

▶ Response

▶ Distribution of DHP funding in 2017/18

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1. Summary

1.1 London Councils welcomes the opportunity to comment on the proposed Discretionary Housing Payments (DHP) funding distribution methodology for 2017/18, further to the discussion that took place between the Department for Work and Pensions (DWP) and local authority associations on Thursday 8 December 2016.

1.2 We have particular concerns about the proposed 2017/18 funding distribution, summarised as follows:

- The proposed allocations under-fund London, where housing pressures are most acute. Given the realities of London's rental market, and the additional and disproportionate impact of forthcoming welfare changes on London, it is inequitable that London's DHP budget would remain essentially stagnant next year and actually decrease in inner-London. This will inhibit many London boroughs' ability to mitigate the impacts of DWP welfare policies.
- We are concerned that the methodology for distributing the Local Housing Allowance (LHA) element of DHP has been changed so as to now disregard the long-run implications of changes to LHA that were made during the last Parliament. These consequences are still very live in London, with ever increasing challenges being experienced in relation to affordability, homelessness and temporary accommodation.
- London Councils welcomes the additional £35 million of funding nationally to mitigate the impacts of lower benefit cap. However, London is the region most affected by the cap, and we are concerned that the distribution of this funding does not fully recognise the disproportionate and more significant negative financial impacts that the lower cap will have in the capital.
- We are further concerned by the scale of funding reductions planned for some London boroughs. Most notably, these are City of Westminster (47% reduction), RB Kensington & Chelsea (33%), LB Brent (8%) and LB Hammersmith & Fulham (6%). The scale of reductions will create severe pressures for these councils, and cause particularly problems in relation to households in need of temporary accommodation.

1.3 London Councils welcomed the Government's commitment in the 2015 Summer Budget to provide £800m in DHP funding over the five years from 2016/17.¹ However, the 2017/18 DHP funding distribution once again affords London – and, in particular, inner-London – the least generous treatment of any region. Under the current proposals, London would see the smallest regional funding increase of just 2 per cent, while inner-London's funding would actually fall by 5 per cent despite the increasing pressures resulting from changes in welfare policy and evermore challenging market conditions. The 2 per cent increase in London's DHP allocation is set against a national funding increase of 23.5 per cent.

1.4 Indeed, while 2017/18 would be the first year that national DHP funding exceeds its peak in 2013/14, London's allocation would be almost a third lower than it was at this point (see table 1). Since 2013/14, London local authorities have borne the brunt of national funding reductions that are hardly reversed by the proposed allocations for next year. This is despite the more acute pressures on homelessness and benefit services in London resulting from housing market conditions.

1.5 London Councils is concerned that the proposed methodology for distributing DHP will not direct funding where it is most needed, bringing the risk of hard-won and much-needed funding going unspent and being returned to the Treasury. In addition, London Councils is concerned that the effect of London boroughs failing to make up lost ground on previous reductions in DHP funding, combined with the pressures caused by the absence of targeted affordability funding (TAF) in 2017/18, have not been sufficiently considered by the DWP.

1.6 Having seen the proposed distribution methodology, London Councils makes the following recommendations, which are explained in more detail in section three:

- The methodology for the LHA component of DHP should recognise the cumulative impacts of changes made to LHA since April 2011, rather than be based only on the freeze in uprating.
- That the DWP bring forward an analysis of LHA allocations that incorporates some consideration of local rental market trends.
- The benefit cap element of DHP allocations should re-introduce a disregard to ensure that funding is directed to those local authorities experiencing the deepest reductions in benefit claims, rather than being based on overall financial losses in the local authority area.
- That local authorities be allowed to carry 2016/17 DHP underspends across to 2017/18.
- DHP allocations should incorporate some form of assessment based on housing need in the local area, such as rates of homelessness and the use and cost of temporary accommodation.
- For 2017/18, the DWP should bring forward an analysis that introduces a floor in DHP funding reductions.
- A £20 disregard should be introduced to social sector size criteria component.

