Written evidence from the Chartered Institute of Housing COL0053

Introduction

The select committee's call for evidence on the cost of living is welcome and we are pleased to have the opportunity to respond. The Chartered Institute of Housing is the professional body for people who work and have an interest in housing. Many of our members work closely with tenants and residents who are impacted disproportionately by rising cost pressures.

As a housing organisation our submission focuses on the interplay between housing costs and the welfare system. We support the work of partners such as the Joseph Rowntree Foundation in championing welfare reform.

We have recently launched a series of bulletins to look at the impact of the cost of living on social housing tenants – see www.cih.org/news/cih-cost-of-living-briefing-series-launched

Summary of our asks of government:

- Fund local council tax support schemes so that working age residents on the lowest incomes receive a 100 percent council tax rebate
- Restore the £20 uplift to universal credit and uplift legacy benefits by the same amount
- Commit that all benefits will be indexed by CPI for the lifetime of this Parliament and introduce a double lock for working age benefits to gradually raise the standard of living
- End the blight of child poverty in larger families by abolishing the two-child limit and the benefit cap
- Extend the scope of section 150 of the Social Security Administration Act 1992 to include LHA rates and reset all rates to the 30th percentile
- Owner occupiers claiming universal credit who have taken out mortgage protection insurance for sickness, disability and unemployment should have these fully disregarded as in legacy benefits. Those who are unable to obtain insurance due to a pre-existing medical condition should be eligible for help with owner occupier housing costs (SMI and service charge payments) when out of work without having to serve a waiting period.

Cost of Living Payments

Whilst we welcome the support package to help households via cost of living payments, more needs to be done to help those on the lowest incomes. One-off payments cannot be a substitute for adequate basic benefits rates and proper indexing so that benefits maintain their real value.

The real value of basic benefits has declined by the failure to fully uprate in seven out of the previous ten years. (This does not take into account that low-income households generally experience higher personal levels of inflation because expenditure on essential items forms a higher proportion of their household budget.) Basic benefits are now worth 11 percent less than they were a decade ago - that's equivalent to a benefit cut of £1,800 for a family with two children.

Over the same time period, the failure to properly index benefits has been compounded by other welfare reforms which severely constrain households' ability to manage – especially the two-child limit and the benefit cap. Households with rent and mortgage payments are even more severely affected due the social sector size criteria, the ongoing local housing allowance (LHA) freeze and the fact that basic benefits do not include any allowance for owner occupier housing costs.

We are very concerned about the pressure on household budgets in subsequent years. Even if inflation falls back to within normal levels (within the Bank of England target) prices for essential items are unlikely to return to their pre-crisis levels. Households will have to manage with the same bills but without the one-off support payments.

For childless households, the restoration of the £20 uplift (£1,040 pa) would more than restore the real value of benefits that has been eroded over the last decade with £400 to £600 left to provide much-needed support with fuel bills. However, for households with at least one child even the £20 uplift would not fully restore benefits to their 2012 value and the losses for larger households are substantial.

Help with housing costs for owner occupiers and benefits uprating

Help with housing costs for low-income owner occupiers is very limited. Other than council tax support (which they receive on the same basis as renters) they only 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). Given the restrictions on entitlement described above, very few homeowners receive it. As of November 2021 (the latest figures available) the total caseload for Great Britain was:

• state pension credit	2,941
• universal credit	2,497
• legacy benefits	8,143
• status unknown	225
• **Total**	**13,709**

