

# Two Year Review of the Local Housing Allowance

February 2011

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# Executive Summary

## Introduction

1. The Local Housing Allowance (LHA) commenced national rollout on the 7 April 2008 to customers making new claims and moving address in the deregulated private rented sector (PRS). Following this, the previous government committed to carrying out a 'Two Year Review of Local Housing Allowance' to assess its impact on tenants, landlords and other external organisations. The aim of the Two Year Review is to monitor the impact of the LHA at a national level against the original policy objectives of fairness, choice, transparency, personal responsibility, improved administration and reduced barriers to work. This report assesses the evidence against these objectives.
2. The evidence for the review has been taken from Department for Work and Pensions (DWP) administrative and survey data; qualitative research commissioned on the experiences of and views on the LHA, from landlords and tenants in the PRS as well as advisers in local authorities (LAs) and from independent advice agencies; an online commercial panel survey of landlords; and engagement with rent officers, LAs, landlords, other government departments and external organisations through existing DWP networks.

## Choice

3. The extent to which tenants have been able to trade off the quality and price of their accommodation depends on both their own and landlords responses to the LHA.
4. If landlords set rents at the LHA rate on a wide scale in the PRS then this would limit the scope for Housing Benefit (HB) claimants to exercise choice under the LHA. Most landlords in the qualitative evidence said they followed the market when setting their rents. However, a few market-led landlords did indicate they would charge the LHA rate if these were higher. Others used the LHA rate to set their rents, seeing it as a good benchmark of the 'going rate', or because they largely operated in the HB market. Some used the published level; others undercut slightly or pitched slightly above, depending on the tenants they sought to attract.
5. Estimates show that about eight per cent of LHA cases had contractual rents equal to their applicable LHA rate. Although there are some rents

clustered around LHA rates there is a wider variation around the setting of contractual rents which will be influenced by a number of issues. Due to a lack of data, it is uncertain whether the degree of clustering of rents around LHA rates from November 2008 existed in the market from April 2008 or emerged as a response by landlords to the LHA soon after national roll-out.

6. Evidence about landlords' willingness to let to HB tenants is mixed. There is clearly reluctance from some landlords to let to HB claimants. Payment of HB directly to tenants under the LHA, combined with difficulties affording a deposit or being able to make payment in advance, was also found by some landlords to compound problems such as rent arrears and claimants leaving without paying the last rent instalment.
7. The reasons for reluctance among some landlords to let to HB-LHA tenants are not exclusively related to the LHA and there is not clear evidence of landlords exiting the HB market as a result of LHA on a wide scale. Some smaller landlords sympathise with and specifically target tenants on HB.
8. In February 2010, approximately 43 per cent of LHA cases were in receipt of an excess. The excess did not act as a 'shopping incentive' for tenants, due to a lack of understanding of benefit entitlement and because other factors were considered more important when making decisions about where to live.
9. Analysis suggests that only a minority of excesses may have resulted from claimants occupying smaller accommodation than they may reasonably require, and the majority of excesses were a result of claimants finding suitably sized accommodation below the relevant LHA rate.

## Personal Responsibility

10. An aim of the LHA was to improve financial inclusion and help tenants develop the skills needed for work by, wherever possible, paying benefit to claimants. Relatively high levels of direct payment to tenants have been achieved under the LHA. In February 2010, 81 per cent of LHA cases were receiving direct payments, compared to 46 per cent of Non-LHA cases in the PRS.
11. About eight per cent of the LHA caseload in February 2010 had their benefit payments made to the landlord, as they had fallen into arrears of eight weeks or more.

12. Eighty-nine per cent of LHA customers having HB paid to themselves were paid by Automated Credit Transfer (ACT). These figures have been steadily rising every quarter since November 2008.
13. Research highlighted that misalignment of HB payment and rent cycles and general constraints of budgeting from a low income acted as a deterrent to claimants using standing orders to pay their landlords. For example, in February 2010, for about 93 per cent of LHA claimants their HB payment period did not match that of their rent. The misalignment issue and the possibility of reducing LHA following the anniversary date of the claim were also both highlighted as hindering good financial management by tenants
14. Evidence on financial management of tenants was mixed. Some positive views were expressed suggesting that tenants took the responsibility of paying rent very seriously, but concerns were raised about a 'significant minority' of tenants who were not managing.
15. Many tenants, landlords and LA and independent advice agency advisers raised concerns over the success of the safeguards in protecting tenants in vulnerable situations. Eight weeks was considered too long a period to wait to transfer payments to landlords. Generally, evidence showed a lack of awareness and difficulties in providing acceptable supporting evidence for the discretionary safeguards. However, we are unable to suggest how widespread these issues were.

## Fairness

16. The principle that two households with similar circumstances living in the same area will be entitled to similar amounts implies the LHA system is fairer than its predecessor.
17. The proportion of claims with excesses in London, the South East and Scotland is relatively high, whilst in Wales the proportion is relatively low, compared to other Government Office Regions across the review period. This may mean LHA rates have disproportionately benefited claimants in some areas and adversely affected those in others. However, differences between the LHA rates and contractual rents for claimants may result from other factors.
18. As the size of a property on which entitlement is based increases, the proportion of claimants with an excess also broadly increases. This may reflect that LHA rates are arguably more generous for larger properties, but will also be a result of a number of other factors, including greater variability in the character, floor area, location, amenities and rents

charged for larger properties; a shortage of supply of large properties and the properties larger families have chosen to occupy.

19. Although we cannot say what properties are being occupied by LHA cases that were entitled to six or more bedrooms up to April 2009, we can say the apparent generosity of the LHA rates for properties with four or more bedrooms suggests some degree of flexibility for finding suitable accommodation for larger families.
20. In February 2010, the proportion of single, under 25 years shared accommodation rate<sup>1</sup> cases experiencing shortfalls was higher compared to all claimants, at 67 per cent compared to 49 per cent. The relatively high proportion of shared accommodation rate cases apparently choosing to live in shared accommodation suggests some degree of availability to HB claimants, although we do not have evidence on the actual size of the accommodation the single, under 25 shared group are occupying.
21. There has been some controversy over the geographical areas in which LHA rates are set (Broad Rental Market Areas<sup>2</sup>) both due to their lack of transparency and where large areas have created problems of local affordability within them. But it should be noted that HB areas are not specific to the LHA arrangements and are also used in the operation of the previous scheme in the PRS.

## Transparency

22. Evidence from LA and independent advice agency advisers, landlords and some tenants suggests that the LHA is perceived to be simpler and clearer, however:
- landlords criticised the lack of clarity around safeguard provisions; and
  - advisers encountered problems helping tenants who were not entitled to the maximum HB, based upon the LHA rates, to understand the entitlement rules.

Together these have diluted the clarity under which the LHA scheme operates.

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<sup>1</sup> Also known as shared room rate.

<sup>2</sup> BRMAs are determined by reference to the following factors: (i) an area within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services; (ii) there is a mix of residential premises held on a variety of different tenures; and (iii) the area is suitably large to contain within it sufficient properties across relevant categories of dwelling to allow representative Local Reference Rents or LHA rates to be determined.

## Improved Administration and Reduced Barriers to Work

23. Average processing times for new claims in the PRS fell by around seven days between the fourth quarter in 2007-08 and the fourth quarter in 2009-10<sup>3</sup>. There could be many different reasons for this improvement in addition to the introduction of the LHA, however, this was biggest change to the way HB new claims were administered over this period. This improvement should also be seen against the backdrop of increasing volumes of claims due to the recession.
24. A key area of complaint about LA administration of LHA cases is in the application of safeguard guidance to protect claimants experiencing financial difficulties or likely to do so in the face of payments being made to tenants by default. However, it is still possible that the issuing in December 2009 by DWP of improved guidance on the safeguards may lead to improvements in their application<sup>4</sup>.
25. Within the limitations of the HB Review<sup>5</sup> sample we cannot detect a significant difference between LHA and non-LHA (PRS) fraud and error.
26. Little evidence is available on the influence of LHA rules on claimants moving into work, though tenants reported LHA had very little or no influence on their decision to find work and high LHA rates may act as a disincentive to work.

## Conclusions

27. The conclusions of the report comment on the extent to which the LHA has met its original policy objectives over the first two years of its operation. Most objectives have been at least partially met, but with a fairly mixed picture overall.

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<sup>3</sup> These are financial quarters, with the fourth quarter running from January to March of the financial year.

<sup>4</sup> HB/CTB Circular A26/2009 <http://www.dwp.gov.uk/docs/a26-2009.pdf>

<sup>5</sup> See Annex A



# Chapter 1

## Introduction

### 1.1 Overview of the Local Housing Allowance

1. In the early 2000's the Government of the time set out a programme of reform for Housing Benefit (HB) with the objectives of tackling poor administration, increasing transparency, removing barriers to work and promoting choice and responsibility. Central to this reform was the introduction of the Local Housing Allowance (LHA) which would simplify the assessment of HB entitlement for private rented sector (PRS) tenants.
2. The LHA was extensively tested in a total of 18 local authorities (LAs). The first nine were subject to independent, formal evaluation and went 'live' with the new scheme between November 2003 and February 2004. The next nine LAs were not part of the formal evaluation but tested the operational readiness of the scheme from April 2005. The previous Government considered that the Pathfinder evaluation showed the scheme to be a success and legislated for the national implementation of the LHA as part of the Welfare Reform Act 2007.
3. The LHA is not a benefit in its own right. Instead, it is a new way of calculating the rent element of HB for tenants living in the PRS. The regulations that relate to the overall conditions of entitlement (including the treatment of income and capital) are consistent across both the social and private rented sectors and were not changed substantially for the introduction of the LHA<sup>6</sup>.
4. The LHA introduced a new method for LAs to calculate entitlement to HB, which removed the need for individual property referrals to the rent officer for LHA cases. Essentially, the LHA is a way of calculating HB using a flat rate based on the area in which a customer lives and the size and composition of their household. The previous Government saw the LHA as a fairer and more transparent way of calculating benefit entitlement in that it ensures that tenants in similar circumstances in the same area receive the same financial support for their housing costs.

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<sup>6</sup> The HB regulations were, however, changed to ensure that any excess income, resulting from the applicable LHA rate being greater than the contractual rent up to a maximum of £15, was disregarded as income in the assessment of HB and for the other income-related benefits.

5. LHA rates are set by rent officers in England (Valuation Office Agency), Wales (Rent Officers Wales) and Scotland (Rent Registration Service). Rates are set at the median market rent for each property size within each Broad Rental Market Area (BRMA). Local LHA rates are published monthly by the Valuation Office Agency and by LAs. Rates are published for each property size up to a maximum of five bedrooms. The rents informing the LHA rates exclude those for properties let to HB claimants, where there is any possibility that HB status may have influenced the level of the rent for example where the tenant was claiming at the start of the tenancy.
6. Where the contractual rent is below the applicable LHA rate, tenants are currently able to keep any excess benefit, up to a maximum of £15 per week. If their rent is higher than their benefit entitlement, they are expected to make up the difference from other sources of income.
7. Under the LHA arrangements, benefits are normally paid to the tenant rather than the landlord. Safeguards were put in place for people who are unlikely to pay their rent or unable to manage their own financial affairs; in these circumstances payments can be made directly to landlords. Payments are usually made to landlords when customers are in rent arrears of eight weeks or more.
8. The LHA rules came into effect nationally from 7 April 2008. The majority of customers living in the deregulated PRS who made a new claim or who changed address after that date are entitled to HB assessed according to the LHA rules.
9. Following the national roll-out, the previous Government committed to carrying out a 'Two Year Review of Local Housing Allowance' to assess its impact on tenants, landlords and other external organisations. The aim of the Two Year Review is to monitor the impact of the LHA at a national level against the original policy objectives of fairness, choice, transparency, personal responsibility, improved administration and reduced barriers to work. This report assesses the evidence against these objectives.

## 1.2 LHA Pathfinders 2004-2008

10. Prior to national roll-out, the LHA scheme was tested and evaluated in nine Pathfinder areas. These areas were selected based on the size of the HB caseload, the number of deregulated PRS HB claims and the availability of a wide range of housing market and labour market data. The Pathfinder areas are listed below:

Local Authority (LA)	Start Date	Method of Introduction	LHA Caseload	% Households in the PRS
Blackpool	Nov 2003	Phased	8,600	18%
Brighton & Hove	Dec 2003	Big Bang	8,900	22%
Conwy	Feb 2004	Phased	2,400	13%
Coventry	Jan 2004	Phased	4,900	10%
Edinburgh	Feb 2004	Big Bang	6,300	13%
Leeds	Feb 2004	Phased	6,800	10%
Lewisham	Dec 2003	Phased	4,600	12%
NE Lincolnshire	Feb 2004	Big Bang	4,700	10%
Teignbridge	Jan 2004	Phased	2,100	13%

Source: 2001 Census and 2002 DWP Administrative data, Local Housing Allowance Evaluation

11. There were two methods of introducing LHA in the Pathfinders referred to as 'phased' or 'big bang.' For big bang the deregulated PRS caseload was transferred onto LHA. Whereas in the phased implementation customers only moved to LHA rules if it was a new claim, they moved home, had a relevant change of circumstance or their claim was reviewed. An adaptation of the phased approach was used for national roll-out.<sup>7</sup>
  
12. These Pathfinders were assessed against the following comparator areas where the LHA was not implemented: Cardiff, Wolverhampton, Wakefield, Bristol, Haringey, Hartlepool, North Devon, Scarborough and Swansea. Administrative data was collected from these areas and fieldwork carried out in a sample of these.
  