2. Context

2.1 DHP funding decisions have resulted in significant reductions in London's allocations since 2013/14 and in comparison to other regions. Under the proposals put forward by the DWP, London would be the only region to have a lower budget in 2017/18 than in 2013/14. This is despite the disproportionate effects on London of welfare changes made during both the last Parliament and since the 2015 election. These reforms have placed significant and growing pressures on borough housing and benefits services as they seek to manage the increasing demand from affected residents (for instance, in relation to rising homelessness and temporary accommodation placements).

	2013/14	2014/15	2015/16	2016/17	2017/18		Provisional
Region	Allocation (£)	Allocation (£)	Allocation (£)	allocation (£)	Provisional allocation (£)	Change 2013/14-2016/17	Change 2013/14-2017/18
East Midlands	6,565,867	7,336,929	6,199,435	£7,394,000	£10,067,000	12.61%	53.32%
Eastern	10,230,011	10,372,518	7,907,841	£10,121,000	£14,691,000	-1.07%	43.61%
North East	5,382,375	6,507,133	5,898,965	£7,109,000	£8,561,000	32.08%	59.06%
North West	15,389,609	17,525,187	14,342,888	£16,544,000	£19,382,000	7.50%	25.94%
South East	15,014,979	15,678,122	11,050,941	£14,690,000	£21,503,000	-2.16%	43.21%
South West	8,833,306	9,062,957	6,884,479	£8,680,000	£12,048,000	-1.74%	36.39%
West Midlands	11,150,278	12,728,212	10,272,154	£12,380,000	£16,775,000	11.03%	50.44%
Yorks and Humber	10,375,819	11,054,475	9,132,816	£10,858,000	£13,648,000	4.65%	31.54%
London	56,552,093	51,609,921	33,279,938	£39,200,000	£40,083,000	-30.68%	-29.12%
Total	139,494,337	141,875,454	104,969,457	126,976,000	156,758,000	-8.97%	12.38%

Table 1: Regional DHP allocations, 2013/14-2017/18

2.2 **Benefit cap:** From November 2016 the benefit cap has reduced to the equivalent of £23,000 per annum in London for families and single parents, and £20,000 elsewhere. The current cap of £26,000 has placed

significant and disproportionate pressures on London homelessness services that are also faced with adverse housing market conditions in the capital. These pressures will be even greater in 2017/18 due to the lower cap currently being phased in across the country.

2.3 Since its introduction, 45 per cent of households capped nationally lived in London.² Indeed, according to the most recent DWP figures, more households are currently capped in London than have been capped at any point in any other region since the cap was introduced in 2013. While the headcount of affected households is larger in London, the extent of benefit reductions has also been far deeper than elsewhere (see table below). As a result, 45.7 per cent of inner-London DHP allocations made in 2015/16 related to the cap.³

Amount of Benefit Capped	North East	North West	Yorks and Humber	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Scotland
Up to £25	239	483	490	329	531	469	2,864	775	348	244	266
£25.01 to £50	126	343	263	188	460	362	1,859	513	239	136	178
£50.01 to £75	97	245	159	132	285	178	1,148	301	106	85	141
£75.01 to £100	67	183	156	102	229	140	808	209	110	90	77
£100.01 to £150	47	163	99	67	185	138	938	200	101	46	67
£150.01 to £200	..	17	15	5	36	50	409	72	16	8	51
£200.01 to £250	..	7	..	..	8	13	214	20	..	5	12
£250.01 to £300	..	..	..	..	..	7	86	9	6	..	7
£300.01 to £350	..	..	..	..	..	..	63	5	..	..	5
£350.01 to £400	..	..	..	..	..	..	27	..	5	..	..
£400.01 and above	..	..	..	..	..	6	22	..	6	..	..
Total	580	1,439	1,182	820	1,737	1,371	8,444	2,104	937	617	806

Table 2: Benefit cap loses by depth of reduction and by region

2.4 These pressures are becoming more pronounced. The DWP impact assessment published in August 2016 found that London has the largest number of cases affected by the lower cap, with 19,000 affected households comprising 22 per cent of the national caseload.⁴ A London Councils survey of boroughs found that this figure is most likely out of date, with borough responses suggesting that the numbers affected are likely to be nearer 25,000.⁵ City of Westminster has already noted an increase in DHP claims following the reduction of the benefit cap, with 167 claims being lodged in November 2016 compared to an average of 116 claims a month over the three-month period from August to October 2016.⁶

