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| Friday 16 January 2015 |

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|  | Consultation Response |
|  | Distribution of Discretionary Housing Payments funding in 2015-16Response by London Councils |

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|  | London Councils represents London’s 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion. |  |
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# Summary

1. London Councils welcomes the opportunity to comment on the Government’s proposed contribution towards funding for Discretionary Housing Payments (DHP) in 2015-16. We are extremely concerned that the decision to cut overall funding from £165m to £125m, at a time when DHP funding for the Social Sector Size Criteria is maintained at £60m, will have the effect of causing funding for London boroughs to be disproportionately cut. This would come at a time when DHPs are playing a crucial role in supporting large numbers of London households affected by recent welfare reforms such as the Benefit Cap.
2. London Councils is concerned the effect of cutting funding in the manner proposed could increase the pressure on borough housing services at a time when the number of households in temporary accommodation is increasing. We call for the Government to maintain funding for the element linked to the Benefit Cap at current levels. At the very least, London boroughs should not see their allocations cut by a greater extent than the rest of the country.

# Effect on London

1. London Councils welcomes the opportunity to comment on the Government’s proposed contribution towards funding for DHPs in 2015-16. Whilst we recognise that comments have been invited on the two specific options outlined in the official paper circulated on 6th January, the overall approach to funding DHPs that the department proposed to take will have a significantly detrimental effect on London boroughs.
2. By cutting the Government’s overall contribution to DHP funding from £165m in 2014-15 to £125m in 2015-16 whilst protecting funding for the element linked to the Social Sector Size Criteria/Removal of the Spare Room Subsidy/Bedroom Tax (hereon referred to as the Social Sector Size Criteria), London will see a much larger cut – in both real and percentage terms – than any other region.
3. For example, **whilst the Government’s overall contribution amounts to a 24% cut in 2015-16, in London this will be felt as at least a 33% cut**, depending on which option is followed.
4. The cut to funding in 2015-16 follows cuts to the Government’s contribution this year which saw funding for London decrease whilst all other English regions enjoyed an increase.
5. The chart below demonstrates the combined effect:

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| Region | 2013-14 allocation, £ | 2014-15 allocation, £ | 2015-16 allocation (Option 'A'), £ | 2015-16 allocation (Option 'B'), £ |  | % Change 2013-15 (Option 'A') | % Change 2013-15 (Option 'B') |
| East Midlands | 6,565,867 | 7,336,929 | 6,199,435 | 6,073,012 |  | -5.58% | -7.51% |
| Eastern | 10,230,011 | 10,372,518 | 7,907,841 | 7,954,935 |  | -22.70% | -22.24% |
| North East | 5,382,375 | 6,507,133 | 5,898,965 | 5,914,827 |  | 9.60% | 9.89% |
| North West | 15,389,609 | 17,525,187 | 14,342,888 | 14,350,938 |  | -6.80% | -6.75% |
| South East | 15,014,979 | 15,678,122 | 11,050,941 | 11,136,469 |  | -26.40% | -25.83% |
| South West | 8,833,306 | 9,062,957 | 6,884,479 | 6,873,603 |  | -22.06% | -22.19% |
| West Midlands | 11,150,278 | 12,728,212 | 10,272,154 | 10,218,311 |  | -7.88% | -8.36% |
| Yorks & H | 10,375,819 | 11,054,475 | 9,132,816 | 9,113,779 |  | -11.98% | -12.16% |
| London | 56,552,093 | 51,609,921 | 33,279,938 | 33,813,606 |  | -41.15% | -40.21% |

1. Not only did all other regions enjoy a rise last year when London saw overall funding cut by almost £5m, **the total funding cut for London over two years of at least 40% is at least 14 percentage points higher than the nearest region**, regardless of the distribution methodology used.
2. This disparity is caused by the protection of the funding element linked to the Social Sector Size Criteria. The bulk of the cut therefore falls on those elements linked to the Local Housing Allowance changes and the introduction of the Benefit Cap – the two areas from which London boroughs derive most of their DHP funding.

# Effect on individual boroughs

1. This effect is even more pronounced when you look at individual boroughs’ allocations. Under either option, at least four boroughs will experience cuts next year of greater than 40%. One borough alone – Westminster City Council – stands to lose more than £2m, a greater cut than will be experienced by either the whole of the East Midlands, the North East or Yorkshire and Humberside.
2. At most, just three boroughs would see cuts at or below the national average.

