

MULTIPLE CUTS FOR THE POOREST FAMILIES

1.75 million of the poorest families have seen their benefits cut due to welfare reform

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For a second year in a row benefits values have increased below prices. At the same time, council tax support and housing benefit has been cut for 1.75 million of the poorest families. This leaves affected families with even less money to pay for essentials such as food, heating and transport.

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EXECUTIVE SUMMARY

The government has introduced a number of changes to the UK benefit system in recent years. In doing so, it has changed the shape of welfare support.

Firstly, it has lowered the overall value of benefits by uprating them by less than inflation. This includes basic cash benefits which, according to the Department for Work and Pensions (DWP), are intended to cover all 'normal day-to-day living expenses'.

Secondly, multiple changes to housing benefit and the localisation of council tax support mean that some families have to use some their cash benefit to pay for rent and council tax – costs they were previously deemed too poor to pay.

This briefing looks at how many of the poorest families have been affected by one or more of these benefit cuts to date.¹

In April 2014, 780,000 of the poorest families were experiencing a shortfall in their housing benefit as a result of the welfare reforms since April 2011.

Around 410,000 (52 per cent) of these families are private renters affected by the Local Housing Allowance (LHA) changes, 345,000 (44 per cent) are affected by the under-occupation penalty, and 28,000 (4 per cent) are affected by the overall benefit cap.

More than half (440,000) of those families seeing a cut in their housing benefit entitlement are single adults without children. On average their housing benefit has been cut by £10.48 per week. These individuals now have to manage on an income of £61.92 per week after housing costs – a cut of nine per cent.

Couples with children have lost on average £20.71 per week. They only account for 65,000 (eight per cent) of the poorest families affected. This compares with 200,000 lone parents who have also experienced an above average cut of £15.96 per week.

As of April 2014, 1.4 million families have to pay on average £154 per year (£2.96 per week) in council tax, an amount they were previously deemed too poor to pay.

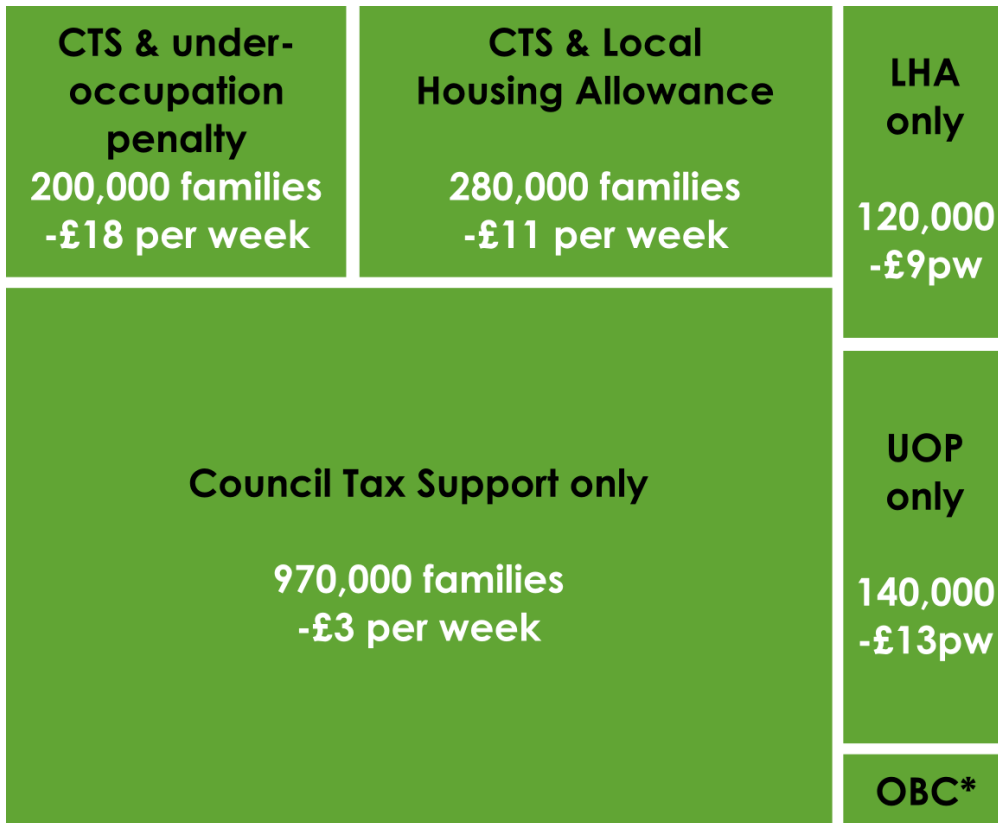
As a result of these cuts in housing benefit and changes to council tax support, around 1.75 million of the poorest families have seen an absolute cut in their income. Of these, 480,000 families are seeing their benefits being cut twice as they are affected by more than one of the changes.

