findings

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Thirty per cent fall in private tenants getting Housing Benefit

Initial work on updating the annual *Housing Finance Review* has found that the limits on rents eligible for Housing Benefit introduced since 1996, falling unemployment and the introduction of the Working Families Tax Credit scheme have contributed to a 30 per cent decline in the numbers of private tenants receiving Housing Benefit and a £6.5 billion saving in Housing Benefit expenditure over the last four years. The update, available online, finds:

- **The numbers of households receiving Housing Benefit in the private rented sector continue to decline sharply. By May 2000, they had fallen by 30 per cent in the four years since new limits on eligible rents were introduced in 1996.**
- **The fall in the number of Housing Benefit claimants, and the pressures to contain rent levels in all tenures, have contributed to substantial savings in government spending.**
- **Over the last four years those savings amount to some £6.5 billion compared to the level of the spending plans inherited from the previous government.**
- **In August 2000, 1,089,000 families claimed Working Families Tax Credit; this is a 38 per cent increase on the numbers claiming Family Credit a year earlier. This will have also contributed to the decline in the numbers of households claiming Housing Benefit over the last year.**
- **A higher proportion of working households moved into council and registered social landlord homes in 1999/00 than did so at the beginning of the decade. However, almost one in four of the working household heads in the social rented sector are in part-time jobs.**
- **In 2000, 22,610 home buyers had their homes repossessed, down from 30,030 in the previous year. This is the lowest annual figure since 1986, and reflects the currently benign state of the economy and the housing market.**
- **Latest estimates suggest that housing investment by English councils will rise by 27 per cent in 2001/02, to £3.06 billion, following substantial rises in both capital allocations and receipts from council house sales.**

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Benefit decline

The numbers of households receiving Housing Benefit in the private rented sector continue to decline sharply. They have now fallen in every consecutive quarter since February 1996, following the introduction of the local reference rent limits on eligible rents. In February 1996 there were 1,155,000 Housing Benefit claimants in the private rented sector. Between May 1996 and May 2000, the numbers of claimants fell 30 per cent, from 1,141,000 to 814,000 (see Figure 1). By August 2000, the number of claimants fell again to just 783,000.

While the local reference rent, and subsequently the single room rent limits, have been an important factor in the decline in the numbers of claimants in the private rented sector, other factors are also involved. In 1996 regulations were changed so that Housing Benefit became payable in arrears. There has also been a decline in unemployment over the period (although this dates from 1993 and did not prevent the numbers of private sector claimants rising until 1996).

The introduction of the more generous Working Families Tax Credit in October 1999 will also have contributed to the decline in Housing Benefit claimant numbers since that date (see below). It is also likely that council and government anti-fraud measures have had some impact - both directly, and indirectly by exacerbating problems with administrative delays by many councils.

Over the same period (May 1996 to May 2000) there was also a much smaller 10 per cent fall in the numbers of Housing Benefit claimants in the council and Registered Social Landlords (RSL) sectors, from 3,621,000 to 3,257,000. This is a strong indication that the changes in the Housing Benefit system particular to the private rented sector (i.e. rent limits and payment in arrears) have been the major factor in the decline in the numbers of Housing Benefit claimants able to secure accommodation in that sector.

Benefits spending

Largely as a result of the declining numbers of Housing Benefit claimants, particularly in the private rented sector, levels of government expenditure on Housing Benefit have been significantly lower than projected in the Expenditure Plans inherited from the previous government (see Table 1).

The decline in rent rebate expenditure relative to earlier Plans reflects in part the process of stock transfer, which has reduced the overall size of the council housing sector. At the same time, this has contributed to the growth of the RSL sector, with a consequent rise in Housing Benefit spending on RSL tenants that has offset the decline in spending on private sector tenants within the overall totals for rent

