TESTING DWP'S ASSESSMENT OF THE IMPACT OF THE SOCIAL RENTED SECTOR SIZE CRITERION ON HOUSING BENEFIT COSTS AND OTHER FACTORS

SHORT REPORT

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Rebecca Tunstall
Centre for Housing Policy
University of York

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Rebecca Tunstall, Centre for Housing Policy, University of York

The Social Rented Sector Size Criterion or underoccupation penalty (widely referred to as 'the bedroom tax' or 'end of the spare bedroom subsidy') reduces Housing Benefit paid to tenants deemed to be underoccupying their homes, so that Housing Benefit will no longer pay their full rent.

The penalty was introduced on 1st April 2013, when it affected an estimated 660,000 households (DWP 2012b). It has currently been in operation for almost six months.

<u>The most important aim of the policy is to reduce total UK Housing Benefit costs.</u>

The DWP published two impact assessments of the underoccupation penalty, in February 2012 (DWP 2012a) and June 2012 (DWP 2012b). These projected that the policy would produce UK Housing Benefit savings of £480m in 2013/14 and £450m in 2014/15, a total of £930m (DWP 2012b).

This was calculated by multiplying the average estimated penalty reduction in Housing Benefit by the estimate number of affected households (£14 a week in 2013/14 x 52 weeks x 666,000 = £480m in 2013/14). This savings projection assumed that not one of the affected 660,000 households responded to the policy by moving to a smaller home.

<u>However, there is growing uncertainty about whether projected cost savings can be achieved.</u>

The DWP itself stated that there is "*uncertainty about likely claimant and landlord responses to the introduction of the social sector size criteria [which] creates uncertainty about the benefit saving likely to be realised*" (DWP 2012 p13). Despite this, the figures have been quoted by ministers in debates in Parliament.

The model the DWP used to calculate likely savings and the results of sensitivity tests of the model have been obtained through a Freedom of Information request.

The model provided revealed the structure but contained no formulae. A working version of the model was reconstructed which was able to accurately generate the sensitivity testing results.

Four housing organisations affected by the policy, Riverside , Affinity Sutton, Gentoo, and Wigan and Leigh, have gathered data on the real impact of the first four months of the policy on their tenants. These organisations have a total of 127,494 homes, 2.6% of the national social housing stock. Their homes and tenants are similar to national averages on most relevant dimensions, although they don't claim to be a representative sample. They operate across over 170 local authorities in England and Scotland, with particular concentrations in the North West, the North East and London.

<u>A thorough examination of the DWP's model and early real data from the four housing organisations suggest cost savings are likely to be substantially lower than projected, highlighting the need to re-examine the DWP's savings estimates.</u>

Real data suggests that three of the DWP's four key assumptions should be re-examined. DWP's savings estimates appear to have been based on:

1. Underestimates of the proportion of those underoccupying by 1 bedroom who move;
2. Underestimates of the proportion of those affected who move into the private rented sector, and
3. Underestimates of the proportion of homes vacated by affected tenants which will be re-let to existing social housing tenants.

Those underoccupying by 1 bedroom make up 80% of those affected by the penalty, and their responses are key to the overall potential savings. The DWP model assumed that the proportion of this group who moved would be inversely related to the number of those underoccupying by 2 bedrooms who moved, which seems odd. The model also assumed that less than 10% of this group would move. However, real data suggests that move rates are similar for the two groups, and that overall, at least 20% of those underoccupying by 1 bedroom are likely to move.

Lord Freud, the Minister for Welfare Reform, rejected the idea that 'substantial' numbers of affected tenants might move into the private rented sector: *"if that really were the case we would not be implementing the change"* (House of Lords Debates 29th February 2012 c1370). However, real data suggests that 41.5% of affected tenants who decide to move may go into the private rented sector, based on moves to date and the likely volume of social rented homes available to move to in the relevant areas. This is higher than the DWP's 10-30% estimate, and appears a 'substantial' figure.

All three underestimates are likely to mean that estimates of savings were too optimistic. For example, if affected tenants move to the private rented sector, their rents – and Housing Benefit bills – may be higher than before, potentially turning projected saving into costs.

