

► Benefit Cap Inquiry

► Evidence submission to the Work and Pensions Select Committee

Summary

- London has been more affected by the benefit cap than any other region, with 44 per cent of all cases affected nationally since April 2013 residing in the capital.
- It is not clear that the cap is creating the behavioural changes that the government seeks from it. While some positive headline figures have been recorded in London regarding the movement of capped households into employment or cheaper accommodation, it is possible that these outcomes would have occurred without the imposition of a cap.
- The cap has placed significant pressure on local authority budgets, such as Discretionary Housing Payments and homelessness spending, while also increasing demand for local support services.
- The cap has created particular challenges in regards to securing accommodation for homeless households, with particular implications for households leaving temporary accommodation.
- London local authorities have dedicated significant resources to managing the impacts of the cap on residents (for example, by providing employment support and budgeting advice) in the face of wider reductions in local government finance that make this difficult to sustain in the long-term.

Thank you for the opportunity to contribute to the Select Committee's inquiry into the benefit cap. London Councils represents London's thirty-two boroughs and the City of London; making the case to government, the Mayor and others to get the best deal for Londoners and to ensure that our member authorities have the resources, freedoms and powers to do the best possible job for residents and local businesses.

To assist the committee in its investigation, London Councils would like to offer to facilitate a visit by members of the committee to one of our member authorities to learn more about how the cap is being implemented and discuss with operational managers the challenges this is causing locally across London.

Impact of the benefit cap in London

The benefit cap has disproportionately affected London. The impact assessment undertaken by the Department for Work and Pensions (DWP) ahead of the initial benefit cap rate introduced in 2013 (£26,000 for families and single parents) estimated that 49 per cent of affected households lived in London.¹ The impact assessment of the lower rate (£23,000 in London and £20,000 elsewhere) published in August 2016 found that the number of affected households was still disproportionately high in the capital, at 22 per cent.² The most recent figures published by the DWP through stat-xplore show that, as of November 2016, 44 per cent of all benefit cap cases since its introduction were in London.³

¹ 'Benefit Cap (Housing Benefit) Regulations 2012: Impact assessment for the benefit cap', Department for Work and Pensions, 16 July 2012, p.8

² 'Welfare Reform and Work Act: Impact Assessment for the benefit cap', Department for Work and pensions, August 2016, p.10

³ Stat-xplore

The benefit cap has also had a deeper impact in London. To date, 4,649 London households have had their benefit payment reduced by £150 a week or more since April 2013, 69 per cent of all cases nationally above this threshold (see figures 1 and 2). Not a single household in the north-east of England has lost this amount. The more significant impact in London is attributable to the higher cost of rented accommodation.

