



The likely impact of the lower overall benefit cap

Background

The overall benefit cap was introduced between April and September 2013. It limits the amount of most welfare benefits that a single household can receive. Currently the limit is set at £26,000 per year for couples, with or without children, and single parents. As part of the summer budget 2015, government announced that this will be lowered to £23,000 in London and to £20,000 elsewhere in Great Britain. This lower limit is due to be introduced from 7 November 2016.

This report summarises CIH's analysis of the likely impact of the new lower cap, including the numbers and types of households who will be affected and the amounts of income that they are likely to lose as a result.

Impact of current cap

DWP figures show that in February 2016 around 20,000 households were affected by the cap. The table below shows the make up of these households and how they are distributed around the country.

It shows that the impact of the current cap is largely restricted to:

- those living in particularly high cost areas. Almost 9,000 of those affected live in London, with a further 2,000 living in the South East region
- larger than average families. There are 5,000 affected families with four children and nearly 7,000 with five or more children.

Table 1 - the impact of the initial benefit cap

	No child	1 child	2 children	3 children	4 children	5+ children	Total
North East	0	0	0	29	175	379	583
North West	23	0	11	93	448	847	1,422
Yorkshire & Humberside	0	0	0	60	317	735	1,112
East Midlands	0	0	6	48	212	521	787
West Midlands	0	0	0	106	489	1,140	1,735
East of England	8	11	30	274	490	532	1,345
London	978	514	1,798	2,833	1,594	1,020	8,737
South East	20	10	79	584	789	599	2,081
South West	0	0	5	106	334	416	861
Wales	0	0	5	43	185	353	586
Scotland	99	12	38	110	192	266	717
Total	1,128	547	1,972	4,286	5,225	6,808	19,966

Methodology

Our estimate of the numbers of households affected focused on the likely impact on one to four child families. We then looked at the cost of renting for two and three child families in each local authority in England to test whether the cap provided sufficient room to cover the rent.

To estimate the numbers affected by the lower cap we looked at the number of households receiving housing benefit (HB) together with a basic out-of-work benefit. Deducting the out-of-work benefits from the lower cap gives the maximum amount available for housing costs and we then compared this with the size of those households' housing benefit awards to establish how many will face a shortfall. Finally, we made an adjustment to take account of households who are receiving a disability benefit that will exempt them from the cap.

To test whether housing was affordable within the cap limits we assumed that a private renter would pay a rent equal to the lowest applicable local housing allowance rate. In areas where council housing is available, we also compared the average council rent paid for a home of the same size. We then counted the areas where the amount of benefit available for housing was insufficient to meet the rent and if so, by how much (in bands of £25).

Summary of results

Our analysis shows that the lowering of the cap will both greatly increase the numbers of households affected and extend its impact to smaller families and across all parts of Great Britain.

Table 2 provides an estimate of the number of one to four child families affected by the revised cap in each part of the Great Britain.

It shows:

- 116,000 one to four child families are affected - there are a total of 319,000 children living in these households
- 34,000 two child families are affected, and 56,000 three child families
- nearly 60 per cent of those one to four child families affected are living in social housing, with the remainder living in the private rented sector
- in London even though the cap is set £3,000 higher than elsewhere in the country, this is still not sufficient to fully compensate for the higher cost of housing. The result is that in the capital the reduced cap even extends to some 6,000 single child families
- away from London and the wider South East, 13,000 one – four child families will be affected in the North West and 12,000 each in the West Midlands and the East of England
- even in the parts of the country with the cheapest housing, the North East and Wales there are over 12,000 one – four child families affected

Table 2 - the impact of the new overall benefit cap

	1 child	2 children	3 children	4 children	Total
North East	39	450	3,470	1,334	5,293
North West	148	2,691	7,479	2,536	12,854
Yorkshire & Humberside	63	990	5,578	2,575	9,206
East Midlands	69	1,089	4,158	1,761	7,077
West Midlands	92	2,345	7,037	2,557	12,031
East of England	215	4,973	5,541	1,198	11,927
London	5,570	5,525	4,840	1,944	18,059
South East	581	8,846	7,100	1,148	17,676
South West	89	3,882	4,284	1,017	9,272
Wales	60	1,113	3,287	1,384	5,844
Scotland	164	1,659	3,478	1,432	6,733
Total	7,270	33,563	56,252	18,887	115,972

The amount of income lost by individual households will vary depending on their exact circumstances. Although in some cases these losses may only be a few pounds a week, some families face losses of up to £500 per month – which they are unlikely to absorb by simply reducing their household spending.

Table 3 below shows the proportion of local authority areas in England where two and three child families (the most commonly affected groups) will face losses of more than £25, £50, £75 and £100 per week. It is based on them either:

- living in the private rented sector and paying a rent set at local housing allowance rates, or
- living in council housing and paying an average council rent for their area.

In summary our calculations show:

- many three child families will face substantial shortfalls, for example, those that rent privately stand to lose more than £100 per week in half of all local authority areas if they are a couple, or a quarter of all areas if they are a lone parent
- even council tenants will face losses of more than £25 per week in almost all areas if they are a couple, although this falls to 20 per cent of areas if they are a lone parent
- in the private rented sector, many two child families will also face significant shortfalls in more expensive parts of the country. These will exceed £25 per week in 40 per cent of local authority areas for couples and in 20 per cent for lone parents.

Table 3 - impact by loss of income

	Local authority areas where losses exceed ...			
	£25 p/w	£50 p/w	£75 p/w	£100 p/w
Private renters (based on all local authority areas)				
A couple with two children	40%	23%	15%	12%
A lone parent with two children	20%	12%	10%	8%
A couple with three children	100%	98%	75%	50%
A lone parent with three children	83%	55%	41%	25%
Council tenants (based on all areas with council housing)				
A couple with two children	2%	2%	0%	0%
A lone parent with two children	0%	0%	0%	0%
A couple with three children	98%	37%	19%	18%
A lone parent with three children	20%	18%	16%	2%

Illustrative examples

Once out of work benefits have been taken into account, a couple with three children will have £50.80 per week remaining for their housing costs before they breach the £20,000 cap. However a three bedroom property in Leeds with rents set a local allowance rates would cost £151.50 per week, leaving a shortfall of £100.70. The same family would face a shortfall of £89.04 in Northampton or £75.78 in Leicester.

Outside of London a couple with two children will have £117.92 per week for their housing costs. However a two bedroom property in Reading with rents set a local allowance rates would cost £188.33 per week, leaving a shortfall of £70.41. The same family would face a shortfall of £38.46 in Southampton or £33.58 in both Bristol and Milton Keynes.