



**Adrian Waite (Independent Consultancy Services) Limited**

## **Briefing Paper**

### **Housing Benefit**

**March 2003**

#### **The Housing Benefit System**

Housing Benefit is administered by District Councils in Shire County Areas, and by Metropolitan, London Borough or Unitary authorities in other areas. It is designed to give financial support to people who would otherwise have difficulty in affording a home. Tenants on low incomes are eligible to apply for Housing Benefit, and can receive a payment that meets either all or part of their housing costs. In some circumstances service charges are also eligible for housing benefit. Housing Benefit claimants can often also claim Council Tax Benefit. The Housing Benefit and Council Tax Benefit systems are closely related and are often administered as part of the same service. Owner-occupiers cannot claim housing benefit and in their cases contributions towards any mortgage payments are made through the Income Support system.

Where Housing Benefit is paid to a Council Tenant, it is described as a 'rent rebate' because rent is rebated by way of a book entry in the Council's accounts. Where Housing Benefit is paid to a Housing Association or private sector it is known as a 'rent allowance'. In this case the Council will often pay cash to the landlord rather than the tenant.

The amount of Housing Benefit payable depends on the circumstances of the claimant, and their housing costs. The Housing Benefit rules and regulations are very complex, and it is not the purpose of this guide to explain them in detail. However, to be eligible to receive Housing Benefit, a person's income must be below a certain level and they must pay a reasonable level of rent regarding the needs of their household and the area in which they live. The level of savings held by the claimant is also taken into account.

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## **Housing Benefit Subsidy**

Government meets most of the cost of Housing Benefit. In the case of “rent rebates” for council tenants, this is met through the housing subsidy system as outlined in Section 4. In the case of other claimants, there is a Housing Benefit Subsidy paid into the General Fund that usually meets 95% of expenditure. The balance is paid for out of the Council’s own resources, but in calculating the amount of Revenue Support Grant that the government pays to a local authority, account is taken of the level of its expenditure on Rent Allowances.

In the case of Housing Subsidy for Rent Rebates, the amount that is reimbursed by the government in subsidy is calculated in accordance with the following formula:

$$\text{Rent Rebate Subsidy} = (L + M) - N$$

Where:

- L = Qualifying Expenditure (rebates granted)
- M = Adjustment for Overpayments and Fraud
- N = Deduction for over-runs

The adjustment for overpayments and fraud currently represents an additional 1.7%. If the actual level of overpayments and fraud at an authority exceeds 1.7% of total Rent Rebates this does not qualify for subsidy. However, if an authority experiences fewer frauds and overpayments than this, it will gain rent rebate subsidy.

The rate of subsidy is 100%, other than on frauds and overpayments where the rate is nil.

The General Fund meets the costs of Rent Allowances and all Council Tax Benefit and receives Housing Benefit Subsidy that meets most of the costs of administering the Benefits as well as the cost of the Benefits themselves. The rate of subsidy payable on Rent Allowances varies as follows:

- Basic Rate – 95%.
- But – subsidy on Council Tax Benefit is limited where an authority raises Council Tax above its guidelines.
- Backdated Benefits – 50%.
- Duplicate Payment where original lost and subsequently encashed – 25%.
- Overpayments – various.

If the authority recovers an overpayment it can keep both the recovery and the subsidy, except in the case of an error by the Department of Social Security.

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No subsidy is paid in cases of local authority error, where a rebate is credited in advance of an entitlement, or where Council Tax Benefit has been overpaid due to the delayed award of council tax discounts, disability reductions, transitional relief or budget capping.

Service Charges are eligible for Housing Benefit if they have to be paid as a condition of occupying the home, if they are not listed in the regulations as ineligible, and if they are not excessive in relation to the service provided. Service Charges that are eligible for Housing Benefit include:

- Heating Systems.
- Fuel for communal areas.
- Furniture and household equipment.
- Communal window cleaning.
- Other external window cleaning which no-one can do.
- Communal cleaning.
- Most communal services relating to the provision of adequate accommodation.

Service charges that are eligible for Housing Benefit only in Sheltered Accommodation include the following. Supporting People Grant rather than Housing Benefit will finance these services from April 2003:

- Interior window cleaning which no one can do.
- Other cleaning which no one can do.
- Emergency alarm systems in certain accommodation.
- General counselling and support.

The government also meets the cost of administering Housing Benefit, 50% through a cash limited specific administration grant, and 50% through the Revenue Support Grant calculation.

## **Administration**

The government has established a number of Best Value Performance Indicators that are used to measure the performance of Benefits administration. These are:

- Whether the authority has a written and proactive strategy for combating fraud and error that embraces specified initiatives including those sponsored by the Department for Social Security that is communicated regularly to all staff.
- The average cost of handling a Housing Benefit or Council Tax Benefit claim, taking into account differences in the type of claim received.
- The average time for processing new claims.
- The average time for processing notifications of changes of circumstances.
- The percentage of renewal claims processed on time.

