NEWS RELEASE

FROM: Joe Halewood HSM **DATE:** 20 June 2012

RE: Universal Credit **EMBARGOED**:

Either this blog will expose a huge flaw I have made in my figures and reasoning OR the housing sector, the Housing Minister and especially Iain Duncan Smith and the rest of the Coalition are going to get the biggest wake-up call they have ever had.

I argue below that there is a huge as yet unreported fundamental and systemic flaw in Universal Credit, this Coalition government's grand plan to radically change welfare benefits and welfare spending.

It will mean:-

1. The SRS or social rented sector (council and housing associations) landlords will be **unwilling and unable** to accommodate larger families with 4 or more children – even if they are working!

2. SRS Tenants will need to make up £99.49 per week **out of their benefits** to pay their rent by 2015 and up to £174.97 by the end of the next parliament.

3. All SRS tenants as at today typically get all of their rent paid by the end of the next parliament some will get none of their rent paid at all and will need to pay it themselves out of welfare benefits!

4. The private rented sector (PRS) wont accommodate large families either as their rents are even higher.

The question becomes **where will families with 4 or 5 children live**?

I was going to save this argument until this time next week when I have been invited to speak at a CIH conference on Universal Credit and wider reform but this argument cannot wait and needs a wider audience such is its impact. I developed this argument 3 days ago and spent the last 3 days scrutinising it for an obvious mistake I have made. I haven't found one.

Detail

The overall benefit cap (OBC) we are told by government is to be set at circa £500pw when it is introduced in October 2013. *"The benefit cap of £26,000 will mean that no family will earn more than the average salary of a working family (£35,000p.a. before tax)"* – as Iain Duncan Smith announced on 8 March 2012.

From this £500pw the process is all *welfare* benefits are deducted and this leaves a residual amount which becomes the maximum contribution towards rent that can be paid. In simple terms if all welfare benefits amount to £300pw it leaves £200pw to pay towards rent which is now currently paid and typically in full by Housing Benefit .

The issue and problem is how each of the three components is increased or *uprated* each year.

Average rises last 4 years for average wages (the benefit cap level) for welfare benefits (CPI) and for rents (RPI+0.5%) are given in a House of Commons briefing paper entitled 2012 Benefit Uprating.

Average earnings over the last 4 years at 3.5% / 1.8% / 2.0% / 2.8% have increased by an average of 2.525%.

CPI rate of inflation for welfare benefits over the last four years has been 5.2% / 1.1% / 3.1% / 5.2% - and average of 3.65%

Rent inflation at RPI+0.5% has been 5.5% / -0.9% / 5.1% / 6.1% - an average of 3.95%

So let's assume for illustration purposes that:

(a) OBC – is uprated in accordance with average earnings inflation (2.525%)
(b) Welfare Benefits are increased by CPI rate of inflation (3.65%)
(c) Rents increase with the RPI rate of inflation and at RPI+0.5% (3.95%)

The above figures may seem small differences but make a significant difference over a few years and these differing increase or inflation rates is the fundamental flaw in Universal Credit that as yet has not been realised and discussed and will lead to SRS landlords being unable (financially) and unwilling (financially) to accommodate larger families as the tables overleaf reveals.

Table 1 – A family with 4 children (London)

Pre UC	Welfare Benefit	Residual	4 bed rent	£ tenant to pay
n/a	n/a	n/a	n/a	£00.00
OBC 2013/14	Welfare Benefit	Residual	4 bed rent	£ tenant to pay
£500.00	£395.81	£104.19	£121.28	£17.09
OBC 2015/16	Welfare Benefit	Residual	4 bed rent	£ tenant to pay
£525.57	£425.23	£100.34	£131.05	£30.71
OBC 2020/21	Welfare Benefit	Residual	4 bed rent	£ tenant to pay
£595.36	£508.71	£86.65	£159.06	£72.41

The introduction of Universal Credit will see a family with 4 children in the social rented sector have to pay £17.09 more per week from their benefits to pay for rent. Prior to OBC introduction they had to pay nothing. By the end of this parliament the weekly amount a family of 4 in London will have to pay towards rent increases to £30.71 and by the end of the next parliament to a whopping £72.41pw

