

From the frontline

Universal Credit and
the broken housing
safety net

August 2019

About the Authors

Author 1: Stephanie Kleynhans, Policy Officer

Author 2: Thomas Weekes, Senior Research Officer

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EXECUTIVE SUMMARY

The introduction of Universal Credit (UC) marked a huge overhaul of the old, ‘legacy’, benefits system. Six years after its introduction, this report considers its impact on housing, including the role of the frozen Local Housing Allowance rates within it.

Originally, when UC was designed and implemented, it set out to update and simplify this ‘legacy’ benefit system and improve work incentives.¹ It aimed to introduce a system that “makes work pay”² and, in doing so, intended to reflect the world of work. While these aims are not problematic themselves, there have been a number of unintended consequences as a result of how the system works. The way in which some of them have been designed has meant that they either do not reflect the world of work or do not “make work pay” as originally intended. Not only that, but our advisors are seeing people who, as a result of UC, are having to live on incredibly restricted incomes or having to borrow large amounts from family and friends. In some cases, it is pushing people towards destitution, rent arrears and homelessness.

The introduction of UC also coincided with a series of changes to welfare aimed at tackling the ‘ballooning’ housing benefit bill.³ UC retains a separate housing element to help pay the rent, based on the existing housing benefit system.⁴ For private renters, this is called Local Housing Allowance (LHA) and the rate at which it is paid has been frozen for four years as part of the welfare reforms.

At the time these reforms were introduced, we warned that they could undermine attempts to reduce homelessness.⁵ A major cause of homelessness is the inability to compete in the housing market, particularly with the affordability of market rents.⁶ With less and less social housing available for those on low income, the private rented sector is being heavily relied upon. Adequate housing benefit levels that actually reflect the private rental market are, therefore, the most vital short-term tool in preventing homelessness. The answer to achieving this in the long term is by investing in the provision of genuinely affordable, social housing.

This report draws on what we are seeing in our services across the country, combined with other detailed research, to provide a unique insight on the detrimental impact UC is having on people’s lives. We examine the strain this is putting on people, but also on the wider public sector, such as the difficulties currently being encountered by homeless services at local authorities. We then set out our recommendations for change.

While it may be working for some, there is now clear evidence that UC is detrimentally impacting many of those who need it most – particularly on their

¹ DWP Press Release, [Universal Credit Introduced](#), DWP, 5 October 2010,

² DWP Press Release, [Universal Credit makes work pay](#), DWP, 15 February 2015

³ Wilson, W., Barton, C. and Keen, R. [Housing Benefit Measures announced since 2010](#), House of Commons Library, 29 December 2016

⁴ Gov.UK, [Housing costs and Universal Credit](#),

⁵ Pennington, J., [If you liked the cut to tax credits... you'll love the local housing allowance freeze](#), Shelter, 2015

⁶ Shelter, [Green Book: 50 Years On. The reality of homelessness for families today](#), Shelter, 2016

ability to afford and stay in a decent, stable home. One of our service users epitomised how being on UC made them feel:

“It is humiliating being on UC. I used to work and now I owe money to friends and family and often don’t have enough money for food, electricity and sanitary products. It’s affecting my self-worth”

LHA rates are leading to homelessness

LHA was introduced as the means to help people afford rents in the private sector. It predates the introduction of UC; however, is inseparable as it now makes up the housing element for those renting in the private sector. Due to a series of welfare reforms, including a four-year freeze, it is no longer fit for purpose. One in four (25%) of the people who approached with a UC concern, approached us because the payments they were receiving were not enough to cover rent or other household costs.

Originally intended to provide enough to cover the bottom half of local rental markets, before being cut in 2011 to cover roughly the bottom third (30th percentile) of the market, the rates have now been frozen since 2016. During this time, rents have continued to rise, leaving LHA rates short of even the intended 30th percentile in the majority of England. Our new analysis found that **in 97% of areas in England, the LHA rate does not cover rents for a two-bedroom home at the 30th percentile.**⁷ In fact, the rates are now so out of touch with rental markets that in one in three (32%) areas, the LHA rate does not even cover rent for a two-bedroom home at the bottom 10% of the local market.⁸

If those claiming the housing element of UC or housing benefit are only able to access the bottom 10% of their local market, their housing options are severely restricted, many simply won’t find anything they can afford on the market when they need it, putting them at risk of homelessness. Exacerbating this is the widespread reluctance of landlords to let to those on housing benefit: 43% of private landlords operate an outright bar on households claiming housing benefit and a further 18% say that they prefer not to let to this group.⁹

Because LHA covers so little of the market, if a claimant were to find a landlord willing to let to them, it is likely that they will have a shortfall between their LHA and their renting costs. In 2016/17, 65% of non-working claimant households in England had a shortfall.

These shortfalls can be shockingly high: in 2016/17, 42% of non-working households had a shortfall of above £100 per month with a further 15% having a shortfall of over £50 per month.¹⁰ While Londoners are disproportionately affected, our research confirms that this is not just a London problem by any means. There are high shortfalls in areas in the north, such as Central Manchester, which has a shortfall of £113 between full LHA entitlement and the

⁷ Shelter Analysis of Local Housing Allowance rates applicable from April 2019 to March 2020

⁸ Shelter Analysis of Local Housing Allowance rates applicable from April 2019 to March 2020 and the Local Housing Allowance List of Rents used for Local Housing Allowance rates April 2019 to March 2020.

⁹ YouGov, survey of 1137 private landlords in the UK, online, July - August 2017

¹⁰ Shelter Analysis of English Housing Survey 2016-17. Based on 265 Private Rented Households who are in receipt of housing benefit, have resided in the property for less than ten years and where neither the household head or their partner are working.

cost of a two-bedroom home at the 30th percentile.¹¹ With LHA not doing its job in covering the cost of rents, even at the bottom third of the market, families are struggling to manage under UC. People we help are faced with some stark and difficult choices. They are having to make up the shortfall from 'subsistence' income, which is not intended to cover rent, leaving them without other essentials (such as food), by taking on debt and/or falling into rent arrears, putting them at risk of eviction.

There is now evidence that shows that the pressures on households to make up these shortfalls are resulting in homelessness. The National Audit Office (NAO) made the link between LHA rates and homelessness as they point out that the 'changes to LHA are likely to have contributed to the affordability of tenancies for those on benefits and are an element of the increase in homelessness'.¹² Local authorities also drew a strong link between low affordability and welfare reform which, in itself, was cited by almost all (92%) of councils as affecting their ability to meet people's housing needs.¹³ This is seen in practice by the rise in the ending of an Assured Shorthold Tenancy (AST) as a cause of homelessness. An AST is the most common type of tenancy if you rent from a private landlord or letting agent. The ending of an AST became the most common trigger for homelessness in 2012/13 and increased by 66% (more than doubled in London) since 2011/12 when the first changes to LHA were introduced.¹⁴ Homelessness from the private sector has been rising as people struggle to keep up with increasing rents on frozen benefits. It now remains the second most common cause of homelessness, partly because the statistics now cover more households and the reporting is slightly different.¹⁵

The knock-on impact this has on councils in finding suitable and affordable accommodation, along with landlords who are willing to take claimants, is unsustainable. In 2017-18, councils spent almost £1.4 billion on homelessness, including just under £1 billion (£996 million) on temporary accommodation for homeless households.¹⁶

Government has recognised that LHA rates are a problem. To mitigate the impact in areas where LHA rates are most out of line with the local market, the government introduced Targeted Affordability Funding (TAF) in 2014. This provides proportionately very small increases to the LHA rates that cover the lowest levels of market rents. The DWP has also provided Discretionary Housing Payments (DHPs) to help councils plug some households' shortfalls in the short-term. However, both these funding pots do not solve the problem because the gaps between LHA and rents are often far larger than the 3% TAF will cover and DHPs are only ever a temporary measure, not a long-term solution.

¹¹ Shelter Analysis of Local Housing Allowance rates applicable from April 2019 to March 2020

¹² National Audit Office, [Homelessness](#), NAO, 2017

¹³ Local Government Association, [Homelessness Reduction Act Survey 2018 – Survey Report](#), LGA, 2019

¹⁴ The ending of an AST as reason for loss of last settled home increased by 105% in London between 2011/12 and 2017/18. MHCLG [Acceptances and decisions live tables: January to March 2018 \(revised\)](#), 2019

¹⁵ As a result of changes to the way homelessness data is collected and recorded due to the HRA, loss of last settled home is now collected for households who are owed a prevention and relief duty, rather than those who have been accepted as homeless. This may explain why the ending of an AST is the second most common cause of homelessness, rather than the first. From April to December 2018 the loss of an AST accounted for 22% of households owed a prevention or relief duty. The only more common cause of loss of last settled home is family or friends no longer willing or able to accommodate (24% of households). MHCLG, [Live tables on homelessness](#), 2019, Initial decisions, Table A2

¹⁶ In 2017-18 councils in England spent 1.394 billion on homelessness. MHCLG, [Local authority revenue expenditure and financing England: 2017 to 2018](#), Revenue outturn housing services (RO4), LA drop-down

The DWP has confirmed that the LHA freeze will come to an end in March 2020, but simply ending the freeze will mean that LHA rates continue to cover only a small percentage of the local market and leave claimants with large shortfalls.

The only way to alleviate the pressure on individual household budgets, and council resources, **would be to lift the LHA rates back up to at least the 30th percentile. This has been recommended by a number of other stakeholders.** The recently published report by the All-Party Parliamentary Group (APPG) on UC recommended the LHA rates be uplifted back up to the 30th percentile¹⁷ as does Crisis's latest research in their *Cover the Cost* report.¹⁸ The Local Government Association (LGA) recommend an urgent decision is made on the level of LHA beyond next year¹⁹ whilst the Residential Landlord Association (RLA) publicly backed Crisis's *Cover the Cost* campaign whilst calling upon government separately to restore the LHA rates back to at least the 30th percentile.²⁰ The widespread support is clear across sectors.

Some have argued that raising LHA rates back to the 30th percentile could result in private landlords increasing their rents in line with the new maximum level meaning the increase could simply end up passed onto landlords not to the people who need it most. However it is very unlikely to have such an impact on rent levels.

Our review of the evidence shows that the theory that LHA rate increases leads to increases in rents is not borne out in reality. DWP found in their own reviews that the interaction between LHA rates and rents was not significant. By making changes and cuts to LHA rates from 2011, the government hoped to see an impact on market rents as LHA was considered 'a key driver of higher private rents'.²¹ However, they found on average that when the maximum LHA entitlements were reduced, between 89 and 94% of this cut fell onto the tenant to make up and just 6-11% fell to landlords by way of lower rents.²²

Landlords tend to base their rent levels on a variety of factors. Only 19% state they change their rent levels because 'the market is going that way in the area' leaving the remaining 81% doing so for reasons such as their general costs rising, to cover painting and decorating costs or to offset mortgage interest relief changes, among others.²³ It is rare that private housing markets are dominated by households claiming LHA. In four in ten (44%) local authority areas in England under 20% per cent of the private rented stock is occupied by claimant households. And in over seven in ten (72%) areas, under 30% are let to

¹⁷ George MP, R., *What needs to change in Universal Credit*, All-Party Parliamentary Group on Universal Credit, 2019

¹⁸ Crisis, [Cover the Cost](#), Crisis 2019

¹⁹ Leighton, T., [Local Housing Allowance and Homelessness](#), LGA, 2019

²⁰ Walmsley, S., [RLA backs campaign to bring LHA rates back in line with rents](#), RLA, 9 May 2019

²¹ London Councils, [Tracking Welfare Reform: Local Housing Allowance an extended London Councils briefing](#), London Councils, 2013

²² DWP, [Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: Interim report](#), DWP 2013

²³ DWP, [The impact of recent reforms to Local Housing Allowances: summary of key findings](#), DWP, 2014

²³ Base: 86 private landlords who have a tenant on HB and will increase their rent the next time one of their properties becomes vacant. Source Shelter Private Landlord Survey 2017

claimants.²⁴ Given that landlords tend to look to the wider market rather than showing a preference towards letting to housing benefit claimants, the impact of the LHA rate is limited.

Universal Credit design makes matter worse

The inadequate levels of housing element of UC for private renters is being further exacerbated by some of UC's in-built design features. Most importantly, the five-week wait at the start of a UC claim means households can be left with very little or even no income for the whole period. The only way they can have an income through UC in those first weeks is by taking out an advance payment. The majority (60%) of claimants are doing so as of February 2018.²⁵

Advance payments are loans, which must be paid back via deduction from future standard allowance payments at a rate of up to 40%, or 30% after October 2019.

One of the main reasons the five-week wait has been introduced under UC is to ensure income is paid monthly, to better reflect the world of work. It is also intended to ensure payments are accurate by incorporating a month-long income assessment period which is also aimed at avoiding overpayments and subsequent repayment deductions. However, if claimants are encouraged to take out an advance payment to cover this period, then they still experience high repayment deductions meaning the five-week wait does not avoid the need for repayment calculation as intended.

The alternative to an advance payment is to have no income for this period. With no money available to pay their rent during this period claimants can face rising rent arrears, have to take on other debt or risk falling behind with bills. This period of financial instability can exacerbate an already difficult situation for those with a monthly shortfall between their rent and their LHA.

The five-week wait must be abolished as a matter of urgency to avoid rent arrears and the risk of eviction and homelessness.

For social housing tenants, who have always had their housing benefit paid direct to their social landlord, there will be a large change under UC. They will now receive their housing element as part of their wider payment. Those receiving housing benefit in the private sector have received their benefit themselves for years. There is an option to change the way the housing element is paid so it goes directly to the landlord rather than the tenant; however, the concern for our advisors is that the alternative payment arrangements (APA) are not working as intended. We have found they are difficult to apply for, often have administrative errors leading to delays and are only awarded at the point of crisis. The difficulty of this process is causing delays in payments, rent arrears and putting people at risk of eviction and this needs to be rectified.

The process of applying for an APA should be as straightforward and simple as possible. Tenants should be empowered to be in control of their finances and their own personal circumstances.

²⁴ Shelter analysis of data from Stat X-plore: Households receiving the housing element of Universal Credit and number of HB claimants that are private deregulated tenants (LHA) and ONS Subnational dwelling stock by tenure estimates.

²⁵ National Audit Office [Rolling out Universal Credit: Report by the Comptroller and Auditor General](#), NAO, 2018

Migrating onto UC is compounding hardship

People who have not yet moved onto UC from the legacy benefit system, who encounter a change in circumstance, in most instances will be asked by DWP to make a new application for UC under what is called 'natural migration'. They also have to undergo the five-week wait. Certain groups of claimants will see a drop in income as a result of naturally migrating to UC, by virtue of the various changes to certain benefits and changes in eligibility, and there is **currently no mitigation against this**.

One of the changes in circumstance that can trigger a natural migration claim is moving into work. However, if claimants are likely to have a lower income on UC and then also have to apply for an advance payment, resulting in their income being reduced through deductions, they are unlikely to be incentivised to move into work and apply for UC.

Even those who could receive an increase in their UC payment when moving from legacy benefits, regardless of what the change in circumstance is, may not actually be better off under UC after the five-week wait. If they take out an advance payment, they will see their standard allowance deducted for some time. This means they may not see the income increase in real terms until they have paid off their advance payment and any other deductions.

This is yet another reason why the five-week wait must be removed, **but also why a form of top-up payment needs to be available for those who will see a drop in income moving over to UC**.

A second way of migrating onto UC from the legacy system is termed 'managed migration', or 'move to UC'. This is where claimants who have not encountered a change in circumstance will be asked to make an application to UC within a certain time frame. This is currently being planned and will undergo a pilot in Harrogate. The pilot will start in summer 2019 and looks to bring together a range of organisations in Harrogate to help those moving across to UC as much as possible. The learning from the pilot will need to be appropriately analysed and disseminated if the roll-out of the managed migration process is to be successful in the long term. One of the most concerning aspects of the managed migration process is the ability of DWP to terminate the benefits of anyone who has not completed their UC application within a three month deadline.

There have been reassurances given that the process to terminate people's benefits will not be utilised during the managed migration pilot. There have also been reassurances this will be a very last resort for those who have not cooperated with the process.²⁶ During natural migration, there have been concerns raised by Shelter regarding the consistency and interpretation of various DWP regulations. We have experienced clients being given inconsistent, out of date or incorrect advice or being asked to apply for UC even though their particular change in circumstance doesn't trigger a move. If the option for terminating people's benefits remains, even if DWP has stated it is only to be used as a very last resort option, how can they ensure that their advisors will not interpret this in different ways and apply it inappropriately?

²⁶ DWP, [Correspondence from Neil Couling to Frank Field MP](#), DWP, 25 March 2019

No-one should have their benefits terminated because they failed to complete an application to UC on time and the discretion for this needs to be removed from Jobcentre Plus advisors to ensure it is not used inappropriately.