13. The evaluation reports were published between 2004 and 2008 and are available at:  
<http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/evaluation/>
  
14. There were a further nine LAs that trialled the LHA before national roll-out. The aim of this second wave was to test operational readiness and to help inform national implementation of the LHA scheme. These LAs successfully implemented the LHA between April and July 2005 but were not included in the full evaluation.

<sup>7</sup>In the national roll-out, only new claims or customers moving address will be assessed under LHA rules.

15. The authorities were:

- Argyll and Bute,
- East Riding Of Yorkshire,
- Guildford,
- Norwich,
- Pembrokeshire,
- Salford,
- South Norfolk,
- St Helens and
- Wandsworth.

## 1.3 The National Roll Out of the LHA

16. LHA was rolled out nationally from 7th April 2008 for HB customers making new claims or those moving address in the deregulated PRS.

17. The main differences between the Pathfinder scheme and the national roll-out are as follows:

- **The national roll-out applies to new claims and changes of address only.** In the Pathfinder areas the entire caseload was either moved immediately or phased onto LHA. In the national roll-out the scheme applies only to new claims and for people moving address, on or after the national roll-out date of 7 April 2008.
- **The national roll-out provides no protection to customers when at their annual review their LHA rate has reduced.** Basic protection existed for customers in the Pathfinder areas when the applicable LHA rate had reduced at the anniversary of their claim following national roll-out.
- **The amount of LHA the claimant is able to keep if the LHA is greater than their contractual rent is capped at £15.** In the Pathfinder areas the claimant was entitled to keep any difference between the amount of LHA received and their contractual rent. Subsequently, the previous Government consulted over the summer of 2009 on a proposal to remove entitlement to the up to £15 weekly excess from 5 April 2010. Implementation was later deferred for a year and the excess is due to be removed from April 2011.
- **In the national roll-out the size criteria was adjusted so it was based on the number of bedrooms only.** This was different to the Pathfinder areas where LHA was based on the number of bedrooms and living rooms. This change in the national roll-out was intended to reflect the way in which accommodation is usually advertised and let.
- **In the national roll-out LHA rates were based on the median of local rates.** This contrasts to the Pathfinder areas where LHA rates were based on a midpoint of high and low local rents. Using the

median implies that about 50 per cent of the housing market for a given property size in a particular area should be affordable to customers.

## 1.4 Changes Made or Announced in the First Two Years of Operation of the LHA

18. When the LHA scheme was introduced nationally in April 2008, there was no upper limit to the property size a claimant was entitled to. The Department amended the HB regulations to cap the level of LHA at the five bedroom rate from 6 April 2009.
19. The move to amend regulations followed concerns raised by rent officers in England, Scotland and Wales who reported difficulties in determining LHA rates for larger properties. This is because there are simply not the properties of this size available to rent and on which to gather sufficient market data to arrive at a LHA rate that accurately reflects the availability of properties within a given BRMA. Where properties were available, they tended to be at the luxury end of the market. In a small number of cases in central London, some customers had been receiving exceptionally high rates of benefit for properties with more than five bedrooms.
20. Guidance to LAs, particularly on safeguards to protect tenants unlikely to be able to manage or having difficulty managing their finances if benefit payments are made directly to themselves, has been improved during the review period. In December 2009 the 'Local Housing Allowance Manual for Local Authorities' was updated to:
  - include further guidance on the application of the eight week arrears rule;
  - remind LAs that the first instrument of payment on a new claim or following a change of circumstances can be made payable to the landlord but sent to the customer;
  - identify various bodies (i.e. Community Mental Health Teams, Leaving Care Team) as additional contacts from which to gather evidence when considering cases under the safeguard provisions;
  - emphasise that where a person obtains a private tenancy with assistance from a local housing authority (an LA assisted tenancy), this will often be reliable evidence that a person has had difficulties managing their rent in the past and in many cases safeguarding is likely to be appropriate;
  - emphasise that payments can be made to the landlord for a maximum of eight weeks whilst a LA gathers evidence to make a decision about payment direct to the person's landlord; and
  - stress that there is no requirement for a customer to reach eight weeks rent arrears before a LA can make direct payments to the landlord under the safeguard provisions.

21. In the June 2010 Budget, the Government announced a range of HB measures will come into force between 2011 and 2013.
22. The Government has laid regulations so that from April 2011:
- LHA will be restricted to the 4 bedroom rate.
  - A new upper limit to the LHA rates will be introduced for each property size, with upper limits set at:
    - £250 per week for 1 bedroom
    - £290 per week for 2 bedrooms
    - £340 per week for 3 bedrooms
    - £400 per week for 4 bedrooms
  - The £15 weekly excess currently payable within the LHA rules will be removed.
  - LHA rates will be set at the 30<sup>th</sup> percentile of rents in each BRMA, rather than the median.
23. When these changes come in, payment of benefit can be made to the landlord where LAs think it will help secure or retain a tenancy
24. Longer term change to LHA:
- From April 2013, LHA rates will be up-rated on the basis of the Consumer Prices Index, rather than on the basis of local rents.
25. A further measure announced in the Spending Review in October 2010 was the extension of the LHA Shared accommodation rate to single people aged under 35 from April 2012.

## 1.5 The LHA Policy Objectives

26. The remainder of the report is broadly structured around the policy objectives that the previous government set for the LHA, namely:

- **Fairness** – The LHA ensures households in similar circumstances in the same area will be entitled to similar amounts of benefits.
- **Choice** – The LHA allows customers to choose between the quality and price of their accommodation.
- **Transparency** – A clear and transparent set of allowance rates helps tenants (and landlords) know how much financial help is available from the state.
- **Personal responsibility** – Wherever possible, the LHA should be paid directly to tenants, and therefore promotes financial inclusion and helps develop the skills unemployed tenants will need as they move into work.
- **Improved administration and reduced barriers to work** – The LHA provides a simpler system that should help speed up administration of housing payments and give tenants more confidence when starting a job that any in-work benefit will be paid more quickly.

27. The quantity of evidence available to the review to assess each objective varies, resulting in varying lengths to the chapters.

# Chapter 2

## Economic Context for the Review and Characteristics of the Local Housing Allowance Caseload

### 2.1 Introduction

1. The majority of this review has occurred during a recession, and this has therefore affected observations. This chapter describes some of the broader changes to the Housing Benefit (HB) caseload and expenditure and private rental market. It then describes the general characteristics of the Local Housing Allowance (LHA) caseload to provide context for the review.

### 2.2 HB Caseload and Expenditure

2. The overall HB caseload increased by over 500,000 between November 2008 and February 2010, reaching 4.7 million by the end of the period. Expenditure in cash terms in 2008-09 was around £17 billion and increased to £20 billion in 2009-10. This constitutes a real terms increase of about 15 per cent<sup>8</sup>.
3. The majority of the rise in caseload (around 360,000) has been in the private rented sector (PRS). This has led to the percentage of HB recipients who reside in the PRS increasing from 25 per cent to 30 per cent.
4. The increase is concentrated amongst working age HB recipients. The numbers under 65 years of age increased from under 3 million in November 2008 to 3.4 million in February 2010. This increase has been more prominent in those who receive income-based Jobseeker's Allowance (JSA(IB)) or who are claiming HB while employed. The number of claimants of JSA(IB) claiming HB increased by about 70 per cent during

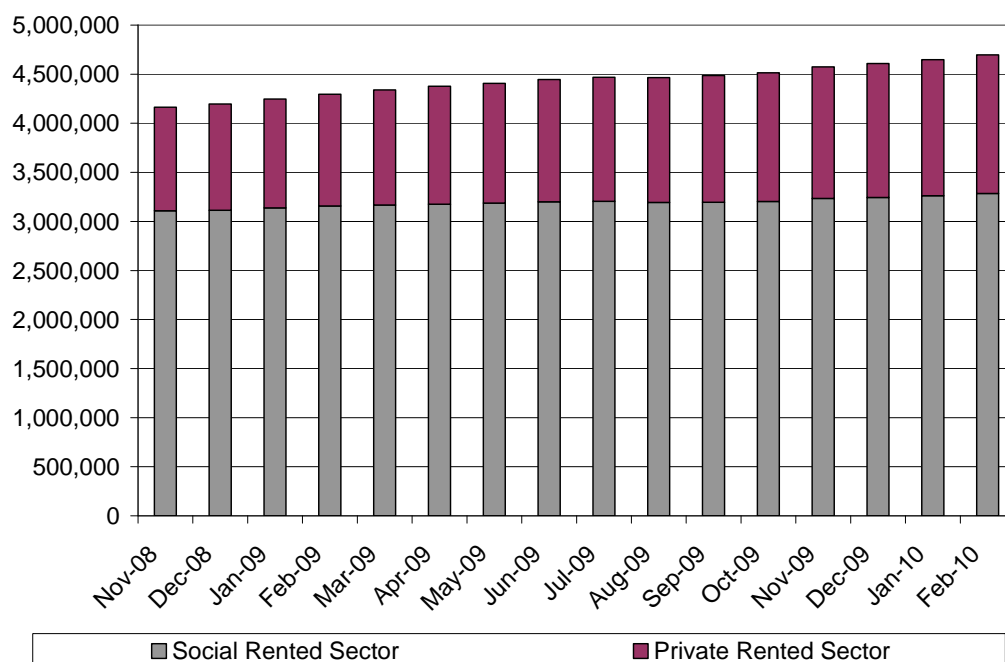
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<sup>8</sup> DWP Benefit Expenditure Tables



the period, whereas those claiming whilst in work increased by around 40 per cent<sup>9</sup>. There was not much change in the numbers in receipt of other out of work benefits, such as lone parents with Income Support or recipients of incapacity benefits.

**Figure 2.1 Number of HB Claimants, by Tenure, November 2008 to February 2010**



Source: Single Housing Benefit Extract

Notes: 1. Figures are based on published National Statistics caseloads.

5. The average HB award across all tenures increased from £77 in November 2008 to £84 in February 2010. Average awards for working age claimants under 65 increased from £82 to £89 and from £65 to £69 for those aged over 65. This reflects the fact that claimants aged under 65 are more likely to live in more expensive, PRS accommodation than elderly HB recipients. The increase in average awards over the period is influenced by increased rent levels, the disregard of Child Benefit income for working age recipients from November 2009, and increased capital disregards for pensioners.

6. Average LHA awards have risen from £107 to £113 in the same period compared with a non-LHA<sup>10</sup> deregulated PRS award rise from £99 to £104

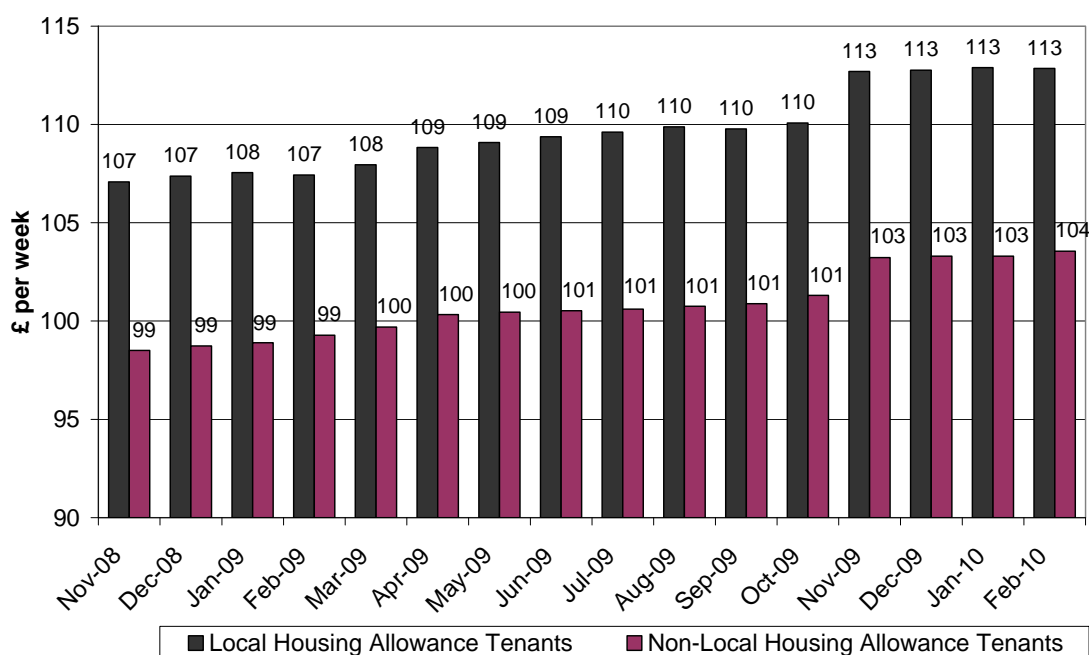
<sup>9</sup>The national statistics consider all non-passported claimants who are working, so the numbers in employment will also include some over 65 years of age.