Whether a family is affected and by how much varies based on a range of factors which are largely out of the control of the individual. They depend on council tax band, the cost of local housing, family size and property size. But they all apply irrespective of income.

The government needs to instate an 'absolute minimum' level of support. It should apply regardless of local authority or tenure and it should be high enough to prevent people from having to walk the breadline.

1 'Family' refers to the DWP definition used to calculate income and benefit entitlement. A 'family' is a single adult or a couple (either married or cohabiting) and all their dependent children.

Figure 1: 1.75 million of the poorest families have seen their incomes cut as a result of welfare reform



*OBC: Overall Benefit cap, 28,000 families, cut by £70 per week on average; UOP: Under-occupation penalty, LHA: Local Housing Allowance, CTS: Council Tax Support.

1 INTRODUCTION

Aim

The current government has introduced a number of changes to the benefit system. In doing so, it has changed the shape of welfare support. Firstly, it has lowered the value of benefits. In April 2014, for the second year in a row, the value of most means-tested benefits was increased by less than prices. Secondly, multiple changes to housing benefit and the localisation of council tax support mean that some families have to use some their cash benefit to pay for rent and council tax – costs they were previously deemed too poor to pay.

For each of its benefit changes, the government has produced an estimate of the number of people affected, and by how much their benefit is cut. However, many of those affected by one change will also be affected by another – seeing their incomes cut multiple times. The government has produced no assessment that looks at the cumulative impact of its reforms on families.

In this report we attempt to identify how many families have been affected by one or more of the major benefits changes. We focus on the changes to means-tested benefits intended to support those with no alternative source of income to assess the impact of welfare reforms on the poorest families.

Along with the below-inflation up-rating of benefit values, this report looks at the impacts of four policies that have led to an absolute cut in benefit for those affected. These are:

- the under-occupation penalty (bedroom tax). This has cut the housing benefit entitlement of working-age social renters with a 'spare' room;
- a reduction of the limits on Local Housing Allowance (LHA). This is the housing benefit provided to help pay rents for those living in the private rented sector (as opposed to social housing);
- the overall benefit cap. This is a cap on the total benefit paid to a workless family;
- the replacement of council tax benefit with local council tax support (CTS). This has changed council tax exemption for low-income families to a discount on council tax, the level of which varies between local authorities.

What is the value of means-tested benefits?

Families without alternative means are provided with a minimum income from the state which, according to the Department for Work and Pensions (DWP), is intended to cover all 'normal day-to-day living expenses'. For working-age adults it is provided through one of the following three cash benefits:

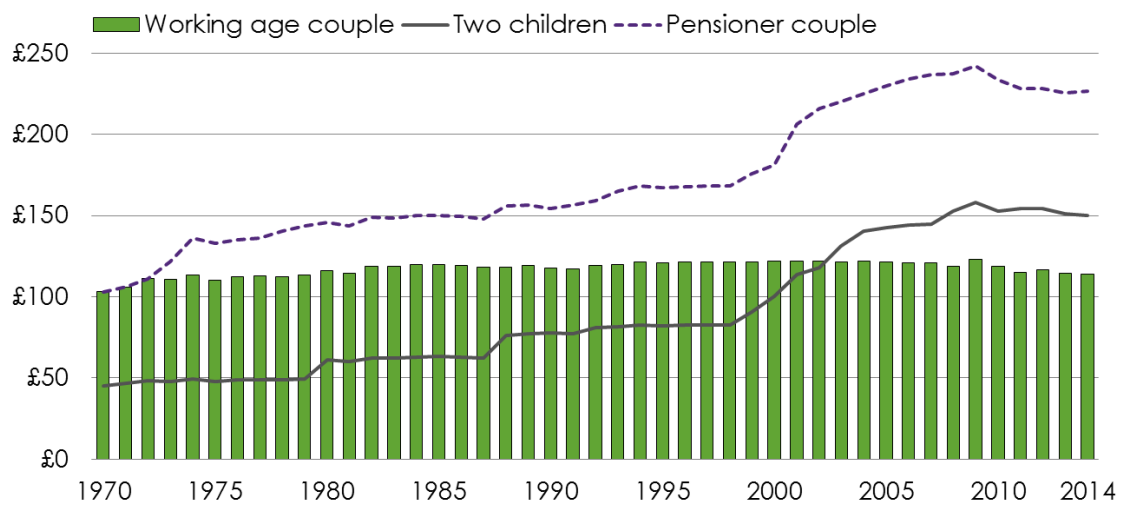
- Jobseekers' allowance – for unemployed people who are available for and actively seeking work;
- Income Support – for carers or a lone parent with a child under five;
- Employment Support Allowance – for those with an illness or disability that renders them unable to work.