CHANGES ARE URGENTLY NEEDED: RECOMMENDATIONS

1. In the 2019 Spending Review, **the Local Housing Allowance (LHA) freeze must come to an end, as planned, by April 2020** and the rates restored to at least the 30th percentile (i.e. cheapest third) of local rents.
2. Going forward, there needs to be a **robust mechanism to keep LHA rates in line** with at least the 30th percentile of local rents, regardless of fluctuations in private rents.
3. In the interim, during this final year of the freeze, **additional Targeted Affordability Funding (TAF) must be made available**, and changes made to the way it is administered, to ensure those most at risk of homelessness this year receive adequate amounts.
4. **Applying for or moving onto Universal Credit (UC) should not leave anyone at risk** of homelessness and the system should be urgently reviewed to ensure it does not.
5. The **five-week wait** at the start of a UC claim **should be removed completely**. At the very least, it should be mitigated against by ensuring that the **advance payments are easily available and are offered as a grant rather than a loan**. This would help alleviate the high deduction rates on the income of those who have taken out an advance.
6. The process of **applying for an alternative payment arrangement (APA) should be made as easy and affordable as possible**. It should **not simply be seen as an emergency remedy for those already in arrears** and struggling, but as a viable and preventative measure for those who wish to proactively manage their money to avoid arrears.
7. The process of migration from the previous (legacy) benefit system onto UC should leave no-one at risk of homelessness. These processes (managed migration, its scheduled pilot scheme and natural migration) **should not terminate benefits automatically if the claimant does not respond in time**. Those transferring through natural migration should receive a **transitional protection payment if their income falls**.

LOCAL HOUSING ALLOWANCE: INADEQUATE FOR MANY

The Local Housing Allowance (LHA), introduced in 2008, is the way in which housing benefit for private renters is calculated.

The rates are localised to reflect different housing costs in different areas, based on 152 Broad Rental Market Areas (BRMAs) in England.²⁷ Originally, they were set at a rate that would cover the lowest half of local rents, or the 50th percentile, and have different maximum rates for different sized property (e.g. one-bedroom home, two-bedroom home etc) up to a five-bedroom home. To maintain the rates at the 50th percentile, they were regularly updated to reflect fluctuating rents.

In 2011, welfare reform saw LHA rates dropped to cover roughly the bottom third of rents, or the 30th percentile. At the same time, national caps were introduced for different sized properties and the age at which someone would be eligible for a housing allowance at the one-bedroom rate, instead of the shared accommodation rate, was raised from 25 to 35 years old. The maximum household entitlement was also reduced from five bedrooms to four bedrooms.

Further restrictions to LHA rates followed:

- April 2012 saw the first one-year freeze on LHA rates. This ended the link between LHA and actual rent levels
- In 2013, the rates were updated by the Consumer Price index measure of Inflation (CPI), which doesn't consider rents
- In 2014 and 2015 the rates rose by just 1%, which was lower than the rate of rental inflation in England²⁸.
- In 2016, a four-year freeze to LHA rates was implemented, due to end April 2020

The consequence of this series of changes is that LHA has not kept pace with rising rents. Back in 2012-13, the average LHA rate in England for a two-bedroom home was £134.90. In 2019-20 this has only risen by just over £8 (or around 6%) to £143.09. However, rents in England have increased by 14% from April 2012 until April 2019 leaving the LHA rates trailing behind.²⁹

Since the introduction of Universal Credit (UC) in 2013, private renters who receive assistance with housing costs have gradually been moving onto UC and are now receiving the housing element of UC. This continues to use LHA rates to calculate the level of housing element someone is entitled to, even though it remains inadequate in the face of rising rents.

Although many private renters have already moved onto UC, the majority are still receiving LHA under the 'legacy' system. In November 2018, in England, there

²⁷ Valuation Office Agency (VOA), [Understanding Local Housing Allowance and broad rental market areas](#), VOA, 1 June 2013

²⁸ Between April 2013 and March 2014 the rate of rental inflation across England was 1.5%. Between April 2014 and March 2015 the rate was 2%. [Index of Private Housing Rental Prices, Monthly Estimates](#).

²⁹ [Index of Private Housing Rental Prices, Monthly Estimates](#).

were 300,780 private renting households receiving the housing element of UC.³⁰ At the same time, there were still 859,844 households receiving LHA without having yet moved onto UC.³¹

This section explores the true impact of these cuts and the resulting freeze on LHA rates which has left many claimants with shortfalls between their LHA and the rent at the 30th percentile. In our view, and many actors in the sector, the only way to solve the difficulties caused by the freeze is to lift the rates back up to at least the 30th percentile of local market rents.

True impact of the LHA freeze on households across England

Private rents have risen far faster than LHA entitlement across England leaving LHA claimants with barely any affordable housing options.

Between April 2012 and April 2019 private rents increased by 14% across England.³² As a result of the four-year freeze on LHA rates, private rents have risen far above what people can claim to cover just below the bottom third (the 30th percentile) of rents in the majority of the country.

The four graphs represented in Figure One on the following page depict how the gap between private rents and the LHA rate in four different BRMAs have grown over time.

Our analysis shows that the LHA rates set for 2019/20³³ **do not cover the cost of renting a two-bedroom home at the 30th percentile of the local market in 97% of BRMAs in England.**³⁴

Before the reforms and the freeze to LHA, the rate for a two-bedroom home would have covered around the bottom third of the local market in 100% of BRMAs. Currently, it is doing so in just 3% of areas.

³⁰ Stat-Xplore Households on Universal Credit in England receiving the housing entitlement – November 2018 – Private Rented Sector

³¹ Stat-Xplore Claimants in receipt of housing benefit in England – November 2018 – Private deregulated tenants in receipt of LHA.

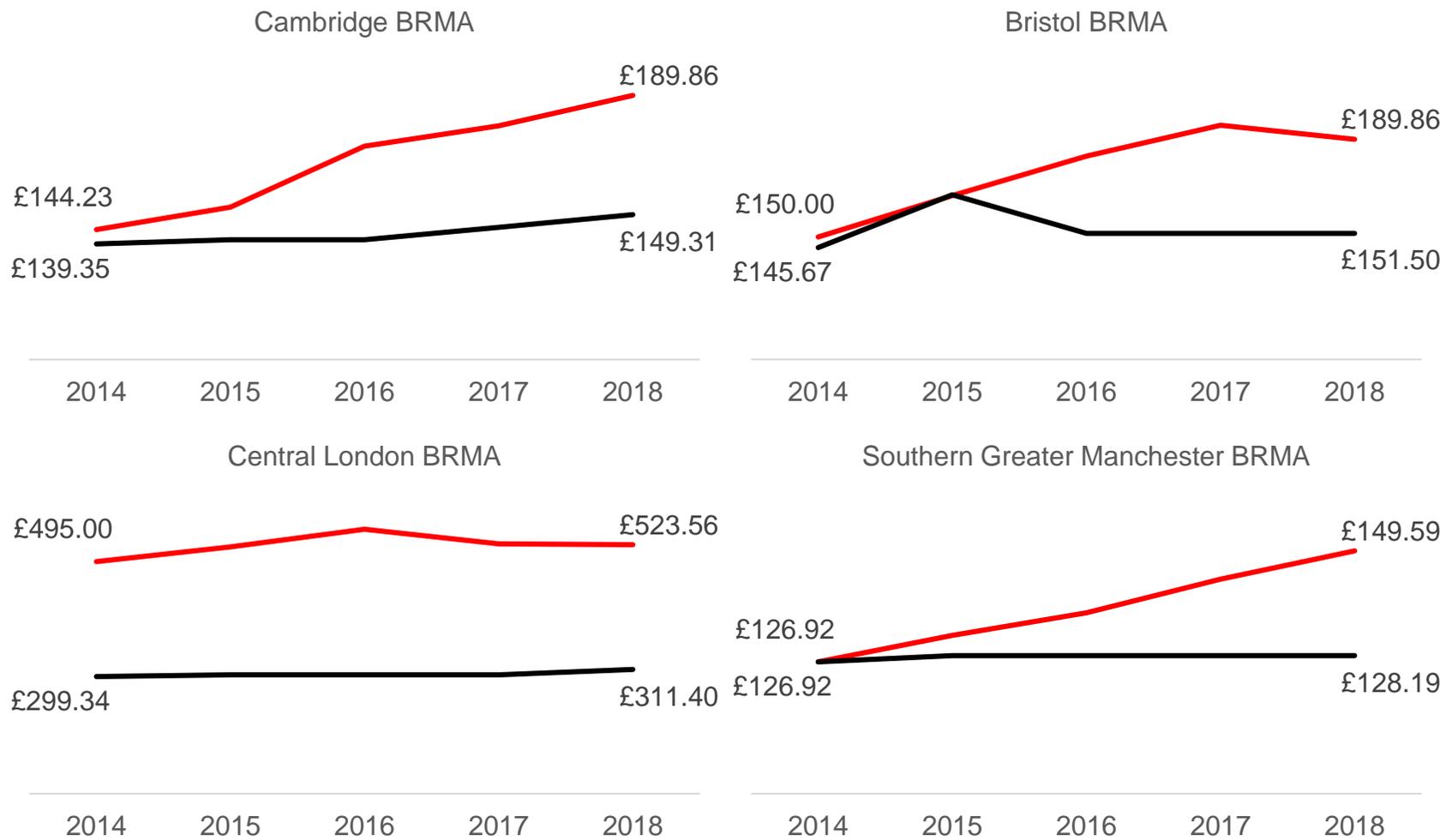
³² [Index of Private Housing Rental Prices, Monthly Estimates](#)

³³ LHA rates are set for the financial year April 2019 – March 2020. Rental data for BRMAs is released alongside the LHA rates and is derived from twelve months of lettings information collected up to the end of September 2018

³⁴ Shelter, 2019. We used results for a 2-bed home because this is the size of home that a single parent family with one to two young children (children under 10), or a couple with one to two young children would be eligible to claim housing benefit for.

Figure 1: Change in rents vs the LHA rate for a two-bedroom home in four different BRMAs in England ³⁵

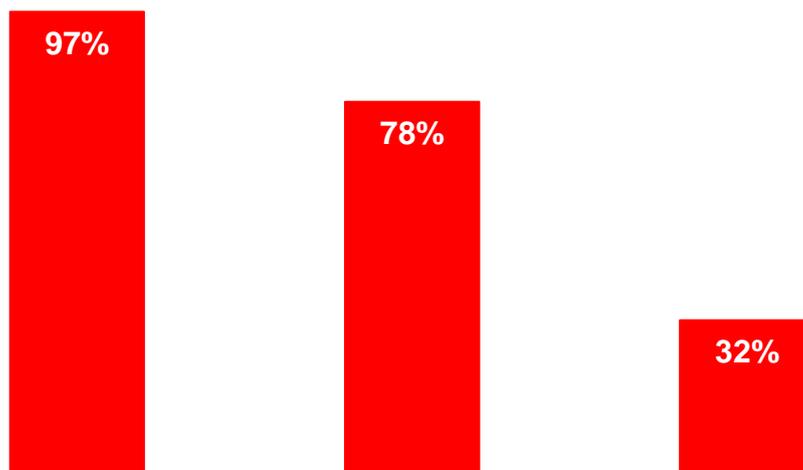
30th percentile rents for a 2-bed LHA rate for a 2-bed



³⁵ VOA rental statistics. Rents are best matched against the applicable rates. E.g. Rents collected from September 2013 to September 2014 are applied to the April 2014-March 2015 LHA rates for a 2-bed property.

The LHA rates were lowered in 2011 to cover the 30th percentile of local rents, down from the 50th percentile. However, as a result of the reforms and the freeze, LHA rates have now dropped even lower than the 30th percentile across the country. Our analysis³⁶ can be found in Figure Two below. It shows that the LHA rate for a two-bedroom property does not cover even the lowest 20% or even 10% of the local market in a shockingly high proportion of the country.

Figure 2: Percentage of BRMAs in England where the LHA rate for a two-bedroom property does not cover the lowest proportions of the local rental market



Bottom 30% of rents Bottom 20% of rents Bottom 10% of rents

When the LHA rates, in comparison to the local rents, shrink to these levels, it becomes very difficult to find homes where the rent is covered entirely by the LHA rate entitlement. Our advisors report that such properties are often in a state of disrepair. They may often all be occupied and not available to rent. With so few affordable homes available, there is consequently tight competition from other households for the available homes. And, even when a home is available, landlords may not be prepared to offer it to a housing benefit claimant, as Shelter's survey of private landlords found: 43% of private landlords operate an outright bar on households claiming housing benefit and a further 18% say that they prefer not to let to this group.³⁷

The reality of LHA falling so far behind local rents is that, in most of the country, claimants have to rent homes with a significant shortfall between the full LHA entitlement and the rent they have to pay

In the Rugby East BRMA, for example, the LHA rate entitlement for a two-bedroom home now covers just 2% of the market. The likelihood of finding one of the 2% of two-bedroom homes where the rent is completely covered by the two-bedroom LHA rate for that area is incredibly low. Therefore, a family searching for a two-bedroom home is likely to have to accept rent that is higher than their LHA rate entitlement, leaving them with a shortfall.

³⁶ The Valuation Office Agency (VOA) collects rental data across England. This makes it easier to evaluate the impact of the freeze by seeing what percentage of the local market the current LHA rates actually cover.

³⁷ YouGov, survey of 1,137 private landlords in the UK, online, July - August 2017

Our analysis finds that the majority (65%) of non-working LHA households in private rents face a monthly shortfall.

We then³⁸ looked further into the size of these shortfalls; they are shockingly high. If they have no earned income claimants are forced to dip into subsistence benefits, borrow money, or use their limited savings to afford the rent. When families have to use subsistence benefits (which are supposed to be used for food, utilities and other essentials) to make up shortfalls, the housing element of UC is clearly not functioning as intended. After all, the purpose of housing benefit is to avoid families using subsistence income to pay their rent. Our analysis of the most recent data shows that in 2016/17:

- Nearly 42% of non-working LHA households faced a monthly shortfall of over £100. This is a significant and unsustainable amount.
- Over 14% more non-working LHA households had a shortfall of over £50.

Table One below shows a selection of areas from across the country where the difference between the LHA rate and the local rents at the 30th percentile is particularly high. The shortfalls are, understandably, highest in London. In the Central London BRMA, for example, the shortfall between a two-bedroom home at the 30th percentile and the LHA rate is £881.30. This makes it effectively impossible for claimants to afford a home in central London or for boroughs to prevent or relieve homelessness in the private rental sector in their areas.

However, shortfalls are not confined to London; this is a country-wide problem. Table One excludes any London examples to show how significant shortfalls can be across England. For example, families in need of a two-bedroom home at the 30th percentile in Cambridge, would have to make up an additional £156.74 per month in order to cover the whole rent.

Table 1: Selection of BMRAs in England with a shortfall

Broad Market Rental Area in England	Difference between monthly rent at 30th percentile and LHA rate for two-bedroom home
Brighton and Hove	-£112.71
Bristol	-£126.58
Cambridge	-£156.74
Central Greater Manchester	-£113.02
Chilterns	-£108.67
Milton Keynes	-£108.24
Northampton	-£92.73
Southern Greater Manchester	-£76.25
South West Essex	-£131.62
York	-£88.04

Shelter advisors report seeing parents faced with impossible choices in order to avoid arrears and eviction, such as cutting back on food and clothes, or borrowing money, to be able to make up shortfalls. This is supported by our

³⁸ Shelter Analysis of English Housing Survey 2016/17. Based on 265 Private Rented Households who are in receipt of housing benefit, have resided in the property for less than ten years and where neither the household head or their partner are working. For 65% of these households the amount they report claiming in housing benefit does not cover their reported rent.

survey of private renters³⁹, which details some of these impossible trade-offs that claimants are having to make:

- One in three renters (31%) receiving LHA, have cut back on food for either themselves or their partner
- Two in five (37%) receiving LHA have been forced to borrow money to pay for their rent.
- Two in five (37%) receiving LHA have cut back on clothing for either themselves or their partner
- One in five (20%) receiving LHA have cut back on leisure activities for their children (e.g. swimming lessons, day trips)

There is also clear evidence that claimants are being forced to use their subsistence benefits to pay for their housing costs. Our survey shows that one in four (26%) have done this.⁴⁰

To avoid large shortfalls, some families are choosing to overcrowd

If a family is entitled to a three-bedroom LHA rate, based on the size and ages of the family, they can opt to rent a potentially cheaper two-bedroom home with their higher LHA entitlement. This, however, can mean families have to accept overcrowded homes in order to remove or lower the shortfall.