<sup>10</sup> As the LHA system of HB has initially only been rolled out for new claims and claimants moving address in the deregulated PRS, this has left HB claimants in the sector who started their claims prior to 7 April 2008 still on the previous scheme, involving rent officer referrals to

and a rise from £69 to £72 for awards to social sector tenants. During the review period HB awards for LHA cases have remained around £9 per week higher than for non-LHA cases. Both types of deregulated PRS tenants received more than the overall HB average award, though this is largely due to lower rents paid in the social sector, with LA tenants paying the least.

- The differences between average awards for LHA and non-LHA cases are likely to have resulted from a number of factors. Among these may be the composition of the respective caseloads and associated differences in underlying eligible rents. For example, the LHA caseload will have consisted of newer tenancies overall compared to the non-LHA caseload and this may lead to higher underlying eligible rents. In addition, as will be seen below, there are a higher proportion of tenants aged 60 and over among non-LHA cases than among LHA cases and this group of tenants tend to have lower average awards.

**Figure 2.2 Average HB Awards for Tenants in the Deregulated PRS, November 2008 to February 2010**



Source: Single Housing Benefit Extract

- Notes:
- LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation, for example.
  - Average awards are shown as pounds per week and rounded to the nearest pound.

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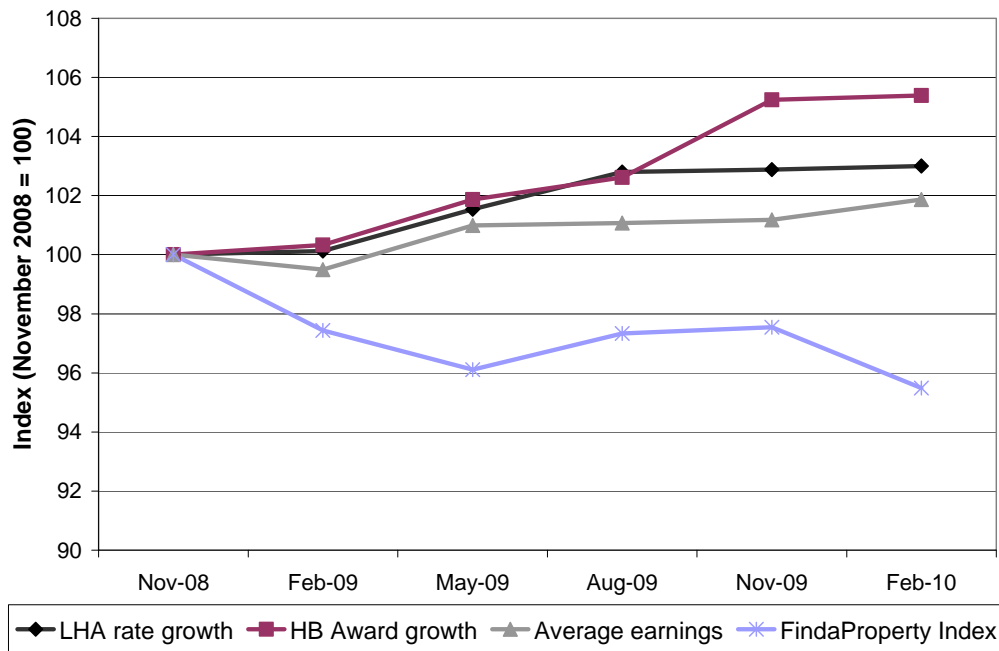
determine maximum HB entitlement among other things. We refer to these as non-LHA cases and use this group as a comparator for the impact of some changes due to the LHA scheme.

8. LHA rates and HB awards for LHA cases have grown faster than average earnings over the period from November 2008 to February 2010. In general, over the longer term, housing costs would be expected to grow in line with average earnings. LHA rates and HB awards for LHA cases grew at roughly the same rate between November 2008 and February 2010. However, the introduction of the Child Benefit disregard for working age claimants in November 2009 resulted in HB awards growing faster than LHA rates.
9. Data on changes in rents in the private rental market is limited and relationships between changes in LHA rates compared to rental indices can be complicated. Some indication of the direction of rent changes in the PRS may be given, for example, by the FindaProperty Index plotted in the figure below. Mean asking prices for private lets taken by FindaProperty from property websites have broadly been falling over the period while LHA rates experienced by HB tenants have continued to rise or flattened out. It should be remembered that one might expect the FindaProperty Index to be more volatile and to show a change substantially in advance of the LHA rates<sup>11</sup>. However, to the extent that the LHA rates experienced by HB claimants may track this index and given the lapse of time from the start of the downturn, one might have expected to see some downward change in LHA rates by February 2010.
10. Further discussion of LHA rates compared to the contractual rents paid by LHA cases is included in the discussion of the LHA objectives of Choice and Fairness (see Chapters 3 and 5).

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<sup>11</sup> It should be noted that one might expect the FindaProperty Index may be more volatile than the LHA rates experienced by HB claimants as it is based on mean asking prices for lets. Subsequently, it can be expected to be more susceptible to changes in very high or very low rents as opposed to LHA rates, which are the median of market rents in payment and can therefore be expected to be more stable. To the extent that the LHA rates may track the FindaProperty Index, the latter would be expected to be a leading indicator of direction for the following reasons (1) Rents informing LHA rates are sampled over a 12 month period as opposed to within a calendar month and (2) the LHA rates shown here are those applying to HB-LHA claims in payment at the time of their last anniversary which will result in a further lag.

**Figure 2.3 Growth in HB Awards and LHA rates for LHA cases, Indexed to November 2008, in Cash Terms, November 2008 to February 2010**



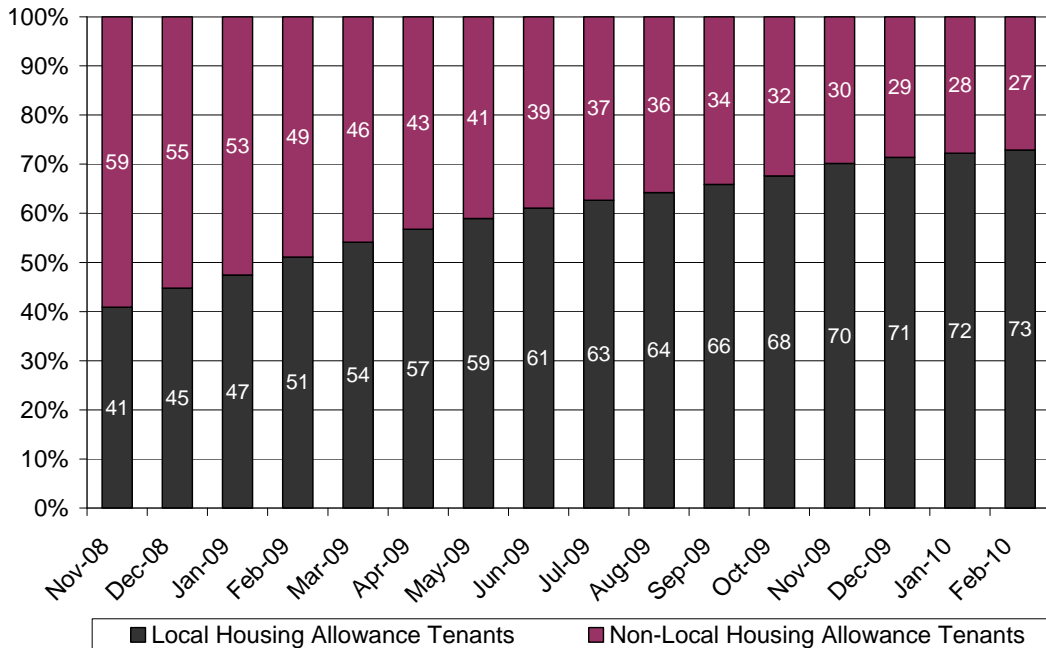
Source: HB Award growth and LHA rate growth are drawn from the Single Housing Benefit Extract

- Notes:
1. HB Awards relate to the National Statistics LHA caseload and may include a small number of non-LHA cases making a new claim since 7 April 2008.
  2. LHA rates are based on those of the National Statistics LHA caseload with positive LHA rates recorded and adjustments have been made to rectify implausibly low LHA rate entries.
  3. It should be noted that the FindaProperty Index would be expected to be more volatile and to show a change substantially in advance of the LHA rates. See the text and footnote 9 for further detail.

11. Expenditure on the LHA totalled £2 billion in 2008-09 and £5 billion in 2009-10, accounting for 11 per cent and 26 per cent of total HB expenditure respectively. The growth in expenditure reflects the phased migration of claims in the deregulated PRS onto the LHA as new claims are made or existing claimants move address.

12. Between November 2008 and February 2010 the proportion of HB claimants on LHA increased from 41 per cent of the deregulated PRS caseload to 73 per cent. This represents an increase of almost 600,000 cases. These additional cases are largely JSA(IB) claimants or people claiming HB while in work. Additional information on the characteristics of LHA cases is outlined in figure 2.4.

**Figure 2.4 LHA Caseload as a Percentage of Deregulated PRS Caseload, November 2008 to February 2010**



Source: Single Housing Benefit Extract

- Notes:
1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation, for example.
  2. Percentages are based on published National Statistics caseload numbers rounded to the nearest 10.

## 2.3 Characteristics of the LHA Caseload

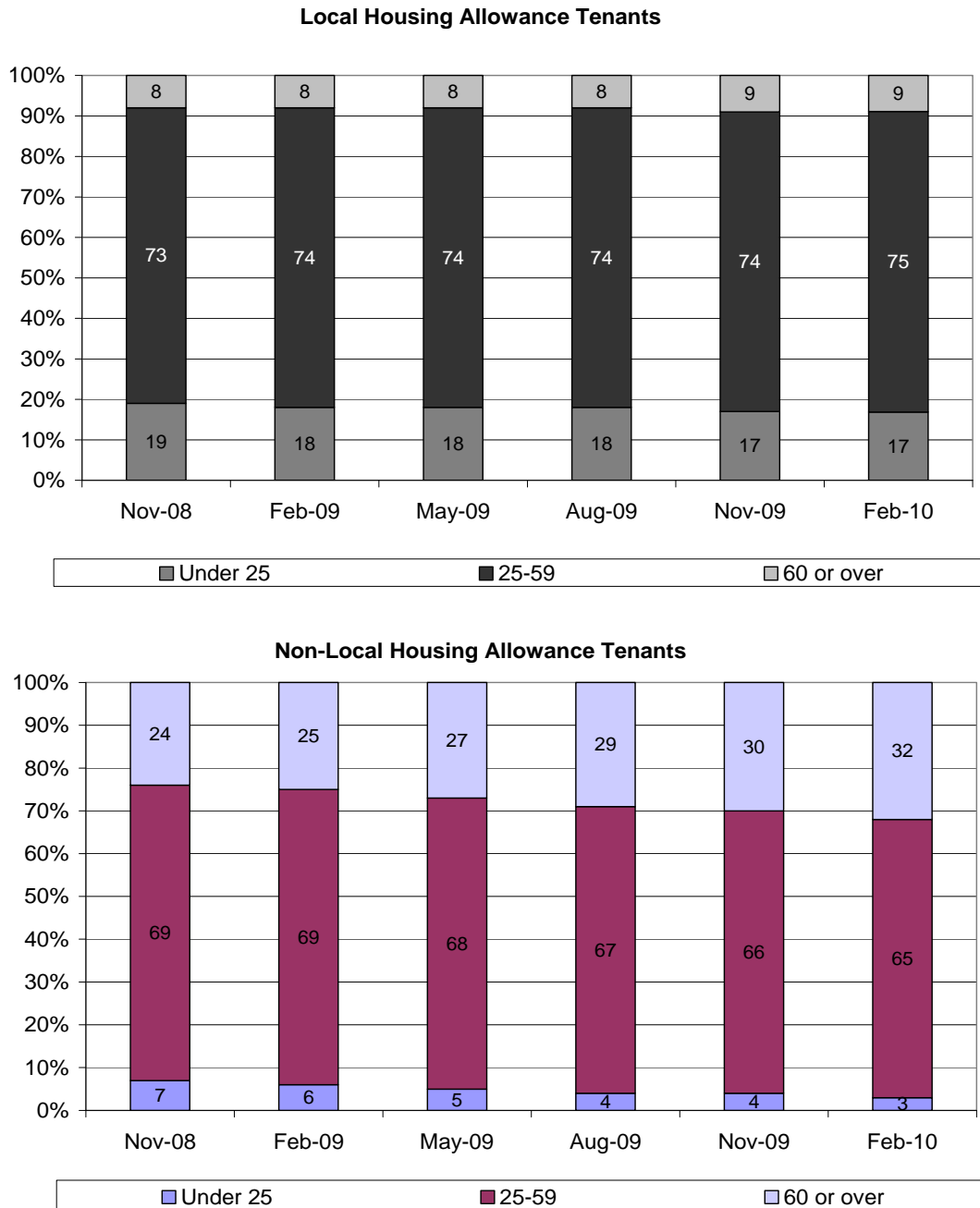
13. The following charts show various breakdowns for the deregulated PRS caseload<sup>12</sup>.

