nearly tripled.

Figure 4: Working age private rented sector HB claimants by passport benefit and employment status (February 2009 to February 2014)



Source: DWP Stat xplore

The 2013 median (i.e. the point at which half of all workers have earnings at or below that figure) annual earnings of £26,000 is broadly similar across all UK countries and regions but slightly higher in the East and South East of England (£28-29,000) and higher still in London (£33,000). At an average social rent of £75.00 a couple with two children and one partner working would require earnings of around £32,000 to escape tax credits and HB, rising to £35,000 under universal credit (Figure 5).

Figure 5: Earnings required to escape welfare at a social rent

Couple, two children, single earner paying weekly rent £75.00	
	Earnings required to escape
Housing benefit	£17,992
Tax credits and HB	£32,396
Universal credit	£35,412

Source: CIH Consultancy Affordability Service 2014 (All figures 2013 tax and benefit rates)

At an average market rent for a two-bed property (£130.00), the earnings required by the same family to escape dependency rises only marginally to £33,500 but at the cost of a vastly deeper (91 per cent METR) poverty trap for HB and tax credits (Figure 6). Under UC the deep trap METR is eased to 76 per cent for the same family but the trap extends across the whole of the basic rate tax band and on into the fringe of the higher rate paid by the top 15 to 20 per cent of employed earners.

Figure 6: Marginal tax rates earnings band width at a market rent

Couple, two children, single earner paying weekly rent £133.00		
Benefits paid	Marginal tax rate (MTR)	Range of incomes over which MTR applies
Housing benefit and tax credits	90.55%**	£9,440 - £32,396
Housing benefit only	76.20%	£32,396 - £33,488*
Universal credit (basic rate of tax)	76.20%	£9,440 - £41,450
Universal credit (higher rate of tax)	79.70%	£41,450 - £42,354*
* indicates the earnings at which the tenant finally escapes welfare ** 95.95% over the range of incomes where council tax rebates also apply		

Source: CIH Consultancy Affordability Service 2014 (All figures 2013 tax and benefit rates)

The case for integrated reform of welfare and rents policy

If improved work incentives and helping families work their way out of welfare are key objectives of welfare reform, then the conclusion must be that gains made by UC are undermined by long-term rents policy. A toxic mix of tenure restructuring towards of private renting, relentless above-inflation rent increases across all tenures and, in England, social sector rent restructuring and the Affordable Homes Programme (AHP) whereby all new build lettings are at near to market rents, is responsible for drawing an ever-wider cohort of workers into the welfare trap.

The ever widening reach of welfare is not just at the margins. A salary of £35,000 is in the top 30 per cent of earnings – in other words 70 per cent of workers have earnings at or below this level. For a couple with two children where both members are earning, around one in five jobs would provide insufficient earnings to escape welfare. And in London, where the lower quartile market rent for a two-bedroom private rented property is around £200.00 a week, earnings of £41,300 are required to escape housing benefit or at least £33,300 before housing costs fall to below 30 per cent of the household budget.

In many areas of England, AHP rents are not affordable for the majority of tenants in the earnings cohort for social housing, when judged by most accepted measures of housing affordability or in terms of welfare dependency. A South East roundtable delegate cited an example of a prospective AHP development that was aborted because the rents were unaffordable. The landlord's market research indicated there would be insufficient demand to make the development viable and in any case they were concerned that their tenants would never be able to escape welfare. A number of participants commented that the UC payment reforms would increase tenant sensitivity to high rents; this may depress demand and make some developments unsustainable.

That there is an acute and ever growing need for housing at social rents does not mean that there is no place for intermediate market rented products, but rather that these are unsuitable for households whose immediate earnings prospects are below the median. There was wide agreement among our roundtable delegates that the demand for intermediate market rented products is much more niche and that they are only appropriate for tenants in a much narrower earnings band, or whose earnings potential was at least at or above the median.

SECTION 4 What our members told us

Attitudes to welfare reform: views on recent and future reform options.

To help inform and shape our thinking on welfare reform, CIH held member roundtable discussions across Great Britain in all three countries and a number of English regions – partly to tease out whether attitudes towards the problems and solutions varied across what are quite different economies and housing markets. There were five roundtables, one each in Scotland and Wales, two in the South East and one in the Yorkshire and Humberside region.