The value of this cash benefit depends on family size and circumstance. In April 2014 it was worth £113.70 per week for a working-age couple (£72.40 for a single adult). Families with children get extra through Child Tax Credit (a further £150.11 for families with two children). A pensioner couple is entitled to £226.50 per week.

The graph below shows how the value of these benefits has changed over time. The longer term trend has been for pensioner and child benefits to rise above inflation, and working-age benefits to rise only with inflation. In real terms, the value of benefits for a working-age couple in 2014 is the same as it was in 1979. Pensioner benefits are now 50 per cent higher than in 1979, and benefits for children are three times higher.

In the last five years the value of these benefits has not kept pace with prices for any group. Compared with 2009, benefit values in 2014 were 8 per cent lower for working-age adults, 7 per cent lower for pensioners and 5 per cent lower for children.

Figure 2: The value of benefits for different age-groups



On top of this cash benefit, the poorest families are also entitled to full housing benefit (to cover their rent) and full council tax support (an exemption from paying council tax). This ensures that the cash benefit does not have to be spent on rent or council tax.

However, entitlement to housing benefit and council tax support has been cut recently. This means that affected families have to cover some of their rent and/or council tax using their cash benefit intended for normal day-to-day living expenses.

All in all, this means that the value of benefits has been lowered at the same time as the number of costs it has to cover (i.e. rent and council tax) has increased.

In the next section, this report looks at the three main cuts to housing benefit and the localization of council tax support in turn. For each change it identifies how many families have had their benefit cut, and how many of them are among the poorest (i.e. their incomes are low enough to also qualify for one of the three cash benefits listed above). Lastly it looks at the benefit changes as a whole, to identify how many of the poorest families have been affected by more than one change.

2 THE UNDER-OCCUPATION PENALTY

Background

The under-occupation penalty (often referred to as the 'bedroom tax') was introduced in April 2013. It cuts by 14 per cent the housing benefit entitlement of working-age households living in social housing deemed to have a spare bedroom (or by 25 per cent if they have more than one spare bedroom). This penalty is applied regardless of household income or whether alternative suitable accommodation is available.