14. In February 2010, around 75 per cent of LHA cases were categorised as aged 25-59. The under 25's made up just under one fifth of the caseload and those aged 60 or over comprised just less than 10 per cent. Nearly half of the under 25 age group was made up of claimants of Income Support (IS) or income-related Employment and Support Allowance (ESA(IR)), while claimants of JSA(IB) or non-passported cases made up just over a quarter each of this group. All of these figures were fairly consistent between November 2008 and February 2010. For non-LHA cases there was an eight percentage point increase in claimants aged 60 or over; while those in the under 25 and 25-59 categories reduced by four percentage points each over the same period. This reflects growth in the

<sup>12</sup> As ethnicity is only partially completed on the Single Housing Benefit Extract, it is not possible also to look at breakdowns of the caseload by different ethnic groups.

LHA caseload among working age tenants, while those aged 60 or over tended to move onto the LHA at a slower rate.

**Figure 2.5 Deregulated PRS Caseload, by LHA Status and Age, November 2008 to February 2010**



Source: Single Housing Benefit Extract

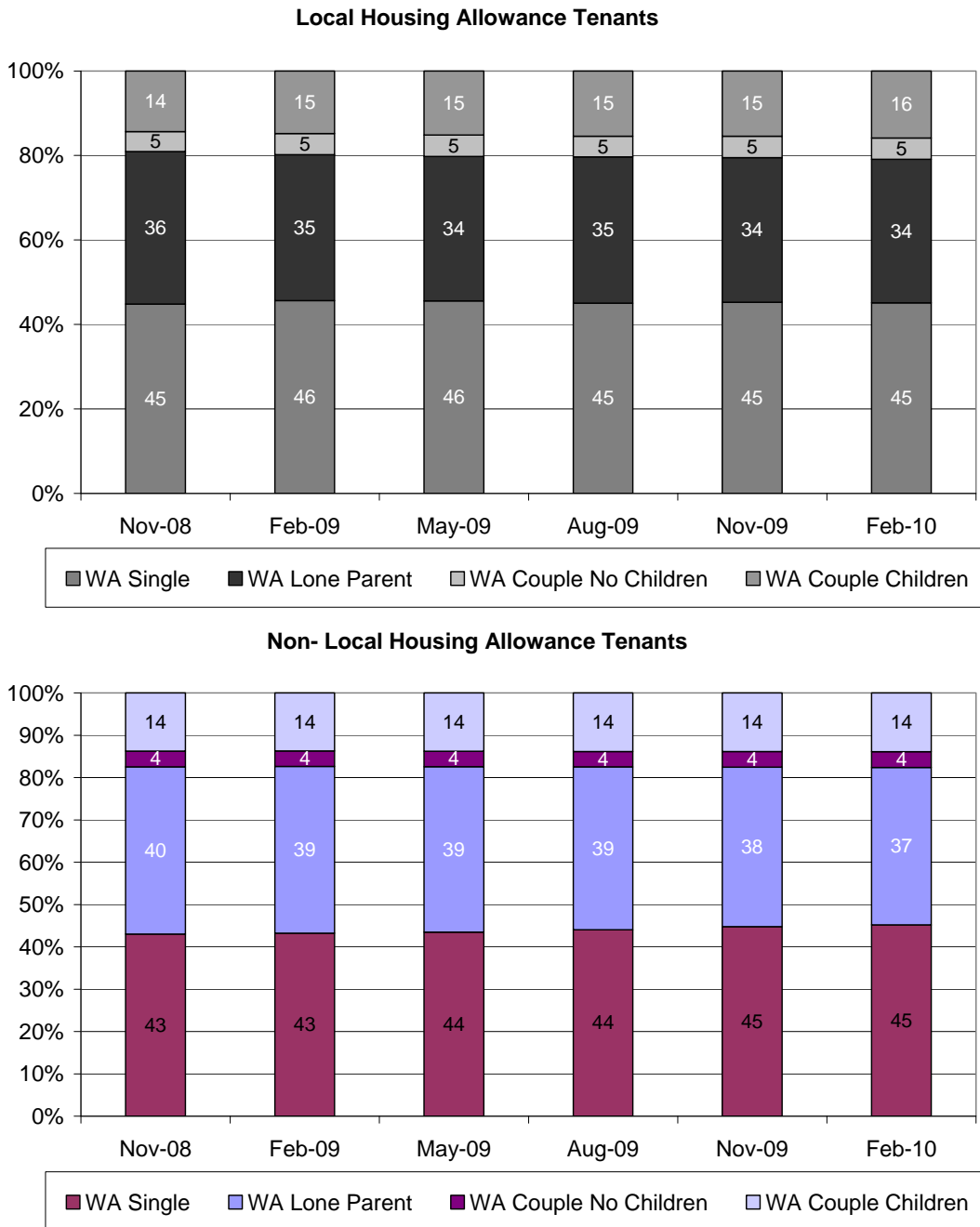
Notes: 1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation, for example.

2. Age breakdown does not include cases with unknown age

3. Percentages may not sum to 100 due to rounding.

15. The majority of working age LHA cases was either single or lone parents. There was little change to this profile over time. However, there was a slightly higher proportion of lone parents, the majority being female, amongst working age non-LHA deregulated PRS claimants compared to the LHA caseload.

**Figure 2.6 Deregulated PRS Caseload, by LHA Status and Family Type, for Working Age Claimants Only, November 2008 to February 2010**



Source: Single Housing Benefit Extract

Notes: 1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation.

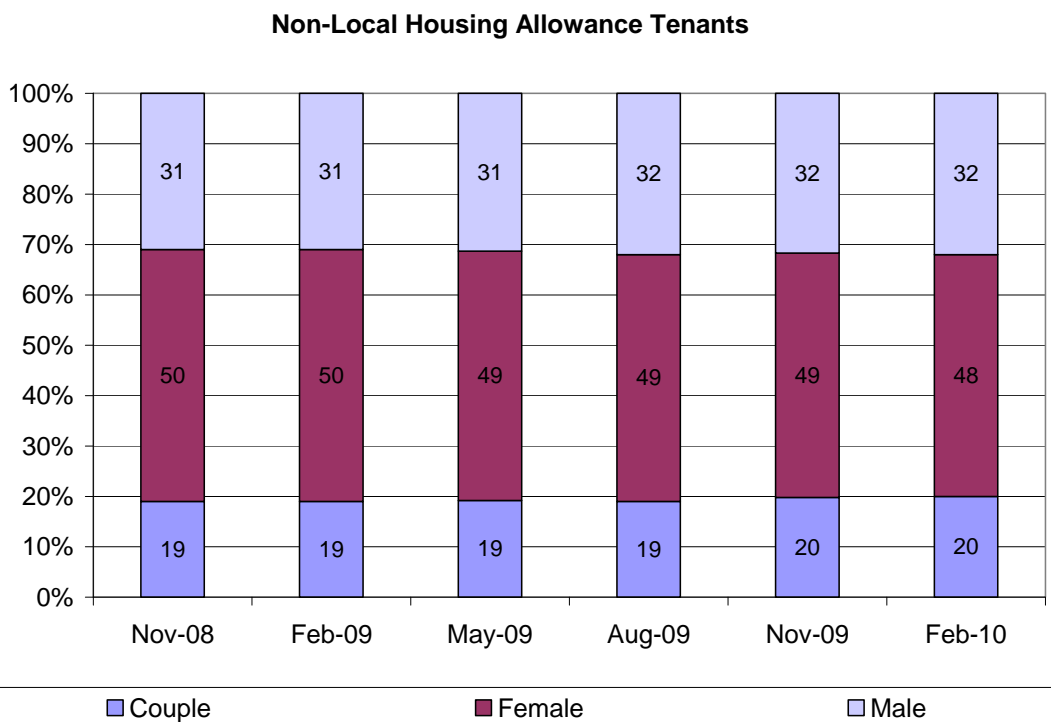
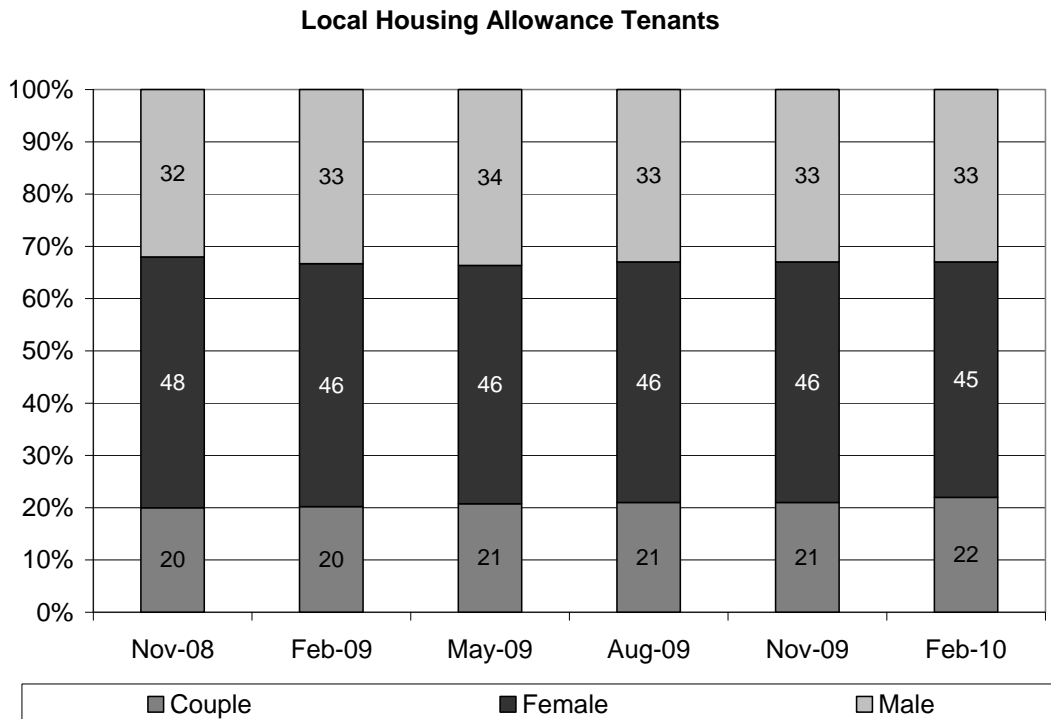
2. Those aged 60 or over are not included in this analysis. Please note that this category could include claimants 60 or over in couples and single claimants, with and without children.

3. Percentages may not sum to 100 due to rounding.

16. The proportions of LHA cases, split by gender, remained consistent over the period with around 46 per cent female, 33 per cent male and 21 per cent couples. Females constituted a slightly higher proportion of the non-LHA compared to the LHA caseload. This was to some extent reflected by the higher proportion of working age lone parents among non-LHA cases shown above.



**Figure 2.7 Deregulated PRS Caseload, by LHA Status and Gender, November 2008 to February 2010**



Source: Single Housing Benefit Extract

- Notes:
1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation.
  2. Those cases with missing gender information have been removed from this analysis.
  3. Percentages may not sum to 100 due to rounding.

17. The proportion of LHA cases classified as disabled<sup>13</sup> was 19 per cent in February 2010. This remained stable over the review period. Claimants with disabilities constituted a significantly higher proportion of the non-LHA compared to the LHA caseload. This group have been among the slowest to move onto the LHA.

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<sup>13</sup> The disabled group, estimated from the Work and Pensions Longitudinal Study (WPLS) and merged onto the Single Housing Benefit Extract, includes Housing Benefit awards with a Disability Premium or Severe Disability Premium, or those passported to full Housing Benefit by an award of Employment and Support Allowance or Income Support with a Disability Premium.

**Figure 2.8 Deregulated PRS Caseload, by LHA Status and Disability Status, November 2008 to February 2010**



Source: Single Housing Benefit Extract

- Notes:
1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation.
  2. See footnote 8 for how the disabled group is defined
  3. Percentages may not sum to 100 due to rounding.