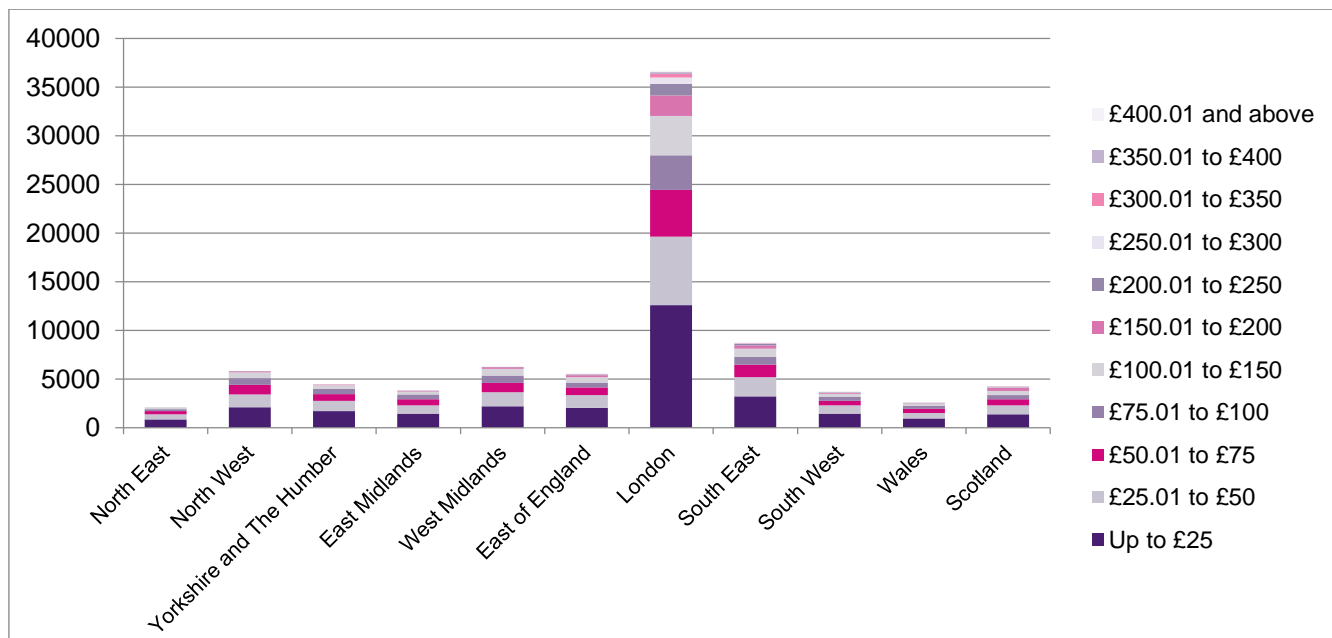


Figure 1: Amount of benefit capped (in bands) by country and region (to November 2016)



Figure 2: Amount of benefit capped (in bands) as a proportion of all cases nationally (to November 2016)

Timing of this investigation

As the committee will be aware, the lower benefit cap was introduced in two stages between November 2016 and January 2017. For households claiming Universal Credit and those already capped, benefit entitlements were reduced by the DWP on 7 November 2016. For households claiming legacy benefits who were affected by the cap for the first time, local authorities processed cases over a twelve-week transition period beginning 7 November and concluding towards the end of January 2017. Local authorities were given a place on a roll-out

schedule, which was determined on an ascending basis whereby local authorities with the highest caseloads processed cases nearer the end of the schedule. As the most affected region in Britain, most London boroughs implemented the lower cap towards the end of the schedule. Half of London boroughs implemented the cap after Christmas 2016 and into the New Year. From a London perspective, we therefore recommend that the committee reopens its call for evidence towards the summer, when a better understanding of the impacts of the lower cap will be available from London and other local authorities with the largest caseloads affected.

Committee questions

1. *The cap is intended to incentivise behavioural change amongst claimants and secure savings for the Exchequer. To what extent is it achieving that?*

Data published through stat-xplore shows that London has the highest rate of capped claimants moving into employment, and the second highest rate of claimants appearing to move into cheaper accommodation. As of November 2016, 35 per cent of customers affected by the benefit cap since its introduction have opened a Working Tax Credit claim.⁴ The data also shows that 9 per cent of capped households in London have reduced their Housing Benefit claim, while just 22 per cent were still capped (see figure 3).⁵