Our analysis shows that the overcrowding rate amongst LHA claimants is twice as high as that of others renting privately. In 2016/17, 13.5% of LHA claiming households were overcrowded, compared to just 6.8% of those in the private rented sector overall. This hides some regional variations with the overcrowding rate as high as 28.4% in London⁴¹ for LHA claimants.

The overcrowding rate amongst claimant households has increased significantly since the beginning of the reforms. In 2010/11, 9.6% of recipient households were overcrowded, representing around 75,000 households. By 2016/17, this had increased to 13.5% of households, representing 120,325 recipient households⁴². Tellingly, in this time the overall overcrowding rate in private rents remained stable (6.4% in 2010/11 to 6.8% in 2016/17).

Research on LHA by the Institute for Fiscal Studies on behalf of the DWP found there was “evidence that the reforms have reduced the number of bedrooms that claimants choose to rent”.⁴³ For some this will mean reducing any excess bedrooms that they may have been renting, but our analysis highlights that for many this will mean living in overcrowded conditions. Not only are the frozen LHA rates edging people into poverty, but they are also pushing people towards accepting homes that are too small or unsuitable for their needs. We have documented the impact on families of overcrowding in the past.⁴⁴ In some cases,

³⁹ Base: 660 private renting GB adults aged 18+ who were currently in receipt of housing benefit and 3,978 private renting GB adults aged 18+. Interviewed online by YouGov 19th July – 23rd August 2017.

⁴⁰ IBID

⁴¹ The base size for London is 70 meaning these figures should be treated as indicative when reported.

⁴² Shelter analysis of English Housing Survey. 2016/17: 521 private rented households who are in receipt of housing benefit and have resided in the property for less than ten years. 2010/11 605 private rented households who are in receipt of housing benefit and have resided in the property for less than ten years.

⁴³ Institute of Fiscal Studies on behalf of DWP, [Econometric analysis of the impacts of Local Housing Allowance reforms on existing claimants](#), DWP, 2014

⁴⁴ Reynolds, L. [Crowded House: Cramped Living in England's Housing](#), Shelter, 2004

overcrowding can constitute homelessness. Where a home is severely overcrowded, a household is categorised as 'homeless at home' because their home is 'unreasonable to continue to occupy'.⁴⁵

These reforms, and the four-year freeze in particular, are forcing people to choose whether to pay heating bills, feed their families or accept a smaller home than they need, in order to overcome, or reduce the impact of, these shortfalls. This is unsustainable and can result in homelessness.

The only way to truly provide suitable and sustainable housing for families in this situation is to make sure LHA rates are brought back up to at least the 30th percentile. Anything less will put thousands of families at risk of homelessness.

A consequence of substandard LHA rates across England is rising homelessness

The Government is understandably concerned with reducing homelessness. Homelessness in all its forms has increased since 2010:

- The number of statutory homeless acceptances in England increased by 28%.⁴⁶
- The number of households living in temporary accommodation has increased by 74%.⁴⁷
- Rough sleeping in England has increased by 165% and by 94% in the last five years alone.⁴⁸

Subsequently, the Government made a 2017 manifesto pledge to halve rough sleeping in this Parliament and to end it by 2027. Further to this, the government supported the Homelessness Reduction Act 2017 (HRA), as the main means to tackle rising homelessness in England. This places new duties on local housing authorities to prevent homelessness. **However, without raising the LHA rates back up to a reasonable level, it is unlikely that the government will make any significant reduction in homelessness.**

The Government's Housing White Paper acknowledged that 'high and increasing costs in the private rented sector can impact upon tenants who struggle to pay, and these households are more likely to be at risk of becoming homeless'.⁴⁹ Consequently, in its Rough Sleeping Strategy, MHCLG and DWP committed to undertake a co-funded feasibility study to develop a predictive model of homelessness and rough sleeping. As part of this they looked to undertake an evidence review of the factors that influence levels of homelessness. This included the welfare system. However, they made little reference to the interplay of affordability and LHA rates on levels of homelessness. Instead one of its

⁴⁵ [Housing Act 1996, s.175\(3\)](#)

⁴⁶ We have compared data from 2017/18 with 2010/11. We have used pre-HRA data because the new prevention and relief duties mean that acceptances after 2018 Q1 cannot be compared with previous years. This is because most households are now being supported through the new duties. MHCLG, [Live tables on homelessness: Acceptances and decisions](#), Table 770

⁴⁷ We compared data from 2018 Q4 with 2010 Q4. MHCLG, [Live tables on homelessness: Temporary accommodation](#), TA1

⁴⁸ The government's rough sleeping count is based on estimates and counts of the number rough sleepers in England, carried out by local authorities between 1 October and 30 November 2018. The 2018 figures show a 94% increase from five years ago and 165% since 2010. MHCLG, [Rough sleeping in England: Autumn 2018](#), 31 January 2018

⁴⁹ DCLG, [Fixing our broken housing market](#), DCLG, 2017, page 64, paragraph 4.49

conclusions on this was that ‘the highly complex needs of some people who sleep rough can make it difficult for them to navigate the welfare system’.⁵⁰ This overlooks the impact of inadequate LHA rates on all forms of homelessness.

In its investigation into rising homelessness, the National Audit Office (NAO) recognised the link between affordability and homelessness, stating that ‘the affordability of tenancies is likely to have contributed to the increase in homelessness’. They concluded that ‘changes to LHA are likely to have contributed to the affordability of tenancies for those on benefits and are an element of the increase in homelessness’.⁵¹

Further evidence does indeed suggest that LHA rates are a major driver of homelessness. The ending of an Assured Shorthold Tenancy (AST) became the most common trigger of homelessness in 2012/13 and increased by 66% (more than doubled in London) since 2011/12, when the changes to LHA were introduced.⁵² It remains the second most common cause of homelessness although this could also be down to changes in reporting and recording of the data.⁵³ Although the private rented sector has also grown in this time, the sharp growth in the ending of an AST as a trigger of homelessness is still disproportionate to the rise in the private sector. In the same time period, the private rented sector has only risen by 17%⁵⁴ compared to the 66% rise of the ending of an AST as a trigger of homelessness. The growth of homelessness from the private rented sector at the same time as the introduction of LHA reform suggests that it has had an impact on this trend.⁵⁵

Homelessness occurs not simply when a family lose a settled home, but when they’re then unable to afford another suitable home. When families find themselves homeless because of the end of an AST, our advisors report they often struggle to find an affordable home within LHA rates and/or a private landlord willing to let to them.

This is documented by research undertaken by the Residential Landlords’ Association (RLA), which suggests that the difficulties with affordability and LHA rates is causing a ‘double whammy’ for some households. With LHA causing affordability difficulties the likelihood that their tenancy is ended by their landlord rises, as well as making it subsequently more difficult for them to then find alternative affordable accommodation.⁵⁶

Discrimination in the rental market means there have been longstanding problems with finding a landlord who will accept people who are on housing

⁵⁰ MHCLG, [Rough Sleeping Strategy](#), MHCLG, 2018

⁵¹ National Audit Office, [Homelessness](#), NAO, 2017

⁵² The ending of an AST as reason for loss of last settled home increased by 105% in London between 2011/12 and 2017/18. MHCLG [Acceptances and decisions live tables: January to March 2018 \(revised\)](#) 2019

⁵³ As a result of changes to the way homelessness data is collected and recorded due to the HRA, loss of last settled home is now collected for households who are owed a prevention and relief duty, rather than those who have been accepted as homeless. From April to December 2018 the loss of an AST accounted for 22% of households owed a prevention or relief duty. The only more common cause of loss of last settled home is family or friends no longer willing or able to accommodate (24% of households). MHCLG, [Live tables on homelessness](#), 2019, Initial decisions, Table A2

⁵⁴ Shelter Analysis of English Housing Survey 2016/17

⁵⁵ Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B., Wood, J., [The homelessness monitor: England 2018](#), Crisis, Heriot-Watt University and University of New South Wales, 2018, page xii, second bullet

⁵⁶ O’Leary, C., O’Shea, S., Albertson, K., [Homelessness and the Private Rented Sector](#), Manchester Metropolitan University commissioned by the Residential Landlords Association, 2018

benefit or unemployed⁵⁷. Shelter's survey of private landlords found that 43% of private landlords operate an outright bar on households claiming housing benefit and a further 18% say that they prefer not to let to this group.⁵⁸ Further, YouGov research conducted on behalf of Shelter found that almost a third of private renters receiving housing benefit⁵⁹ said they hadn't been able to rent a home due to a "No DSS" policy.⁶⁰

The above evidence suggests that the LHA rate freeze is resulting in a rise in homelessness across England. The very low levels of affordable homes available, combined with many families having to accept a significant shortfall are resulting in higher rates of homelessness from the private sector. It is also severely limiting the use of the private sector to relieve homelessness for the same reasons.

Small steps have been taken by DWP to try to address this. In recognition of the support homeless people would 'need to access and navigate the benefit system', MHCLG have committed to establishing 'a work coach homelessness expert to act as a single point of contact in every Jobcentre'.⁶¹ However, this approach focuses on problems with navigating the system rather than the ability of people to be able to find a home they can afford.

Around the country, Shelter hubs are working closely with local Jobcentres to ensure the provision of advice to help families avoid homelessness is improved. Since the introduction of the Homeless Reduction Act (HRA), we have seen improvements in joint working with Jobcentres in some local authority areas. This can be particularly effective if the Jobcentre has experts in housing or where Shelter staff are working closely with a Jobcentre to offer this expertise. For example, in Blackburn, Shelter services are based in the local Jobcentre for drop-ins and in Birmingham there has been a dedicated Jobcentre contact who helps to effectively resolve specific problems. In many other Shelter hubs across the country, work is being done to improve the working relationships between them and local Jobcentres to ensure the best provision for our clients is provided.

However, even with huge amounts of tailored support, the shortfalls in LHA rates cannot be overcome. If people do not have enough money to pay the rent or find somewhere else they can afford, they will often become homeless. Therefore, the only real way to ensure homelessness caused by affordability is prevented is to lift LHA rates back up to at least the 30th percentile.

⁵⁷ P. Kemp, P. McLaverty, [Private tenants and restrictions in rent for housing benefit](#), Joseph Rowntree Foundation, 1995

⁵⁸ YouGov, survey of 1137 private landlords in the UK, online, July - August 2017

⁵⁹ Whenever this report mentions 'housing benefit'(HB), it refers to Local Housing Allowance (LHA) – the name for the housing benefit received by private renters, and the housing element of universal credit.

⁶⁰ YouGov, survey of 660 private renting GB adults aged 18+ who were currently in receipt of housing benefit. Interviewed online by YouGov 19th July – 23rd August 2017.

⁶¹ MHCLG, [Rough Sleeping Strategy](#), MHCLG, 2018

The mitigations against the LHA rate freeze – are there any ways to avoid the impact?

Could families move to a cheaper area or ask their landlord for a cheaper rent to avoid these large shortfalls?

Following some of the other LHA rate reforms before the 2016 freeze, the government published an impact assessment on the reforms to LHA. In this they 'assumed' that 'claimants attempting to meet increased shortfalls in their current accommodation would be scanning the market for more affordable alternatives'.⁶² This included looking at cheaper areas, potentially, further from where they were living.

This solution to escape the impact of LHA shortfalls is no longer a valid one. The main problem with this is that in 97% of areas in England, the LHA rate for a two-bedroom home does not cover the local rents at the 30th percentile. Currently, the LHA rate for a two-bedroom home covers the local rents at the 30th percentile in just 3% of areas in England. It is not therefore realistic to expect every claimant with a shortfall to move to a cheaper home or neighbourhood. In any case, homelessness legislation is based on the principle that homeless households should be supported to remain living in the same local authority area.⁶³

In addition, people do not always react to changes in their entitlement in this way because affordability is not the only factor in choosing somewhere to live, especially for families with children.⁶⁴ Households may wish to remain in areas with higher housing costs to be closer to places of work or employment opportunities, or to be near extended family, friends or other support networks that they rely on. For families on low incomes, the costs associated with relocating to a new home such as upfront deposits, can be prohibitive, and may cancel out any improvement in LHA shortfalls.⁶⁵

The availability of accommodation that landlords are willing to let to claimants may also be a barrier for those wishing to move, as discussed previously. Shelter's research found No DSS discrimination prevalent across a sample of letting agents operating in England⁶⁶. The mystery shopping found that five out of six of the letting agents had an outright ban on renters on housing benefit in at least one of their branches. Shelter's analysis also showed that almost half (48%) of all branches called had no properties available for people on housing benefit. With this in mind, once a claimant household finds a home where the landlord is happy to let to them, they are more likely to be inclined to remain there, even if their entitlement reduces.

There is evidence that it is also difficult for tenants to attempt to renegotiate rents to mitigate shortfalls. DWP research found that most claimants (77%) did not

⁶² DWP, [The impact of recent reforms to Local Housing Allowances: Summary of key findings](#), DWP, 2014

⁶³ [Housing Act 1996](#), Part VII Homelessness, s.208: discharge of functions: out-of-area placements: "So far as reasonably practicable a local housing authority shall in discharging their housing functions under this Part secure that accommodation is available for the occupation of the applicant in their district."

⁶⁴ Sanderson, E. and Wilson, I., [Does Locality make a difference? The impact of housing allowance reforms on private landlords](#), *Housing Studies*, 32(7), 2017

⁶⁵ Shelter, [Green Book: 50 years on. The reality of homelessness for families today](#), 2016

⁶⁶ Shelter in partnership with National Housing Federation, [Stop DSS Discrimination: Ending prejudice against renters on housing benefit](#), 2018

attempt to renegotiate their rent⁶⁷, potentially because of concern about being at risk of losing their tenancy in areas of high demand. There is more recent and starker evidence of this in relation to other welfare reforms. In 2014, Ipsos MORI carried out a survey for DWP on the household benefit cap policy to see whether claimants would respond to the cap by negotiating a lower rent with their landlord. This survey showed that just 1% of households no longer affected by the original cap had done so by negotiating a lower rent with their landlord.⁶⁸

Government have tried to mitigate against the LHA rate freeze by offering Targeted Affordable Funding (TAF): but it is inadequate

Since 2014, the Government has made Targeted Affordability Funding (TAF) available as a top-up grant for the local authority areas most impacted by the freeze. The funding increases LHA rates, usually by just 3%, in areas where the LHA rate covers the smallest percentage of the rental market across all types of home (shared accommodation rate, one-bedroom property, two-bedroom etc).

In 2017/18, 30% of the in-year savings from the freeze were used for TAF. In the 2017 Autumn Budget, following successful Shelter campaigning, the Government increased the portion of savings from the freeze to be used for TAF to 50%. This has resulted in an additional £125m of TAF being allocated over two years (2018/19 and 2019/20) and was projected to help 140,000 people hit hardest by the freeze.⁶⁹ While this is a welcome increase, it hasn't overcome the impact of the freeze as the amount TAF increases rates by is capped at just 3%. Additionally, TAF is not allocated or calculated based on how many areas are actually in need, it is just distributed to areas down a ranked order, until the money runs out.

Despite there being £85m TAF available for the 2019/20 financial year, our analysis shows that, in 97% of areas, the LHA rates available after the TAF increase is applied is still below the 30th percentile for a two-bedroom home. For example, in Sussex East, the LHA rate for a two-bedroom home would need a further increase of 21%, on top of the TAF already allocated, to reach the 30th percentile and in Cambridge, the LHA rate for a two-bedroom home would need a further 23% increase to reach it. In Central London, the issue is far worse with the area needing a 63% uplift in order for the LHA rate to reach the 30th percentile for a two-bedroom home.⁷⁰ Table Two below shows the two-bedroom LHA rate in a selection of BRMAs around England with TAF applied. It demonstrates how far they would still need to be lifted to meet local rents at the 30th percentile. In these areas, and many more across England, TAF is not even close to plugging the gap.