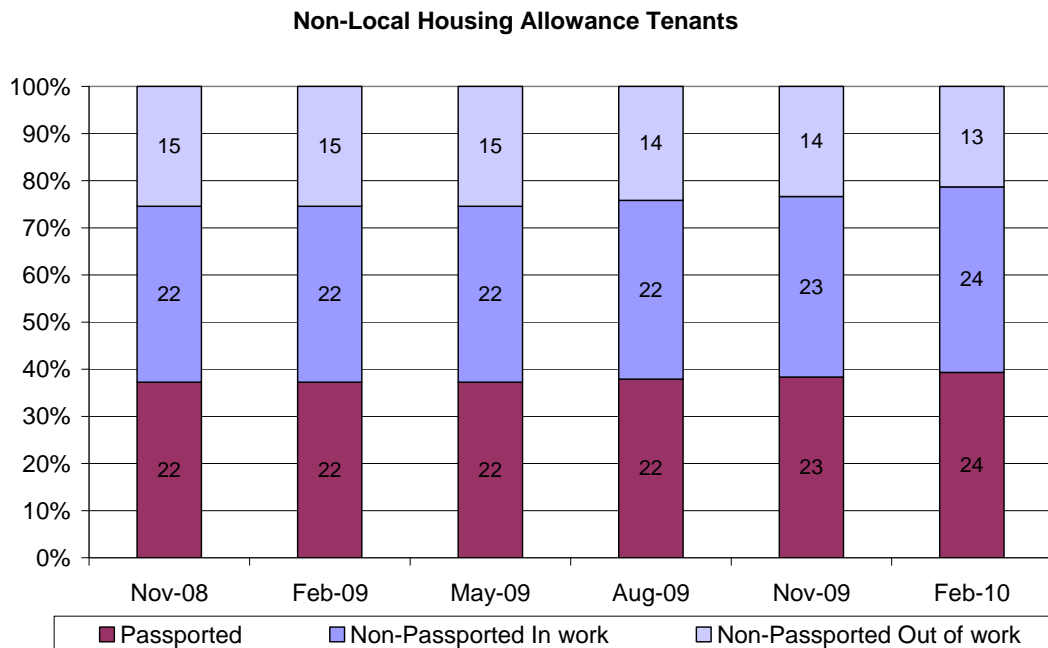
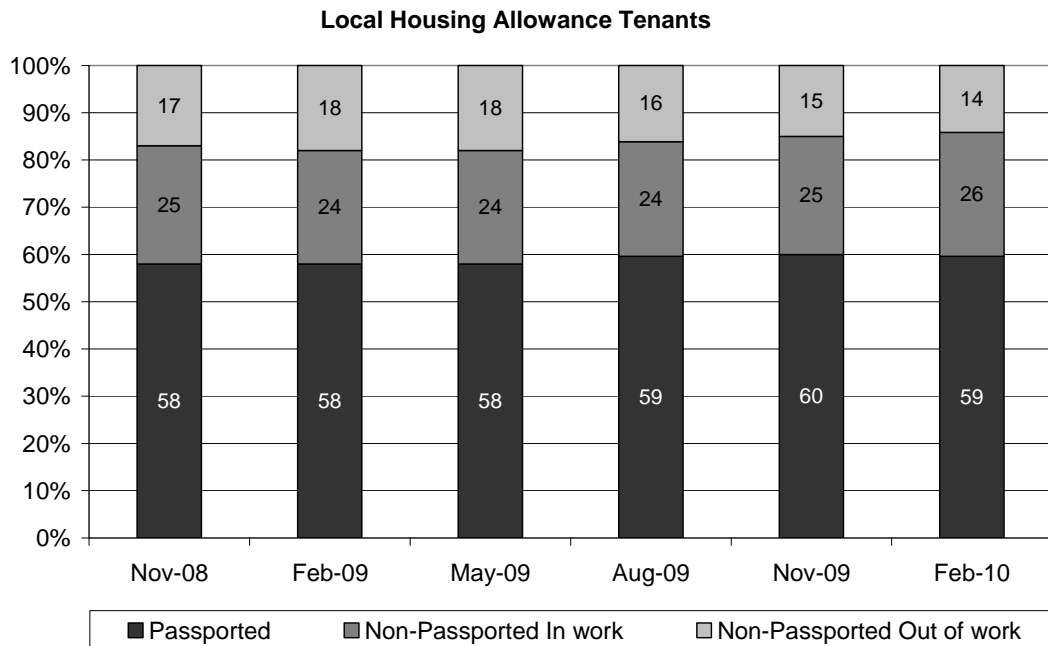
18. The proportion of passported<sup>14</sup> working age LHA cases remained relatively stable during the review period; increasing from 58 per cent to 59 per cent between November 2008 and February 2010.
19. The number of passported LHA cases rose by around 320,000 during the review period. Of the additional non-passported LHA cases, the number of in work<sup>15</sup> claimants rose by around 150,000, whilst the number not in work rose by around 60,000. As highlighted above, the growth in both in work and JSA(IB) claimants applied across the HB caseload, but was more prominent among LHA cases.
20. The economic downturn experienced over the last two years has led to an increase in those eligible for out of work HB. For employed recipients, the growth in caseload represents the continuation of a longer term trend towards renting a property, rather than buying, intensified by greater part-time working and lower earnings during the recession.

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<sup>14</sup> Passported cases are defined as those who receive the maximum HB as a result of their entitlement to other income-related benefits.

<sup>15</sup> In work claimants are defined as those who are not in receipt of a passporting benefit but they or their partner have income from earnings.

**Figure 2.9 Deregulated PRS Caseload, by LHA Status, Passported Status and Employment, for Working Age Claimants Only, November 2008 to February 2010**



Source: Single Housing Benefit Extract

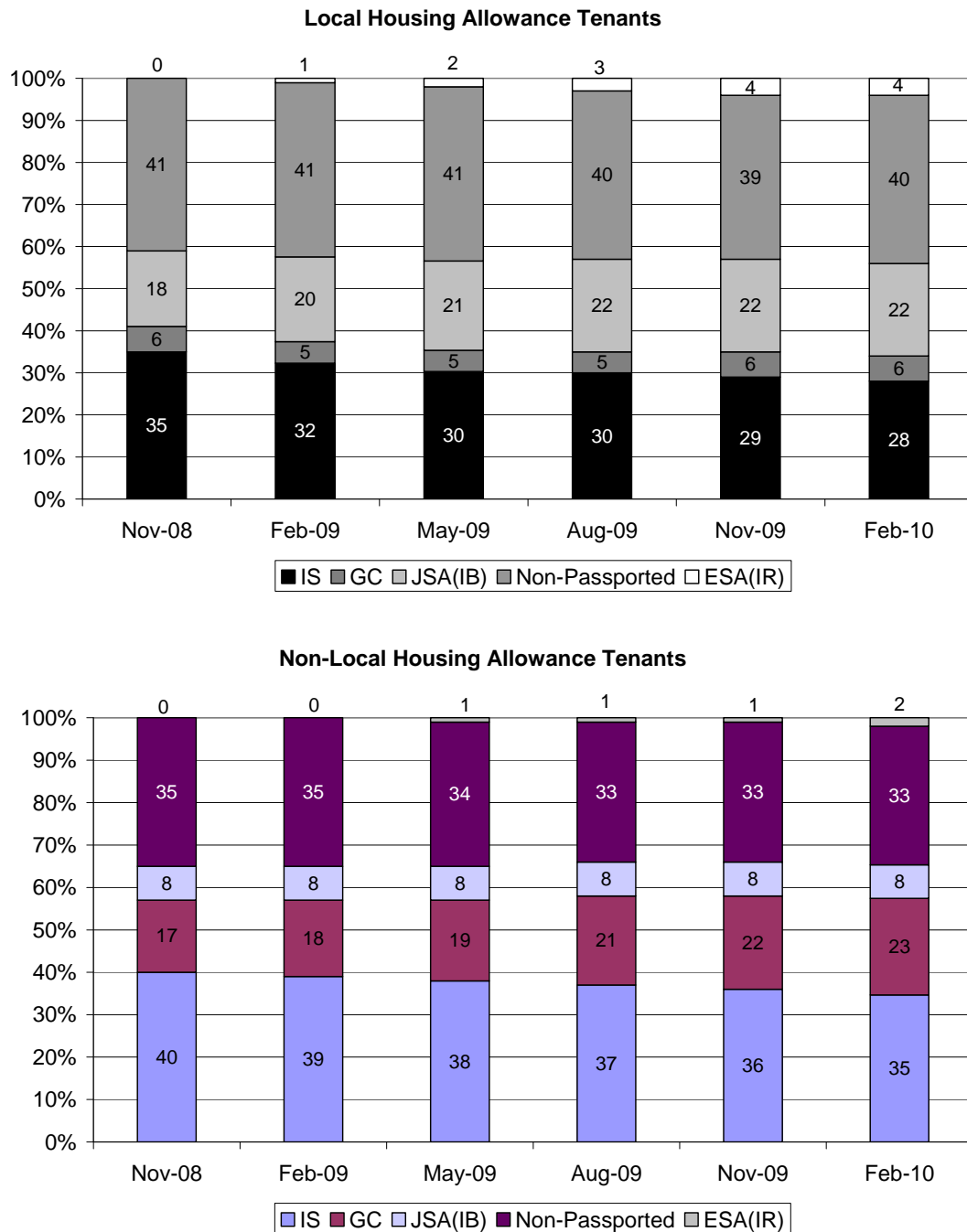
- Notes:
1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation.
  2. Passported Status does not include recipients with unknown passported status.
  3. See footnote 9 for a definition of passported cases
  4. See footnote 10 for a definition of non-passported in work cases
  5. Percentages may not sum to 100 due to rounding.

21. The increase during the economic downturn in the proportion of LHA cases who are claimants of JSA(IB) can be seen particularly between November 2008 and August 2009 in the figure below. It is important to note that the decline in the IS caseload is mirrored by an increase in the ESA(IR) caseload so that across the two groups there was little change over the period. This reflects the migration of cases from one benefit to the other<sup>16</sup>. The most noticeable change over the period in the non-LHA group was the increase in Pension Credit Guarantee Credit (GC) caseload, reflecting the growing proportion of cases over the age of 60 as working age claimants migrated more quickly to HB-LHA.

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<sup>16</sup> In addition to the downturn, the following changes would also be expected to result in some increase to JSA(IB) caseloads: (i) increased job seeking requirements for lone parents will see a trend with movement from IS to JSA(IB) (ii) introduction of ESA will mean that some previous IS claimants now get ESA(IR), but some will fail the work capability assessment and be required to claim JSA(IB).

**Figure 2.10 Deregulated PRS Caseload, by LHA Status and Client Group, November 2008 to February 2010**

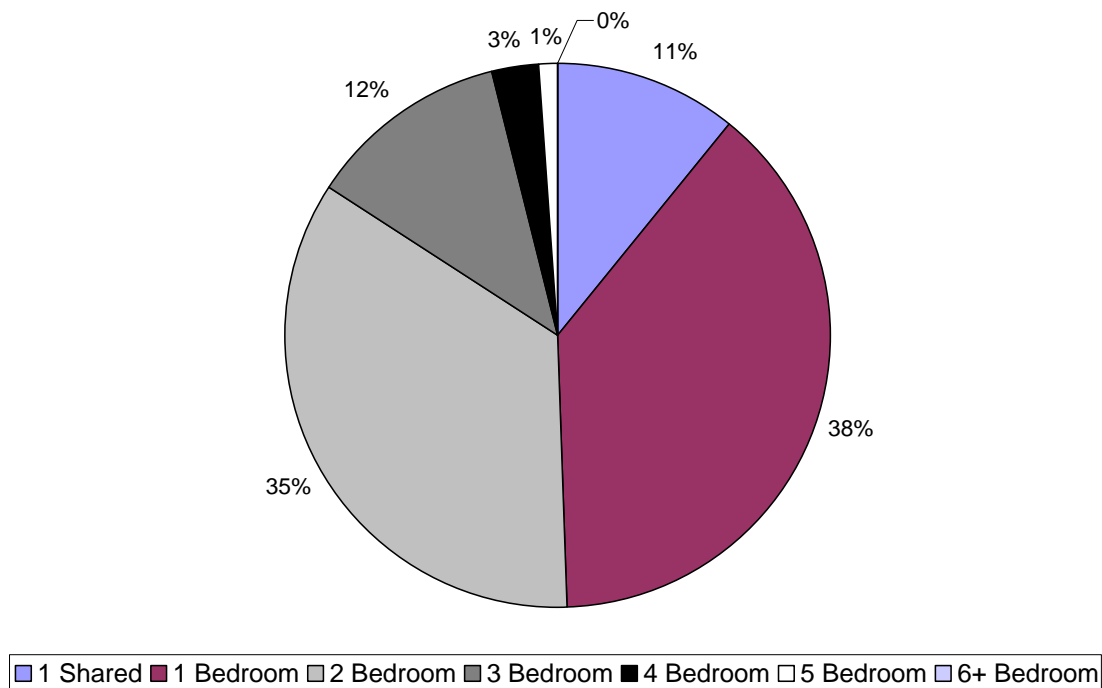


Source: Single Housing Benefit Extract

- Notes:
1. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008. This will include recipients in caravan accommodation.
  2. Client Group breakdown does not include recipients with unknown client group.
  3. Passported Benefit as recorded on systems within the LA.
  4. Percentages may not sum to 100 due to rounding.