Figure 1: Decline in numbers of private tenants in receipt of Housing Benefit

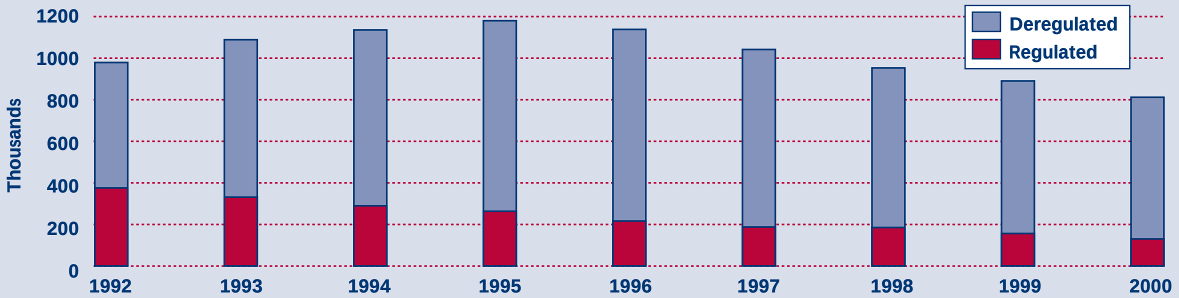
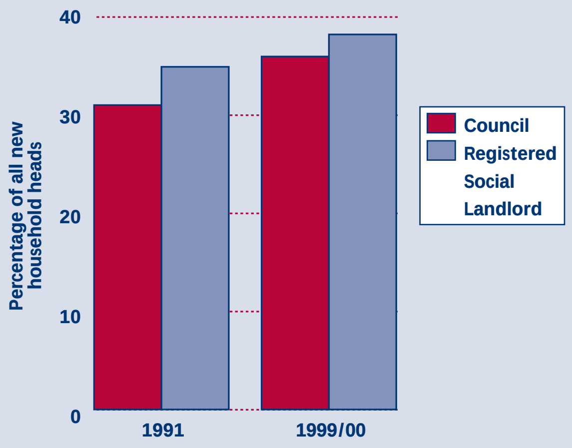


Table 1: Housing Benefit expenditure, £ million

	1996/97	*1997/98*	*1998/99*	*1999/2000*	*2000/01*
Rent Rebates					
Cm 3613	5,636	5,645	5,700	5,800	[5,800]
Cm 4614	5,569	5,498	5,405	5,405	5,372
Rent Allowances					
Cm 3613	5,887	6,005	6,550	7,200	[7,200]
Cm 4614	5,810	5,682	5,667	5,842	6,108
Total					
Cm 3613	11,523	11,650	12,250	12,950	[12,950]
Cm 4614	11,380	11,180	11,072	11,247	11,480
Difference	- 143	- 470	- 1,178	- 1,703	- 1,470

Note: Cm3613 did not extend to 2001/02, so the projected expenditure for 1999/2000 is also used as a baseline for 2001/02.

Figure 2: Rise in proportion of new working households in social rented sector



allowance spending. The numbers of council claimants (rebates) fell from 2,898,000 in May 1996 to 2,288,000 in May 2000, while the numbers of RSL claimants rose from 723,000 to 931,000.

Altogether taking the four years from 1997/98 to 2000/01, comparisons between successive Expenditure Plans show that the Government has saved almost £5 billion against the projections it inherited from the previous government. However, the latest Housing Benefit claimant figures (for August 2000) show a further decline in numbers, and the Government will secure further substantial savings (of some £1.5 billion) against the estimates included in the 2000 Expenditure Plans, increasing the overall savings in government Housing Benefit spending over the four-year period to some £6.5 billion.

Working Families Tax Credit

The Working Families Tax Credit (WFTC) scheme introduced in October 1999 was more generous than the Family Credit scheme it replaced. The value of WFTC has also been increased in real terms since it was first introduced, and the 2001 Budget announced a further £5 per week increase in WFTC benefits to be introduced in June 2001.

By August 2000 the numbers of WFTC claimants had risen to 1,089,000, a 38 per cent increase on the numbers claiming Family Credit a year earlier. It is not yet clear whether that increase is wholly a result of the more generous scheme, or whether there has also been an increase in take up rates as a result of the publicity launching the new scheme and its administrative transfer to the Inland Revenue.

In either case, some working families will have been removed from Housing Benefit dependency. From April 2001, a lone parent with one child earning just £124.50 per week (gross), with the additional substantial income from WFTC, could meet a £50 per week rent without needing to claim Housing Benefit. However, a couple with one child would need to earn £165 per week to meet the same rent level without resorting to Housing Benefit.

This difference in dependency between lone parents and couples with children results from the restricted allowances for lone parents under the HB (and Income Support) schemes, which contrast with the identical allowances for lone parents and couples that are a feature of WFTC.

Working tenants

Despite concerns about the 'residualisation' of social housing, falling unemployment over the last decade has been reflected by a rising proportion of new working households moving into the sector (see Figure 2). At the same time, despite the impact of Right to Buy sales and other low cost home-ownership initiatives targeted on existing social sector tenants, there has also been a very small rise in the overall proportion of households with working heads in the sector (to 32 per cent).

In contrast, two-thirds of all home-owner households have working household heads and less than 10 per cent of all working household heads reside in the social rented sector. Of the working household heads in the social rented sector almost a quarter work part-time, compared with just 8 per cent in the private sector.