Participation was open to CIH members with an interest in the subject. All of the participants worked for either a local authority, housing association or other housing charity. Since 2010, welfare reform has been the cause of considerable disruption to the businesses and their operating models that the participants were drawn from, as well as to the lives of the people they serve.

Our aim was to look beyond immediate concerns and try to envisage how welfare may look in the medium to long-term, when all of the recent reforms have worked through and UC is fully implemented (in DWP parlance when UC has reached its 'steady state').

All participants were asked to consider how the system might be reformed to achieve the key objective of 'making work pay' but also in terms of how it might help improve the functioning of the housing market as a whole (both private and social sectors). A key part of the brief was to take into account the economic and political constraints, in particular the need to control growth in the £210 billion welfare budget. Participants were specifically asked not to simply provide a wish-list or to roll back the clock to the pre-2010 position. But equally they were asked to consider solutions that may assist welfare reform objectives outside the benefits system itself (for example, regional economic development, tackling low pay and so on).

Despite the tight brief, delegates had strong views about the recent reforms – especially the 'bedroom tax' and the household benefit cap. There was almost universal agreement that the bedroom tax has failed to meet its stated objectives of encouraging the better use of stock and making savings in expenditure.

However, despite there being strong objections to both measures in all of the roundtables, there were some noticeable differences between participants in the two South East roundtables from those held in Yorkshire, Scotland and Wales. These differences clearly reflected the variations and peculiar pressures and inefficiencies of their own housing markets.

It was noticeable that participants in the South East roundtables were more open to considering radical solutions. To them it was clear that the current system was broken because of the extent to which welfare is subsidising high rents and low pay. The stark reality in London and the South East is that unskilled or semi-skilled workers are unlikely to ever escape the reach of welfare and the poverty trap. Outside the South East it is perhaps not surprising that delegates were more suspicious of further change. Their tenants were much more likely to be hit by the bedroom tax, and rates of unemployment are higher, so they may have more to lose. And for those who are working, rents are still low enough for there to be a realistic prospect for an unskilled worker to escape the poverty trap.

It's the economy stupid

There was strong agreement across all the countries and regions that if government wanted to bring down the cost of welfare in the long-term it needed to tackle the causes of welfare dependency rather than simply relying further on restricting eligibility. Many of the drivers of expenditure lie outside the remit of the DWP itself and would require investment to bring in the savings.

The main causes of rising expenditure are high unemployment, low pay, high rents and a severe shortage of low-cost rented housing. This analysis is supported by the DWP HB caseload statistics.

A strong theme from all of the roundtables was that the current structure of welfare is heavily geared to support low pay. There was strong support for the 'living wage' (although even the living wage falls within the bottom 15 per cent of earnings). Delegates also agreed that the solutions required would not be the same in every country and region.

In the South East, the main problem is the acute shortage of social housing at low rents that enable blue collar workers to escape welfare dependency; this requires higher levels of grant funding to keep rents down. Job insecurity arising from greater labour market 'flexibility' also presents a risk for the prospects of a worker wishing to escape welfare, even if they have earnings closer to the median, and can be as problematic as low pay itself – although often the two go hand-in-hand.

Outside the South, where rents are more affordable, investment in infrastructure to drive economic development and bring down unemployment should feature more strongly. But a severe shortage of low-cost rented housing is at the heart of rising welfare dependency in every region.

The bedroom tax

In the North, Scotland and Wales opposition to the bedroom tax was unanimous. Participants' experience was that, far from helping to make more efficient use of the stock, the effect was to make perfectly good larger homes difficult to let. Many commented that the bedroom tax would generate false demand for smaller homes that were not needed and was short-sighted. Often the 'shortage' of smaller social homes was in the very same markets where there was a surplus of smaller private sector homes and where too many had been built during the housing market bubble. This surplus had contributed to the market collapse that followed being more severe than it might otherwise have been. And this is without considering the real practical difficulties the bedroom tax creates for the individuals affected and for the landlord when letting (for example, letting to a couple planning a family). A small minority of participants in the South East thought the measure may relieve the acute demand for family homes but that, if this was the intention, then it did not make sense to exclude pensioners.