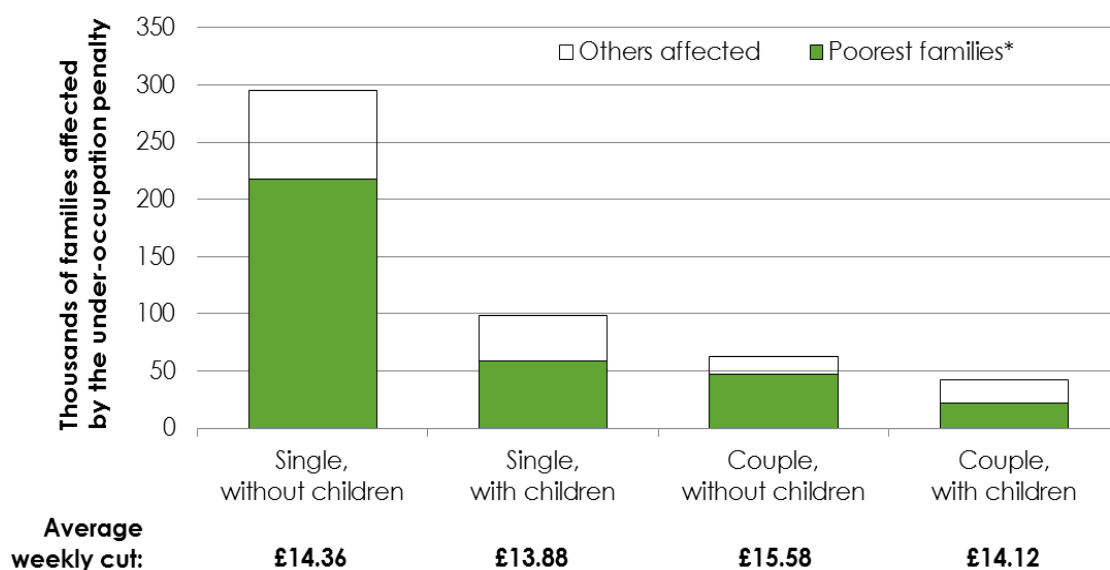
Impacts

In November 2013, 500,000 people were having their housing benefit cut by an average of £14.40 per week because they lived in a property with a 'spare' room. In total 350,000 of those affected (70 per cent) qualified for housing benefit because their income was already low enough to be entitled to a basic cash benefit as well.

Figure 3 shows the number of families affected by the under-occupation penalty. The shaded bars indicate those families with low enough incomes to also qualify for a basic cash benefit.

Most of those affected are single adults who lose on average £14.36 per week. There are 220,000 such families with a total income of £72.40 per week (from their cash benefit) who now have to spend some of this money on rent for the first time. On average this leaves them with an income of £58.04 per week after paying for rent – a cut of 20 per cent.

Figure 3: Thousands of families affected by the under-occupation penalty and average cut



*The poorest families are those with an income low enough to also qualify for a basic cash benefit (such as Job-seekers Allowance, Employment Support Allowance or Income Support).

3 LOCAL HOUSING ALLOWANCE LIMITS

Background

Local Housing Allowance (LHA) rates are used to calculate housing benefit for tenants renting from private landlords. In April 2011 the maximum amount of rent for which a household could claim benefit was lowered from the median level of local rents to the 30th percentile level. In practice this meant that low income families who could previously expect housing benefit to cover the costs of renting the cheapest half of properties in the local area, now find that it will only cover the cost of the cheapest 30 per cent. Those affected could lower their housing costs by moving to a cheaper property or negotiating a rent reduction with their landlord. Otherwise they have to meet the shortfall in housing benefit using their cash benefit.

Impacts

Initially DWP estimated that 770,000 families (83 per cent of LHA claimants) would have their housing benefit cut as a result of this change. The average cut was of £9 per week. Of the affected families, 470,000 qualified for LHA because their income was already low enough to entitle them to a basic cash benefit as well.

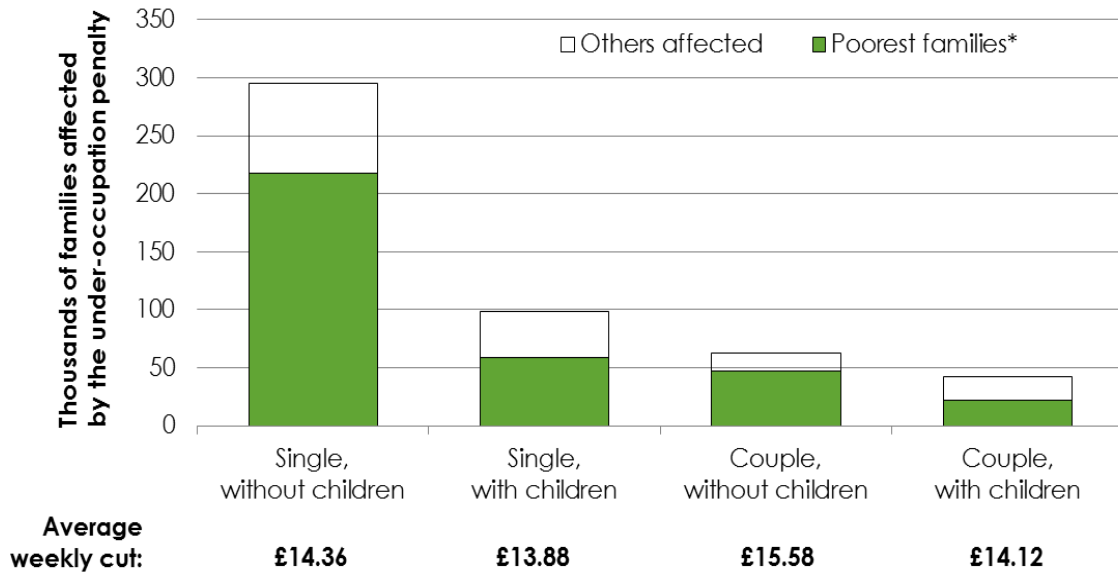
Three years after implementation the number of LHA claimants has grown. We estimate that in 2014 790,000 households are entitled to less housing benefit as a result of these changes. In total, 420,000 of those affected (53 per cent) are also entitled to a basic cash benefit, i.e. they are among the poorest families.