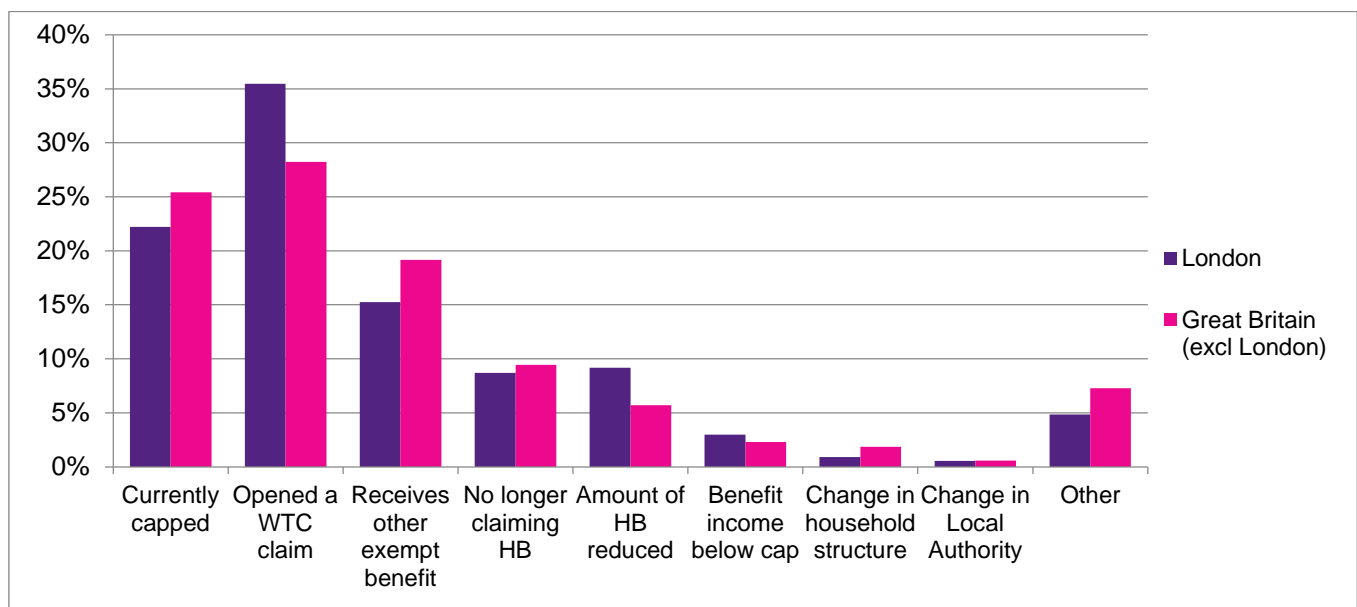


Figure 3: Latest outcome for households capped since 2013 (to November 2016)

While the headline data suggests a positive impact from the cap, there is insufficient evidence to assert that the cap directly influenced customer behaviour or whether such outcomes would have been achieved independently.

Prior to the introduction of the cap, some London local authorities implemented a RAG rating system (Red, Amber and Green) based on the affected households likely employability. Local authorities such as LB Hackney report that, following implementation, there was a noticeable reduction in capped households who were rated Green or Amber, and closest to the employment market. But for 'Red rated' households with multiple barriers, the cap has generated few behaviour changes over an extended period. Data available through stat-xplore suggests no obvious geographic patterns regarding where caseloads have reduced furthest since October 2013 when the cap was fully rolled out, but does suggest a core group of residents that are not responsive to the cap as an incentive to find employment. However, it is vital to also recognise that a significant proportion of households affected by the cap will be unable to take up work (particularly where this is low paid and insecure), such as lone parents for whom the childcare costs are prohibitive.