The SRS is in panic mode because another element of Universal Credit, the Social Sector Sixe Criteria - known as the *bedroom tax* - will see tenants having to pay £14 and £25 per week if they underoccupy by 1 or 2 bedrooms. Financially the arrears impact will be huge from the bedroom tax they claim. **Yet the above figures show the impact will be much greater for families with 4 children who are not underoccupying!**

By comparison and despite welfare benefit rates being the same across the UK because of the lower rent levels outside of the capital the differences in the provinces will see no tenant weekly payment in 2013/14 as the figures show £3.57 under the OBC. Yet by 2015/16 this reveals a £8.39 tenant payment towards rent and by 2020/21 at the end of the next parliament a weekly tenant payment of £45.32 towards their rent from their benefits!

The above average figures used for rent inflation at 3.95% are much lower than the rent inflation figures the CLG released in December 2011 as part of the new right-to-buy programme. Using these figures rather than the 3.95% would make the tenant make-up even higher in London and in the provinces.

However the real starkness and impact of the inflation flaw in Universal Credit is shown overleaf with a 5 child family in a 5 bed house.

Table 2 – A family with 5 children (London)

Pre UC	Welfare Benefit	Residual	5 bed rent	£ tenant to pay
n/a	n/a	n/a	n/a	£00.00
OBC 2013/14	Welfare Benefit	Residual	5 bed rent	£ tenant to pay
£500.00	£466.05 see Note (b)	£33.95	£133.41	£99.46
OBC 2015/16	Welfare Benefit	Residual	5 bed rent	£ tenant to pay
£525.57	£500.70	£24.87	£144.15	£119.28
OBC 2020/21	Welfare Benefit	Residual	5 bed rent	£ tenant to pay
£595.36	£598.99	-£3.63	£174.97	£174.97

As we can see the introduction alone of Universal Credit in October 2013 will see a family in London with 5 children in a 5 bed house go from paying nothing towards their rent to a whopping £99.46 per week out of their benefits! In the provinces this will be £82.93 so this is not the usual London phenomenon of high rents there but a national issue – and that s just at the introduction of Universal Credit in October 2013.

The social rented sector cannot afford to allocate a property to a family with 5 children who are on benefit – That is what the introduction of Universal Credit and its overall benefit cap means!

By the end of this parliament the figures are a whopping £119.28 average contribution in London and in the provinces £101.42 per week

By 2020/21 – the end of the next parliament the welfare benefit amount paid to a family with 5 children will exceed the overall benefit cap. This means such as family will have to pay full rent out of their welfare benefit!

From October 2013 to April 2020 a family with 5 children will have gone from getting 100% of their rent paid in a council or housing association house to getting zero paid and have to pay full rent – That is what Universal Credit means in reality

So where are any family with 5 children who are on benefit going to live Mr Iain Duncan Smith?

Comment

No doubt IDS and Grant Shapps the Housing Minister will launch another offensive blaming the workshy indolent privileged scroungers who are on benefits. We will see the usual arguments being made that some simply procreate to attract higher welfare benefits and a bigger house and have no intention of ever working. We will also get the usual overtly racist argument that it is non-white / non UK born families who have larger families to do this.

We may even get some saying why not house a 5 child family in a 3 bed house? I myself was one of 6 children who grew up in a 3 bed house (owned not rented) and yes it didn't do me any harm either.

But such arguments miss the following points:

1. The fact that using CPI for welfare benefits and average earnings for the cap WILL men that a family of 5 children on benefit anywhere in the UK will have to pay 100% of the cost of their rent by 2020 that they now get paid in full.

2. Even if the 5 child family is crammed into a 3 bed council or housing association flat they will stay have to pay 100% of their rent in 2020 that they now get paid in full. This will be £144.60 per week in London and £112.13 per week in the rest of the UK

3. Universal Credit – IDS's great reform plan is systemically flawed.

4. The only ways to correct this fundamental flaw is to see average wages increase faster than CPI or to not increase welfare benefits. The former option would see real inflation and an increased and prolonged recession. The latter creates massively increased poverty. You don't need to be an economist to see that.