In reality, the number affected is likely to be higher. This 790,000 estimate assumes that one-third of those affected were able to move to cheaper accommodation to mitigate the cut. According to the DWP research, one-third of claimants surveyed prior to the change said they would seek cheaper accommodation, but subsequent research suggests that in practice it could be as low as three per cent.

Figure 4 shows the estimated number of families affected by the LHA changes. The shaded bars indicate those families with low enough incomes to also qualify for a basic cash benefit.

The majority of those affected are single adult households – with or without children. But the size of the shortfall is greatest for households with children as they require a larger home. For lone parents the average cut is £10.80 per week and for couples with children it is £12.40.

Figure 4: Thousands of families affected by the LHA cap and average cut



*The poorest families are those with an income low enough to also qualify for a basic cash benefit (such as Job-seekers Allowance, Employment Support Allowance or Income Support).

4 OVERALL BENEFIT CAP

Background

The overall benefit cap was introduced between April and September 2013. It limits the benefit entitlement of a workless family to £500 per week (or £350 for single adults). Families receiving benefits in excess of £500 have their housing benefit cut to the level of the cap.

How can a family receiving at least £500 per week in benefit be among the poorest? The £500 total includes housing benefit, which goes directly to the landlord to cover rent. For affected families, the income remaining after housing costs is considerably less.

Impacts

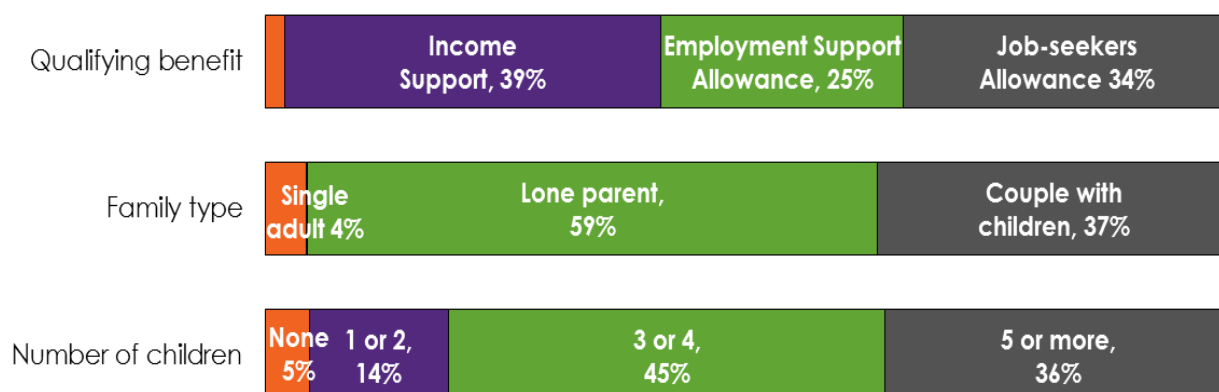
Compared with the other two changes to housing benefit, the overall benefit cap affects a relatively small number of families: 28,000 were subject to the cap in December 2013. But the average cut to income, at £70 per week, is much greater.

Around 600 families were seeing their benefit cut by more than £250. This means that they have a housing benefit shortfall of £250 per week which has to be covered using their cash benefit intended for day-to-day living expenses.

Around 81 per cent of those families affected by the cap contain three or more children. Such households are entitled to a larger amount of cash benefit to reflect the needs of both the individual claimant and their dependents. On top of this they require a larger home and therefore a higher housing cost. The overall benefit cap is fixed regardless of family size.

A quarter of those affected qualify for Employment Support Allowance which means they are assessed as unable to work due to disability or ill-health. A further 40 per cent qualify for Income Support as they are unable to work due to caring responsibilities. Such families have little prospect of finding suitable paid work in the short term.