2.5 Given the table above and the government impact assessment, we believe the reductions resulting from the lower cap are likely to be deeper in London. London Councils' survey found that a sizeable proportion of affected households in London (43.5 per cent) will lose more than £50 a week (£216 a month).⁷

2.6 **Local Housing Allowance:** The reforms made to LHA since 2011 have led the rate to become increasingly out of step with the costs of London's rental market. LHA reforms have disproportionately impacted on London, which was well established in the initial 2010 impact assessment⁸ and recognised through the establishment of targeted affordability funding (TAF) in 2014/15 and 2015/16. At the time, the TAF helped to alleviate some affordability problems, but it has not fundamentally altered the trend of decreasing affordability in London for LHA-supported households. Consequently, as of April 2016 every single BRMA rate in London (for all bedroom sizes) now falls below the 30th percentile rent level recorded by the Valuation Office Agency.

2.7 LHA reforms have correlated with increasing levels of homelessness presentations and increasing use of temporary accommodation in London. After a prolonged period of reduced temporary accommodation placements, the number of temporary accommodation placements made by London boroughs has increased every quarter since LHA reforms were first introduced in April 2011.⁹ London now accounts for 72 per cent of all national temporary accommodation placements.¹⁰ Further to acting as a driver for increasing

homelessness, the constraints on LHA uprating and the benefit cap have made it more difficult to find affordable onward accommodation for homeless households and those in temporary accommodation.

- 2.8 The DWP notes that 80 per cent of all LHA claims nationally will be affected by the freeze on LHA uprating during this Parliament.¹¹ However, there is no impact assessment available on the impact of the LHA freeze and London Councils believes that London will be affected more deeply than other regions. Setting aside the existing affordability problems resulting from past restrictions on LHA uprating, Valuation Office Agency data shows that London has seen the highest regional increases in rental costs among the lower quartile section of the rental market. Such rents increasing by 6.4 per cent last year on top of a 10 per cent increase the year previous.¹² DWP figures also show that London has the largest number of privately renting households supported by Housing Benefit.¹³
- 2.9 London therefore already experiences the worst affordability problems of any region as a result of the interaction between welfare policies and housing market conditions – and these pressures will increase in 2017/18. Yet, the evidence outlined above shows that the increasing pressures facing the London boroughs since 2013/14 have not been reflected in its DHP allocations.

3. Specific comments on the proposed 2017/18 distribution methodology

- 3.1 London Councils is concerned that the DHP funding allocation proposed for London is insufficient to meet the needs arising from changes in DWP policy and general housing market conditions. We expand on our specific concerns below.

LHA reforms

- 3.2 As a result of the changes made to LHA during the last Parliament, there has been a shift in the distribution of the LHA caseload across London. DWP data shows that between April 2011 and February 2016 a 23,118 increase was recorded in the number of households supported by LHA in London.¹⁴ However, borough-level data suggests a significant movement of LHA cases from inner- to outer-London. The LHA claimant count fell by 8,673 in inner-London boroughs over this period but rose by 31,791 in outer-London.¹⁵ However, the movement of the caseload does not adequately justify the reduction in inner-London's DHP allocation. In 2015/16, inner-London had the highest rate of self-funded DHP with councils providing an additional £1.3 million (9 per cent) in 2015/16 on top of their government allocation.¹⁶ Given the wider pressures on local authority budgets, this highlights that the *current* inner-London DHP allocation is insufficient.
- 3.3 We object to the change in the methodology for distributing the LHA element of DHP funding. Under the new methodology, allocations are now based only “on the estimated reduction in Housing Benefit entitlement per local authority from the freeze in LHA rates in 2017/18”.¹⁷ Under previous allocations, the LHA element “has been allocated based on the proportional reduction in Housing Benefit received by claimants, per local authority, following the introduction of caps to LHA rates in 2011, with an adjustment made in recent years to account for changes in local authority caseloads”.¹⁸
- 3.4 DWP officers believe that this change in methodology will “ensure a more equitable allocation of funding that reflects need across Great Britain today”.¹⁹ We do not agree that this is equitable. As demonstrated above, the impacts of changes made to LHA during the last Parliament are still very live in London, and in many areas are the biggest reason driving homelessness (particularly as a result of the termination of assured short-hold tenancies) and temporary accommodation placements. London Councils does not see how it is equitable or practical to simply disregard these impacts in the allocations methodology. **London Councils would like to see the cumulative impacts of all LHA changes recognised through the LHA component rather than an allocation methodology based only on the freeze in LHA uprating.**
- 3.5 London Councils also believes that the methodology for the LHA component should reflect the divergence between LHA entitlements and local market conditions. As noted, despite the TAF, LHA no longer covers the 30th percentile market rent in any London BRMA, while lower quartile rents have risen more sharply in London than elsewhere. The affordability problems resulting from this will be exacerbated by the freeze in LHA over