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- The percentage of cases for which the calculation of the amount of benefit due was correct on the basis of the information available for the determination for a sample of cases checked post-determination.
- The percentage of recoverable overpayments (excluding Council Tax Benefit) that were recovered in the year.

Many authorities are currently having difficulty in administering Housing Benefits, and in particular are failing to meet the target of determining all new claims within fourteen days of their receipt. This not only causes inconvenience for claimants, but can also have a serious effect on the cash flow position of registered social landlords. It also makes it more difficult for authorities to prevent errors or fraud. The amount of work involved in processing new claims and managing existing claims can be significant, and authorities have cited this as a reason for poor administration, along with government imposing bureaucratic procedures such as the Verification Framework introduced in 2000.

The government has created a Benefits 'Hit Squad' that supports authorities that wish to raise their performance. £2million has been made available to fund this. It provides:

- Performance Management Framework
- Business Process Models
- Management Development Framework

The 'Hit Squad' may introduce a Local Improvement Plan to address:

- Clearance of backlogs.
- Re-setting document and workflow technology.
- Reorganisation of Management and Service Delivery.
- Preparations for decision making and appeals and discretionary hardship payments.

### **Fraud and the Verification Framework**

The Audit Commission has found that while the level of housing benefit fraud is falling, housing benefit fraud represents 92% of all detected fraud in local government. Furthermore, the average value of frauds is increasing. This includes frauds of up to £475,000 in false claims for non-existent asylum seekers.

The government introduced the 'Verification Framework' in 1998 with the intention of reducing the amount of fraud and error, and facilitating detection of fraud and error. Adoption of the 'Verification Framework' is voluntary, but it is seen as good practice, and there is funding available for authorities that do so. The National Audit Office, Audit Commission, Public Accounts Committee and Social Security Select Committee support the 'Verification Framework'. Over 250 authorities have adopted it.

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However, the 'Verification Framework' has been criticised for being bureaucratic, creating long queues and backlogs of post, reducing staff morale and depressing performance standards.

### **The New Financial Framework**

Fundamental Changes are proposed in the way in which Housing Benefit is accounted for within the Housing Revenue Account under the new financial framework.

The Housing Revenue Account will become a purely "Landlord Account" as Rent Rebates and Rate Rebate Subsidy will be transferred from the Housing Revenue Account to the General Fund. The purpose of doing this is to make the Housing Subsidy system more transparent, because government believes that, at present, tenants and councillors find it difficult to appreciate the intention behind the subsidy system.

This will require changes to the operation of rent rebate subsidy. Options include:

- 95% direct subsidy and 5% through Standard Spending Assessment.
- 100% specific grant.
- Direct subsidy with incentive mechanisms.

Because primary legislation will be required to take Rent Rebates out of the Housing Revenue Account and to introduce the arrangements for pooling surpluses, it is likely that the implementation of these proposals for handling Rent Rebates will be delayed until at least 2004.

### **Housing Benefit Policy and 'The Way Forward for Housing'**

In its policy statement on Housing in December 2000, the Government stated that it believes that Housing Benefit contributes to their housing, welfare to work and social exclusion agendas. Their objectives are to:

- Raise Standards in Administration - across the board, but especially helping struggling authorities to improve.
- Simplify the System - especially by reforming the Single Room Rent, simplifying the claims process and rationalising the existing four parallel schemes.

The government identifies its key measures as being to:

- Raise standards in Housing Benefit administration and promote work incentives, working with local authorities.
- Set up expert teams to help struggling local authorities to tackle immediate problems along with action to improve the situation of Registered Social Landlords.

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- Develop and Implement a new Performance Management framework to raise standards and link local authority performance to funding.
- Promote work incentives for young people through reform of the single room rent.
- Make Housing Benefit simpler to claim and administer by streamlining and simplifying the process for making claims and ensuring the rules are compatible with Tax Credits.
- Simplify Housing Benefit by exploring further simplification of the four transitional protection schemes.

It is anticipated that the government will wish to move to a system of 'shopping incentives' under which the link between benefit entitlement and actual rent paid would be broken and tenants would receive Housing Benefit on the basis of their assessed needs and means. If their actual rent were lower than the assessment the tenant would be allowed to retain the difference and spend it on what they chose. If their actual rent were higher than the assessment the tenant would have to find the difference from their other resources – in practice their income support. This would give tenants an incentive to 'shop' for cost-effective accommodation and to move to cheaper accommodation. The government considers that this would create a more competitive market for rented accommodation.

## **Conclusions**

It is clear that the government is moving towards a fundamental reform of Housing Benefit. It is expected that this will take place in 2006/2007. It is likely to focus on an extension of choice to benefit claimants and the integration of housing benefit with income support and tax credits. It is considered that a pre-requisite for achieving this is the introduction of a 'coherent' structure of social rents. It may therefore be considered that the need to reform Housing Benefit is driving the reform of social rents.

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