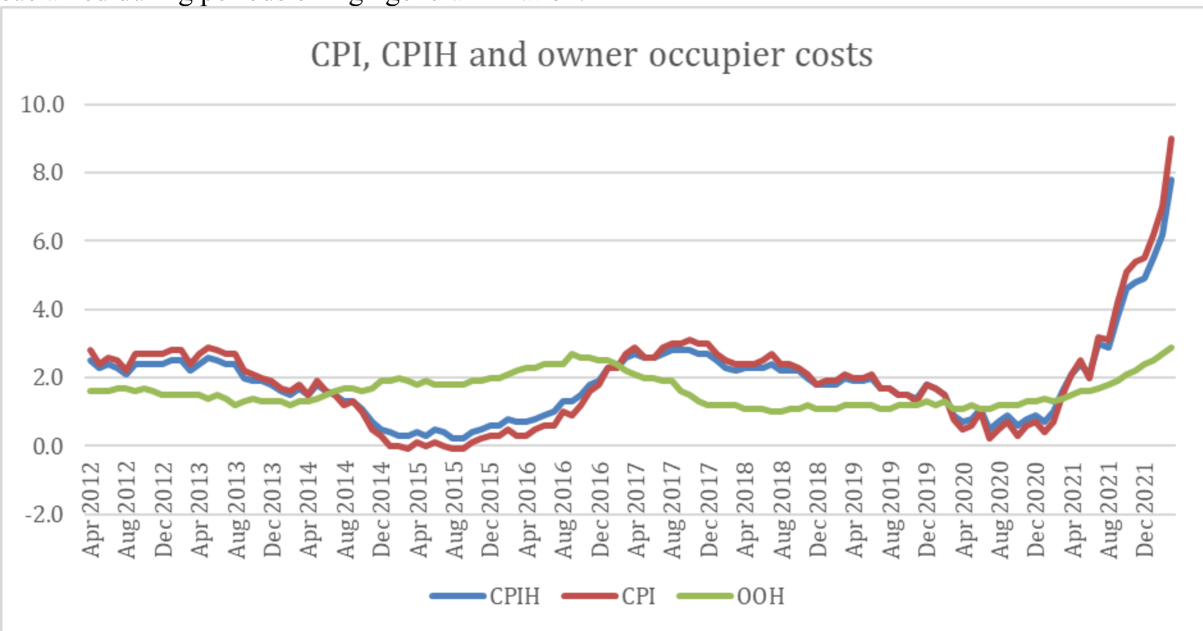
Most homeowners receive little or no help with their housing costs and must manage these out of their basic benefit (UC standard allowance and any other elements). Any mortgage payment protection insurance (MPPI) received reduces the UC award by the same amount – whereas for housing benefit (legacy and pension age claims) these are fully disregarded. The counting in full any MPPI in universal credit seems somewhat perverse. On the one hand Government seeks to encourage private insurance through the nine-month waiting period but on the other, there is no financial benefit for low income owner occupiers to take it out.

Consumer prices index uprating

Basic allowances, elements and premiums in UC and pension credit (PC) (other than housing costs) are uprated by the consumer prices index (CPI) in April each year using the CPI figure for the previous September. CPI is a consumer inflation or pure price index defined as an average measure of change in the price of goods and services bought for the purpose of consumption by households in the UK. It is a measure of price changes for necessities such as food, heating and clothing, as well as a wide variety of things purchased by most households, including leisure goods and services. However, housing costs such as council tax, mortgage interest payments, house depreciation, buildings insurance, ground rent and other house purchase costs are excluded[1].

The ONS provides a separate measure – CPIH – which is constructed in the same way as CPI but includes owner occupiers housing costs (OOH) other than costs such as utility bills and minor repairs and maintenance which are already included in CPI. Owner occupiers' costs are calculated using a proxy – the private rent for an equivalent home[2]. CPIH closely tracks CPI – this should not be surprising because even when housing costs are included, they still form a relatively small proportion of the whole index (CPI tracks around 700 items of expenditure).

Owner-occupier housing costs tend to be more stable over time than other items of household expenditure. As a result, owner occupiers tend to do less well from indexing when general inflation is low and slightly better when inflation is above the Bank of England target of two percent. It is too early to tell whether this pattern is sustained during periods of high general inflation:



Source: ONS 2022[3]

Erosion of basic allowances for household members since 2012

CIH has looked at the value of the basic allowances for household members (single/couple, children) in out-of-work legacy benefits and universal credit to see what they would have been entitled to had they been fully uprated. During this period uprating was capped at one percent for three years and then frozen for four years. 2012/13 was taken as a baseline as it was the final year benefits were fully uprated by CPI until full indexing was restored from April 2020/21. As well as taking into account the real terms erosion in value due a the failure to fully uprate we have also taken into account the loss or restriction of household related allowances namely:

- the loss of the family element in tax credits
- the failure to fully uprate child benefit (which isn't counted as income for legacy benefits or UC)
- the restriction of child allowances to the first two children.

The full CPI uprating was calculated for each year (including any rounding) and the process repeated for each year until the current year (2022/23). The results were then compared with the current benefit rates and the

[1] ONS (2014) Consumer Prices Indices: Technical Manual
[2] Ibid
[3] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest

annual loss calculated for each household type (with the annual amounts rounded to the nearest £5). The results were as follows:

Household type	Annual loss
Single aged under 25	£310
Single person aged 25+/lone parent	£400
Couple	£620
First child	£815
Second child	£350
Third and each additional child over two	£3,285

These losses are cumulative according to the household size, so, for example, a couple with three children would receive £5,070 (£620 + £815 + £350 + £3,285) less in benefits real terms than the same household would have received in 2012. The very high losses for households with three or more children is due to the two child limit but no account is taken of any other post 2012 welfare reforms, in particular the benefit cap and other measures such as the social sector size criteria. It should not be forgotten that these losses are ongoing and are compounded each year. So, for example, if the CPI uprating for April 2023 is nine percent, the household loss is increased by nine percent and that figure is carried forward to the next year.