the duration of this Parliament. This will increase both the numbers lodging claims for DHP support and the cost of mitigation.

- 3.6 To ensure that the pressures and costs of mitigation are reflected in the DHP allocations, **London Councils believes that the LHA component should take into consideration local market trends and would like to see an assessment of how this would affect allocations presented by the DWP.**

Benefit cap

- 3.7 London Councils welcomes the additional £35 million available to mitigate the impacts of the lower benefit cap. However, London Councils believes the DWP methodology does not create an equitable means of distributing funds. The DWP has confirmed that “DHP funding for the benefit cap in 2017/18 will be allocated according to the local authority’s proportion of the estimated total reduction to benefit under the lower cap, consistent with how the lower cap funding was allocating in 2016/17”.²⁰ London Councils has asked for the DWP analysis of the depth of impact of the benefit cap to be made available to local authority associations.
- 3.8 We are concerned that the distribution formula will mean that vital funds are not targeted at those areas where there is a larger number of households significantly affected by the cap. For 2016/17, the methodology for distributing funds attached to the lower cap of £23,000/£20,000 changed from that used for the £26,000 cap. Under the previous methodology, DHP allocations were determined based on projected benefit savings only from households capped by more than £50 per week in each local authority. The £50 disregard ensured that DHP funding was targeted at those areas where there was a larger number of households significantly affected by the cap, rather than areas that may have a large number of households experiencing smaller reductions.
- 3.9 Whilst London Councils accepts that the effect of the lower caps is a broader distribution of capped households, this does not mean that demand for DHP support is equally broadly distributed. Households currently capped by an amount higher than £50 a week more than two years after the introduction of the cap are likely to be those with the greatest barriers to changing their circumstances – be it due to caring responsibilities, living in adapted accommodation, the high costs of childcare for parents, or having a disability or health issue that means they are not work ready. These households will be reliant on DHP for support and will be experiencing further reductions of around £60 a week – or potentially more – under the lower cap from November 2016.
- 3.10 To ensure DHP funding is better targeted at areas where the need is greatest, **London Councils believes the distribution methodology for the benefit cap element should be based on the number of households capped by more than a certain amount each week** (£50 a week for families and couples, and £25 a week for single claimants). London Councils would welcome the opportunity to see an assessment of how our recommendation would affect the overall distribution.
- 3.11 The lower benefit cap is being implemented over a twelve-week period, with implementation due to be complete by the end of January 2017. London local authorities tend to be towards the end of the implementation schedule due to their higher caseloads. As a result, many local authorities that have retained DHP funding to support those affected by benefit reductions will affectively have two months to target funding appropriately at supporting affected vulnerable households. Local authorities initially believed these cases would transition in November 2016. **Given these timescales, London Councils requests that local authorities should be allowed to carry 2016/17 DHP underspends across to 2017/18.** This would provide local authorities with the opportunity to target funding in a more methodical manner that better supports local funding priorities. It would also be in line with the policy deployed by the DWP following 2013/14, when it allowed local authorities to carry over funding due to the delays in implementing the initial cap.