Figure 5: Breakdown of families affected by the overall benefit cap



5 LOCALIZED COUNCIL TAX SUPPORT

Background

Prior to April 2013, council tax benefit (CTB) gave low income families a discount on the amount of council tax they had to pay. For the poorest families it meant they did not have to pay any council tax. For working-age adults in England this has been replaced with council tax support (CTS).

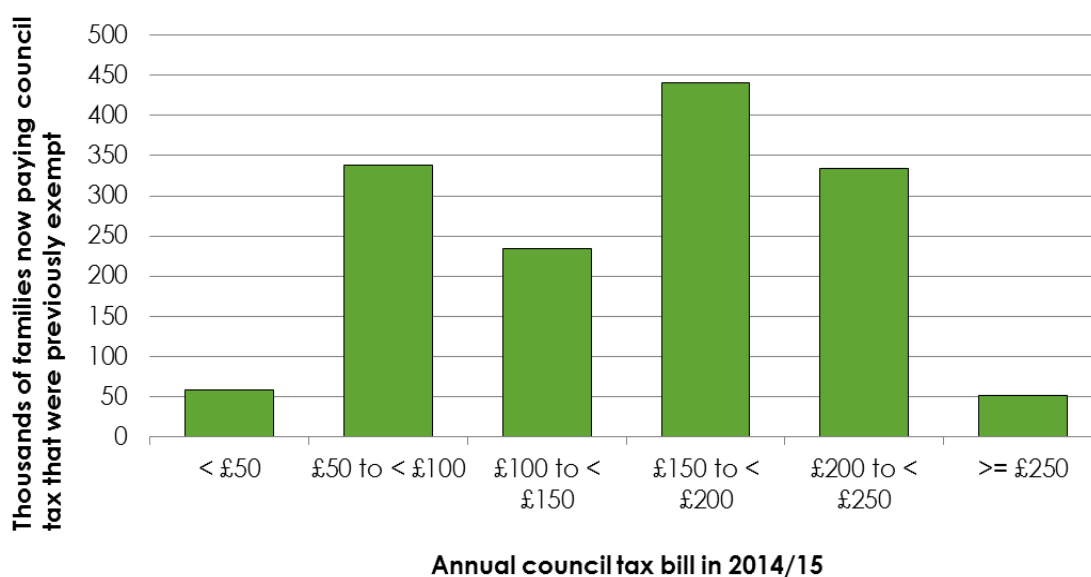
Entitlement to CTS varies in each of England's 326 local authorities and is determined by local councils. From April 2014, 244 councils require all families to pay at least some council tax regardless of income. Only 45 councils continue to offer the same level of support as under the former system.

Impacts

From April 2014 2.34 million families were paying more council tax as a result of the change to CTS. This includes 1.4 million of the poorest families who prior to April 2013 were exempt from paying any council tax. These families will pay on average £154 in council tax a year (amounting to £2.96 per week) and will have to meet this cost using their basic cash benefit.

The amount of council tax that affected families have to pay depends on their local authority. Around 650,000 families will have to pay less than £100 in 2014/15 and 500,000 will pay £200 or more.

Figure 6: Number of the poorest families paying council tax in 2014/15 by annual council tax bill



6 CUMULATIVE IMPACTS

Background

The real-terms value of cash benefits has been lowered (i.e. it can now buy less). Yet at the same time, the government has cut housing benefit entitlement and it has localized council tax support. This means that the cash benefits now have to cover more costs (rent and council tax) which were previously exempt. These changes affect low income families who now have to pay for items they were previously deemed too poor to pay.

The under-occupation penalty, the lower rates of LHA and the overall benefit cap introduced under this government have cut families' entitlement to housing benefit. The council tax changes have increased council tax. Many of the poorest families have seen their incomes cut as a result of housing benefit cuts, council tax increases, or both.