The benefit cap

CIH is opposed to the benefit cap and believes it should be abolished – our reasons for this were set out in our evidence to a previous inquiry[4]. Short of abolition, we support other mitigations such as a new grace period for domestic abuse survivors and at the very minimum a proper indexing of the benefit cap income threshold. When the benefit cap was introduced in 2013 the income threshold was set at median full-time earnings – at that time £26,000 per year. At that time there was no differential in the threshold between people living in London and the rest of Great Britain and therefore the cap mainly affected households with three or more children or households renting in London or the surrounding high-cost areas. This changed when the new income threshold was introduced from November 2016 - £23,000 for Greater London and £20,000 elsewhere. The thresholds have not been changed since it introduction, despite a requirement to review them at least once in each Parliament.[5]

CIH last researched the benefit cap in 2020/21 for its briefing paper for members on the Domestic Abuse Bill[6] . At that time the monthly headroom for rent for a lone parent with two children was £924 per month in Greater London and £675 per month elsewhere[7]. We compared the headroom with the LHA rates for each local authority in England and found:

- for households entitled to the three-bedroom rate, the LHA rate exceeded the headroom in 197 out of 317 local authorities[8]. Across the whole of southern England (East of England, South East, South West and London) there were only four councils out of 177 where LHA rate did not exceed the headroom. In 150 councils the LHA rate exceeded the headroom by over £100 per month and in 95 by over £300 per month.
- For households entitled to the two-bedroom rate, the LHA rate exceeded the headroom in 142. In southern England it affected 135 councils. In 109 councils the LHA rate exceeded the headroom by over £100 per month and in 40 by over £300 per month.

[4] See Work and Pensions Committee (2019), Twenty-Fourth Report of Session 2017-19
[5] Welfare Reform Act 2012, s96A. See also House of Lords debates 3 November 2021 Col 1205
[6] https://www.cih.org/publications/the-domestic-abuse-bill-and-the-benefit-cap-a-briefing-for-mps
[7] For this analysis we excluded the £20 uplift.
[8] There are more local authority areas than there are broad rental market areas (BRMAs). Where the local authority is covered by more than one BRMA we used the one that covered the largest part of that authority area (sq km).

Since then, the general benefit up-ratings of 2021/22 and 2022/23 will have further eroded the headroom by £36 and the number of properties available within the LHA rate will have shrunk in many areas (the LHA being frozen for these two years). For couples with two children, headroom would be reduced by a further £191 per month (as the income threshold is the same).

Generally, those in social rented homes with similar sized households are much less likely to be affected. For the current year, a couple with two children will be capped if their weekly rent exceeds £161 and a lone parent if their rent exceeds £205 per week but these rents are already in scope for homes built under the 'affordable rent' programme. If inflation is – as expected – eight to ten percent in September and continues to be higher than it has been in the past thirty years for the foreseeable future, then many more households could fall within the cap. If the Government insists on the benefit cap policy continuing, there is at least a very strong case that the thresholds should be urgently reviewed and reset – arguably in line with increases in earnings since 2016.

Background on relationship between housing costs and welfare

The post-war Beveridge system of national insurance-based pensions and allowances did not include any allowance for rent. This is because rent is (usually) the largest single item in the household budget and unlike other necessities there is usually wide variation in the cost in different parts of UK. The solution adopted and which is still used for universal credit (UC) legacy benefits and pension credit (PC) is that rent payment is covered in full for subsistence benefits but no account is taken for it other pensions and allowances (e.g. retirement pension, new-style jobseeker's allowance).

Following the Social Security Act 1986 (which introduced income support (IS) and housing benefit (HB) from April 1988) claimants on IS received full reimbursement of their rent through HB, subject only to a general power to restrict the rent covered if the costs were unreasonable. The local authority decided if the rent was reasonable but at that time 90 percent of social rented residents were council tenants who comprised an even higher proportion of all social rented HB claims. Almost three quarters of all HB claims (social and private rent) were council tenants. Rents for private tenants were regulated so that the registered rent (set by the rent officer) was the maximum that could be charged. And although the registered 'fair rent' was based on the market rent (with an adjustment only if supply and demand were out of balance) the lack of open market evidence meant that in some areas the registered rent was as low as half the real market value[9]. Overall, because rents were regulated, there was not much need to control costs other than the decision makers' reserve powers. Since HB is based on the full rent, tenants were not exposed to risk of rent-induced poverty when they were forced to use part of their basic out-of-work benefit (which has no allowance for housing costs) to cover the rent shortfall.