Specific borough allocations

- 3.12 London Councils would like the DWP to review four specific borough allocations to find a more realistic settlement given the pressures they face in mitigating DWP policies in the face of adverse local market conditions.
- 3.13 Under the funding proposals put forward, **City of Westminster** would see a 47 per cent decrease in its DHP budget next year. Similarly, the **Royal Borough of Kensington & Chelsea's** budget will fall by 33 per cent. Losses on this scale will clearly be detrimental to the boroughs' ability to prevent homelessness. In 2015/16 Westminster allocated 98 per cent of its total allocation, while Kensington & Chelsea provided an additional £233,697 in DHP funding out of its general fund.
- 3.14 We are particularly concerned about the impact funding reductions will have on households requiring temporary accommodation. In 2015/16, 53 per cent of Westminster's DHP awards were made in relation to the benefit cap, of which 88 per cent were temporary accommodation residents. We include data below (table 3) from Westminster to highlight the shortfall between housing benefit entitlements and rents as a result of the lower benefit cap. This data relates to 909 cases identified on the most recent scan provided by the DWP, and highlights the large losses that will be incurred in particular by temporary accommodation residents. As of 7 December 2016, Westminster had 2,453 temporary accommodation units occupied, of which 1,250 units (51%) are in-borough and thus likely to be let at the maximum rent of £500 per week permitted under the subsidy rules.²¹

Tenure	Total Benefit Loss (per year)	Average Annual Loss per household
Council Tenant	£147,061	£2,941
Registered Provider	£383,896	£2,999
Private Rented	£1,178,461	£2,924
Temporary Accommodation	£1,870,569	£6,034
Unknown	£112,787	£6,266
Total	£3,692,773	£4,062

Table 3: Losses relating to the lower benefit cap, City of Westminster

- 3.15 The deep reductions in DHP funding proposed for Westminster and Kensington & Chelsea will severely affect these authorities' ability to prevent homelessness. The impact on the viability of temporary accommodation in inner-London will result in these councils making more placements either in outer-London or outside of the capital. These boroughs actively seek to ensure as many households are placed locally as possible; the DHP funding reductions proposed will severely inhibit this ambition. Below are two temporary accommodation case studies from Westminster that highlight the affordability problems that funding cuts will have. In both examples, DHP was awarded in November 2016.

Temporary accommodation examples

- Mrs A is a lone parent with five children living in temporary accommodation within Westminster where the rent charged is £500 a week. Her income is child benefit of £75.50, child tax credit of £275.24 and jobseeker's allowance of £73.10 – a total of £423.84 compared to the reduced benefit cap of £442.31 per week. Her weekly Housing Benefit is now £18.47. The DHP award made to help meet the rent of £500 a week is £471.53 a week.
- Ms B is a lone parent with four children living in temporary accommodation within Westminster where the rent charged is £500 per week. Her income is child benefit of £61.80, child tax credit of £220.00 and income support of £73.10. This is a total of £354.90 under the reduced cap of £442.31; her weekly HB is now £87.41. The DHP award made to help meet the rent of £500 a week is £392.59 a week.

With less DHP funding available, these properties will become unaffordable and require more placements outside of the borough (and outside of London itself).