⁶⁷ Beatty, C., Cole, I., Kemp, P., Marshall, B., Powell, R., Wilson, I., [Monitoring the impact of changes to the Local Housing Allowance system of housing benefit: Summary of early findings](#), DWP, 2012

⁶⁸ Ipsos MORI, [Post-implementation effects of the Benefit Cap \(wave 2 survey\)](#), DWP, 2014

⁶⁹ Hammond, P., [Autumn Budget 2017: Philip Hammond's Speech](#), HM Treasury, 2017

⁷⁰ Shelter Analysis of Local Housing Allowance rates applicable from April 2019 to March 2020

Table 2: A selection of two-bedroom LHA rates across England with the percentage needed on top of TAF to reach local rents at the 30th percentile

BRMA	For two-bedroom properties - all rates have had a 3% TAF applied				
	LHA rate 2019/20 monthly	Latest 30th Percentile monthly rents	Difference between LHA rates and the 30th Percentile	% increase needed to bring LHA rate in line with 30th percentile	Percent of the market the rate covers
South West Essex	£743.38	£875.00	-£131.62	18%	3%
Northants Central	£488.36	£575.01	-£86.65	18%	4%
Outer North East London	£887.95	£1,124.98	-£237.03	27%	2%
Southern Greater Manchester	£573.75	£650.00	-£76.25	13%	6%
Milton Keynes	£698.41	£806.65	-£108.24	15%	5%
Swindon	£587.82	£674.99	-£87.17	15%	3%
Coventry	£498.92	£550.02	-£51.10	10%	11%

Discretionary Housing Payments (DHPs) can also help households with their shortfalls but only in the short-term

The government has committed to £800m in DHPs over the five years up until 2020/21. DHPs are awarded by a local authority where the applicant, who is entitled to housing assistance, needs further financial assistance with their housing costs. Families with a shortfall between their rent and their LHA entitlement can apply to their local authority for a DHP, although DHPs also have to be used to mitigate other welfare reforms, such as the Bedroom Tax and household benefit cap. This means there can be high demand in certain areas.

Our analysis suggests that households cannot rely on DHPs as a realistic and sustainable safety net to cover LHA shortfalls. In 2017, we made Freedom of Information requests to every council in England, with questions designed to ascertain how local authorities were using their DHP fund. We received responses from 264 out of 326 (81%) and closely analysed a sample of 40 of these.⁷¹

First, a significant proportion of applications for DHP are refused:

- Of all the responses received, we found the refusal rate to be quite high with one in three (30%) DHP applications refused

Second, where applications are granted, they are often time-limited, but this varies significantly across the country. Of the sample of 40 we analysed further:

- 28 set a normal maximum time limit for awards. The lengths varied significantly
- Five specified a normal maximum of 13 weeks or less

⁷¹ Full information can be found in Shelter's written evidence to the Work and Pensions Committee inquiry into the [Benefit Cap](#) or to the [Welfare Safety Net](#)

- Nine specified a normal maximum of 26 weeks
- Of those that detailed a maximum period for an award, only eight policies stated that these maximums could be exceeded, or awards could be made indefinite in exceptional circumstances.⁷²

Savings made from the LHA rate freeze are being shifted onto local authorities

The introduction of the LHA rate freeze, as part of the wider benefit freeze, aimed to save the government money. At the 2016 Budget, the Treasury forecast that the overall four-year benefit freeze would achieve an annual saving of £3.5bn by 2019/20.⁷³ Whilst this figure was for the savings for the overall benefit freeze, it does not take into consideration the amount government has spent on both TAF and DHPs to mitigate against the impact of the freeze, as detailed above.

Furthermore, there is evidence the savings made to the DWP budget have been shifted to local housing authorities, which have a duty to accommodate households made homeless as a result of the freeze.

Local authorities report that the impact on homelessness of the four-year freeze of LHA rates is very high:

- In 2018, over 9 in 10 local authorities (91%) stated that the four-year freeze on LHA rates had increased homelessness in their area with 6 in 10 local authorities (59%) stated that this increase was “significant”.⁷⁴ This makes it very hard for local authorities to fulfil their duties under the HRA.

It is not only claimants who struggle to access private rentals that are affordable and available; the inadequacy of LHA means that local authorities are seeing difficulty in relieving or preventing homelessness in the private sector:

- In 2017, almost 9 in 10 local authorities in England (89%) reported difficulty in preventing or resolving homelessness through accessing the private rental sector.⁷⁵

LHA rates are making it very difficult for local authorities to fulfil their duties to prevent and relieve homelessness under the HRA.

This evidence is complemented by the findings of another recent survey of local housing authorities on their experience of the HRA in which 86% of local authorities reported that affordability in the private rented sector is a great or moderate factor in their ability to accommodate homeless households. Local authorities also drew a strong link between low affordability and welfare reform which, in itself, was cited by almost all (92%) of councils as affecting their ability to meet people’s housing needs.⁷⁶

Partly as a consequence of the inadequacies of the low LHA rates, and the ensuing difficulties faced by councils to fulfil their homeless duties, in 2017-18 councils spent almost £1.4 billion on homelessness, including just under £1 billion

⁷² IBID

⁷³ HM Treasury, [Budget 2016](#), red book table 2.2 line 2016

⁷⁴ Fitzpatrick, S., Pawson, H., Bramley, G., Wood, J., Watts, B., Stephens, M., Blenkinsopp, J., [The homelessness monitor: England 2019](#), Heriot-Watt University and University of New South Wales, 2019

⁷⁵ Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B., Wood, J., [The homelessness monitor: England 2018](#), Crisis, Heriot-Watt University and University of New South Wales, 2018

⁷⁶ Local Government Association, [Homelessness Reduction Act Survey 2018 – Survey Report](#), 2019

(£996 million) on temporary accommodation (TA). The total amount spent on homelessness by councils in England has increased by 56% since 2012-13. The amount spent on TA has increased by 71% over the same period.

Figure 3: The amount councils in England have spent on homelessness in the last 5 years⁷⁷



Households in TA are expected to cover the, usually higher than market, costs themselves, but – if entitled – can claim LHA to assist with this. The high costs of TA, combined with LHA shortfalls even on generally lower market rents, means there is still likely to be a large shortfall. Since April 2017, MHCLG has provided Flexible Homelessness Support Grant (FHSG)⁷⁸, which can be used to source and manage TA, or, preferably, to prevent homelessness. The total FHSG for 2019/20 is just over £200m.⁷⁹

Any remaining shortfall in the on-going cost of TA must be made up by the local housing authority if it is to offer accommodation that people can afford. In 2017/18, councils had to fund a quarter (24%) of the TA cost from their own budgets. The figures also show that the gap between what councils receive and the amount they need to house homeless households is growing. The amount they are spending from their own budgets on TA has increased by 155% in the last five years.⁸⁰ The strain on local authority budgets is clear, and growing, as the LHA rate freeze both drives applications for homelessness assistance and hinders their ability to help families.

Where households have to move area because of LHA shortfalls there are serious impacts to family well-being, especially where children are involved

Local authorities are struggling to house people and increasingly are offering TA out of area, which is something we see up and down the country. The use of TA

⁷⁷ MHCLG, [Local authority revenue expenditure and financing England](#). Revenue outturn housing services (RO4), LA drop-down, 2019

⁷⁸ MHCLG, [New grant for council homelessness services](#). MHCLG Press release, March 2017

⁷⁹ MHCLG, [Flexible homelessness support grant: 2019 to 2020](#). MHCLG Guidance, March 2018

⁸⁰ MHCLG, [Local authority revenue expenditure and financing England](#). Revenue outturn housing services (RO4), LA drop-down, 2019

that is out of the household's local area is growing rapidly, despite a legal principle that this should not be the default.⁸¹ Analysis by Shelter of placements by local authorities found that out of area TA in England has increased by 215% from 2011 to 2018. The percentage of households that are placed in TA in another local authority district has increased from 15% of households in 2011 to 28% in 2018.⁸²

We have seen families whose children have had to move school five or six times so their family could find an affordable and sustainable rent. This can be disruptive to children's education and affect their confidence, potentially resulting in additional support costs to education budgets or lower attainment. Some families have to cope by separating. One mother told our advisors that she had her eldest son stay on her mother's sofa during the week, so he could attend his previous school after facing bullying and bad behaviour at a school in the new area:

"He was doing really well there. Top of his class...and here the only school I could find for him was really bad. None of the teachers seemed to care, he was behind in all the lessons. He became really withdrawn...At first, I thought, it's fine and I'll try and keep him going. But then I thought, this is his life...it's sad as his brothers really miss him. I really miss him!"⁸³

Where young families, and especially lone parents, are having to move out of area, they can lose vital childcare support (e.g. from grandparents and other extended family).

Some LHA claimants provide informal support (e.g. home care, shopping etc.) to older or relatives and neighbours with disabilities. If they have to move out of the area, these costs can fall onto the state, adding to demands on local authority social care budgets.

If LHA rates were fit for purpose, not only would we see fewer people becoming homeless, but we would also see an improvement in local authorities' ability to assist those facing homelessness. They would be better placed to source available and affordable private rented homes for their residents, they would spend less money on temporary accommodation and this would free up resource to provide a better service for those who need it most.

Government mitigations are not working and there are no reasonable steps a tenant can take to effectively tackle the impact of the LHA rate freeze

As demonstrated, the funding government has been providing to mitigate the freeze has been inadequate in truly tackling its impact. Because the rates have fallen so far behind local rents across the country, there is little chance a household could move to a cheaper area to avoid the freeze and rarely are people willing to jeopardise a tenancy by trying to negotiate lower rents.

Local authorities have duties to accommodate certain homeless households (e.g. families with children) under their homelessness duties. However, without a significant increase in the supply of social housing, local authorities are forced to

⁸¹ Housing Act 1996, Part VII: Homelessness, s.208

⁸² MHCLG, [Live tables on homelessness](#) Temporary accommodation, TA1, 2019

⁸³ Some details altered for anonymity

look to the private sector to house homeless and low-income households. However, this isn't affordable to LHA claimants and is, a major driver of homelessness.

Without LHA rates being raised back up to at least the 30th percentile as soon as possible, these issues will persist and the ultimate cost to government and local authorities will continue to rise. The government will also put at risk their manifesto commitments on tackling rising homelessness.

Investment in LHA rates is urgently needed. This may increase the amount spent on housing benefits but, over time, investment in social housing will reduce the benefit bill

As shown, homelessness is being exacerbated by the inability of households on low incomes to compete in the housing market because the amount they can receive for LHA is so low. The best way to tackle this and prevent homelessness in the long-term is to ensure that people can access genuinely affordable housing. The answer to achieving this is by investing in the provision of genuinely affordable, social housing. Our independent Social Housing Commission⁸⁴ has called for a huge increase in investment over the next 20 years in social rented housing in the forthcoming Spending Review. This is a more efficient way to meet housing need in the long-term because social rents are generally lower than private rents.

However, even with a huge increase in investment, social rented homes will take time to build. In the interim, local authorities will have to rely on the private sector to house homeless families. If homelessness is to be reduced in line with government targets to halve rough sleeping by the end of this parliament and to eradicate it by 2027, people need to have the means to be able to compete in the private rental market in the meantime. This is the very purpose of LHA.

LHA is not simply welfare – it's an important part of housing policy, allowing people on low incomes to find a suitable home in the private rental market, particularly where social housing is unavailable.

The high cost of private renting has resulted in approximately one million of the four million private renters now claiming LHA to help towards this high cost. Almost four in ten of these (39%) are in paid work.⁸⁵ These claimants are likely to also be suffering from a shortfall, even though they are in work, as a result of the low rates of LHA.

As part of our Social Housing Commission, Capital Economics set out in detail the costs and benefits of a 20-year social home building programme if it is funded in the early years through borrowing and then pays back through returns to government, savings in the welfare system and increased tax receipts. The programme would pay back in full over 39 years. Because social rents are generally lower than private rentals, even where tenants are claiming full housing

⁸⁴ Shelter, [A Vision for Social Housing](#), Shelter, 2019

⁸⁵ Department for Work and Pensions, Statxplare. Figures as of August 2018. MHCLG, [English Housing Survey: private rented sector](#), 2016/17, Annex Table 2.8

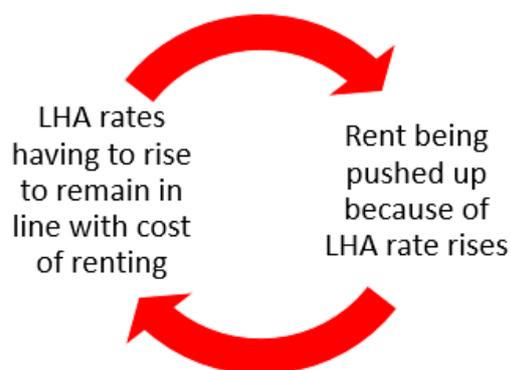
benefit the overall benefit bill would be lower. In total, savings on housing benefit alone will reach £60bn within 30 years of beginning building.⁸⁶

Could raising the LHA rates push rents up across the country?

Some may argue that raising the LHA rate back up to the 30th percentile would result in increases to market rents. However, when looking specifically at the reforms since 2011, a review of available evidence⁸⁷ suggested there is a poor relationship between the LHA rate and rent setting by landlords. Evidence suggests that the operation of local markets and landlord and tenant behaviour do not correspond with the theory that LHA rates drive rent inflation.

The theory behind this idea is that there would be a self-perpetuating cycle of LHA rates rising to remain in line with the cost of renting, which would, supposedly, inflate rents further, and on in a feedback loop. This would increase the cost to the government by way of the housing benefit bill.

Figure 4: The myth that increasing LHA rates would increase rents



This theory was cited by previous governments as a factor in the reforms and cuts implemented before the 2016 freeze. Before the LHA rate freeze, the 2011-16 reforms and cuts to the LHA rates were driven, in part, by a desire to halt rising rents. Rising LHA rates were believed to be ‘a key driver of higher private rents’.⁸⁸ The government stated that it expected to see private landlords reduce rents as a result of LHA reforms and, the then Prime Minister, David Cameron went so far as to say in Prime Minister’s Questions that ‘what we have seen so far, as housing benefit has been reformed and reduced, is that rent levels have come down’.⁸⁹ While the accuracy of this particular statement was strongly disputed⁹⁰, the intent of the government was clear. In response to the then Prime Minister’s statement in the House of Commons, Sedgmoor Council in Somerset, which administered 2,769 LHA claims at the time, stated that there had been ‘no more than 10’ cases where a landlord had agreed rent deductions.⁹¹ Even more concerning, the National Landlords Association’s research showed that:

⁸⁶ Capital Economics, [Increasing investment in social housing: Analysis of public sector expenditure on housing in England and social housebuilding scenarios](#), 2019. Figures quoted in today’s prices (real prices)

⁸⁷ Weekes, T., *The relationship between Local Housing Allowance rates and rents*, Shelter, 2019

⁸⁸ London Councils, [Tracking Welfare Reform: Local Housing Allowance an extended London Councils briefing](#), London Councils, 2013

⁸⁹ Cameron, D., [Prime Minister’s Questions](#), House of Commons, 11 January 2012

⁹⁰ Brown, C., [Cameron rent claim attacked by sector](#), Inside Housing, 11 January 2012 (paywall)

⁹¹ Brown, C., [Private landlords dismiss Cameron rent claim](#), Inside Housing, 20 January 2012 (paywall)

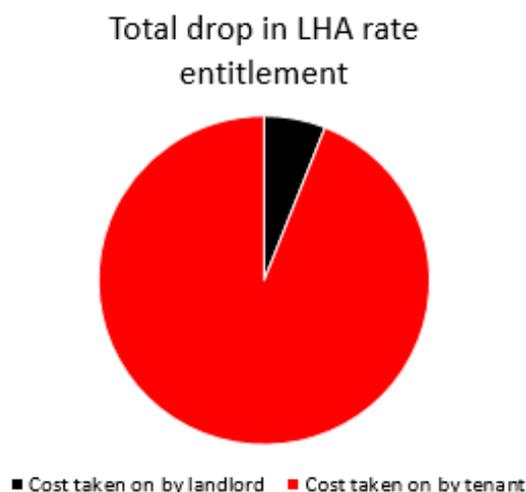
*77% of landlords who have tenants in receipt of LHA are being forced to consider reducing their involvement with tenants on housing benefit as they cannot absorb the effects of these cuts.*⁹²

Although the housing benefit bill rose in cash terms from £11bn to £22bn between 2000-01 and 2010-11⁹³, this was not necessarily an indicator that rents were being pushed up by LHA rates, rather it was primarily driven by an increase in claimants. A combination of the financial crisis and the beginning of the programme of austerity had led to a 51% increase in the number of privately renting housing benefit claimants in England in just three years.⁹⁴

On closer analysis, there is also only very weak evidence to suggest a significant relationship between LHA rate fluctuation and rent changes. Our own review of existing literature suggests that there is little evidence to suggest that LHA rates significantly impacts rents in the UK housing market.

DWP's own assessment of the impact of changes and cuts to the LHA rates shows they have not influenced the rental market in this way. If this were the case, then rises in housing benefit would fall upon the tenant to pay (i.e. through higher rents) and cuts to housing benefit would fall upon the landlord (i.e. through reduced rents) However, reports commissioned by DWP shows that when the maximum LHA entitlements were reduced, 94% of this drop fell to the tenant to make up and just 6% on the landlord.⁹⁵ A later review, on behalf of DWP estimated that 89% of the reduced LHA entitlements was on tenants and 11% on landlords⁹⁶.