22. The figure 2.11 shows that nearly three quarters of the LHA caseload were entitled to LHA rates based on one or two bedroom properties in February 2010. It can also be seen that the LHA caseload entitled based on the shared accommodation rate made up about 11 per cent of cases, while those entitled based on five or more bedrooms made up only about one per cent of the caseload. This pattern did not change much over the period November 2008 to February 2010.

**Figure 2.11 LHA Caseload, by Accommodation Size upon which HB Entitlement is Calculated, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. Breakdown by entitlement based on property size does not include recipients with unknown entitlement based on property size. This constitutes about six per cent of the National Statistics LHA caseload in February 2010.

2. The split of cases between the shared accommodation rate and the one bedroom rate was adjusted after it was discovered that there was an issue with certain software providers not recording any claimants on the shared accommodation rate. This issue was addressed by looking at the caseload recorded as entitled to HB based on a one bedroom property, for cases that should be restricted to the shared accommodation rate (single, under 25 claimants, with no dependants or non-dependants and with no severe disability premium). The LHA rates for these cases were then compared with official monthly LHA rates in order to find those with LHA rates close to the shared accommodation rate for their area.

3. Percentages may not sum to 100 due to rounding.



## 2.4 Conclusion

23. The period of the review was characterised by recession which led to increasing numbers of HB claimants, particularly in the PRS. This has had an impact on the composition of the LHA caseload particularly in terms of the age profile, benefit client group and in work status.

# Chapter 3

## Choice

### 3.1 Introduction

1. A key aim of the Local Housing Allowance (LHA) was to allow customers to balance the quality and price of their accommodation with their household income by giving them a direct financial interest in the level of their rent. Direct payments and the transparency of the LHA should have enabled tenants to exercise a greater degree of choice over their accommodation. However the scope for Housing Benefit (HB) claimants to exercise this choice will have been affected by landlord behaviour, and in particular landlord responses to the LHA. Because of this, the analysis looks at both the responses of customers and of landlords.
2. The level of LHA rates relative to rents will also have influenced choice, and although the analysis presented here touches on this issue, more detail is presented in Chapter 5.

### 3.2 Landlord Responses to the LHA

#### 3.2.1 Landlord Rent-Setting Behaviour, Impact on Prices and Affordability of Accommodation

3. A key question is the extent to which the publication of LHA rates has led landlords to use these to set rents. Publication of LHA rates may have influenced rents in the private rental market and limited the scope for HB claimants to trade off the quality and price of their accommodation.
4. Qualitative research among landlords<sup>17</sup> identified three broad rent-setting strategies. They were either primarily market-led, Housing Benefit-led or costs-led. Landlords most commonly said they followed the market when setting their rents. However, a few of the market-led landlords did

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<sup>17</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

indicate that they would charge the LHA rate if these were higher. Others used the LHA rate to set their rents, seeing it as a good benchmark of the 'going rate', or because they largely operated in the HB market. Some used the published level, others undercut slightly or pitched slightly above, depending on the tenants they sought to attract. Landlords also often took account of their running costs in setting their rents.

5. Using the Single Housing Benefit Extract<sup>18</sup>, a comparison was made between the contractual rents charged to HB-LHA claimants, and their applicable LHA rates in order to see if there was any evidence of widespread Housing Benefit-led rent-setting. By way of background, LHA rates are set at the median of market rents charged for different property sizes within each Broad Rental Market Area (BRMA). So if landlords did set rents according to the market, one might expect around half of tenants to have rents higher and the other half to have rents lower than their applicable LHA rate<sup>19</sup>. In addition, one might reasonably expect to see the majority of rents in the middle of the distribution, around the LHA rate. If rents were clustered very closely around the applicable LHA rates or tended to cluster more and more closely around LHA rates over time, then this would suggest that LHA rates were being used on a widespread basis to set rents.
6. Table 3.1 shows that in February 2010 about 43 per cent of LHA cases had contractual rents below the prevailing LHA rate; about eight per cent of LHA cases had contractual rents equal to their applicable LHA rate; and about 49 per cent had a contractual rent above the LHA rate. In terms of clustering of contractual rents around the applicable LHA rates about 22 per cent of contractual rents were within £5 per week of the LHA rate and about 39 per cent within £10 per week. Conversely about one fifth of rents were more than £30 per week different from the applicable LHA rate.
7. The evidence presented to the Work and Pensions Select Committee (WPSC) enquiry in November 2010 showed a modest tendency for rents to get closer to LHA rates over the period April 2009 to August 2010. This was the best evidence available at the time. Subsequent further quality assurance has led to refinements to the analysis. Table 3.1 does show a slight increase in the proportion of rents within £15 of the applicable LHA rate, from 52 per cent in November 2008 to 55 per cent in February 2010. But in the light of uncertainty with the data particularly

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<sup>18</sup> See Annex A for further details.

<sup>19</sup> This, however, assumes that the rents charged to HB tenants reflect the range of rents charged to non-HB tenants. The rents informing LHA rates exclude HB rents where the HB award may have had an effect on the level of rent being charged. And it is possible that these HB rents are on average lower (or higher) than the rents charged to non-HB tenants.

in the earlier periods (as set out in detail in Table 3.1), this finding needs to be treated with caution.

8. Due to the absence of administrative data for the period April 2008 to October 2008, it is not possible to determine with certainty whether the scale of clustering around the median observed here was a feature of the market upon national roll-out or whether it increased during the first 6 months after national roll-out. There are some rents clustered around LHA rates from November 2008, however, there is also likely to be a wider variation around the setting of contractual rents which will be influenced by a number of issues (e.g. duration of tenancy).

**Table 3.1 Cumulative Proportions of LHA Cases with Contractual Rents Respectively Below and Above Their Applicable LHA Rate, November 2008 to February 2010**

LHA - Contractual Rent		Nov-08	Feb-09	May-09	Aug-09	Nov-09	Feb-10
		%	%	%	%	%	%
Excess (LHA Rate Greater than Contractual Rent (£ per week))	£0 to £100+ and above	45	44	44	44	43	43
	£0 to £100	43	42	43	42	42	41
	£0 to £90	42	42	42	42	41	41
	£0 to £80	42	41	42	41	41	40
	£0 to £70	41	41	41	41	40	40
	£0 to £60	40	40	40	40	39	39
	£0 to £50	39	38	39	38	38	38
	£0 to £40	37	36	37	36	36	35
	£0 to £30	33	33	34	33	33	33
	£0 to £25	31	31	31	31	31	31
	£0 to £20	27	27	28	27	27	27
	£0 to £15	22	22	22	22	22	22
	£0 to £10	14	14	14	14	14	14
	£0 to £5	6	6	7	7	7	7
	<b>CR = LHA</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>
Shortfall (LHA Rate Less than Contractual Rent (£ per week))	£0 to -£5	7	7	7	7	7	7
	£0 to -£10	15	15	15	16	16	16
	£0 to -£15	23	23	24	24	24	25
	£0 to -£20	29	29	29	29	30	30
	£0 to -£25	34	34	34	34	35	35
	£0 to -£30	37	37	37	37	38	38
	£0 to -£40	41	41	41	41	41	42
	£0 to -£50	44	44	43	44	44	45
	£0 to -£60	45	45	45	45	45	46
	£0 to -£70	46	46	45	46	46	47
	£0 to -£80	46	46	46	46	46	47
	£0 to -£90	47	47	46	46	47	48
	£0 to -£100	47	47	46	47	47	48
£0 to -£100+ and below	48	48	48	48	48	49	

Source: Single Housing Benefit Extract

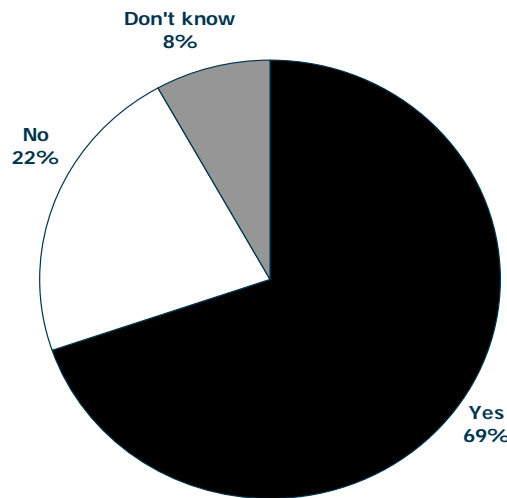
- Notes:
1. Only those of the National Statistics LHA caseload with positive LHA rates and positive contractual rents recorded have been included in this analysis.
  2. If the claimant and/or any member of their household could afford the financial commitments of their home when they first entered into them, and the claimant or their partner have not received HB during 52 weeks before their current claim, or due to having suffered a bereavement, their local authority (LA) should not use the LHA rates as the maximum rent figure for the first 13 weeks of their claim. These protected cases are also excluded from the analysis.
  3. Adjustments have been made to correct implausibly low LHA rate entries.
  4. Adjustments have also been made to deal with inconsistent recording of contractual rent values and the period to which they relate, eg recording a weekly value but noting the period of payment as monthly. Some adjustments have no effect on the certainty of the estimate. Other issues have required the omission of data or reasonable estimates were made using the available data.
  5. A further issue with contractual rent values appeared to be the recording, for a small group of cases, of rents for the entire property where a claimant was a joint tenant, rather than just the claimant's share of the rent. In the absence of other information to derive reasonable contractual rents for these cases, this group of cases has been excluded from the analysis. The issue only affects a small proportion of all joint tenants.
  6. Following the adjustments above, a small number of local authorities (LAs) still showing implausibly high increases in average weekly contractual rent amounts (in excess of 150%) between November 2008 and May 2009 were also removed from the analysis. These were deemed due to data shortcomings rather than real changes.
  7. Finally all cases where shortfalls exceeded -£400 were excluded. The -£400 threshold results in the removal of between 0.5% and 1% of cases. This was judged as a reasonable threshold for identifying outlying shortfall values most likely resulting from data errors rather than real shortfalls.
  8. Combined these changes remove between 8% to 11% of the National Statistics LHA caseload, with higher numbers of cases being removed particularly in November 2008 and February 2009, when reasonable adjustments could not be derived for more of the issues, and lower numbers of cases falling out in the later periods.
  9. The table above shows unlimited excesses whereas in reality the excess any claimant may be entitled to would be capped at £15 per week.
  10. The figures presented above for August 2009 differ slightly from those presented in the WPSC analytical supplement. Those figures were the best available at the time. Ongoing quality assurance of the time series for the LHA Two Year Review period resulted in the adjustments described above being made.
  11. Percentages may not sum to 100 due to rounding.
9. Many more landlords surveyed by Business Development Research Consultants (BDRC) Continental<sup>20</sup> in September 2009 indicated they were led by the market in setting rents rather than the LHA specifically. Around 44 per cent of all landlords surveyed said that they set rent levels

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<sup>20</sup> DWP, Analysis of BDRC Landlord's Panel, London, 2011

according to their local market conditions<sup>21</sup>. Of the landlords surveyed, very few said they charged the relevant LHA rate, only six per cent<sup>22</sup>. It is not possible to say to what extent those landlords who said they were market-led also relied on the LHA rate as a market-indicator. Undercutting the going rate, as determined by the LHA, was uncommon and practiced by only 1 in 7 landlords. By contrast, in January 2010, the majority (69 per cent) of Local Authorities (LAs) thought landlords in their area were raising their rent to LHA levels<sup>23</sup>.

**Figure 3.1 LA Perceptions that Landlords are Raising Rents to LHA Levels, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Percentages may not sum to 100 due to rounding.

- Similarly, advisers from LAs and independent advice agencies interviewed for the review<sup>24</sup>, also reported that they thought some landlords were setting rents at LHA levels. In some areas (e.g. the London Borough of Islington), advisers reported that the generosity of LHA combined with the practice of landlords raising rent to LHA levels was making the area unaffordable to people in work and not in receipt of HB. It was also noted that this practice was making up-front costs, such as deposits, more expensive for all tenants.<sup>25</sup>

<sup>21</sup> Splitting landlords by those with HB tenants and those without HB tenants the proportions who said they were led by the market in setting rents were 40% and 46% respectively.