- 3.16 During the discussion between DWP and local authority associations on 8 December, DWP officers felt that the introduction of the Temporary Accommodation Management Fee (TAMF) regime from April 2017 would remove the need for DHP funds to be allocated to support temporary accommodation households where rent levels are above benefit cap entitlements. However, TAMF funding is not intended to subsidise rent, but is a means of managing the administration and provision of temporary accommodation. The DCLG policy does not reduce in any meaningful way the requirement many temporary accommodation households will have for short-term DHP support.
- 3.17 London Councils also requests that DWP reviews the provisional allocations for **London Borough of Brent** and **London Borough of Hammersmith & Fulham**. Under the DWP proposals, Brent will see an 8 per cent reduction in funding next year, while Hammersmith & Fulham will lose 6 per cent. Such reductions will impact on the boroughs' ability to manage and prevent homelessness resulting from policy changes implemented by the DWP.
- 3.18 Brent's 2016/17 DHP allocation is £2,866,279, which it expects to spend in full. Of this, £1.24 million will be allocated to support households already affected by the benefit cap, with a further £798,000 has been set aside for households affected by the lower cap from 23 January 2017 (the final week of the roll-out schedule). The reduced benefit cap will reduce benefit entitlements by £6.5 million in the borough during the financial year 2017/18. In total 1,878 cases will be capped at the lower rate compared to 574 that are currently capped. This is a substantial increase, with the capped caseload more than tripling.
- 3.19 Of these 1,878 cases, the local authority has identified 1,575 cases as difficult to move off the cap. Against this potential increase in demand, the proposed 8 per cent reduction in DHP funding is concerning. A large proportion of the caseload are single parent families with children under the age of five who struggle with the higher costs of childcare in London; while other significantly affected claimant types include temporary accommodation residents and claimants receiving ESA. It is also estimated that over half of the newly capped cases will be single claimants, aged over 35, in the private sector. These client groups, and the scale of losses in the borough, provide the potential for a significant increase in homelessness demands, and/or increases in overcrowding, rough sleeping, mental health and other related social issues.
- 3.20 Hammersmith and Fulham experiences particular affordability problems resulting from the transition of temporary accommodation households onto Universal Credit. Under Universal Credit, temporary accommodation entitlements are measured at the current LHA rates rather than 2011 50th percentile. This has a significant impact on boroughs such as Hammersmith & Fulham, which has a total of 66 households in temporary accommodation that have migrated onto UC.
- 3.21 In response to the problems these boroughs would face as a result of the provisional DHP allocations, **London Councils recommends that DWP bring forward a funding proposal that uses a measure of housing need in the distribution of DHP funding.** Along with local authorities including Birmingham, Bristol, Leeds and Manchester, London local authorities experience the largest numbers of homelessness applications and the largest number of temporary accommodation placements. As highlighted above, London Councils is concerned that the higher costs of temporary accommodation and the demands it places on DHP are not currently taken into account in the distribution methodology. We believe that this approach would allow for DHP funding to be better targeted at addressing need.
- 3.22 In 2017/18, with national funding increasing, **London Councils requests that the DWP brings forward an analysis that introduces a floor in DHP decreases** to prevent local authorities suffering unmanageable financial losses between financial years. We suggest this floor is modelled at 5 per cent in 2017/18.

Social sector size criteria

- 3.23 London Councils previously argued that the component of DHP funding relating to the social sector size criteria should be distributed using the same mechanisms previously used for the benefit cap. This would

distribute funding according to savings resulting from households experiencing a weekly reduction in housing benefit greater than a certain amount. We suggest that a disregard of £20 a week would be appropriate.

4. Conclusion

London Councils believes that the proposals contained in this submission would lead to a better distribution of DHP, where funding is targeted at areas where the greatest need exists.

Having seen the proposed methodology for distributing funding, we hope our specific comments would help to better target DHP funding and reduce the risk of funding going unspent and being reclaimed by the Treasury when there is a clear need for it. However, this is made difficult by the DWP's refusal to provide the figures it holds regarding its analysis of an alternative LHA methodology and its estimates for the depth of reductions resulting from the lower cap by region. Hence our request that the DWP develops analyses of the effects of the methodological changes we have proposed.

Having experienced the largest reductions in DHP funding over recent years, the proposed distribution now sees London boroughs receiving the lowest percentage increase in DHP funding, while inner-London would actually lose more funding at a time when the national budget is increasing. When combined with the further freeze in LHA rates and the lower cap, we believe this settlement has the potential to place boroughs under evermore significant pressure and impede their ability to manage and prevent homelessness. For this reason we urge the Government to look again at the distribution methodology.

¹ Summer budget 2015, p.40

² Stat-xplore

³ DWP Discretionary Housing Payments data

⁴ 'Welfare Reform and Work Act: Impact Assessment for the benefit cap', Department for Work and Pensions, August 2016, p.10

⁵ 'Revised benefit cap rollout: information and guidance', London Councils, Friday 28 October, p.1

⁶ Figures provided by City of Westminster

⁷ 'Revised benefit cap rollout: information and guidance', London Councils, Friday 28 October, p.5

⁸ 'Housing Benefit: Changes to the Local Housing Allowance Arrangements (Impact Assessment)', Department for Work and Pensions, November 2010, p.9

⁹ Ibid

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

¹¹ Evidence given by DWP officers during the DHP discussion on 8 December 2017

¹² Valuation Office Agency (October 2014 to September 2015)

¹³ Stat-xplore

¹⁴ Stat-xplore

¹⁵ Stat-xplore

¹⁶ DWP Discretionary Housing Payments data

¹⁷ DWP officers

¹⁸ DWP officers

¹⁹ DWP officers

²⁰ DWP officers

²¹ Figures provided by City of Westminster