Figure 5: Proportion of the reduction in maximum LHA rate entitlements that falls on the landlord versus the tenant⁹⁷



⁹² IBID

⁹³ DWP, [Housing Benefit – uprating local housing allowance rates by CPI from April 2013](#), DWP, 2011

⁹⁴ Stat-Xplore: In November 2008 there were 938,183 privately renting housing benefit claimants. This increased to 1,413,712 by November 2011.

⁹⁵ DWP, [Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: Interim report](#), DWP 2013

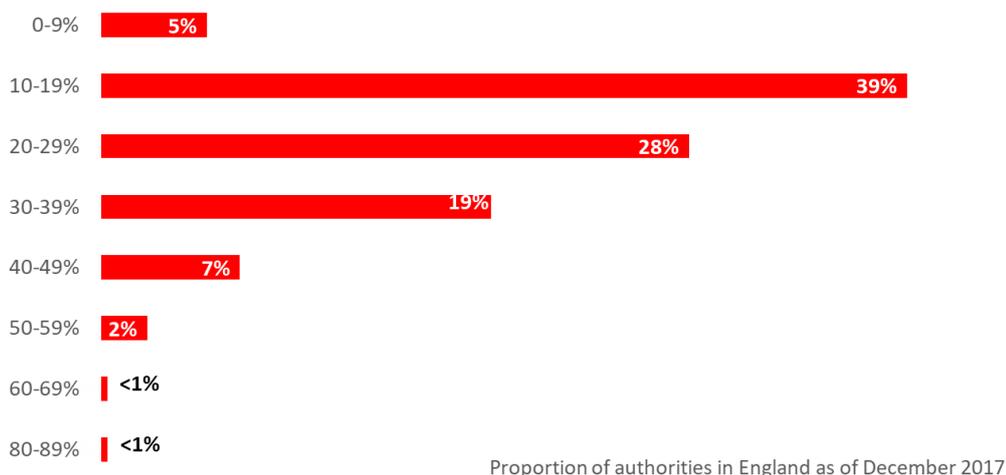
⁹⁶ DWP, [The impact of recent reforms to Local Housing Allowances: summary of key findings](#), DWP, 2014

⁹⁷ DWP, [The impact of recent reforms to Local Housing Allowances: summary of key findings](#), DWP, 2014

It has been argued that the extent to which LHA claimants dominate a local market may have some bearing on the impact of the LHA rates on rents. In a few areas in England, it is difficult to identify an authentic ‘market rent’, independent of the LHA market, as the vast majority of private renting households are claiming LHA. In Blackpool⁹⁸, 81% of private rents are occupied by households in receipt of LHA, making it hard to argue that the LHA rate is not influential in this market. However, this level of dominance in a market is incredibly rare across England. Research by the CIH prior to the freeze to LHA rates suggests that the proportion of the market let to housing benefit claimants bore little relationship to levels of rent inflation.⁹⁹

Across England, households claiming LHA are a minority of households in most local authority areas. In over seven in ten (72%) authorities under 30% per cent of the private rented dwelling stock is occupied by claimant households. In four in ten (44%) authorities it is under 20%. With LHA claimants making up the minority of the private sector in the majority of areas in England, their power to influence rent levels is diminished.

Figure 6: Proportion of households claiming housing support within a local authority



Source: Stat X-plore- Households receiving the housing element of Universal Credit and number of HB claimants that are private deregulated tenants (LHA). ONS Subnational dwelling stock by tenure estimates.

The low proportions of households claiming LHA in the majority of areas across England is not the only reason why LHA may not have much of an impact on rent levels in any given area. Landlords who are willing to let to LHA claimants are likely to have tenants from both claimant and non-claimant households competing for the same property. This would reduce the price setting power of the LHA rate. Indeed, alternative sources of demand was cited as the primary reason for a lack of renegotiation on rents following the LHA changes.¹⁰⁰ In areas of high house

⁹⁸ Bentley, D., [The future of Private Renting Shaping a fairer market for tenants and taxpayers](#). Civitas: Institute for the Study of Civil Society, 2015

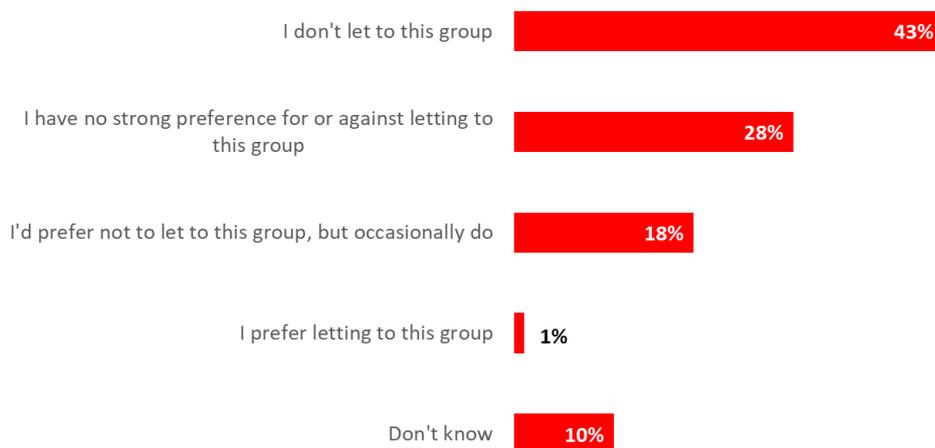
⁹⁹ Chartered Institute of Housing and British Property Federation (2011) [Leading the market? A research report into whether Local Housing Allowance \(LHA\) lettings are feeding rent inflation](#)

¹⁰⁰ Beatty, C., Cole, I., Kemp, P., Marshall, B., Powell, R., Wilson, I., [Monitoring the impact of changes to the Local Housing Allowance system of housing benefit: Summary of early findings](#). DWP, 2012

prices, for instance, households locked out of home ownership are likely to provide significant competition for all properties within the private sector.

Shelter’s research with landlords also shows that generally they do not look to specifically rent properties to households claiming LHA. Shelter’s survey of landlords shows that 43% of private landlords operate an outright bar on households claiming housing benefit and a further 18% say that they prefer not to let to this group.¹⁰¹ Only 1% of those surveyed stated they prefer letting to claimants.

Figure 7: “In general, which one of the following best describes your policy on letting to Local Housing Allowance / HB claimants”

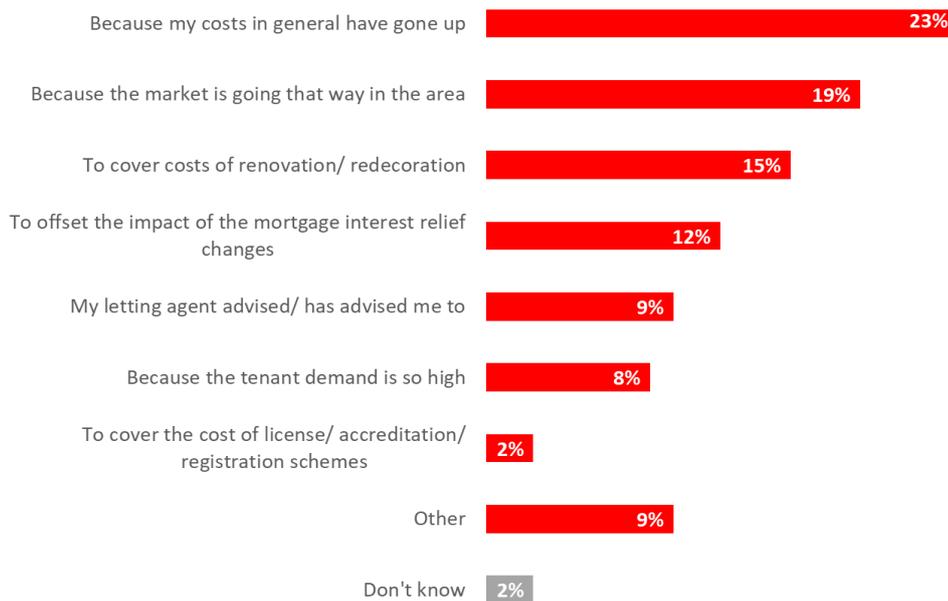


Base: 1,137 private landlords. Source Shelter Private Landlord Survey 2017

Our survey of private landlords who rent to claimant households also indicates that their rent setting behaviour is mainly impacted by changes to their own costs, rather than external factors. Just one in five (19%) landlords indicated they would raise rents because the ‘market is going that way in the area’ whilst the majority do so for other reasons. Of these other reasons, the most cited – by one in four (23%) – is because of increases to their general costs. A further 15% say it is to cover the costs of renovation / redecoration, and a further 12% say it is to offset changes to mortgage interest relief changes.

¹⁰¹ YouGov, survey of 1137 private landlords in the UK, online, July - August 2017

Figure 8: “And which of the two reasons you chose would you say is the main reason why you increased the rent?”



Base: 86 private landlords who have a tenant on HB and will increase their rent the next time one of their properties becomes vacant. Source Shelter Private Landlord Survey 2017

It is also not necessarily a given that landlords increase their rents even when a fixed-term tenancy is renewed. Two in three (66%) landlords who had renewed or extended a tenancy in the last five years say they kept the rent the same¹⁰², with a further one in three (31%) reporting they had increased the rent only by a little. This is likely to be because any increase in rental income may be more than offset by the risk of a higher turnover of tenants, creating the potential for void periods and reletting costs.¹⁰³ The rate at which landlords end tenancies in order to increase rents is quite low and so unlikely to be significant driver of increases in market rents. Landlords self-reported behaviour shows just 3% of tenancies are ended to re-let at a higher rent.¹⁰⁴ When weighing up a range of factors, landlords tend to err on the side of keeping the rent the same even when they have the opportunity to raise it, such as at the end of a tenancy.

Therefore, raising the LHA rate back up to the 30th percentile is not likely to mean there will be an increase in rent levels across the country. Evidence shows there is only a weak relationship between rent setting and the LHA rate indicated, in part, by how rents did not generally fall when LHA was reformed previously. This was despite government claims in 2011 that LHA was ‘a key driver of higher

¹⁰² Shelter Survey of Private Landlords 2017

¹⁰³ DWP, [Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector](#) DWP, 2014

¹⁰⁴ MHCLG, [English Private Landlord Survey](#), MHCLG, 2018

private rents¹⁰⁵ and their disputed claim that the 2011 LHA reforms meant lower rents were being reported.¹⁰⁶ As DWP's own research shows, for every pound reduction in entitlement, tenants have had to make up 89-94 pence, with landlords only taking 6-11 pence of the burden.¹⁰⁷ A range of factors including mean that the theory that LHA rates perpetuate increases in rents is not borne out, including: the limited negotiating power of tenants; landlord preferences towards letting to non-claimants and their rent setting behaviours; and the small proportion of most local markets that are LHA claimants. This argument should not remain a barrier to realigning the LHA rate to at least the 30th percentile.

Solutions

If homelessness is to be tackled, LHA must cover the cost of renting

- From at least April 2020, the **freeze to LHA must end** and the rates **realigned to at least the 30th percentile of local market rents**. This is previously stated government policy but, as shown through our research, is no longer the case in 97% of areas in England.
- To retain the link with local rents, **LHA rates need to be annually uplifted in line with the projected growth of rents**. Choosing a consistent measure should reassure landlords that renters will not fall into arrears.

However, people at risk of homelessness cannot wait another year until the freeze is lifted

- In 2019/20¹⁰⁸, the Targeted Affordability Funding **pot must be increased beyond what is currently allocated** until the end of the freeze. This could be done by lifting the percentage of the savings from the freeze redirected to the Targeted Affordability Fund **up from 50% to as much as 75%, or higher**.
- It must be better targeted to the areas that have a combination of the following factors:
 - the **lowest percentage of the market** that is covered by LHA rates
 - the **greatest shortfalls** in monetary terms and
 - the **highest levels of homelessness** and temporary accommodation use
- This would ensure the Targeted Affordability Funding goes to the areas where it is most needed to prevent and relieve homelessness or severe hardship. The **3% cap on the amount of Targeted Affordability Funding must also be lifted higher**, so that areas most in need are able to receive additional funding to further relieve the shortfalls for those most at risk of homelessness.

¹⁰⁵ London Councils, [Tracking Welfare Reform: Local Housing Allowance an extended London Councils briefing](#), London Councils, 2013

¹⁰⁶ Cameron, D., [Prime Minister's Questions](#), House of Commons, 11 January 2012

¹⁰⁷ DWP, [Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: Interim report](#), DWP 2013 and DWP, [The impact of recent reforms to Local Housing Allowances: summary of key findings](#), DWP, 2014

¹⁰⁸ VOA, [Local Housing Allowance \(LHA\) rates applicable from April 2019 to March 2020](#), VOA, 2019

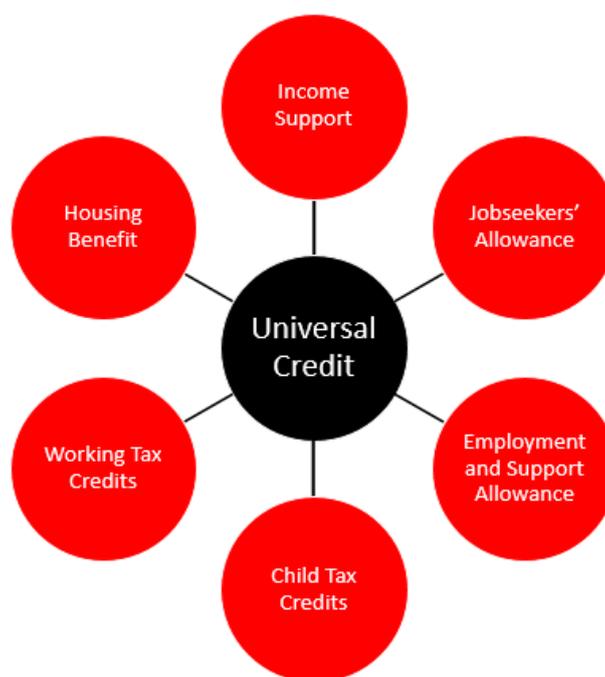
UNIVERSAL CREDIT DESIGN: PUSHING PEOPLE INTO POVERTY

Whilst the frozen LHA rates, which set the housing element of Universal Credit (UC) for private renters, are by far the biggest concern, there are also major problems with its design and implementation. These design flaws are compounding the problems with LHA rates. If a family is already without sufficient housing element to cover their whole rent, then these design problems with UC threaten to make a precarious situation even more difficult.

UC was introduced in 2013 to gradually replace the previous (legacy) benefit scheme in helping working-age people with their living costs, including rent. Most recent figures show there are 2 million households currently claiming UC.¹⁰⁹ Just under 7 million households are expected to be in receipt of UC when it is fully implemented.¹¹⁰ Despite the fact that under a third of the final expected number of households are currently claiming UC, we are already seeing widespread problems with the new system.

UC aims to streamline and simplify the UK's welfare system by bringing together six benefits into one. The six benefits that are becoming part of one UC system are means-tested and for people of working age on a low-income. They are:

- Income Support
- Income-based Jobseekers' Allowance
- Income-related Employment and Support Allowance
- Housing Benefit
- Child Tax Credit and
- Working Tax Credit



¹⁰⁹ DWP, [Universal Credit Statistics data to 11 April 2019](#), DWP, released 14 May 2019

¹¹⁰ Kennedy, S., Keen, R., [Universal Credit roll-out: 2018-19](#), House of Commons Library, 2018

These benefits will all become just one claim and one monthly payment rather than six individual payments with various application processes. It is administered by one department, the Department for Work and Pensions (DWP) as Jobcentre Plus (JCP), rather than three agencies (DWP, HM Revenue and Customs and local authority housing benefit departments).

UC aims to “make work pay” and incentivise people into work and this is something that has been a common thread throughout the narrative of UC.¹¹¹ In keeping with this idea, and the fact that they are benefits for people of working age, the system is also designed to mirror the “world of work”. The design of this means UC is paid as one monthly payment, in arrears, and includes a person’s entire benefit income, including, where necessary, a housing element for the rent.

While, in principle, we support the government’s attempt to streamline an outdated and complicated benefit system, the design problems within the new system are causing severe hardship for our service users. For example, the change to one monthly payment, paid in arrears, has created an initial five-week gap between application and first payment. As the payments are issued monthly, there is a month long assessment period from the commencement of an application. Because payments are in arrears, this leaves an applicant without a payment for the first income assessment period. This is causing serious problems for those who are left without any income at all for over a month – sometimes longer due to administrative errors or delays. An applicant can take out an advance payment and receive money for this period up-front; however, this incurs later deductions from their monthly payments as they pay back their advance.

Two of the main reasons the government is resolute in maintaining the five-week wait is that:

- they wish to mirror the “world of work” and so want to keep monthly payments¹¹². and
- they need the time to assess the household, as they want the payments to “reflect, as closely as possible, the actual circumstances of a household during each monthly assessment period”.¹¹³

The monthly assessment period aims to ensure that the chances of an overpayment to a claimant are as low as possible, meaning they will not be asked to pay money back at a later date. It also makes it easier to calculate for those who are working or moving into work (providing they are paid monthly); thereby contributing towards the aim of ensuring the transition from UC into work is as easy as possible.