<u>Using this real data in the DWP's model suggests that real Housing Benefit savings may be reduced by as much as £125m (26%).</u>

<u>Using real data and taking account of regional variations suggests that real Housing Benefit savings may be little more than 60% of what was projected.</u>

The DWP model tested different combinations of the figures for the four key variables, to see what impact this might have on projected savings, and to see how confident they could be of savings projections.

The DWP tests found that 52% of combinations of assumptions would result in reduced savings compared to the estimate of £480m for 2013/14, but 48% would result in increased savings. 60% of tests carried out resulted in savings within £10m either side of the central estimate and all had savings within £30m either side (DWP 2012b). Thus DWP concluded they could be confident of savings projections.

These tests included variations in social tenant Housing Benefit claims from 65% to 80%. This is odd, because the DWP knew that the UK figure was 65% at the time they were preparing savings projections, and that it was unlikely to vary substantially in the short term. Only Housing Benefit increases (likely to result in increased savings from the policy), not falls, were included.

<u>If we use DWP assumptions, but insert the known Housing Benefit figure, 72% of tests result in reduced savings, and just 28% would result in increased savings.</u>

<u>If we use real data from the four organisations, and assume that their homes and tenants are typical of those nationwide, and carry out DWP tests, 100% of the tests result in reductions in savings. The central estimate is a £126m (26%) reduction in savings.</u>

However, the homes and tenants of the four organisations are not typical. In addition, reduction in savings vary by region. If we use real data from the four organisations, and take into account regional variation, the total reductions in savings increase further to £160m (33%).

With real data, 60% of confidence tests result in savings within £21m of the central estimate, but reductions in savings of up to £186m (39%) are possible.

Up to this point, we have taken the DWP model at face value, and simply inserted real data in place of assumptions. However, the model has a number of structural features which raise further doubts about the predictions of likely savings.

- The model does not allow for all the realistic possibilities in terms of moves. For example, some movers may end up with higher rents and higher total Housing Benefit costs, because of the increasing numbers of housing association homes let at 'Affordable Rents' which are close to market levels.
- The model assumes that vacated homes are only filled by existing overcrowded social rented sector tenants or private rented sector tenants – in practice, many are likely to be taken by new households, some claiming Housing Benefit for the first time.
- In addition, it does not take into account all the later steps in the housing chains these moves set off. The DWP predicts that annual savings in 2014/15 will be similar to those it predicts for 2013/15 (just 6% lower). However, moves in the first year will leave fewer subject to the penalty at the start of the second, and it seems likely that there will also be numerous moves in the second year of the policy, as some of those who thought they would 'pay and stay' decide they need to downsize, and as additional tenants become subject to the policy when household members leave or if they start benefit claims. Moves in the second year of the policy will generate reductions in savings in the second year just like in the first.

In summary, an examination of the DWP's model and early real data suggest savings from the underoccupation penalty may be substantially lower than projected.

At this point, only early data are available, and the four organisations that have provided it do not claim to provide a fully representative sample. However, it appears possible that the underoccupation penalty may be much less able to achieve its main goal of creating UK Housing Benefit savings than projections suggested.

Finally, other costs should be taken into account in an overall assessment of the policy. These include potential extra net costs to tenants, landlords, local authorities and the voluntary sector. The NHF is exploring these costs in more depth including:

- The £65 m increase in Discretionary Housing Payment budgets already set aside for 2013/14, which should be netted off 'claimed' savings immediately
- The additional costs of fitting aids and adaptations for disabled tenants who chose to move
- The significant additional costs to housing associations facing rising rent arrears, re-let times, rent collection and tenant support costs, and in particular the impact on lost development capacity at a time when Government is trying to drive increased supply
- Additional indirect costs to other public services coping with the knock-on consequences of tenants moving or accumulating debt, for example homelessness, health and social services and advisory services.

References

DWP (2011a) *Underoccupation of social housing: Impact assessment*, February, London: DWP

DWP (2012b) *Housing Benefit: Underoccupation of social housing: Impact assessment Updated June 29 2012* London: DWP