**Importance of DHPs in London**

1. London boroughs receive the largest proportion of their DHP funding from the element linked to the Benefit Cap. Of the £51.6m allocated to London boroughs in 2014-15, £24.6m was from the Benefit Cap element. This reflects the extent to which London in particular has been affected by that reform in comparison to other regions – 49% of all households capped so far have been in in London - and also in comparison to other welfare reforms.
2. The Government’s rationale for reducing DHP funding in 2014-15 and 2015-16 was that it was intended to be transitionary in nature, allocated “to assist with the transition of claimants into the new welfare entitlement given recent Housing Benefit related welfare reforms”. However, official statistics and evaluations commissioned by the Department for Work & Pensions have indicated that the Benefit Cap continues to have a profound effect in London.
3. Data published in November, which shows the situation up to August 2014 – broadly after one year of the Benefit Cap being in place – shows that the majority of those households that have been capped at any point, remained capped (53%). This amounts to more than 12,200 capped households as of August.
4. Not only is the volume of capped households in London still high, but London households are also capped to a far greater extent that other parts of the country. For example, 3,498 London households – 15% of those that have been capped at any point – have seen their income reduced by £150 a week or more. The nearest any other region comes to this figure is the South-East, where 402 households (7.7%) have been capped by £150 a week or more. Not a single household has been capped by £150 a week or more in the North-East.
5. The Benefit Cap places a clear incentive on capped households to move into paid employment as receipt of Working Tax Credit acts as an exemption from the cap. However, these figures show that there is an extremely large body of families that are either unable or unwilling to respond to that incentive. We believe the combination of London’s lack of affordable housing and the barriers to employment such households face, form a major part of this inability to respond.
6. For these families, the availability of DHPs has been a crucial lifeline that has enabled them to avoid building up arrears and presenting as homeless to their local borough.
7. Figures published by DWP show that 51,760 DHP awards were made in London in 2013-14, more than in any other region and significantly more than any region other than the North-West (50,525). In particular, the number of awards made to those affected by the Benefit Cap (13,449), dwarves any other region (1,441 awards made in the South-East being the closest). While more awards were made in London linked to the Social Sector Size Criteria (19,050), on average they were worth less than half of the awards made linked to the Benefit Cap - £627 compared to £1,418 for the Benefit Cap.
8. London boroughs spent 98% of their original DHP allocations in 2013-14, and half-year figures show that boroughs have already spent 54% of their allocations for the current year – with a number having spent a significantly higher proportion. It is the combination of the Benefit Cap and other caps on housing benefit for those in the private rented sector that is driving this demand in the capital. This demand could be left unmet – with potentially disastrous effects on borough housing and homelessness services – if the proposed cuts to DHP funding goes ahead.
9. In addition, it is worth pointing out that boroughs are using DHPs as a means of encouraging sustainable solutions. In Ealing, for example, the DHP scheme explicitly aims to help those taking steps to help themselves such as by moving into employment, increasing the number of hours worked, or by undertaking training or education. This means DHP awards are not intended to subsidise inappropriate housing or to keep people in homes where they will not be able to maintain rent payments. Conditionality may also be attached to an award through the form of an obligation to attend a work-related activity or registering for housing and bidding for suitable properties.

**Results of recent official evaluations**

1. The picture of DHPs acting as a crucial lifeline for families affected by the Benefit Cap is backed up by the findings of a suite of evaluations of the Benefit Cap published by DWP shortly before the end of 2014.
2. An analysis of outcomes for capped claimants found that capped households were more likely to move into work than households whose benefit claims were just low enough to not trigger the cap. The analysis also found that the likelihood of moving into work increased in-line with the magnitude of the reduction in income. Both of these findings are to be expected given the incentive for capped households to move into work that the cap introduces.
3. However, the extent of this effect is not large. In London, nearly a quarter of those who were capped in May 2013 had moved into work within a year, compared to 13% of those who were just under the cap level. In other words, even with the extra incentive to find work that the cap placed on that cohort, some outcome other than movement into work was still the result for the majority.
4. The evaluation also showed the importance of DHPs for capped households. In London, the average loss in income for capped households in receipt of a DLA award fell from £118 per week, to just £10 per week as a result of the DHP award. If **the proposed cut in funding for DHPs in London goes ahead, more of those capped households in receipt of a DHP will begin to feel the full extent of the loss of income that the Benefit Cap brings.**
5. The evaluations also addressed the impact of the Benefit Cap on local authorities and local social services. The ministerial statement that accompanied the publication of the evaluation claimed that: “The Benefit Cap has led to little, if any, homelessness and local authorities have coped well with its introduction.” However, this element of the evaluation was based on interviews with staff in just 10 case study local authorities, and of which just two were in London.
6. London Councils would question the validity of drawing such significant conclusions from such a small sample size. However, in those two London boroughs, the researchers found the impact of the cap on homelessness and Housing Options services “was much more of a concern” than in the eight other areas.
7. Both boroughs were experiencing difficulties in moving households on from temporary accommodation because they could not find permanent housing for them affordable within the cap. Finding accommodation in the private rented sector that could be afforded within the cap was increasingly difficult and was putting a strain on the emergency accommodation budget.
8. In contrast to other areas, both boroughs had well-developed systems to ensure DHP funding was fairly allocated. One reported that 80% of their capped households were currently in receipt of a DHP award while the other said funding had been restricted in order to last the year.