⁴ Stat-xplore
⁵ Stat-xplore

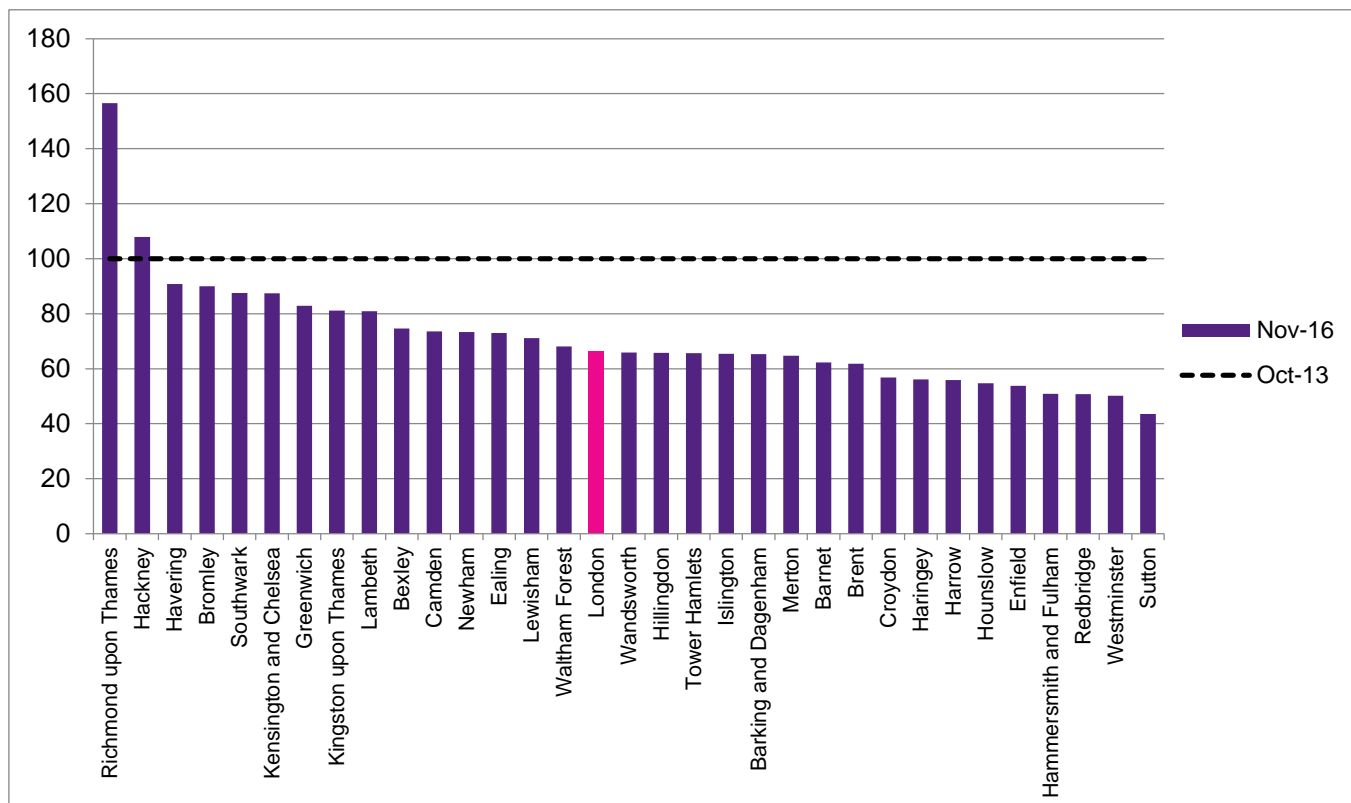


Figure 4: Indexed number of capped cases (October 2013 = 100)

Many London local authorities have made significant interventions to help affected households avoid the cap by moving into employment. For instance, councils now work more closely with their local Job Centres to provide employment support and in some instances have directly offered training opportunities, although anecdotal evidence suggests that take up is variable. Some local authorities have also introduced conditionality into Discretionary Housing Payments (DHP) allocations to require recipients affected by the cap to seek employment support or move into cheaper accommodation. Nevertheless, London boroughs report that where capped households move into employment, this is typically low paid, at or very near the minimum wage, with households continuing to receive high Housing Benefit rates that generate few significant savings for government.

In regards to housing, anecdotal evidence suggests many capped households moving to less costly housing typically do so after having approached the local authority's homelessness team. Rather than making an independent decision to seek cheaper accommodation, many customers have few options but to accept the cheaper tenancy afforded by the council that is affordable within the cap. Many London boroughs also use conditionality within a DHP allocation to incentivise capped households to move to cheaper accommodation, although the responsiveness of residents to conditionality is highly variable (see response to question three).

2. *To what extent has claimant behaviour responded to the cap, through moving into work, moving house etc? What effect does the lower cap have on incentives, what are the barriers to behavioural change and how can they be overcome?*

As noted in response to question one, while the headline data suggests some positive outcomes from the cap, it is difficult to definitively assert the extent to which customer behaviour has responded as a direct consequence of the cap and further research is needed in this area.

One of the consequences of the lower rate cap that was introduced from November 2016 is that it will be increasingly unviable for households to avoid the cap by moving to lower value areas (including areas outside of

London) given that housing costs will be more widely unaffordable. The DWP’s justification for lowering the cap was to increase work incentives,⁶ as well as forming part of the government’s manifesto commitment to save £12 billion in welfare spending between 2015 and 2020.⁷ However, the lower rate is likely to bring a new cohort of vulnerable customers into the scope of the cap that may not be work ready but who will be unable to escape it by moving to lower value areas. It is likely that this will lead to an increase in poverty among vulnerable households.

From a local authority perspective, reducing resources are a barrier to achieving behavioural change given the limitations this puts on the support councils can offer. Some residents react positively to local authority offers of support, but often need to be chased by the council through direct engagement. This is increasingly difficult given reduced funding and the larger customer base affected by the new cap rate. The larger numbers affected by the lower rate is also likely to make it more difficult for councils to meet the needs of local residents, as support and already insufficient training opportunities are spread more thinly among affected caseloads. Similarly, childcare provision is a significant barrier to households seeking to access employment and training opportunities. Particular consideration should be given by the committee as to how training opportunities and childcare provision could be enhanced and better aligned to maximise opportunities for capped households to move into work.

Employment opportunities also tend to be in low paid and insecure work, which does not always provide a sufficient incentive for capped customers to enter the labour market.