Housing benefit cuts taken together

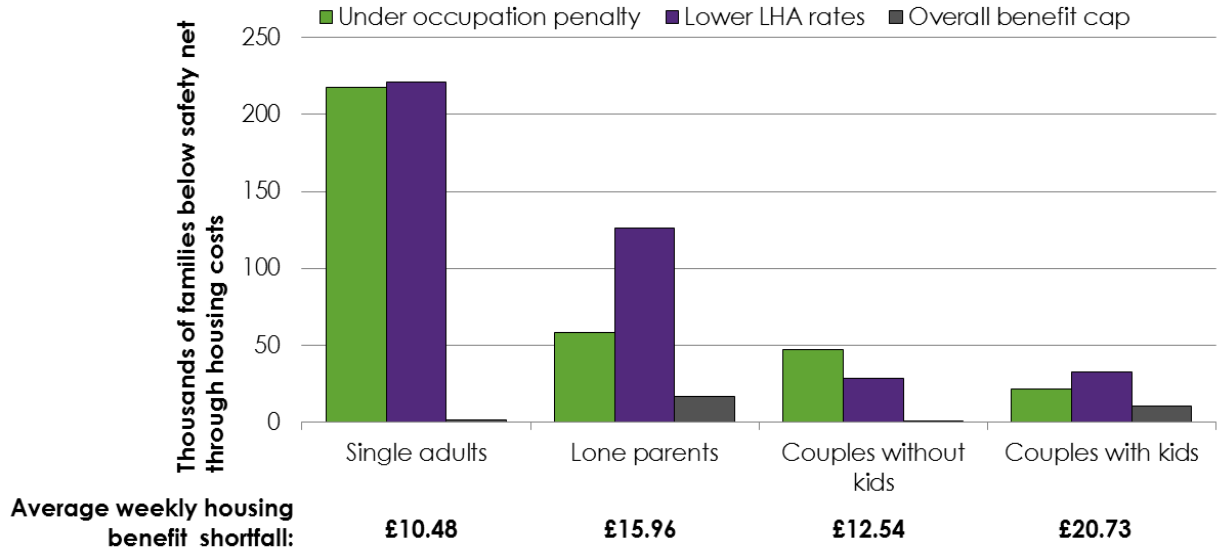
From the three housing benefit changes, we estimate that a total of 1.3 million families have seen a cut in income. Of those, 780,000 were among the poorest families in the country (i.e. their incomes are low enough to also be entitled to a basic cash benefit). This includes 270,000 families with children. On average this cut in income amounts to £12.94 per week, but some households' incomes are being cut by much more.

Figure 7 shows how many of the poorest families are seeing their housing benefit cut, by the policy that is affecting them.

Single adults are the most common family type to be affected. As they tend to have lower housing costs, the average shortfall is lower than for other families, at £10.48 per week. This means that 440,000 single adults must meet this housing benefit shortfall with an income of £72.40 per week from their cash benefit (an amount that has not increased above inflation since the 1970s).

Lone parent families are the next largest family type be affected by the housing benefit cuts with 200,000 of the poorest now having to use their cash benefit intended for day-to-day living expenses to meet their housing costs. The average housing benefit shortfall for lone parent families is £15.96 per week.

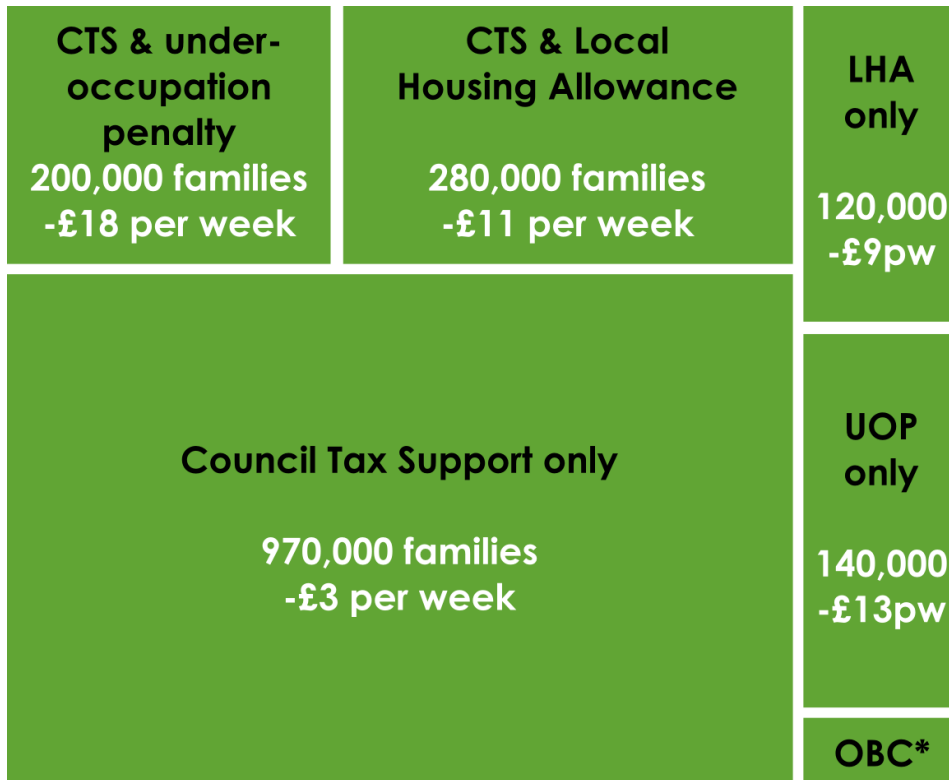
Figure 7: The number of the poorest families with a housing benefit shortfall