Discretionary Housing Payments (DHP)… had been a significant source of support to capped households in London. There was, however, concern from case study local authorities and local agencies over how capped households would pay their rent in the longer term once DHP ran out.

**DWP-commissioned evaluation of impact of the Benefit Cap on local authorities**

1. In summary, the evaluations show that the Benefit Cap remains a significant issue for London boroughs which is placing real pressure on their homelessness and Housing Options services. What’s more, **DHPs are playing a crucial role in supporting capped households and their removal or reduction would see thousands of London households face a drastic fall in income**.

**New welfare reforms**

1. London Councils believes it is also worth raising the prospect of funding for DHPs being reduced just as other significant changes to the welfare system are about to be introduced.
2. In the Local Government Finance Settlement published before Christmas, the government confirmed that its current intention is not to maintain additional funding for Local Welfare Provision, leaving local schemes unfunded once current allocations run out.
3. London Councils believes that this could increase the demand for DHPs in London as vulnerable, low-income households or those dependent on benefits could be placed in a situation where they are forced to choose between prioritising expenditure on their rent, or on essentials such as food or heating.
4. Another change with the potential to increase demand for DHPs is the replacement of Disability Living Allowance with the Personal Independence Payment. Existing DLA recipients will begin to be reassessed for the new benefit in October this year. If a household that was previously exempt from the Benefit Cap as a result of a DLA award loses it once they are reassessed, that household could become capped.
5. Figures published by the DWP revealed that 47,000 households across the country would have been within the scope of the Benefit Cap had it not been for a DLA award[[1]](#footnote-2), of which an estimated 11,500 were in London[[2]](#footnote-3). If a quarter of these households lose their award completely once reassessed, this would amount to a little under 3,000 new households coming into the scope of the Benefit Cap – and potentially requesting support through a DHP award.

**Conclusion**

1. The Government’s proposed contribution to funding DHPs in 2015-16 will cause London boroughs to suffer a disproportionate cut compared to the rest of the country. This is a result of the element linked to the Social Sector Size Criteria being protected and the comparatively greater impact of the Benefit Cap in London. While the Government’s overall contribution will be cut by 24%, London boroughs will experience at least an average 33% cut. Taking last year’s cuts in DHP funding into account, London boroughs will have seen funding cut by more than 40% over two years.
2. This cut in funding comes at a time when boroughs are still grappling with the significant effects of the introduction of the Benefit Cap – a reform that has a far greater effect in London than elsewhere in the country and where the majority of those who have been capped, remain capped. The continuing effect of the Benefit Cap in London and the importance of DHPs in helping boroughs prevent escalating rent arrears from adding to the pressure on housing and homelessness services has been confirmed by the DWP’s recent evaluations of the cap.
3. With further reforms poised to potentially increase this pressure on borough services, London Councils calls on the Government to rethink its overall approach and find extra funding for DHPs linked to the Benefit Cap so this element remains at its current level.
4. At the very least, London Councils cannot see any justification for London being hit so much harder than the rest of the country. We would therefore call for cuts to London borough’s DHP allocations to be capped at the national average (24.2%). We calculate this would imply the Government scaling back the planned cut in DHP funding by a little under £5.5m. Given that the Benefit Cap was projected to save the Government £265m this year alone, this seems a reasonable step to take given the huge drops in funding many boroughs are facing.
5. Neither of the two options outlined in the paper circulated to steering group members is acceptable to London given the negligible difference between them compared to the scale of the cuts London will face as a result of the Government’s overall approach. We call on the department to rethink both the approach and the overall envelope more fundamentally.

**London Councils**

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1. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210396/foi-2013-2673.pdf> [↑](#footnote-ref-2)
2. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224912/foi-2013-3220.pdf> [↑](#footnote-ref-3)