3. Does the cap address high underlying rates of housing benefit and child maintenance in a fair way?

The cap has had a particularly negative impact in London due to the higher cost of rented accommodation, which has inflated Housing Benefit expenditure in the capital. High rents reflect the insufficient supply of housing in London. The cap is therefore a crude mechanism for tackling these higher costs, which are insufficiently reflected in the London weighting. For many, the cap simply increases financial insecurity and the risk of homelessness.

Rather than targeting those living in the most expensive housing, a very broad range of London households have been affected (table 1), with 37 per cent having no dependants or living in smaller families of less than three children. Furthermore, a survey undertaken by London Councils in October 2016 suggested that three-quarters of London households affected by the lower benefit cap are single parents, who are less likely to be able to escape it through entering employment. The government’s own impact assessment suggests that 66 per cent of claimants that are likely to be affected are single females.⁸

No dependants	1 dependant	2 dependants	3 dependants	4 dependants	5 dependants	More than 5 dependants
10%	7%	21%	32%	18%	9%	4%

Table 1: Proportion of capped households since April 2013 by number of dependants (to November 2016, Greater London)

The cap’s apparent lack of effectiveness in incentivising behavioural change should be noted when considering its equitability. While the cap aims to encourage households to move into work, 65 per cent of London households have not done so (72 per cent nationally).⁹ Local authorities’ duty to prevent homelessness also means they are required to step in to protect households that do not respond to these incentives and consequently face financial difficulty. It is also significant that the cap was initially established at £26,000 per year to represent the average household income, but most working families living on £23,000 would be eligible to claim a form of benefit that would elevate their income.

⁶ ‘The Benefit Cap: a review of the first year’, The Department for Work and Pensions, December 2014, p.19

⁷ ‘Welfare Reform and Work Bill: Impact Assessment for the benefit cap’, Department for Work and Pensions, July 2015, p.9

⁸ ‘Welfare Reform and Work Bill: Impact Assessment for the benefit cap’, Department for Work and Pensions, July 2015, p.9

⁹ Stat-xplore

4. What are the consequential costs of the cap for other public spending, such as that by local authorities?

The cap has resulted in higher rates of homelessness in London (along with other welfare reforms) and led to higher numbers living in temporary accommodation. After a sustained period of quarter-on-quarter reductions between 2006 and 2011, the number of London households living in temporary accommodation has increased every quarter since spring 2011. 54,170 households are currently housed in temporary accommodation across London, nearly three-quarters of the national caseload.¹⁰ As well as being a driver behind its increasing use, the cap has also created difficulties in moving households out of temporary accommodation. The DWP-commissioned review of the first year of the benefit cap found that “(London) boroughs (were) experiencing difficulties in moving households on from temporary accommodation because they could not find permanent housing in the private rented sector affordable within the cap... putting a strain on emergency accommodation budgets”.¹¹

London boroughs have sought to limit the unit cost of temporary accommodation placements with some success. In November 2014 all thirty-three London local authorities reached an unprecedented agreement to use their combined market power to set maximum nightly rates that would be payable to providers of emergency temporary accommodation. That agreement remains in place, but the overall demand for temporary accommodation continues to increase the overall envelope of expenditure. As an example, the total net cost of temporary accommodation to LB Hackney was £6.2 million in 2015/16.

The cap is also placing significant demand on London’s DHP allocation. In 2015/16 (the most recent full-year for which data is available), 40.9 per cent (£11.07 million) of DHP allocations made to London residents were to mitigate the cap compared to just 2.7 per cent elsewhere in the country when London is removed from the figures.

Percentage of expenditure	Benefit cap	Social sector size criteria	LHA reforms	Combination of reforms	Other (non-welfare reform)
Greater London	40.9%	26.2%	9.0%	0.2%	23.7%
National total minus London	2.7%	67.8%	10.4%	1.7%	17.4%

Table 2: Percentage of DHP expenditure by purpose

Local authorities are also seeing increasing cases locally of financial insecurity and multiple debts as a result of the cap, leading to higher demand for local services such as advice services and family social work. In LB Sutton the welfare reform outreach team has increased from one full time equivalent (FTE) member of staff to three FTEs to manage demand. The additional efforts to assist local residents with financial insecurity should be put in the context of local government funding reductions, and specifically the 42.2 per cent reduction in London’s Housing Benefit Administration subsidy since 2013/14.