Cuts to both housing benefit and council tax support

Taking the cuts to housing benefit and council tax support together, we estimate that 1.75 million of the poorest families now have to spend some of their basic cash benefit on rent or council tax. Of these, 490,000 families have to spend it on both. The diagram below summarises how many families are affected by each change and the average cut.

1.75 million of the poorest families have seen their incomes cut as a result of welfare reform



*OBC: Overall benefit cap, 28,000 families, cut by £70 per week on average; UOP: Under-occupation penalty, LHA: Local Housing Allowance, CTS: Council Tax Support.

Implications

These cuts to benefits are not uniform. Whether a family is affected and by how much depends on a range of factors. For council tax support, it depends on the local authority the family lives in. For the overall benefit cap it largely depends on family size and housing costs. For the under-occupation penalty it depends on the number of bedrooms in the property. For the LHA changes it depends on the cost and demand for rented housing in the local area.

But all of these cuts apply irrespective of a family's income or their ability to cope. Of affected families, 1.75 million are among the poorest, with incomes that are low enough to qualify for a basic cash benefit. This is the minimum level of support provided by the welfare state to the poorest families to cover normal day to day living expenses. If their other benefits are cut, this basic level of support is compromised.

There ceases to be an 'absolute minimum' provided by government to prevent people from having to walk the breadline. It now varies in different parts of the country and in different tenures in unpredictable ways.

This absolute minimum needs to be instated and it should apply regardless of local authority or tenure; and it must be high enough to mean that those at the minimum level are not forced to walk the breadline. The government must first commit to the principle and then decide its level.

NOTES AND SOURCES

Introduction

Department for Work and Pensions refers to the applicable amount as the amount intended to cover normal day to day living expenses here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208145/foi-2007-2013.pdf

Data on the value of benefit is published by DWP; historical information on the value of benefits was accessed via IFS.

The under-occupation penalty

The data is from DWP via Stat Xplore. It refers the housing benefit caseload in Great Britain November 2013.

Local Housing Allowance limits

DWP does not publish data on the number of LHA claimants with a rental cost above the cap, nor on the size of this gap. The data presented here are NPI estimates.

The initial LHA impact assessment was completed carried out by DWP in 2010 and is available online: <http://socialwelfare.bl.uk/subject-areas/services-activity/poverty-benefits/departmentforworkandpensions/144202impacts-of-hb-proposals.pdf>

To estimate the number affected in 2014, the proportion of LHA claimants affected in the original impact assessment is applied to the LHA caseload in November 2013. It accounts for variation by bedroom requirement and local authority.

The number affected is reduced by a third as this is the proportion of claimants that said they would look for cheaper accommodation in a survey prior to the change: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203105/rrep838_pt4.pdf. This is likely to under-estimate the number affected as research shortly after the LHA changes were implemented found that only 3% of affected claimants had moved (Parliamentary library SN/SP/4957).

Overall benefit cap

DWP publish monthly updates on the number of people affected by the overall benefit cap. The data used here is for December 2013.

Localised Council Tax Support

These figures are derived by NPI using a combination of caseload data, information on local CTS schemes and local council tax levels; see www.counciltaxsupport.org for more information.

Cumulative impacts

The figures presented here assume that there is no overlap between the overall benefit cap and the under-occupation penalty. It assumes half of those affected by the overall benefit cap are private renters (as estimated by DWP's original impact assessment, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220178/benefit-cap-wr2011-ia.pdf) that would otherwise be affected by the LHA cap.

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