BRIEFING | Making work pay in supported accommodation

Overview

The benefit system, as it currently stands, penalises residents of supported housing. New cost-benefit analysis for 16-24 year olds shows that the government could gain nearly £13 million in one year if the proposed policy changes of increasing the disregard amount to £57 and reducing the housing benefit taper rate to 55% were made. Looking only at the direct impact on public finances, of the £13 million total, £5 million would be savings for the Treasury in the same period. If this were to be expanded to all working age people in supported housing, the savings would be even greater.

The problem

Supported housing is designed to help people build the skills and confidence needed to live independently, with a key focus on improving their employment prospects. By offering stability and tailored support, it provides a crucial stepping stone toward long-term work and financial independence.

However, a structural flaw within the welfare system undermines these employment outcomes. The way benefits are configured for residents in supported housing creates a disincentive to enter or progress in work, which holds people back just as they are trying to move forward.

Unlike individuals in the Private Rented Sector who see a gradual improvement in their financial situation as they increase their earnings, residents in supported housing face a steeper and more punitive withdrawal of benefits when entering or progressing in employment. This happens because people living in supported accommodation receive benefits through Universal Credit (UC) and Housing Benefit (HB) rules, while only UC rules (which include a housing element) are applied to their peers in the private rented sector.

The interaction between these two systems, particularly the high taper rate of Housing Benefit (currently set at 65%), creates a financial 'cliff edge' (see Figure 1 below). As residents increase their working hours, they may find themselves worse off overall losing benefits faster than they can increase their earnings. This puts individuals at real risk of rent arrears and housing instability.

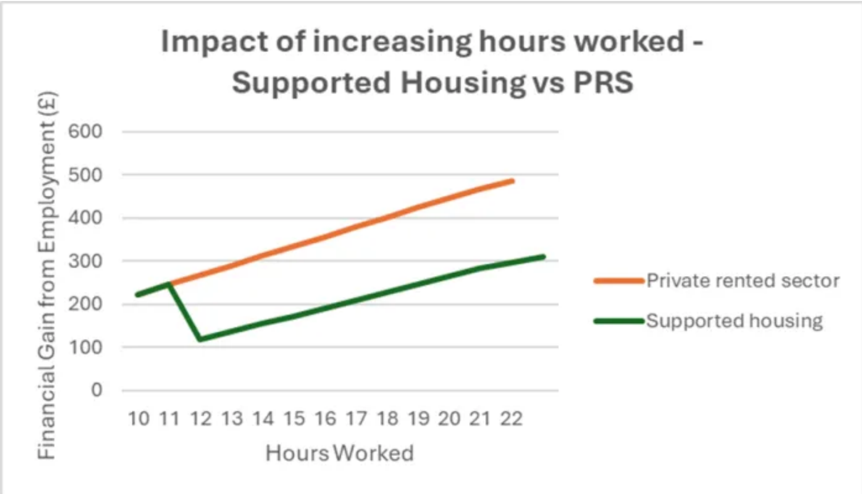

Figure 1: *Impact of increasing working hours for people aged 21 or over, earning the minimum wage and living in supported housing (green) and private rented housing (orange) under current benefit rules.*

The consequences are tangible. People in supported housing are apprehensive about entering the workforce due to the impact on their benefits or are forced to decline job offers because the number of hours would make their rent unaffordable. Others in full-time work request reduced hours or exit employment altogether when part-time roles are unavailable. The complexity and financial risk associated with entering employment under the current benefit structure understandably leads to anxiety and hesitation among people in supported housing when they are considering entering the workforce.

Addressing this anomaly is critical to ensuring supported housing can fulfil its intended purpose not only to provide housing, but to enable people in supported housing to rebuild their lives and move toward long-term independence.

How does this impact young people in supported housing?

For young people living in supported accommodation, such as care leavers and those who have experienced homelessness, access to employment can be a critical step in their journey to independence. However, the current benefit rules disincentivise young people from working more hours and becoming financially independent. YMCA spoke to young people who shared their experiences with the benefit trap.