<sup>22</sup> The proportions are 15% for those with HB tenants and 3% for those without HB tenants

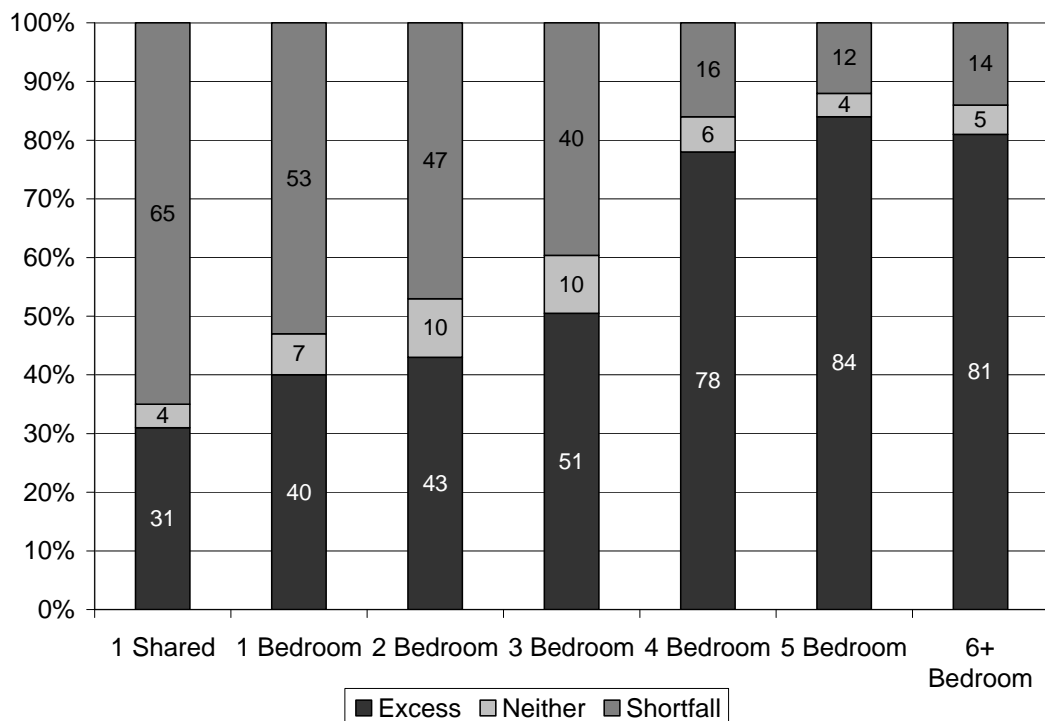
<sup>23</sup> This is likely to relate mostly to landlords letting to HB tenants in each local authority area.

<sup>24</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

<sup>25</sup> Rent deposits required by landlords are typically equivalent to four to six weeks' rent

11. Overall, the balance of evidence shows that the picture is pretty mixed and that there are a number of factors that affect rent setting. In particular, there is uncertainty whether the extent to which rents cluster around LHA rates was present at national roll-out or emerged in the period immediately after.
12. Some indication of the affordability of accommodation for households assessed under LHA rules is given by examining the distribution of excesses (LHA rate above contractual rent) and shortfalls (LHA rate below contractual rent). This is considered below by region and by the property size on which LHA entitlement is calculated.
13. Claims based on the LHA rates for larger properties had a higher proportion of excesses. This suggests that larger households whose claims were based on LHA rates for larger properties had greater scope for exercising choice. This choice could either involve choosing a large property with a contractual rent below the LHA rate or a smaller property that carried a contractual rent below the LHA rate a given family size would be entitled to.

**Figure 3.2 Proportion of LHA Cases Experiencing Excesses and Shortfalls, by Accommodation Size upon which HB Entitlement is Calculated, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1-8 for Table 3.1.



2. Breakdown by entitlement based on property size does not include recipients with unknown entitlement based on property size. This constitutes about six per cent of the National Statistics LHA caseload in February 2010.

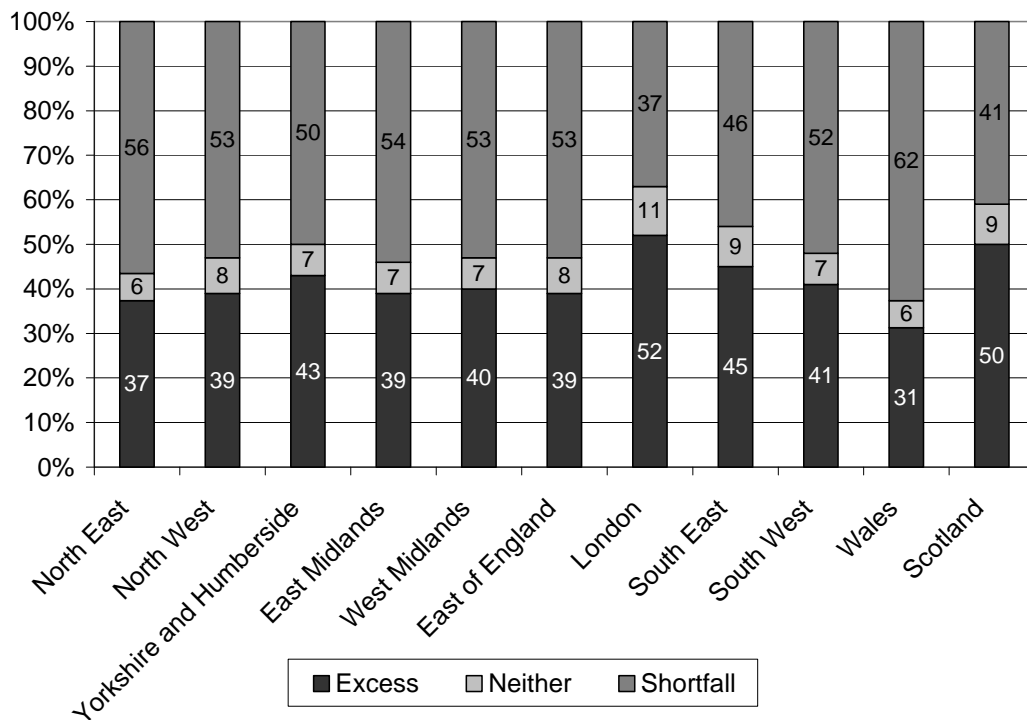
3. The split of cases between the shared accommodation rate and the one bedroom rate was adjusted after it was discovered that there was an issue with certain software providers not recording any claimants on the shared accommodation rate. This issue was addressed by looking at the caseload recorded as entitled to HB based on a one bedroom property, for cases that should be restricted to the shared accommodation rate (single, under 25 claimants, with no dependants or non-dependants and with no severe disability premium). The LHA rates for these cases were then compared with official monthly LHA rates in order to find those with LHA rates close to the shared accommodation rate for their area

4. Although maximum LHA rates were capped at the five bedroom rates from April 2009, the change only came into effect for existing claimants from the anniversary date of their claim and they were also given 26 weeks of transitional protection. This is why there are still claimants entitled based on six or more bedrooms in February 2010.

5. Percentages may not sum to 100 due to rounding.

14. The higher than average proportions of claimants who experienced excesses in London, Scotland and the South East, could suggest a greater scope for exercising choice among tenants in these regions.

**Figure 3.3 Proportion of LHA Cases Experiencing Excesses and Shortfalls, by Government Office Region, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1-8 for Table 3.1.

2. Estimates for contractual rents in Scotland are particularly affected by the issues described in note 4 to Table 3.1. Weekly contractual rents were estimated for about 14 per cent of cases in Scotland in February 2010.
3. Percentages may not sum to 100 due to rounding.

## 3.2.2 Willingness to Let to Tenants on Benefits

### Overall Indications of Willingness to Let to LHA Cases

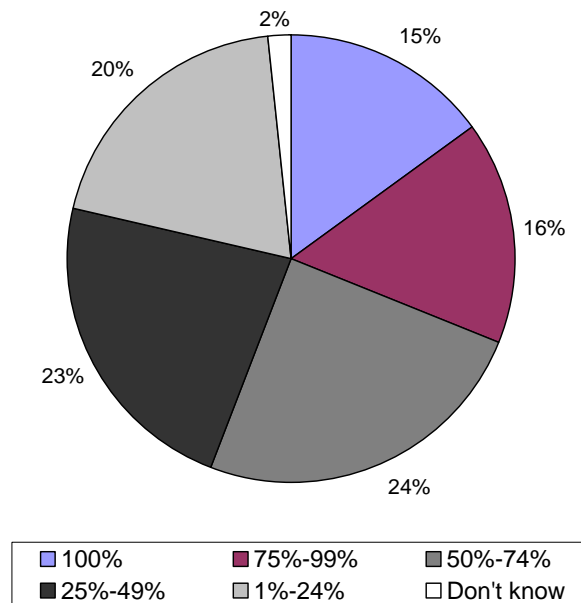
15. Regardless of whether HB claimants can afford the rent being charged, if they have difficulty securing a tenancy because they are claiming HB under LHA, this will reduce the scope for them to exercise choice. The willingness of landlords to let to HB customers is a key factor.
16. The BDRC survey<sup>26</sup> reported that between September 2009 and June 2010, around a quarter of landlords in the PRS were letting to at least one HB tenant<sup>27</sup>. The relative stability of these figures suggests that landlords were not leaving the market as a result of LHA. So by this measure the willingness of landlords to rent to at least one HB customer was not affected by the introduction of the LHA.
17. It is important also to check that there has been no decrease in the proportion of landlords' properties let to HB tenants. Landlords who let to HB tenants were asked what proportion of their properties were occupied by LHA cases. Results show that between September 2009 and June 2010, between 12 per cent and 20 per cent of these landlords had 100 per cent of their tenants receiving HB. Across the period around 40 per cent had portfolios where over half, but not all, were lets to HB tenants. Although there is some underlying volatility in this data, there is no indication over time that landlords were systematically reducing the proportion of their portfolios let to tenants on HB.

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<sup>26</sup> DWP, Analysis of BDRC Landlord's Panel, London, 2011

<sup>27</sup> To put these survey figures into context, based upon National Statistics figures for July 2010, the HB caseload for claimants in the PRS, expressed as a percentage of the estimated 3.6m privately rented properties in Great Britain, was approximately 40%. This figure uses the most up-to-date information available, and unlike survey data it does not systematically underestimate the receipt of HB. However, it is unable to account for multiple HB claimants living in a single household. Estimates from the Family Resources Survey for 2008-09, which account for multiple claimants in a household but are likely to under-estimate HB receipt, suggest that about 20 per cent of households in the Private Rented Sector in Great Britain were in receipt of housing benefit. No national statistics estimates are available yet to indicate how these percentages may have changed over the review period.

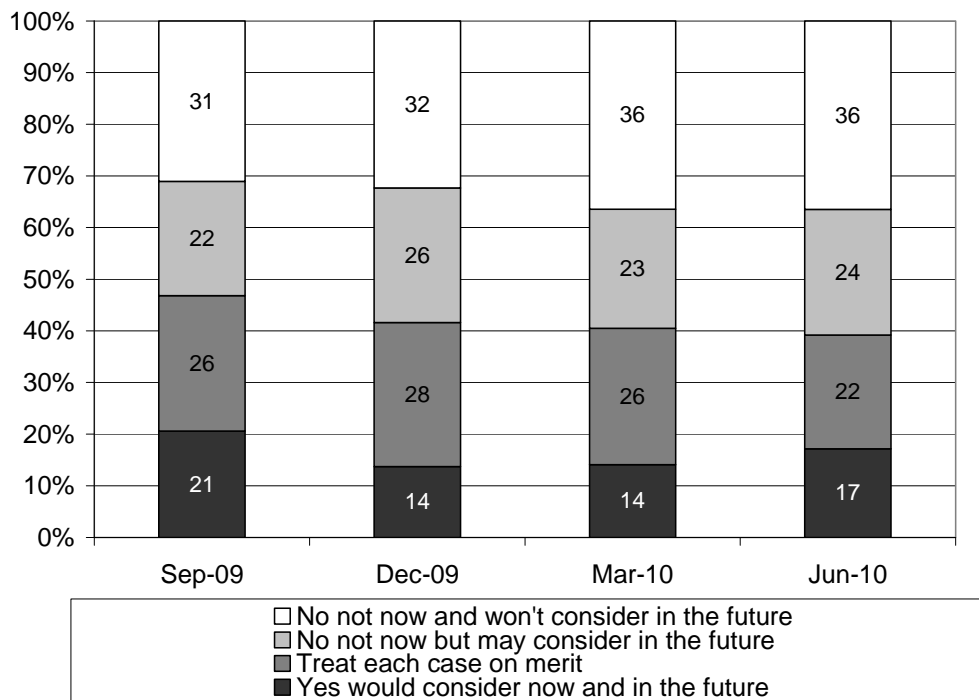
**Figure 3.4 Distribution of Proportions of Properties Let to HB Tenants by Landlords Currently Letting to at Least One HB tenant, Average over September 2009, December 2009, March 2010 and June 2010**



Source: DWP Analysis of BDRC Landlords Panel Survey, September 2009, December 2009, March 2010, June 2010

- Of sampled landlords letting to HB tenants, 81 per cent had tenancies which were let since the national rollout of LHA in April 2008. Additionally, as shown in Figure 3.5, of those not currently letting to HB tenants, in September 2009 47 per cent stated they would consider letting to them in the present and in future or treat each case on its merits. However, this latter proportion fell each quarter reaching 39 per cent in June 2010. Between 22 and 26 per cent stated that they would not immediately consider letting accommodation to HB tenants, but may consider doing so in the future. Initially 31 per cent said they would never consider letting to HB tenants, this increased each quarter, to reach 36 per cent by June 2010.