As Figure 7 demonstrates, the bedroom tax is actually inversely targeted at the problem it is supposed to address: it has a high impact in low-demand areas and a low impact where demand is high (suggesting that social landlords already allocate efficiently). One delegate commented that if better use of the stock was its real purpose than this could be achieved far more effectively by providing landlords with a new ground for possession. Overall the consensus was that the measure was a failure when judged against its objective and should, therefore, be abolished.

Figure 7: Households affected by the bedroom tax

Country /Region	Proportion of working age HB claimants affected as % of claims
London	12.0%
South East	15.9%
Rest of South (East of England and South West)	18.5%
Midlands (East Midlands and West Midlands)	23.6%
North (Yorkshire & Humber, North West and North East)	28.6%
Scotland and Wales	28.6%

The benefit cap

Regional differences in participants' attitudes towards the benefit cap were almost the mirror image of those on the bedroom tax. Again this reflected the uneven impact. The cap was not a major concern for landlords outside the South East. But South East delegates thought its impact was unfair because it failed to take into account the higher rents in the region and the severe shortage of social homes (and greater reliance on the private sector). The measure has been presented as a deterrent to bringing up large families on welfare. But in London and the South East high rents mean it affects three-child families. Many social landlords now consider larger family homes 'unviable' and are adjusting their development programmes despite the severe shortage.

The private rented sector

It was thought that spending on private tenants represented poor value: private tenants account for 39 per cent of all HB spending but only 33 per cent of the caseload. But it is also the sector that has had to absorb the deepest welfare cuts and there is emerging evidence that HB tenants are already finding it difficult to obtain a tenancy, especially in London and concern that further cuts will see landlords either refusing to let to welfare claimants or withdrawing from the market altogether (pg. 15 UK Housing Review 2014 Briefing Paper, DWP 2014 research report No 874).

Participants were concerned at the large amounts of HB received by private landlords for poor quality homes without any obligation to meet minimum property standards. CIH has published a joint report with the Resolution Foundation - More than a Roof (click here to view publication) – which makes the case for better targeting of tax incentives as a way to improve standards of accommodation and housing management practices in the PRS.

Covering the marginal cost of housing

Both HB and UC are calculated using the full rent. If the tenant's rent goes up by £5 so does their HB/UC award: their HB/UC covers the whole of the marginal cost. Economists are critical of this design feature as being a 'moral hazard' that results in rent inflation. This could be mitigated if HB/UC were based on a proportion of the rent, say 80 per cent, so that the tenant would take an interest in the rent and responsibility for the marginal cost would be shared rather than wholly falling on the tax-payer. It would also address the counter arguments for retaining the bedroom tax and, to a lesser extent, the benefit cap by introducing an incentive to downsize or to move to a cheaper area but without the punitive approach inherent in those measures.

The apparent design flaw in the current model of covering the full marginal cost was considered by our roundtable participants. Most were reluctant to condemn it – largely because they feared that changing it would be hijacked as justification for imposing further cuts. However, this does not have to be the case. The pre-1988 scheme was proportional but more generous because the allowances for living expenses were more so. There is no reason why such a reform could not be introduced on an overall cost-neutral basis (although individual claimants would either lose or gain). A more acceptable alternative might be to retain the current system for social tenants with high levels of coordination between DCLG/social housing regulator and DWP to ensure consistency between the rent framework and the welfare system.

Tenant payment of UC

All roundtable participants representing social landlords where concerned about payment of the housing costs element of UC to the tenant. They almost all thought that their collection costs would rise and that they would have to substantially increase resources to collect the same amount of rent.

However, despite these concerns, nearly all thought that there would be positive aspects to this reform. Many thought it would help renew the landlord-tenant relationship and reinforce the tenant's awareness of how much the rent is and their responsibility to pay it. For the same reason the same group also believed that tenants would become much more sensitive to rent increases (despite UC covering the whole marginal cost). This would also help improve efficiency: high rents to compensate for poor management are more likely to be exposed.

Most landlords, while far from complacent about the additional costs, thought that they would be able to rise to the challenge and were not wholly opposed to the change. Only in Scotland was there a very clear view that this reform should be not be implemented.