'I work full time … I get left with no money to live in the YMCA, so what is the point in working?' (Casey, Basingstoke).

'I've been considering getting a job, right, but I have to go through so many hoops in terms of like, benefits and rent and all that, and it's pretty much not going to be worth it for me to get a job. So, I just can't work' (Claire, Basingstoke).

To further understand the impact on young people in supported accommodation, Centrepoint conducted a snapshot survey. The findings revealed that almost a quarter of respondents were concerned about taking on more hours or a job due to concerns about the implications on their benefits.

These findings highlight the ongoing challenges young people in supported accommodation face when trying to move into sustainable employment while navigating a complex and often punitive benefits system. The proposed changes would level the playing field to that of the private rental sector and enable young people to progress towards financial and housing independence and security.

The solution

To address this, the Government can implement two targeted changes to the benefits system that would remove this disincentive, support people into sustainable employment, and enable smooth transitions from supported housing into independent living.

1. **We recommend that the Housing Benefit disregard is increased from £5 to £57.**

The Housing Benefit disregard is the amount of a person's earnings or income that is excluded from benefit calculations, so increasing this would ensure that most people living in supported accommodation would not face a financial cliff edge and instead would be incrementally better off as they increase their working hours. Increasing disregard rates supports employment goals, reduces benefit traps, and promotes long-term independence; it could be the difference between a stable step forward to independence or a return to crisis.

2. **Reduce the taper rate from 65% to 55% to bring it in line with Universal Credit.**

In addition to raising the disregard, parity between the Universal Credit and Housing Benefit taper rates is required to remove the work disincentive. We recommend the government reduces the Housing Benefit taper rate from 65% to 55% to bring it in line with Universal Credit. This would effectively reduce the amount that people living in supported accommodation are being taxed for accessing work, as their Housing Benefit would be reduced at a lower rate than it currently is (55p for every pound earned, as opposed to 65p on every pound).

To eliminate the cliff edge for all, both measures are needed. Taken together, these two measures will remove barriers to employment that are currently experienced by people in supported housing. This will create a clear progression whereby as people increase their hours and progress in work, they see their incomes increase and can build financial resilience to move on into independent accommodation.

How would this change benefit the Treasury?

Centrepoint has been conducting research into the impact of the current benefit system on young people and as part of this has produced a new iteration of the cost-benefit analysis (CBA) previously undertaken by Oxera. The core of the CBA was an assessment of how changes in the benefits system affected claimant's marginal effective tax rate (METR) - the proportion of each extra pound of earnings lost to higher taxes and reduced welfare benefits or tax credits, showing how much additional income a person actually keeps. In turn, the model then estimates how reducing the marginal effective tax rate increases claimant's incentive to work and thus increases the proportion of claimants who are in employment. Table 1 and the key findings below show how much the proposed policy changes would save the government—almost £13 million in total, of which nearly £5 million would be a direct saving to the Treasury.