5. What are the consequences for Discretionary Housing Payments (DHPs) and what impact does use of DHPs have on behavioural change?

Benefit cap cases represent the biggest draw on DHP allocations across London. DHP has provided a vital tool for London boroughs managing the impacts of welfare reform. In 2015/16, London boroughs spent £1.63 million on DHP out of their own general funds in addition to their central government allocation – money that would alternatively have been spent on other local government services – while just four significantly underspent by 4 per cent or more. This highlights the importance of DHP locally and the demand pressures that already exist on this budget. Many boroughs frequently introduce conditionality into DHPs to incentivise behavioural change; for example, through introducing conditions that recipients seek employment or move to cheaper accommodation. However, the experience of boroughs is that DHP recipients display varying responses to such incentives. Unsurprisingly, those with the biggest barriers to change are least likely to respond positively. Furthermore, some boroughs report that capped households sometimes believe the council has an obligation to resolve their long-term housing situation, that the DHP will be paid indefinitely or that the council or social services will step in

¹⁰ Live Table 775 (type of temporary accommodation), published by the Department for Communities and Local Government

¹¹ ‘Supporting households affected by the Benefit Cap: Impact on Local Authorities, local services and social landlords’, Department for Work & Pensions and Government Social Research, December 2014, p.11

because they have dependent children. For those that do not respond to the removal of a DHP, the cost of homelessness will eventually fall on the council – resulting in more costly interventions by the local authority.

London local authorities are concerned that London's 2017/18 DHP budget will be insufficient to meet the likely increase in demand over the next year. London is the region most disproportionately affected by recent welfare changes, particularly the lower benefit cap. However, the broader national impact of changes such as the lower benefit cap and the freeze in LHA rates has resulted in London receiving an aggregate increase of just 2.3 per cent in 2017/18 at a time when the national budget will increase by 23.3 per cent. London Councils believes this allocation is insufficient to meet anticipated demand. A further consequence is that DHP funding will inevitably be prioritised to support the most vulnerable households, who may be less responsive to behavioural incentives. The scope for London local authorities to use DHP creatively to achieve the government's desired behavioural change is therefore likely to be severely undermined.

As a further point, the delay in implementing the lower cap in 2016/17 is problematic for the London boroughs in regards to DHP spending. Boroughs had reserved a proportion of DHP funding to manage the impact of the lower rate. The delay in implementation meant that local authorities with the highest caseloads did not transition existing claimants onto the cap until mid-to-late January, which has severely limited their ability to allocate funds effectively to households and is likely to result in lower DHP expenditure. In recognition of the impact of the DWP's delay in implementation, London boroughs are keen for DHP underspent in 2016/17 to be carried over or reinstated for 2017/18.

6. *Are there unintended consequences (either positive or negative) of the cap?*

It is increasingly difficult for London boroughs to secure housing that is affordable under the cap. Furthermore, where some households have previously moved to lower value areas outside the capital, the lower rate introduced in winter 2016/17 makes even this difficult across the wider south east of England and beyond. Anecdotally, boroughs also report that private landlords are less receptive to letting to benefit recipients as a result of the cap – a problem heightened by the direct payment of housing costs to tenants under Universal Credit. This increases the pressures on council homelessness services, both in terms of increasing demand and the heightened difficulty in finding suitable accommodation.

Boroughs also report higher levels of mental health problems locally, such as anxiety and depression, while premature returns to work have exacerbated existing conditions. Increasing debt and reliance on voluntary food aid is also reported. Boroughs further comment that many claimants increasingly report as self-employed, often in circumstances that do not seem genuine or in the long-term interests of the customer.

The benefit cap is also unable to respond to special family circumstances. As an example: parents A and B no longer reside together and their three children reside with parent A. Parent A has a substance addiction, and social services intervene. Parent B gives up work to look after children as two are of pre-school age, but has to leave a room in a Home of Multiple Occupancy and is affected by the cap. The family ends up homeless and in temporary accommodation. A DHP may be paid in these circumstances, but it is supposed to be short-term as claimants adapt to new welfare rules and it is questionable whether a discretionary payment is a sufficient means of safeguarding individuals' housing security.

A positive outcome of the cap is that it has facilitated closer working between boroughs and local Job Centres, helping to facilitate a more strategic approach to local employment support and benefits services. The cap has also meant that hard to engage residents are now in more regular contact with local authority services.

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