This section will explore how the introduction of UC across the country has detrimentally affected a number of our service users. Analysing the data from our own services highlights both the substandard LHA rate as part of the UC housing element for those renting privately, and the design issues that make it harder to claim and manage UC. These issues affect our clients’ everyday lives, forcing them to borrow money turn to food banks to feed their families, and putting them at risk of homelessness.

¹¹¹ DWP, [Universal Credit makes work pay](#), DWP, 15 February 2015

¹¹² Sharma, A., [DWP Written Question answered on 8 April 2019](#), DWP, 2019

¹¹³ Sharma, A., [DWP Written Question answered on 10 June 2019](#), DWP, 2019

The design flaws putting people at risk of homelessness

Our service users are experiencing serious problems with UC

During 2018, our services saw over 2,180 cases where the main presenting problem was related to UC.¹¹⁴

We conducted a thorough analysis of our services data to gain a better understanding of the problems people are encountering with UC:

- Of the 2,180 cases we analysed, one in four (25%) approached us because the UC payments they were receiving were not enough to cover rent or other household costs. This was often due to having a large shortfall between their rent and their housing element entitlement.
- In one in five (20%) cases, people were struggling with the high repayment costs of arrears and deductions under UC. They contacted us for help in reducing or managing these repayments, which will often be on top of the problem of UC payments not covering their rent. Unsustainable deductions from their UC awards meant people needed referrals to food banks. For many, arrears and deductions were linked to the five-week wait as often the advance payments made up the majority of their deduction.
- One in ten (10%) cases were struggling with the impact of the five-week wait. In the short term the wait can result in borrowing money to pay rent, trading off against other essential household expenses or applying for an advance payment. The only other alternative is to fall into rent arrears and face the possibility of a possession notice that may not be rescinded once the household receives its UC payment.
- One in ten (10%) cases came to us for help with the application process or applying for other mitigations as part of the system. For example, people needed help with applying for an Alternative Payment Arrangement (APA), keeping track of journal entries or even simply accessing a computer. As UC is delivered as a digital-by-default service, some of our clients face difficulties with accessing the online system, and struggle to keep up with any requests for additional information delivered through their online journal.

In addition to this analysis of our services data, we also spoke with our service users about their ongoing concerns with UC. They spoke about the challenge of living on UC either because the amount received was too low to cover living costs, or because deductions were unsustainable. They described regularly making choices between paying their rent, paying other bills and buying food which is consistent with our service data analysis and other research. They shared similar experiences of being in rent arrears as well as other debt, and regularly having to ask family and friends to borrow money:

“It’s humiliating asking for money all the time. Has UC helped manage the finances? No! Bailiffs are here, expenditure is high and rising but the benefit isn’t enough at all.”

People also spoke about how they suffered from added stress because of applying for and dealing with UC. Those we spoke to talked about the mental

¹¹⁴ We most likely helped a greater number of clients with aspects of their UC claim than are recorded here, but these cases are where UC is the primary problem for seeking help.

health impacts of continuously having insufficient money to live on and having to ask friends and family for help, as well as having to approach food banks.

“It is humiliating being on UC. I used to work and now I owe money to friends and family and often don’t have enough money for food, electricity and sanitary products. It’s affecting my self-worth”

The five-week wait is causing claimants hardship as people do not have any savings or money to see them through the period

As detailed above, one in ten of the UC cases we dealt with in 2018 were directly about the five-week wait; however, a large number of the 20% of cases experiencing high deduction rates were intrinsically linked to the five-week wait because of the advance payment deductions.

Our analysis of our services data reveals the initial five-week wait for payment from making a claim is causing extreme hardship, as people can be left with no money to survive, pay rent or bills.

This is supported by reports by other agencies that the five-week wait is leading to severe hardship. The Trussell Trust have found worrying increases of foodbank use in areas where UC has been rolled out. On average, 12 months after rollout, foodbanks see a 52% increase in demand, compared to a national increase of 13% across the country. This increase exists even after accounting for seasonal and other variations. Their analysis found that one of the key reasons people are seeking help there is because of the initial wait for a UC payment.¹¹⁵

Ministers have justified the five-week wait on the basis that claimants moving onto UC could have money saved to support themselves through the five-week period. However, in our experience, this is rarely the case. The 2017-18 English Housing Survey showed that a significant proportion of renters have very little by way of cash savings. Two in three (63%) privately renting households and four in five (83%) social rented households have no savings.¹¹⁶ These proportions are likely to be higher amongst recipient households, particularly given the shortfall between LHA rates and rents.

Even if people do have savings or receive their final pay in arrears during the five-week wait, this can often work against them. A woman we spoke to had recently lost her job and had received her final pay packet during the five-week wait. This period was a struggle, but it was made worse when her first payment after the five-week wait was only £74 for the whole month. Because she had received her final pay packet during the five-week assessment, this had been included in the assessment of income. This essentially resulted in a second month with inadequate income. The direct result of the five-week wait, followed by the reduced first UC payment, was that she accumulated over £3,000 of rent arrears. Another man told us he had lost his job, so applied for UC, to support his wife and two children. Once he had endured the five-week assessment period, he received a first payment of just over £90. This was also because his assessment included his final pay cheque from his job. As discussed above, the monthly

¹¹⁵ The Trussell Trust, [The next stage of universal credit: Moving onto the new benefit system and foodbank use](#), The Trussell Trust, 2018

¹¹⁶ MHCLG, [English Housing Survey 2017 to 2018: private rented sector: Chapter 2](#)

payment cycle is designed to reflect the world of work. However, the inclusion of a person's final pay from a previous job explicitly does not mirror the world of work as a new job would not take into consideration any previous earnings in the first monthly salary.

The five-week wait is a by-product of the government's aim to replicate the world of work. However, it is causing unnecessary hardship and is, in some cases, such as when a claimant has recently lost a job and receives a final pay cheque during the assessment period, counteracting the government's aim of replicating the world of work. The five-week wait should be abolished.

There are a number of options the government could employ to remove the five-week wait. They could change the process by which a claimant's income is assessed, shorten the assessment period, make payments fortnightly, backdate the assessment period so the month prior to their application is the assessed month so they'll receive their first payment much sooner, or even pay claimants in advance rather than arrears.

The advance payment offered to those who can't cover the five-week wait is not a viable solution, as they are later hit with high deduction rates

As a solution to the hardship caused by the five-week wait, the government has introduced the option of applying for an advance payment. This allows the claimant to apply for 100% of their first payment in advance and they usually receive it within a few days. However, this money is a loan and is clawed back through high deductions to their UC standard allowance payment later down the line.

In 2018, the National Audit Office (NAO) reported that the DWP's most recent data showed that 60% of new claimants receive an advance payment.¹¹⁷ This is a clear indication that the majority of claimants are unable to cover the five-week period without taking on additional debt they know they will have to pay back.

Not only this, but as discussed previously, one of the reasons the longer assessment periods have been introduced is to 'reflect, as closely as possible, the actual circumstances of a household during each monthly assessment period'.¹¹⁸ One of the benefits of this would be to avoid overpaying claimants and having to recover these overpayments later on. However, by introducing advance payments, clawed back by harsh repayment plans, government is completely negating this aim. As NAO reported in 2018, 60% of new claimants receive an advance payment meaning 60% of new claimants will be subject to at least one repayment to DWP from the beginning of their claim. Additionally, the five-week wait is not fulfilling its aim to assess the 'actual circumstances of a household' accurately. As reported by the Comptroller and Auditor General in 2019, the 'estimated overpayments of Universal Credit are the highest of currently measured benefits'. This is also the highest estimated overpayments rate since 2003-4.¹¹⁹

¹¹⁷ National Audit Office [Rolling out Universal Credit: Report by the Comptroller and Auditor General](#), National Audit Office, 2017

¹¹⁸ Sharma, A., [DWP Written Question answered on 10 June 2019](#), DWP, 2019

¹¹⁹ National Audit Office, [Annual Reports and Accounts 2018-2019](#), NAO, 2019

Analysis of our services data showed another issue with the advance payment is that it is paid once for the whole five-week wait period. This means it may be needed to cover more than one rental payment period. Where a claimant already has a large shortfall between their housing element and their private rent, this means the advance payment can all be swallowed up by rental payments, leaving nothing to live on:

A man who was living in a homeless hostel approached us for help because he was not due his full, first UC payment for over four weeks when he visited us. He had received an advance payment but had put this all towards his rent to ensure he wasn't evicted and facing street homelessness. But this left him with no money for food and other essentials. His only option was a food bank.¹²⁰

Another man had applied for UC for the first time having been laid off as a tradesman. He had received an advance payment but had put that towards rent and utility bills and was left with nothing for food and still had over three weeks to go before his first payment. Again, we had to issue him a food bank voucher.¹²¹

However, people sometimes can feel there is no choice but to take out an advance payment because the alternative of living without an income is just as bad:

A mother of two was in receipt of LHA and tax credits but had recently separated from her partner and moved house, with her children, triggering a new claim for UC. As a result, her tax credits had been automatically stopped but she refused an advance payment because of the high deduction rates she knew would hit her future UC payments. However, she then faced a dire situation and had to rely on food vouchers and fuel assistance for five weeks.¹²²

A large part of the problem with the advance payments is that the deduction rates are high with claimants having up to 40% of their standard allowance payments deducted over a period of up to 12 months. In recognition of the difficulties this has been causing, the government has confirmed that, from October 2019, the deduction rate will be reduced to 30% and from October 2021 the deduction rate period will be extended to 16 months, but this is still not enough. Having almost a third of income immediately deducted would be hard for the majority of people.

While advance payments can be deducted from a claimant's standard allowance at a rate of up to 40%, (30% from October 2019), if there are other deductions liable to a person's claim, the overall deduction rate is still capped at 40%. For example, rent arrears can be deducted at a rate of between 10 and 20% or overpayments can be deducted between 15 and 25%, as long as the total deductions don't go above 40%.¹²³ If a claimant has other deductions on their standard allowance, they will be paying back their advance payment over a longer period than those who only have an advance payment deduction.

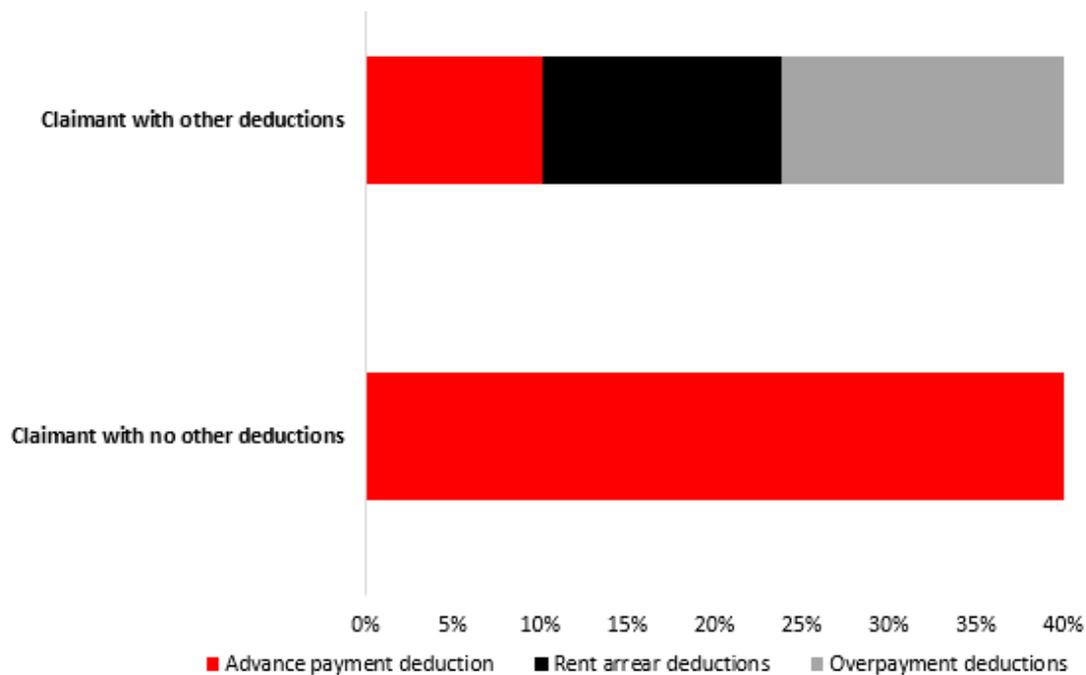
¹²⁰ Some details altered for anonymity

¹²¹ Some details altered for anonymity

¹²² Some details altered for anonymity

¹²³ Citizens Advice, [If your Universal Credit is stopped or reduced](#), Citizens Advice, 2018

Figure 9: An example of how a claimant could be deducted less from their advance payment but still 40% overall



If the five-week wait were removed completely, or at the very least the advance payments were changed to a grant rather than a loan to be paid back, advance payment deductions would not have to be clawed back from claimants. This would also ensure that people claiming UC are not pushed towards a more precarious financial situation as a result of applying for a programme that should be preventing this.

While advance payments attempt to provide a relief to the five-week wait, they are not an appropriate answer to the hardship felt during this period. They are subject to disproportionately high deduction rates and leave many people worse off in the long-term, as they struggle with managing their monthly payment. For those already trying to manage on a low income, these high deductions are usually unsustainable. As already discussed, the advance payments also negate the government’s own reason for having the five-week wait for purposes of accuracy and having fewer repayment plans.

We recommend complete removal of the five-week wait. Alternatively, advance payments could be provided as a grant, rather than a loan, with similar eligibility criteria. Not only would this alleviate the difficulties of the five-week wait, but it would also alleviate the high deductions taken from claimants.

Other deductions can have a ‘snowball effect’¹²⁴ pushing people towards further debt and rent arrears

Analysis of our services data show that deduction rates are the second biggest problem we are encountering with UC. The high deduction rates can cause real problems as some people have their income squeezed to incredibly low levels. As set out in the previous chapter, people are already struggling with the high

¹²⁴ Hobson, F., Spoor, E., Kearton, L., [Managing Money on Universal Credit](#), Citizens Advice, 2019

shortfalls between their LHA entitlement and rents across the country. With one in four (26%) claimants receiving housing benefit already having to dip into their subsistence benefits to cover a shortfall and two in five (37%)¹²⁵ borrowing money to cover their whole rent, it is not hard to see how further deductions to income can cause even greater hardship.

If a claimant has other debts which can be clawed back via deduction at source from UC, then their advance payment deductions may be lower but the total level of deduction from their UC income will still be up to 40% (30% as of October 2019). In some limited cases, deductions for benefit fraud and some “last resort” payments that are judged to be in a claimant’s best interest can sometimes even push a deduction level above the 40%.

Sometimes, people are unaware that other deductions will be made. For example, there have been multiple problems with people moving onto UC being hit with historic tax credit overpayment deductions they were not made aware of before applying. There is evidence they have often not received any indication that they had an outstanding overpayment and are not informed of this before moving onto UC. According to Citizens Advice¹²⁶, ‘most did not realise that historic tax credit overpayments might begin to be deducted when they first received their UC payments’. Research by think tank Bright Blue sees this as so much of a problem that they recommend writing off overpayments where DWP is responsible for the error up to a certain value.¹²⁷

Furthermore, the deduction levels do not take into account whether a claimant is repaying additional debts, on top of their UC deductions, such as debts to family and friends, low cost credit or pay day loan debts on top of their UC deductions. This means that a claimant will then have to use further amounts from the remaining 60% of their standard allowance to pay these other debts. If they are also having to make up a shortfall between their rent and their LHA rate out of their standard allowance, the amount families have to live on can be incredibly small.

It is not unusual to see service users with as little as £100 per month to live on after paying their rent, all the deductions and any shortfall they have. One of our services reported the difficulties these sorts of situations can cause:

Our client had the usual 40% deducted from her standard allowance. Of her overall deduction, 61% was being deducted for her advance payment – by far the biggest deduction. On top of this, she also had council tax arrears to pay as well as a monthly shortfall between her rent and the LHA/housing element she was receiving. This meant that, in reality, 66% of her standard allowance, including her rent shortfall, was being deducted. This left her with just over £100 to live on per month after paying her rent with the shortfall.¹²⁸

While removal of the five-week wait would address the punitive deduction rates on the advance payments, there would still be other UC debts subject to these

¹²⁵ Base: 660 private renting GB adults aged 18+ who were currently in receipt of housing benefit and 3,978 private renting GB adults aged 18+. Interviewed online 19th July – 23rd August 2017.