Housing, welfare, work and the regional economy

Most participants thought that improved economic performance – particularly in regions where unemployment remains high – was critical to help bring spending under control. Reducing HB spending would require different strategies in different regions. For example, in London and the South East, where private rents are high and private renting is a greater proportion of the overall tenure mix, there was a clear need for more investment in new homes at social rents.

Outside the South greater attention needs to be paid to investment in infrastructure and other strategies to stimulate economic growth. In these regions high rents are less of a problem and workers have a reasonable prospect of escaping welfare if employment opportunities improve. Many participants pointed to the programmes that many social landlords already provide to support tenants who were furthest from the labour market, to help them acquire the confidence and skills they need to return to work.

SECTION 5 CIH's recommendations for change

Spending on personal housing costs support for tenants has risen relentlessly over the past 20 years. In an attempt to curb the alarming rise in expenditure, government has responded by imposing deep cuts in entitlement to HB and tax credits. At the same time there has been an equally alarming rise in the number of in-work tenants that have become dependent on welfare to supplement their wages.

We believe that this strategy is only likely to have a short-term effect – and that even if spending does fall due to the improving economy, it is unlikely to return to the real-term levels before the start of the financial crisis. This is because cuts in entitlement fail to tackle the underlying causes of spending growth which are:

- long-term housing market restructuring from low-cost housing to more expensive tenures (not just in terms of tenure transfers but also increasing marketisation in the tenures that were traditionally lower cost)
- relentless above-inflation rental growth across all tenures
- changes in the labour market towards lower-paid, less secure employment, partly encouraged by welfare payments that supplement inadequate wages
- partly due to the above, an expanding welfare trap that encompasses an ever-greater range of earnings – and that will widen still further with the introduction of UC.

What can be done?

Reforms are required that tackle the causes of growing HB spending. This requires a reversal in the long-term trend of tenure and rent restructuring through tenure transfers and the creeping conversion of low-cost rented housing into more expensive homes at market or near-market rents. This would require:

- a substantial increase in the supply of social rented homes, with higher new build grant rates so that rents are low enough for tenants to have a realistic prospect of escaping welfare. The provision of homes for affordable rent should be refocused on a much narrower cohort of people in work and not in the lowest earnings bands
- a stronger formal tie-in of welfare and housing policy to start rebalancing subsidy back from personal support towards investment in supply. To encourage this DCLG should be able to draw on savings made by reforms they agree with DWP
- relaxing of HM Treasury restrictions on the use of capital receipts from right to buy sales to allow for full one-for-one replacement to help achieve a better balance of low-cost and market rented homes to meet demand
- greater flexibility for landlords to use the proceeds from

market-based products to reinvest in new social homes

- receipt of grant to be made conditional on landlords being able to demonstrate that their rents are genuinely affordable: including taking account of future rent increases (this is another example of the need for better coordination between welfare and housing policy)
- in the medium-term, government should consider basing UC for private tenants on a proportion of the rent to introduce a degree of incentive for rent restraint. However, this should not be used by the government as a Trojan Horse for further restrictions on entitlement. CIH would oppose this change unless it was accompanied by a substantial uplift in the standard allowances that was proven to adequately cater for different rent levels and different broad rental markets without an erosion of living standards. Initial costs could be met by phasing in the reform as the economy improves and unemployment declines. In the social sector to execute this policy successfully would require good communication between DCLG, the social housing regulator and DWP to ensure consistency between the rent framework and the welfare system.
- repeal the bedroom tax, which is an exceptionally poorly designed and ineffective policy measure for encouraging the better use of the social housing stock.

Alongside changes to boost the supply of affordable homes and restrain the long-term growth in rents, wider economic reforms are required that would help reverse welfare dependency:

- a rebalancing of the labour market by redirecting subsidies away from welfare payments that supplement low pay, towards employer incentives that encourage a living wage. Social landlords should show leadership by paying wages that are above the living wage and ensure that their contractors and service providers do the same
- outside London and the South East there is a need for greater investment in infrastructure and skills to stimulate economic growth and bring down unemployment. Investment could be targeted at markets where there is a high concentration of housing benefit claimants.