5. Social landlords will only be able to rent 4 and 5 bed properties to those in work. Even then the risk of such tenants, 'hardworking' tenants in the latest political jargon, losing their jobs becomes a risk too far for renting any 4 or 5 bed property to all social landlords. Is this a deliberate ploy Mr Shapps to see social landlords sub-divide 4 and 5 bed properties into bedsits to accommodation the under 35s whether or not you apply the SAR to the social rented sector?

Those in the housing sector who have read some of my previous blogs or have read the impact assessment the CLG released with the new and revamped right-to-buy will know that it predicted rent inflation figures. These figures were much higher than the average 3.95% rent inflation I have used above in my figures. They were 5.4% in 2013, 5.6% in 2014, 6.1% in 2015 and 3.7% each year thereafter - much higher than 3.95% per year – an average of 5.7% per year by the end of this parliament and an average of 4.45% by the end of the next parliament. My figures are therefore highly conservative and understate the amount each tenant will have to pay out of their benefits.

Final message to the housing sector lobbies. You still think the bedroom tax is the most important aspect of Universal Credit? To SRS housing finance managers - You still think it is the biggest risk to your balance sheet in terms of arrears?

Notes:

(a) In 2010/11 the Chartered Institute of Housing and the National Housing Federation released figures – that have never been contested - showing a family with 3 children receives £317pw in welfare benefits and reliefs.

(b) On 10 February 2012 an article in Inside Housing entitled "Welfare Reform Calendar 2011 – 2013" said "*Haringey Council says the measure (OBC) will hit large families particularly hard. It calculates that a couple in Tottenham with five children would only be able to claim £46.20 towards their weekly rent of £350 as housing costs are squeezed to fit under the cap*." My figure uprates the welfare benefit amount by CPI thus reducing it from £46.20 to £33.95

(c) Average figures for baseline 2013 rents are computed at today's rates as found in RSR and in House of Commons reports and from PropertyPool – the choice based lettings of HA 3, 4 and 5 bed properties available in Liverpool as at 19 June 2012

(d) Obviously there will be some variation in the actual figures across London boroughs and between Liverpool SRS rent levels and other provincial cities. Error rates are likely to be no more than ± 2% on rent figures and even a 5% or higher error rate still produces the significant impacts I argue above

(e) All inflation rates used whether average earnings, CPI or RPI +0.5% are in some part conjecture. Yet again however, the same significant impacts will be realised

(f) The same HoC referenced document above on page 10 states that certain welfare benefits have a statutory basis – Section 150 of the Social Security Administration Act 1992 -for being uprated relative to prices (CPI) and impose a duty on the Secretary of State to ensure they do. Yet also states that other benefits including Housing Benefit, Income Support, JSA et al do not have a statutory requirement for uprating

(g) OBC set at £500pw? – This is not confirmed anywhere as far as I can see. A separate House of Commons briefing paper issued 20 April 2012 (and after Royal Assent had been granted on the Welfare Reform Bill) entitled "The Household Benefit Cap" says that at October 2010 "...median income earnings after tax is currently £479 per week" (SN/SP/6294). If we then add earnings inflation as stated in previously mentioned HoC paper this figure need uprating by either (a) 2.0% and then by 2.8% to arrive at the October 2013 figure of £502.26; or (b) by just 2.8% to £488.58 – as the October 2010 figure is half way through the year. The average of these two figures is £495.42. This exposes the difficulty of assessing the actual OBC cap figure when it is introduced in October 2013 and so I have used the £500pw figure stated regularly by DWP as the baseline figure.

(h) Some previous research has looked at the impact of Universal Credit on larger families. This has focused mainly on London based BME families who tend to have larger numbers of children. Yet even this research did not look at the impact of the differing inflation and uprating figures which I argue is a systemic flaw in UC that will impact so massively and across the entire UK and not just the capital.