¹²⁶ Hobson, F., Spoor, E., Kearton, L., [Managing Money on Universal Credit](#). Citizens Advice, 2019

¹²⁷ Shawcross, R., Lampier, S. and Sarygulov, A., [Helping Hand: Improving Universal Credit](#). Bright Blue, 2019

¹²⁸ Some details altered for anonymity

intolerably high deduction rates. If arrears and homelessness, or severe hardship, are to be addressed, deductions should be sustainable and leave the claimant with a reasonable amount left to live on without causing financial distress.

We therefore recommend that the overall deduction rates should be far lower than 30% to ensure people do not experience financial difficulty as a result. The rate of deduction should be set by individual circumstances and their ability to pay and should be absolutely no higher than 10%. There should be clear and comprehensive guidance for Jobcentre staff to assess an appropriate level of income after any relevant deductions, and this should be decided on the basis of the person's ability to pay. Deductions must take into account any non-UC debts the claimant is accountable for and paying, as well as any shortfall in their LHA.

The impact of the five-week wait is causing people to fall into debt and arrears which can lead to deprivation and homelessness

The problems reported by our service users have also been highlighted by other published reports:

- Bright Blue research¹²⁹, based on an extensive set of interviews with claimants, found that the initial waiting period was the 'design feature that...interviewees had the most concern about'.¹³⁰ Few of their interviewees had sufficient savings to cover their expenses and 'interviewees described **falling into rent arrears** as a result of the' five-week wait.¹³¹
- Citizens Advice found that as a result of the five-week wait, **48% of their clients have fallen behind on bills, 54% have to borrow money** from family and friends and **46% have gone without essentials**.¹³² This report found the debt accrued during this period can have knock-on problems that make it harder to manage financially in the medium to long term.¹³³
- The Smith Institute, commissioned by the London Borough of Southwark, showed that tenants were **more likely to be in rent arrears under UC** than the previous housing benefit system and the average arrears were higher.¹³⁴
- Figures obtained by Inside Housing¹³⁵ in 2018 showed that UC claimants could be up to **twice as likely to become homeless** compared to those on the previous benefit system. In their sample, under legacy benefits one in approximately 79 households became homeless and under UC it was closer to one in 34.

Our analysis of service data also finds that UC is pushing people into high levels of arrears. We are seeing this up and down the country and it can cause knock-on complications:

One of our service users had a disability that meant he had to use a wheelchair. His house was not appropriately adapted and so he needed to move to suitable accommodation. However, he was prevented from moving by the local authority because he had accrued around £500 in rent arrears as a result of his switch to

¹²⁹ Shawcross, R., Lampier, S. and Sarygulov, A, [Helping Hand: Improving Universal Credit](#), Bright Blue, 2019

¹³⁰ IBID

¹³¹ IBID

¹³² Hobson, F., Spoor, E., Kearton, L., [Managing Money on Universal Credit](#), Citizens Advice, 2019

¹³³ IBID

¹³⁴ Hunter, P., [Safe as Houses 2](#), The Smith Institute, 2018

¹³⁵ Barker, N., [Figures suggest Universal Credit is driving homelessness and evictions](#), Inside Housing (Paywall), 14 Dec 2018

UC and the five-week wait. His switch over to UC had stopped him getting a home he could access.¹³⁶

One of our advisors in the North of England reported the five-week wait is regularly pushing people towards eviction, especially if they already have rent arrears:

A service user was self-employed but had to stop due to ill health and so had made an application to UC. She had historic rent arrears due to other periods of ill-health through her working life. However, she was making regular payments to bring these down with court agreed payments and she had not been at risk of eviction for some time. Upon making a UC application, her housing benefit automatically stopped, and she did not receive a payment for five weeks. Because of this, her arrears reached over £1000 in this time and her landlord applied for an eviction warrant.¹³⁷

A combination of the five-week wait, high deductions and an inadequate LHA level are pushing people into rent arrears and the risk of eviction. If the five-week wait were abolished, the risk of eviction would be lower.

The changes in how the housing element is paid to social tenants is causing difficulties and alternative payment arrangements are not working well enough to assist those who need help

For those in social housing, under the legacy system, the default was that their housing benefit was paid automatically to their landlord unless otherwise arranged. Private tenants have had their LHA paid directly to them for many years now. Under UC, social tenants will now automatically have their housing element paid to themselves, rather than to the landlord.

There is the option of changing the way this is administered through an alternative payment arrangement (APA). Under an APA, a claimant can choose to have their housing element paid directly to their landlord. There are other options under APAs including having the complete UC payment, standard allowance and housing element, paid more frequently or splitting the UC payments between partners in certain circumstances, such as cases of financial abuse or domestic violence. However, analysis of our services data reveals that APAs for housing costs are difficult to apply for and only appear to be awarded at the point of crisis.

The difficulties experienced by social tenants in ensuring rent is paid in full and on time under UC can be attributed to a range of factors. For example, tenants may struggle to adjust to the new system of having their rent paid to themselves, or, if they also have deductions, they may see a particularly squeezed budget when this also includes rent. There could also be difficulties because of the misalignment of receiving a monthly UC payment which doesn't coincide with their rent payment cycle – for example if their rent is charged fortnightly or weekly. When LHA payments were changed to direct payments to private renters there were problems for similar reasons.¹³⁸

¹³⁶ Some details altered for anonymity

¹³⁷ Some details altered for anonymity

¹³⁸ Frost, A., Corker, S., Albanese, F., Reynolds, L., [For whose benefit? A study monitoring the implementation of local housing allowance](#), Shelter, 2009

There is evidence that tenants in social housing would like the option of choosing to have their rent paid directly to their landlord from the outset, rather than have to apply for an APA. Bright Blue report that a 'clear majority of [their] interviewees felt that the housing element of UC should be the reverse of the new status quo and be paid directly to [social] landlords'. They found that this was even true of those who had never had problems with paying or managing their rent account in the past.¹³⁹ The service users we spoke to agreed that it was difficult to adjust to having the rent paid to themselves rather than direct to their landlord. However, they believed it should be up to the individual to decide whether they want the payment to go straight to the landlord or not.

APAs are meant to address some of these issues for those who are struggling to adjust to managing their own housing element. However, from speaking to our service users and analysing services data, there seem to be errors and a lack of consistency and transparency around the process of applying. One woman told us that she had applied to receive her UC payments fortnightly instead of monthly, to help with budgeting, but never received any response from her Jobcentre. Another we spoke to was not aware they were available at all. We have also helped service users encountering delays in the housing element appearing in the landlord's account even if it has been taken out of a claimant's UC payment:

One of our advisors in the North of England detailed how despite requesting direct payments for a client in January 2019, as of the beginning May 2019, the landlord still had not received any payments; however, it had been taken from the client's UC payment, so she was no longer receiving any housing element. The result of this was pushing the service user into further arrears despite the money being taken from her account already.¹⁴⁰

Our experience is backed up by research. Bright Blue found that there was 'very low' awareness of APAs among their interviewees.¹⁴¹ The Residential Landlords Association (RLA) have expressed disappointment at DWP's handling of APAs. They cite a combination of lengthy processing delays, documents disappearing, and basic errors made by staff.¹⁴²

A major flaw of the APA system is that it comes too late to prevent arrears or the risk of eviction. In order to successfully apply for an APA, a claimant usually has to be in rent arrears thereby proving they are having difficulty paying their rent on time. While this is not official DWP policy, and Jobcentre guidance states that a claimant does not need to be in rent arrears to be considered for an APA¹⁴³, our services are reporting that it is a rarity that someone is granted one without arrears. These claimants may already be at crisis point and at a high risk of being evicted. An APA at this point may be able to help a claimant going forward in maintaining timely and full rent payments, but it does not necessarily do anything to bring down the rent arrear levels or prevent court action to evict them. We

¹³⁹ Shawcross, R., Lampier, S. and Sarygulov, A, [Helping Hand: Improving Universal Credit](#) Bright Blue, 2019

¹⁴⁰ Some details altered for anonymity

¹⁴¹ Shawcross, R., Lampier, S. and Sarygulov, A, [Helping Hand: Improving Universal Credit](#) Bright Blue, 2019

¹⁴² Residential Landlord Association, [Applying for Direct Housing Payments Under Universal Credit](#), Residential Landlord Association, 2018

¹⁴³ DWP, [Guidance: Alternative Payment Arrangements](#), DWP, 2019

believe an APA should not be restricted as relief to those already in crisis. This is because having the housing element paid directly to the landlord does not reduce the arrear levels – arrears would then need to be paid back via a deduction. Tenants should have choice in the matter and empowered to be truly in control of their finances and personal circumstances. No-one should have to wait until they are in rent arrears, and at risk of eviction, before successfully receiving an APA – instead, APAs should be used to prevent these things happening.

APAs should be as simple as possible to apply for and require as little bureaucracy as possible. It could be as easy as ticking a box during the application process or a quick discussion with a work coach. To address the lack of awareness, DWP should make the option of an APA well-known to claimants from the outset of a claim and make it as easy as possible to apply for one at any point during the UC process. The DWP has improved the visibility of certain policies before with success. For example, in October 2017, new guidance¹⁴⁴ was published to Jobcentre Plus staff on the provision of advance payments. Following the publication of this new guidance, the percentage of new claims receiving an advance payment rose from 40% in October 2017 to 60% in just four months to February 2018. Previously, the percentage of new claims had been fairly consistent, remaining between 38% and 40% from January 2017 to October 2017.¹⁴⁵

Solutions

If UC is to be fit for purpose – the five-week wait needs to be removed to ensure it is not causing unnecessary hardship

- The five-week wait at the beginning of a UC claim should be abolished completely.
- At the very least, an alternative solution could be to **making advance payments a grant** and not a loan that is subject to repayment.

Debts should be recovered at an acceptable and sustainable rate that is as low as possible

- Removing the five-week wait would remove the punitive deduction rates on the advance payments, **but there would still be other UC debts subject to these high deduction rates.**
- The rate at which debts are deducted from a UC claim should be **as low a percentage as possible.** The rate should be based on an individual's ability to pay and their individual circumstances at an absolute maximum rate of 10%.

Ensuring people can apply for APAs easily and quickly will allow people to be autonomous over their rent management and ensure people do not accrue large rent arrears

- The process to apply for **APAs should be as easy and simple as possible.**
- **Tenants should have choice in the matter** if they are to be empowered to really be in control of their finances and personal circumstances.

¹⁴⁴ DWP, [Revised guidance on advance payments](#), DWP 2017

¹⁴⁵ NAO, [Rolling out Universal Credit](#), NAO, 2018

MIGRATION TO UNIVERSAL CREDIT: POTENTIALLY DISASTROUS

There are two ways in which people are migrated, from legacy benefits, over to UC:

- **Natural migration** is where claimants in receipt of legacy benefits are required to make a claim for UC because they have a change in circumstance. This could be moving to a new local authority area, moving into work, becoming too sick to work or separating from a partner. There is not one set list of comprehensive, well-defined “triggers” for doing so and this can sometimes be down to the interpretation of individual work coaches.
- **Managed migration** has not yet started but will be the process whereby claimants who have remained on legacy benefits without encountering any change in circumstance, will be expected to make a new claim for UC. Claimants will receive a migration notification asking them to make a UC claim within three months. If they do not make a claim within three months, they could be at risk of having their benefits terminated. A pilot of the managed migration process starts in Harrogate, North Yorkshire in 2019 and will run until an unspecified date in late 2020.

In November 2018, when the draft regulations for managed migration were released, the DWP estimated that just under 3 million (2.87m) individuals would be subject to managed migration.¹⁴⁶ With just under 7 million expected to be receiving UC by the time it is fully rolled out, this leaves a similarly large number of claimants due to migrate through natural migration.¹⁴⁷

A welcome addition for both migration processes is the funding for a two-week run-on of housing benefit. This means that when a claimants’ legacy benefit claim is switched off, they can continue to receive housing benefit for two weeks during the five-week wait. This will be extended to having a two week run-on of Jobseekers Allowance (JSA) and Employment and Support Allowance (ESA) in summer 2021. There are currently no plans to include tax credits in these run-ons.

These run-ons will definitely help to alleviate some of the hardship faced for those migrating both naturally and through managed migration. We would welcome extensions of these run-ons, as two weeks is still not enough to fully mitigate against the five-week wait during migration. As a separate point as well this does not do anything to help those who are making a new claim for UC, who did not receive legacy benefits, and are therefore not moving through either natural or managed migration. They all still have to endure the full brunt of the five-week wait.

¹⁴⁶ DWP, [Universal Credit managed migration: reducing the risk to claimants](#), DWP, 2018

¹⁴⁷ Unable to provide an accurate figure as the numbers of people on UC are in constant flux as new people enter the system and others leave

One of the key features of the managed migration process will be transitional protection. This will be a top-up payment to those who, through migrating to UC, would experience a drop in income through migrating over to UC from their legacy benefits. They will receive transitional protection to ensure their income remains the same. Over time, although it is not clear over what time period, this top-up payment will be gradually reduced until their UC returns to the lower amount. Those moving across to UC through natural migration do not receive transitional protection, regardless of how much income they lose.

The pilot scheme of managed migration sets out to test certain aspects of the managed migration process, such as how transitional protection will work. DWP have given assurances that, during the pilot, no claimant will “fall-out” of the process and the government are confident they will not need ‘to take a case to the point of terminating their entitlement’. The DWP in Harrogate will be working extensively with local organisations, charities, housing associations, the council, unions and other voluntary sector organisations to ensure everyone undergoing the pilot will be supported through the process.¹⁴⁸

This section explores how natural migration is currently being implemented and how a number of our service users end up seeing an unacceptably large drop in income after migrating over to UC. This is, again, exacerbated by the inadequate rates of LHA and the general functionality of UC such as the five-week wait or advance payment deductions. It also looks at the upcoming design of the managed migration process and how, in its current form, it is not fit for purpose.

Claimants are losing out through natural migration

Claimants who have a disability, or a child with a disability, are likely to end up worse off on UC than they were on the previous system. This is also true for working families with children.

We are seeing a number of families who lose income by switching over to UC, particularly people with a disability who do not receive Severe Disability Premium (SDP), or those with a child who has a disability who does not receive the high rate. One advisor in our Bournemouth service described how they have had UC for approximately two years and they are yet to meet a service user from one of these groups who is better off under UC than they were under the legacy system.

When our service users lose out through the UC system, there is often a knock-on impact on their housing situation, particularly if they have a shortfall in their housing element. A drop in income can be too significant to be managed and if people do not have enough money, they risk falling into rent arrears and, subsequently, homelessness.

It is not just those claiming the disability element, without the higher rate, who are losing out through natural migration. According to the Resolution Foundation, of the UC claimants who are working and who also have children, 1.5m are expected to be worse off under UC. This equates to half of that group.¹⁴⁹ As discussed previously, one of the main aims of UC was to “make work pay”.¹⁵⁰

¹⁴⁸ DWP, [Correspondence from Neil Couling to Frank Field MP](#), DWP, 25 March 2019

¹⁴⁹ Finch, D., Gardiner, L., [Back in credit? Universal Credit after Budget 2018](#), Resolution Foundation, 2018

¹⁵⁰ DWP, [Universal Credit makes work pay](#), DWP, 15 February 2015

However, if half of the working families are worse off under UC, it is failing to make work pay.

If a claimant experiences a big drop in income as a result of natural migration, there is nothing within the design of UC to mitigate this problem

Those on natural migration will not receive transitional protection and so any drop in income experienced through moving onto UC will be immediate, regardless of how large. Our advisors are seeing people in some of the above circumstances who are experiencing drops in income of over £100 per month; something they cannot budget around. This is particularly pronounced for those who are also having to dip into their subsistence benefit to make up shortfalls between their housing element and their private rent, or those with high deductions after taking out an advance payment. One of our service users recently approached us with this exact issue:

Our service user was in private rented accommodation. She had a shortfall between her LHA and her rent of £40 per month which she was paying out of her standard allowance on top of the housing allowance going direct to the landlord. She had approached us because she also had large deductions from her standard allowance as a result of the advance payment. Previously, when she was receiving ESA, she had been receiving £400 per month. Once on UC, the deductions because of her advance payment and a drop in income meant she was receiving just £269 per month. This instant, large drop in income was causing significant problems - we had to issue her a food voucher because she couldn't afford to eat.¹⁵¹

While the piloting of managed migration is welcome, the longer the full roll-out of managed migration is delayed, the more people will migrate onto UC naturally and lose out on receiving transitional protection to cushion a potential fall in income. With such high numbers anticipated to move across to UC naturally, this is completely unacceptable.

The government must urgently introduce a form of transitional protection for those migrating naturally who, as a result, experience any drop in income. Furthermore, DWP should review the natural migration process to ensure that no-one is encouraged to make the transition naturally if they are set to see a particularly large drop in income.