Overview of the modelling methodology

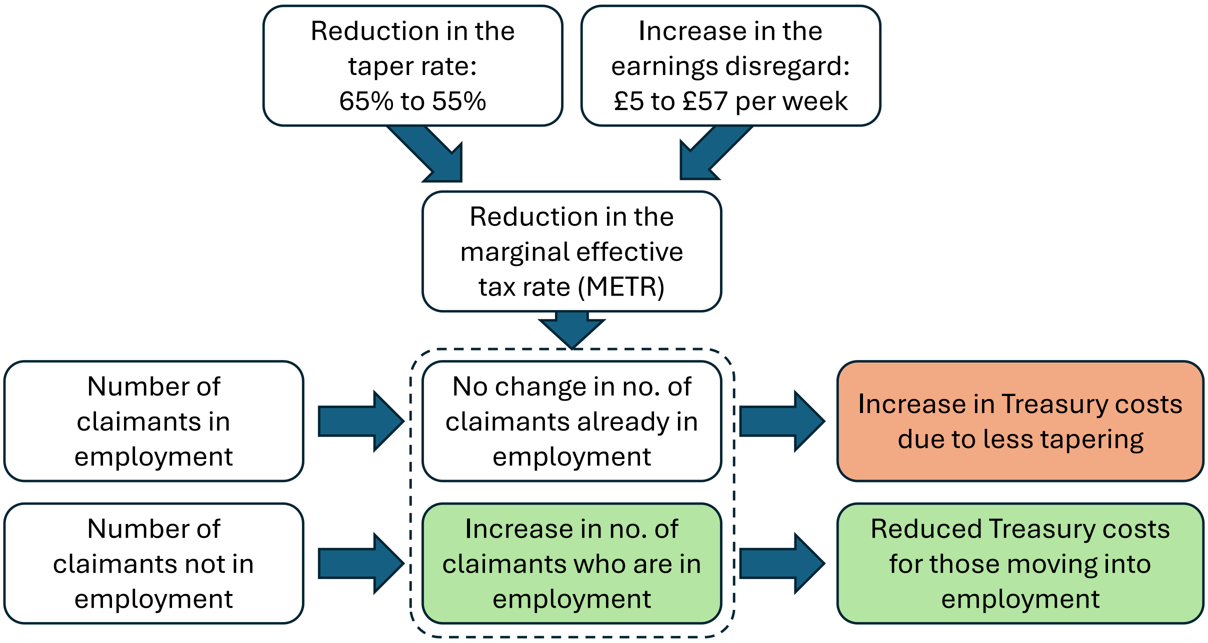

Figure 1: Overview of cost-benefit analysis modelling.

For a more detailed explanation of the modelling and methodology used to calculate this cost-benefit analysis, please see the methodological note[1].

Key findings

The CBA (see Table 1 below) finds that if the government were to increase the disregard to £57 and reduce the taper rate to 55%:

- The government would have a net benefit of almost £13 million, in just one year, when accounting for unmonetised benefits.
- The Treasury would save almost £5 million, in just one year, when looking solely at the fiscal impacts of the policy.

In summary, this change would generate significant taxable income for the Treasury and deliver indirect savings across government, by encouraging people in supported housing to move into employment. This analysis only looks at the impact over one year, and so in the long run impacts on Treasury savings are likely to be even more beneficial, given the long-term benefits

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of employment on employees, and the likelihood of someone remaining in employment once they have started a job.

The analysis demonstrates that the two proposed asks of increasing the disregard to £57 and reducing the housing benefit taper rate to 55% in line with universal credit, would not only support young people into entering employment and obtaining housing security, but be financially beneficial for the government.

Group	No. people affected	Estimated cost/saving to treasury	Change in benefits per person	Mental health and crime benefits from increased income	Total estimated mental and physical health benefits of increased employment	Net benefits
In employment						
18-20	580	-£1,234,449	£177	£52,709		-£1,181,740
21-22	464	-£1,094,205	£197	£46,721		-£1,047,484
23-24	556	-£1,311,159	£197	£55,985		-£1,255,175
Not in employment						
18-20	555	£3,240,623	£487	£107,918	£3,163,144	£6,511,685
21-22	369	£2,619,928	£592	£88,009	£2,102,429	£4,810,366
23-24	381	£2,708,061	£592	£90,970	£2,173,154	£4,972,185
Total for those currently employed	1600	-£3,639,812.80		£155,414.70	£0.00	-£3,484,398.10
Total for those currently unemployed	1304	£8,568,611.63		£286,897.31	£7,438,726.95	£16,294,235.89
Total	2904	£4,928,798.83		£442,312.01	£7,438,726.95	£12,809,837.79

Table 1: *cost benefit calculations based on Oxera modelling of two proposed policy changes over a one-year period.*

For a more detailed explanation of the modelling and methodology used to calculate this cost-benefit analysis, please see the methodological note[2]. For any queries or further discussions, please contact Ella Nuttall at e.nuttall@centrepoint.org.

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