Repossessions fall

In 2000, 22,610 home-buyers had their homes repossessed, down from 30,030 in the previous year. This is the lowest annual figure since 1986 (see Figure 3). Taken as a proportion of all households with

Figure 3: Sharp fall in repossessions

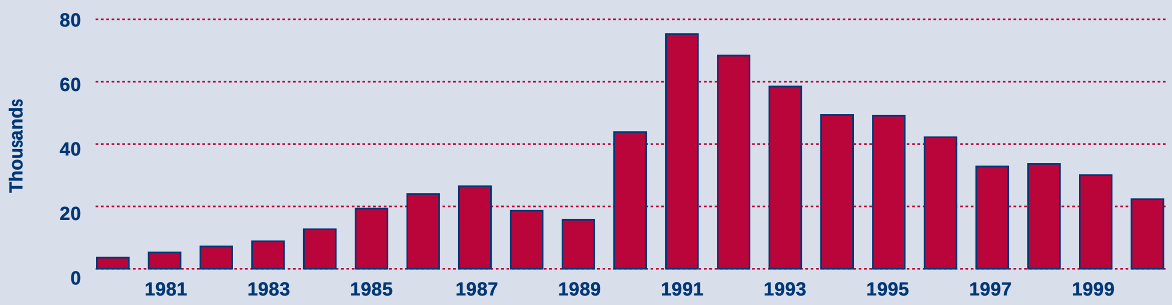
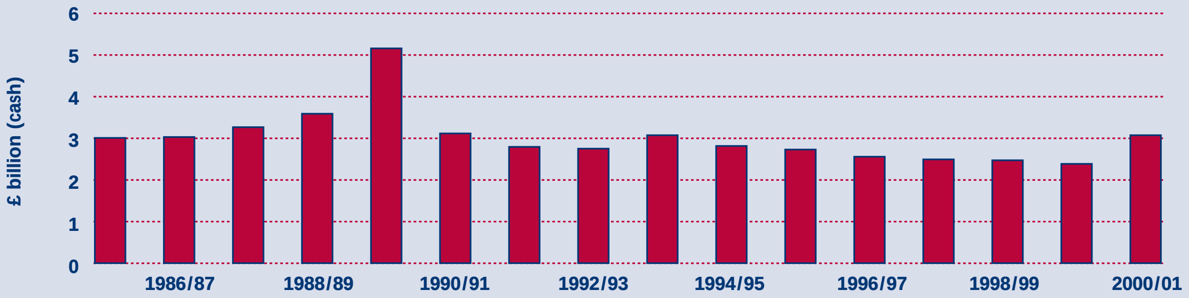


Figure 4: Upturn in housing investment by English councils



mortgages, repossession rates in 2000 (at 0.002%) were lower than at any time since 1984. There has been a similar reduction in the numbers of home-owner households with more than six months mortgage arrears.

This largely reflects the benign state of the economy and the housing market. The introduction of WFTC has also improved the sustainability of low-income home-ownership, particularly where one partner in a 'dual earner' household loses their job leaving the household dependent on a sole earner. A half of all home-buying households are dual earner couples.

There are, however, continuing causes for concern about the limited take-up of private sector mortgage payment protection insurance policies (less than 30 per cent of all new mortgages), given the rising numbers of post-1995 mortgages subject to the nine month delay before claimants on Job Seekers Allowance or Income Support can get help with their mortgage costs. In the event of an economic downturn there remains the potential for a sharp rise in arrears and possession levels.

Housing investment rises

The latest estimates from Housing Investment Programme returns show housing investment by English councils at rather higher levels than anticipated last year (see Figure 4). Outturn expenditure in 1999/00 was £2,418 million (up from an estimated £2,330 million), while councils now plan to spend £3,061 million in 2000/01 (up from an estimated £2,856 million).

Both the earlier and revised estimates take into account the substantial rise in capital provision to English councils in 2000/01 (up by £626 million from 1999/00). A further rise of £463 million is planned for 2001/02. The higher levels of the latest estimates reflect a number of factors - in particular a rise in the levels of investment backed by capital receipts - from £482 million in 1998/99, to £522 million in 1999/00 and a planned £639 million in 2001/02. This reflects the rising trend in receipts obtained from Right to Buy sales in a buoyant housing market, as well as the receipts available following stock transfers.

Despite the increase, outturn council housing investment in 2001/02 remains lower in real terms than that achieved in 1994/95 (and any previous year for several decades).

About the study

The update of the *Housing Finance Review* covers 13 tables (from the 114 in the 2000/01 edition of the *Review*) that could be readily updated at the beginning of March 2001. The majority of the tables in the Review contain data that only becomes available between March and June in each year. The 13 tables updated are: Table 2 – earnings, Tables 32 & 33 - tenure and economic characteristics of households, Table 35 - household incomes and tenure, Table 37 - property transactions, Table 46 - mortgage arrears and repossessions, Table 49 - private sector lettings, Table 58 (part) - housing investment, Tables 100 & 101- distribution of MIRAS, Table 107 (part) - Housing Benefit expenditure, Table 109 - Housing Benefit in the private sector, Table 112 - escaping the poverty trap.

How to get further information

The online update is located on www.york.ac.uk/inst/chp/hfronline.htm. The **Housing Finance Review 2000/01** continues to be available from the Chartered Institute of Housing (ISBN 1 903208 03 3, price £26.00).

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