The five-week wait exacerbates the difficult financial situation for those who see a drop in income as a result of natural migration. However, it also makes it difficult for those who could see a rise in income

The five-week wait at the beginning of a UC claim can often compound the financial hardship for those experiencing a drop in income. The five-week wait is already pushing claimants towards debt, rent arrears and potential homelessness. A drop in income will only exacerbate this.

However, even if a claimant could benefit from a rise in income through their transfer to UC, the five-week wait can also make this a very difficult decision.

¹⁵¹ Some details altered for anonymity

Even where claimants believe they will see a rise in income by migrating to UC, they still have to willingly put themselves at risk of financial hardship by enduring the five-week wait. If they then also take out an advance payment to see themselves through this period, they would see high deduction levels on their future standard allowance. This could negate, for some time, any benefit they would gain from an increase in overall income as they see their income reduced through these deductions.

This can ultimately place families in a 'Catch 22' whereby they have to choose between knowingly putting themselves through a period of hardship and often insecurity with no income or continue to live on less money than they know they're entitled to under UC. One of our advisors detailed a case where this difficult decision was in play:

I had one case where a single mother with one child wished to return to work. Her choice was to stay on legacy benefits and be £60 per week worse off than if she were on UC or make a claim for UC and be left with no money for five-weeks. How can we sensibly advise on such a gamble?¹⁵²

In this instance, this difficult decision could ultimately discourage someone to return to work as this could trigger a UC claim and they would knowingly need to endure a period of no income. This undermines the incentivisation of work that UC set out to achieve and is a further reason that the five-week wait should be abolished.

Administrative issues within Jobcentres and among staff are making the migration process more difficult. As a result, there is no consistent way of knowing which changes of circumstances will result in a move to UC

There is evidence that the financial difficulties experienced by those losing income through natural migration are compounded by administrative errors. Analysis of our service data reveals that Jobcentre staff do not seem to have a uniform or consistent approach to triggering a UC claim. The lack of comprehensive list of "triggers" means we have seen cases where Jobcentre staff appear to be encouraging claimants to apply for UC, even if they are not actually required to. This results in more claimants than necessary experiencing a drop in income. One of our advisors detailed this from their experiences of attending various training sessions with Jobcentre staff and from their visits to a local Jobcentre:

"Work coaches and decision makers are not fully up to speed on the rules. Many mistakes come from a lack of understanding, not just from the claimant of their rights, but from the understanding and interpretation of the regulations by the work coaches too."¹⁵³

The Child Poverty Action Group (CPAG), report that the main problem they encounter with natural migration is that there are numerous 'DWP delays, errors and inflexibilities' and that the 'process can be unmanageable at a time when

¹⁵² Some details altered for anonymity

¹⁵³ Some details altered for anonymity

claimants are already coping with major life changes such as births, deaths, separations, moving house, becoming ill or starting work'.¹⁵⁴

We recommend very clear DWP guidance on natural migration with a comprehensive set of “triggers” that must be strictly adhered to by Jobcentre staff. This guidance should set out that claimants who would experience a large drop in income should not be advised to migrate naturally.

Finally, it is important that the future roll-out of managed migration seeks to avoid the problems encountered with natural migration. Even though it will be a slightly different process, consistent knowledge and training of work coaches, the information provided to a claimant to help them through the journey, and budgeting help for altered or amended financial situations, must all be improved for both migration processes.

Managed migration could be a disaster for many

The three-month deadline for managed migration claims could create a dangerous cliff edge for many low-income households

Under the managed migration plans, a claimant will receive a migration notification stating that they will have to make an application to UC and will be given a deadline of at least three months. If a claimant does not make a UC application within those three months, any benefits they are receiving will be at risk of being terminated outright. Claimants can apply for an extension, but the government is yet to outline exactly how this can be applied for and in what scenarios it would be granted.

There are many reasons why a claimant would not necessarily be able to complete an application in time or apply for an extension. People who are sofa surfing, rough sleeping or in temporary accommodation, and people at risk of homelessness, will face additional challenges around notification and support for making a UC claim:

- People without a fixed address or stable housing situation may have lost ID since initially claiming benefits, and there is a risk that having to apply for ID and verify a claim could mean that they will miss the deadline.
- They may not receive the notification because it has been sent to the wrong address or been sent to a shared address. For example, families accommodated under the homelessness legislation can be moved frequently between different types of accommodation. A homeless claimant could then miss their chance to reveal their vulnerability and gain an extension.
- Additionally, 8.5% of housing benefit claimants have no access to the internet at home, at work or elsewhere. A further 20% state they never use it. With this equating to almost one in three people on housing benefit having no access or never using the internet, they are likely to experience difficulties in using the online application system.¹⁵⁵
- People with multiple and complex needs are likely to require substantial support to complete an accurate UC claim within a set deadline. However, even with the possibility of an extension, this support may not be available

¹⁵⁴ Tucker, J., [Natural Migration in Universal Credit: Claiming universal credit when circumstances change \(and sometimes when they don't\)](#). Child Poverty Action Group, March 2019

¹⁵⁵ University of Essex. Institute for Social and Economic Research, NatCen Social Research, Kantar Public (2018). Understanding Society Wave 7. Shelter analysis of all individuals claiming Housing Benefit

within the timeframe. It is not yet clear how Universal Support, which currently provides digital and budgeting support, will be adapted for managed migration. The Government has also not yet indicated whether existing support services will have access to additional resources when managed migration begins, and the number of people moving across to UC increases.

In addition, there could potentially be a disproportionate number of claimants with severe disabilities, who will be subject to managed migration. They will need to be contacted by DWP and need help to apply. This is because, from January 2019, the government halted the natural migration of people in receipt of Severe Disability Premium (SDP) under the legacy benefits system over to UC until the managed migration process starts. SDP is not available under UC, and so this welcome halt ensures those who are entitled to SDP will receive transitional protection. The government is also making compensation available to those who moved prior to this halt. However, this halt means that most people in receipt of SDP will be subject to managed migration.

Ultimately, it's unlikely that everyone will be reached, notified and supported in time and so people will inevitably fall through the gaps, and could have their benefits terminated.

The recent changes to State Pension Age (SPA) and Support for Mortgage Interest (SMI) are both examples of how DWP have been unable to contact those affected by changes as efficiently as they expected. Raising the women's SPA from 60 to 65 initially before it is raised further, was met with concern as women were not informed until they approached their 60th birthday. Age UK undertook research and the people they interviewed 'had limited knowledge' about the changes.¹⁵⁶ Research into this demonstrates that women have been unaware of the impending changes. For example, the then Pensions Minister, Steve Webb, said 'it is abundantly clear that there are a set of women...who did not know. There is no question about that'.¹⁵⁷ This is despite the DWP making efforts to write to each woman impacted using address details held by HMRC. Additionally, in the run up to the changes to SMI, the DWP initially pledged they would contact all affected with a telephone call. They, unfortunately, only managed to successfully contact 60% of those affected by telephone, leaving 40% without successful telephone contact.¹⁵⁸ Initial take up of the new SMI loan was low with only 24% of claimants¹⁵⁹ accepting the change and moving across to the loan when it was introduced in April 2018. This equated to around 10,000 claimants, '90% short of the 100,000 expected by the end of 2018-19'.¹⁶⁰ This was partly attributed to this inability to contact enough people.

The stakes are much higher this time round as if these people are not contacted, it could leave them with no income at all. If they are left with no income for significant periods of time, they could be at risk of homelessness. Many will simply not cope with this loss.

¹⁵⁶ West, Sally, [Working later, waiting longer: The impact of rising State Pension Age](#), Age UK, 2016

¹⁵⁷ Thurley, D., McInnes, R., [State Pension age increases for women born in the 1950s](#), House of Commons Library, 2019

¹⁵⁸ DWP, [Conversion of Support for Mortgage Interest from a Benefit into a Loan: claimant communication and intention to take up a loan](#), DWP, 2018

¹⁵⁹ IBID

¹⁶⁰ Office for Budget Responsibility, [Economic and Fiscal Outlook](#), OBR, March 2018

If a claimant does not apply within their deadline plus a month's grace period, they will have no transitional protection

Another worrying element of the cliff-edge managed migration deadline is that claimants will lose their entitlement to transitional protection if they do not claim within their deadline plus a month's additional grace period.

This means that claimants could be thousands of pounds worse off in the longer term if they make a mistake in their application, miss a letter or cannot get an advice agency appointment to complete the application in time. The threat of having transitional protection withdrawn will add to the pressure and anxiety caused by managed migration and could increase the risk of homelessness.

DWP have stated their intent is that, during the pilot, they will not terminate entitlement if someone does not engage with the process. This should be confirmed for the wider roll-out

DWP have confirmed they do not believe they will 'need to take a case to the point of terminating their entitlement if they fail to engage with the process' during the managed migration pilot. They 'emphasise our intent that claim closures in the pilot will only occur as UC entitlement is established'.¹⁶¹ The government has also 'agreed to introduce a basic safeguard' in the pilot that means that 'a claimant will not be left without an income through having their legacy benefits terminated without having made a UC claim'.¹⁶²

This is an encouraging step in ensuring there will not be anyone in the Harrogate pilot left without benefit income as a result of managed migration. The government must apply this approach to the wider roll-out of managed migration. The only way to ensure the provision is not used, would be to remove it from the regulations altogether. As discussed previously, we already see Jobcentre work coaches inconsistently interpreting the "triggers" for natural migration. Without clear regulations, there is a risk that some claimants will routinely have their benefits terminated even though DWP might only intend this as an option of last resort.

Furthermore, the safeguard in the pilot should be used to also collect and publish data on how many participants would have been left without income had the safeguard not been in place. This would provide an indication of how many people could be left vulnerable when managed migration is rolled out on a wider basis.

The pilot scheme of managed migration is not intended to be scaled up

The DWP has stated that it will support each claimant on the pilot scheme so that they are successful in making their claim.¹⁶³ They will work with a range of organisations to ensure the small numbers of people migrating onto UC in Harrogate will receive the levels of support they need.

While this will be of benefit to claimants on the pilot, it is not yet clear how this will translate into the full roll-out process, and indeed whether it would even be possible for this level of support to be scaled up to a national level. They have

¹⁶¹ DWP, [Correspondence from Neil Couling to Frank Field MP](#), DWP, 25 March 2019

¹⁶² Work and Pensions Committee, [Universal Credit: tests for managed migration](#), House of Commons, 2019

¹⁶³ DWP, [Correspondence from Neil Couling to Frank Field MP](#), DWP, 25 March 2019

adopted a purposefully “agile” approach to ensure there is ‘enough flexibility to change the rollout plans in light of the pilot results’.¹⁶⁴

It is vital that the pilot provides useful insights ahead of the national roll-out. In particular, DWP must efficiently analyse the process of transitional protection to ensure it is fully functioning before being rolled out nationally. The pilot should evaluate how claimants respond to receiving the managed migration notification, how confident they are in applying for UC after receiving the notification, whether the three-month deadline is appropriate, their experiences of applying for an extension, the effectiveness of channels for approaching for help and, most importantly, how many participants could have had their benefits terminated were the safeguard not in place.

DWP have indicated that they will be able to test some elements of pre-population for migration claims during the pilot. They stated that they ‘made progress with HMRC on reusing claimant’s identity data within’ their process and that they were ‘confident’ they would ‘be able to test a prototype of this at some point during the pilot’.¹⁶⁵ This would be an incredibly promising and welcome addition to the wider managed migration process as well. This was something we recommended, alongside the sector, when the regulations were first published.¹⁶⁶

The pilot could provide a rich and useful data source that will ultimately help the managed migration roll-out across the country. However, this will only happen if the government is committed to undertaking a full and efficient impact assessment.

Solutions

No-one moving onto UC should see a drop in income, regardless of whether they migrate naturally or via managed migration

- For those who will see a drop in income as a result of natural migration, the DWP should **ensure they are entitled to a form of transitional protection**.
- The natural migration process should be reviewed and **ensure that no-one is advised by Jobcentre Plus to naturally migrate if they are set to see a large drop** in income, unless they hit a very clear trigger.
- To aid this, the DWP should **provide clear guidance to Jobcentre staff, containing a comprehensive list of “triggers”**. This should ensure people are given consistent and up-to-date advice that is tailored to prevent hardship and the risk of homelessness

The five-week wait is going to impact those migrating in any form, highlighting that it needs to be scrapped

- No-one who has been advised to migrate into UC, either through natural or managed migration, **should encounter a gap in income** purely because they are moving from one benefit system to another.

¹⁶⁴ Work and Pensions Committee, [Universal Credit: tests for managed migration](#), House of Commons, 2019

¹⁶⁵ DWP, [Correspondence from Neil Couling to Frank Field MP](#), DWP, 25 March 2019

¹⁶⁶ Joint Sector, [Measures to ensure homeless people and those at risk move onto UC successfully through the Managed Migration Regulations 2018](#), Centrepoint, Crisis, Depaul, Homeless Link, Shelter and St Mungo’s, 2018

Claimants should not have their benefits cut off, nor should they lose their right to transitional protection, because they failed to complete a managed migration UC claim in time

- **No-one should have their benefits terminated**
- Transitional protection should be **available to everyone undergoing managed migration**, no matter when they apply.

CONCLUSION

If homelessness is to be reduced, UC – and importantly LHA rates within it – must ensure that people can self-serve to access the private rental market, and do not get into rent arrears as a result of in-built shortfalls, delays to payment or high deductions.

The problems our service users experience with UC are caused by a combination of the inadequate LHA rates that underpin the housing element for those renting privately, and in the design of the programme itself. The programme will not function as intended without tackling both.

If the design issues, such as the five-week wait, are resolved, claimants will still experience shortfalls between their housing element and their private rent on an on-going basis. Equally, if LHA rates are brought back up to the 30th percentile, the five-week wait and difficulties in gaining an alternative payment arrangement will continue to push families into hardship, rent arrears and homelessness. To be successful as a programme that lifts people out of poverty and “makes work pay”, UC must be reviewed to address these main problems. LHA rates must be lifted back up to at least the 30th percentile, the five-week wait in UC must be removed, the deduction system must be redesigned and the processes by which claimants migrate onto UC must be reviewed.

This would make a huge difference to low-income households across the country. It would serve to keep them out of crippling debt, destitution, eviction and homelessness. This will have a positive knock-on effect for councils in implementing the HRA, as well as homelessness support services, like Shelter, who offer advice and support. Councils were already spending just under £1bn on temporary accommodation in 2017-18 and these costs are likely to continue to rise if action is not taken to fix UC.

If the problems are rectified, the UC programme could make a historical difference to the way in which benefits are managed, administered and perceived. If they are not, the continuing problems with its design mean there is a serious risk this flagship policy could be discredited further ‘hitting the confidence of claimants’.¹⁶⁷ If claimants do not have confidence, they may be discouraged to apply or even engage, meaning the system may be even less likely to work for them.

Problems with UC are now becoming urgent. If action is not taken soon, the programme risks pushing many more households into debt and homelessness throughout its rollout, the migration processes and beyond.

¹⁶⁷ DWP, [Correspondence from Neil Couling to Frank Field MP](#), DWP, 25 March 2019

RECOMMENDATIONS

1. In the 2019 Spending Review, **the Local Housing Allowance (LHA) freeze must come to an end, as planned, by April 2020** and the rates restored to at least the 30th percentile (i.e. cheapest third) of local rents.
2. Going forward, there needs to be a **robust mechanism to keep LHA rates in line** with at least the 30th percentile of local rents, regardless of fluctuations in private rents.
3. In the interim, during this final year of the freeze, **additional Targeted Affordability Funding (TAF) must be made available**, and changes made to the way it is administered, to ensure those most at risk of homelessness this year receive adequate amounts.
4. **Applying for or moving onto Universal Credit (UC) should not leave anyone at risk** of homelessness and the system should be urgently reviewed to ensure it does not.
5. The **five-week wait** at the start of a UC claim **should be removed completely**. At the very least, it should be mitigated against by ensuring that **the advance payments are easily available and are offered as a grant rather than a loan**. This would help alleviate the high deduction rates on the income of those who have taken out an advance.
6. The process of **applying for an alternative payment arrangement (APA) should be made as easy and affordable as possible**. It should **not simply be seen as an emergency remedy for those already in arrears** and struggling, but as a viable and preventative measure for those who wish to proactively manage their money to avoid arrears.
7. The process of migration from the previous (legacy) benefit system onto UC should leave no-one at risk of homelessness. These processes (managed migration, its scheduled pilot scheme and natural migration) **should not terminate benefits automatically if the claimant does not respond in time**. Those transferring through natural migration should receive a **transitional protection payment if their income falls**.

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

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Shelter
88 Old Street
London EC1V 9HU
0300 330 1234

shelter.org.uk

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