However, following private rent deregulation in 1996 rent restrictions were introduced for rent allowance claims whereby the maximum HB was restricted to the local reference rent, which in 2008 was replaced by the local housing allowance (LHA) for all new claims. Tenants with rents that exceed the LHA do not receive any HB on the excess. The shortfall is often significantly 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. Failure to properly uprate LHA rates is not a rare occurrence: in the 15 years since it was introduced it has happened nine times (including 2020/23)[10]. And each time it does it compounds any difficulties which claimants face in managing their money due to the general inadequacy of basic benefit rates which have no housing costs component.

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[9] See R (Spath Holme) v Secretary of State for Environment, Transport and the Regions [2000] UKHL 61

[10] In 2013/14 LHA rates were uprated in line with CPI (instead of local rents), in the following two years they were capped at 1% of 2013/14 rates and then frozen for the next four years. LHA rates were reset at the 30th percentile rent in the pandemic year (2020/21) but have been frozen at their cash value in 2021/22 and 2022/23. The government's default policy assumption is that they remain at this level thereafter, but this will be reviewed annually: HM Treasury (2020), Policy Costings, pg. 22.

In a housing market as dysfunctional as the UK where there is such wide variation in rents both within and between regions it is difficult to envisage how costs could be dealt with other than the solution adopted (and still used) by Beveridge: full reimbursement for citizens on subsistence benefits – subject to those costs being reasonable. It is also difficult to argue that LHA rates are unreasonable when they only provide full coverage of rents that are in the bottom 30 percent of the market[11]. The 30th percentile was chosen as being reasonable because it is the approximate proportion of private renters who are in receipt of housing benefits (this providing a reasonable guarantee that the claimant can secure accommodation at or below the LHA rate), and because most people in low paid employment find accommodation within bottom 30 percent of rents[12].

This assumes that rents are recalibrated each year with the local market. If not and rents rise then the proportion of properties available starts to shrink from 30 percent and those tenants above the new excess face a shortfall. The result is obviously unfair – a form of tenure-and-locality-based discrimination and amounts to the part-privatisation of welfare with responsibility for the excess falling either on the tenant or, if they don't pay, the landlord. It is also in opposition to the principle that benefits should be targeted at those most in need. When LHA rates are frozen shortfalls open in those markets that are most under pressure.

The law that requires the minister to review benefit rates (Social Security Administration Act 1992, s.150) does not cover LHA rates. This does not make sense since LHA rates are effectively a substitute for a flat-rate element to cover rent that would be included in pensions and allowances were it not for the fact that housing costs across the UK varied so widely. At times of fiscal constraint this makes it tempting for HM Treasury to press for a freeze or a partial uprating. Government can still present this as a full index-linked uprating of benefits.
Unfortunately, this is not the only housing cost related provision that falls outside the requirement to ensure benefits maintain their real value. Non-dependant deductions (in UC 'housing cost contributions') also fall outside section 150 as do social renters' service charges that are not eligible for HB/UC. Social renters' service charges also fall outside the rent standard and are therefore not subject to capping at CPI plus one percent.

From April 2013 council tax support was redefined as not being a social security benefit – almost entirely on the spurious basis to contrive expenditure savings for the Treasury (since non-social security expenditure falls under Departmental Expenditure Limits (DEL) rather than Annually Managed Expenditure (AME)). Since local authorities are no longer fully funded they usually balance the books by only partially covering the council tax. Less than 100 councils in England now provide full coverage and in three councils the coverage is 70 percent or less. CIH estimates that council tax shortfalls for renters receiving maximum help with their rent are typically £10 to £15 per month but can be as high as £30 or more.

Council tax covered[13]	Nunber of councils
100%	96
90 to 95%	98
80 to 90%	71
75 to 80%	31
70 to 75	9
60 to 70	3

[11] Between 2008/09 and 2010/11 LHA rates were set at the median (50th percentile) rent and from 2011/12 onwards (subject to uprating policy) the 30th percentile.
[12] DWP (2010) Low income working households in the private rented sector
[13] CIH estimate of council tax support schemes for English councils for council tax year 2021/22. In some cases councils also restrict support to one of the lower council tax bands.

The solution is to amend section 150 of the Social Security Administration Act 1992 so there is general requirement to review LHA rates (which fall under section 122 of the Housing Act 1996) in line with local rents and enshrining in primary legislation that the benchmark is the 30th percentile rent. This would not, of course, guarantee that LHA rates are always properly indexed any more than section 150 is a guarantee that basic pensions and allowances are uprated. Ministers would still be free to introduce primary legislation to suspend a full uprating (just as they did with the four-year general benefit freeze and the state pension triple lock this year) but it would at least make the process more transparent.

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.