**Figure 3.5 Proportion of Landlords Not Currently Letting to HB Claimants Who Would Consider Doing So in the Present and in Future, September 2009 to June 2010**

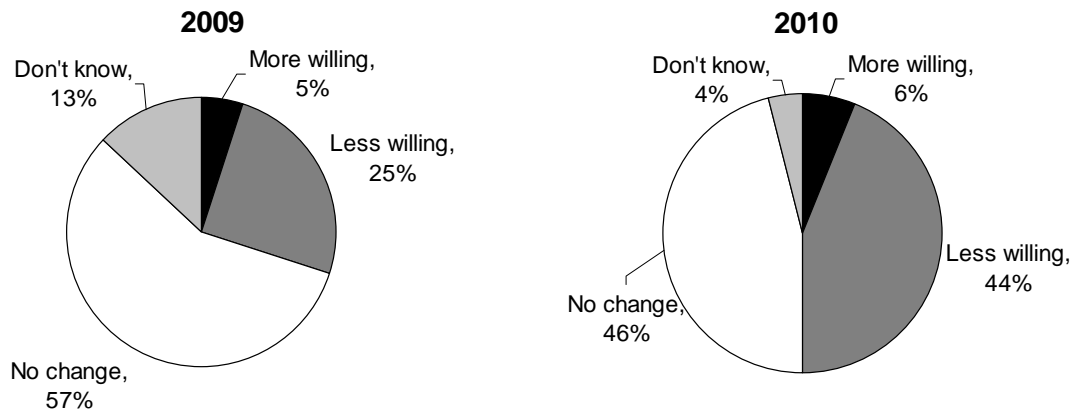


Source: DWP Analysis of BDRC Landlords Panel Survey, September 2009, December 2009, March 2010, June 2010

Notes: 1. Percentages may not sum to 100 due to rounding.

19. The perceptions of LAs about landlords' behaviour are not dissimilar to the reports of landlords themselves. LAs noted some landlords' reluctance to let to HB tenants: a quarter said that landlords in their area were not happy to let to HB tenants, however the majority (67 per cent) said that landlords in their area were happy to let to HB tenants.
  
20. LAs were asked specifically if they thought the LHA had affected landlords' willingness to let to HB tenants. In both January 2009 and January 2010, over half of LAs either thought that there had been no change, did not know or thought that landlords were more willing since the introduction of the LHA. However, between January 2009 and January 2010, there was an increase in the proportion suggesting that landlords were less willing since the introduction of LHA to let to HB tenants, from 25 per cent to 44 per cent. So the perceptions of LAs on the willingness of landlords to let to HB tenants since the introduction of the LHA have worsened during the review period.

**Figure 3.6 LA Perceptions of Landlords' Willingness to Let to HB Tenants since Introduction of the LHA, January 2009 and 2010**



Source: LA Omnibus Survey Waves 18 and 20

21. On the claimants' side, findings are more positive. Qualitative research among tenants<sup>28</sup> found that the method of direct payment gave them the choice of whether or not to disclose their HB status to landlords. The research also found that tenants were indifferent to disclosing their economic status as many considered that landlords were beginning to be more accepting of people on benefits, although there was no evidence to link this specifically to the introduction of the LHA. Some tenants felt that higher LHA rates made it easier to find better quality properties. It tended to be the case that if a tenant was in receipt of HB prior to moving into a property, this was disclosed to the landlord, whereas if a change of circumstances resulted in the movement onto HB during a tenancy this did not tend to be disclosed. Tenants reported that this was not in order to deceive the landlord but rather due to a feeling that as long as the landlord got their rent it should not matter where it came from.
  
22. Several claimants interviewed noted that the stigma of being in receipt of HB reduced the number of properties available to them, noting that landlords often advertise properties as 'no DSS'. Where tenants had been referred to the Private Rented Sector (PRS) due to long waiting lists for social housing they tended to report a less positive experience than those who had always been seeking accommodation in the PRS, a factor of which was difficulty in finding a landlord willing to take on HB tenants. However there was no evidence that this problem was any better or worse under LHA than under the previous HB scheme.

<sup>28</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

23. While both landlords and LAs have reported some growing reluctance to let to LHA cases over the review period, this was not the prevalent perception of claimants interviewed. Furthermore, there is no clear evidence of large scale exodus of landlords from the private rental market as a result of the LHA. In fact the PRS HB caseload has been growing over the review period in the face of the recession, as noted in Chapter 2.

## Reasons for Reluctance to Let to LHA Cases

24. In all quarters, landlords responding to the online survey<sup>29</sup>, who said they would not currently consider HB tenants (including those who may consider doing so in the future), were asked why they would not currently let to HB tenants. The main responses were “potential damage to property” and issues relating to direct payments and rent arrears: “can’t guarantee receiving the rent”, “too risky”, and “direct payment to tenants which may not be passed on”.
25. Qualitative research<sup>30</sup> found a general hierarchy in the letting preferences of landlords with household type being the least important, economic status of greater importance and HB status of most importance. Non-HB tenants were preferred most commonly because of experiences or fears of the rent not being paid by HB tenants. Where landlords held a preference for working tenants, they did so because they were considered more likely to pay rent, pay in advance, afford a deposit and look after the property. For most letting agents credit checks, referencing, full deposit and rent in advance were essential.

## Deposits and Rent in Advance

26. The ability of HB tenants to pay a deposit appears to be a key factor affecting the choice of property available and even more so under LHA arrangements with HB most often being paid to the tenant. Some landlords stated that while they were sympathetic with the situation HB tenants were in, they would still require a deposit as they found this to be symbolic of the tenant having the ‘right’ attitude. Some would allow the deposit to be paid in small amounts over a few months. Re-enforcing this point, both tenants and advisers in LAs and independent advice agencies<sup>31</sup> also reported that inability to pay a deposit restricted the choice of properties available to claimants.

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<sup>29</sup> DWP, Analysis of BDRC Landlord’s Panel, London, 2011

<sup>30</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

<sup>31</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants’ and advisers’ early experiences of the Local Housing Allowance national rollout, London, 2010

27. That said, it was not uncommon for landlords to report that they did not take deposits from HB tenants as they were often viewed as being unable to afford them. Some had been able to secure a deposit from a LA administered bond scheme. It should be noted that when a deposit was made from a bond scheme, landlord respondents did not comment on the symbolic value of it as they did when the tenant paid the deposit themselves. A few tenants, who typically knew the landlord, had been allowed to move into some rented accommodation without paying a deposit. Where tenants needed to raise a deposit in order to secure a property they often borrowed money from various sources.
  
28. Qualitative landlords' evidence revealed the inability of HB to be paid in advance a major drawback, with some voicing the opinion that it put HB tenants at a competitive disadvantage compared to non-HB tenants. This was particularly true when they were also unable to ask for a deposit. With HB being paid directly to the tenant and landlords' unease about their reliability at paying rent, the inability to pay in advance compounded fears that the tenant would not pay at all, particularly the last rent instalment before leaving. A national landlord stated that he did not let to HB tenants as they were not on a 'level playing field' with non-HB tenants since they generally could not conform to the industry norm of paying rent in advance and a deposit. However, there was a degree of flexibility among other interviewed landlords who were happy to wait for rent until claims had been processed. Several of these landlords were of the opinion that they may have to wait for initial payment, but once processed rent was fairly guaranteed even despite the fact that HB was now being paid directly to tenants.
  
29. The inability of HB tenants to pay a deposit or rent in advance is not new to the LHA, however, some landlords reported that the payment of HB directly to tenants has had an impact on their taking of deposits or rent in advance as a way of minimising the problem or potential of rent arrears. Others, who accepted that HB tenants could not afford a deposit, reported that the lack of one exacerbated other problems that might occur particularly with HB payments being made to tenants under LHA arrangements, including rent arrears or claimants leaving without paying the last instalment of rent.

## **Household Type Preferences or Assessing Each Case on its Merit**

30. Compared with economic status and HB status, respondents generally tended to be less concerned about the age and family type of their tenants. Apart from economic status, some landlords had preferences based on other household characteristics, normally as a result of past

experience. At the heart of these preferences there often tended to be an association of the characteristics with reliability in paying rent. A few of the larger landlords preferred to rent to families as they typically moved home less often than other household types, were viewed as more reliable at paying rent, easier to contact and better neighbours. Most often, though, portfolio constraints and the market in their area dictated the type of tenant to whom a landlord would let.

31. Landlords who were indifferent to the economic status of a tenant tended to be smaller scale, to show sympathy for an unemployed person's situation and to assess each tenant on their individual merit. Nevertheless, they reported putting value on the ability to pay rent and their personal judgement of the prospective tenant above that of the tenant's economic status. It was noted that the introduction of direct payment to tenants was causing these landlords to consider these factors more carefully. Many stated they have sizeable buy to let mortgages, and their portfolios were of insufficient size to spread the risk of arrears. Tenants and advisers in both LAs and independent advice agencies also noted some landlords moving out of the HB market as a result of direct payments. Importantly there is no evidence of this happening on a wider scale.
32. Some large landlords specifically targeted the HB market because they felt returns were greater and it provided a greater pool of potential tenants to choose from. Of those landlords that were happy to let to HB tenants they tended to prefer certain groups, such as families. Landlords who had a clear preference for HB tenants acknowledged the risk of rent arrears. However, they valued the fact that with HB tenants there were mechanisms to enable HB to be paid direct to them once eight weeks of arrears had accumulated, whereas there was no such mechanism with tenants not on HB. So this mechanism is seen as an important safety net for landlords as well as claimants, even though landlords mostly view eight weeks as too long. This is discussed further in Chapter 4.
33. The perceived reliability with which the tenant pays rent appears to be at the heart of most letting preferences. In addition, payment in advance and deposits are valued for securing payment and are treated as a demonstration of the tenant's future commitment to paying rent, particularly under the LHA arrangements of paying HB directly the claimant. Fears of non-payment are compounded when an LHA case is unable to pay a deposit.

### 3.3 Tenant responses to the LHA

34. The key feature of the LHA enabling tenants to trade off the quality and price of their accommodation is the facility to keep an excess, of up to

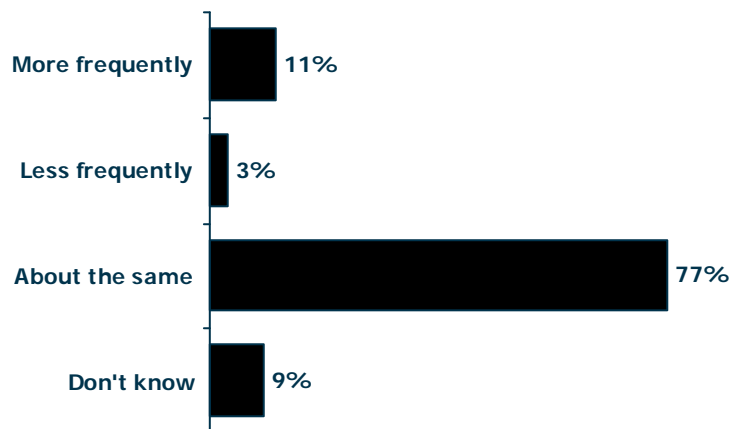


£15 per week, if their contractual rent is below the maximum LHA rate on which their claim is assessed.<sup>32</sup> This section investigates tenants' responses to this feature of the LHA and then looks at the available evidence about the size of accommodation that tenants have chosen to rent.

### 3.3.1 Impact of the £15 Excess on Decisions about Housing

35. The excess was intended to provide a 'shopping incentive' to claimants in receipt of LHA. By giving claimants knowledge in advance of their maximum entitlement and allowing them to keep some of the difference if they chose cheaper accommodation, it was intended to encourage claimants to search for a property that suited them in terms of quality and price within the budget of the applicable LHA rate. As seen from Table 3.1, at February 2010 approximately 43 per cent of LHA cases had an excess<sup>33</sup>. This had not changed significantly over the period from November 2008 to February 2010.
36. Generally the frequency with which tenants moved home was not found to have been affected by the LHA. When surveyed in January 2010, over three quarters (77 per cent) of LAs thought that the frequency of household moves was about the same under LHA as under the previous HB scheme. Only around one in ten (11 per cent) thought that claimants now moved more frequently.

**Figure 3.7 LA Perceptions of the Frequency of LHA Cases Moving Home Compared to Non-LHA Cases in the Deregulated PRS, January 2010**



Source: LA Omnibus Survey Wave 20

<sup>32</sup> During Pathfinders the excess claimants could keep was not limited.

<sup>33</sup> It is important to note that the excess here does not reflect the difference between the HB award and the rent. Levels of income higher than the claimant's applicable amount or deductions for non-dependants may make the HB award lower than the LHA rate and erode the excess beyond what is shown here.

37. The Tenants and Advisers research also found that LHA had little effect on tenants' motivations to move. Tenants reported that location, suitability of accommodation and landlord decisions to end tenancies were more common reasons for moving. Most tenants did not think that the incentive to keep an excess would influence their choice of accommodation. One tenant commented that it was not worth compromising on the quality of a property for £15 per week i.e. that they would not rent a cheaper property of poorer quality for the sake of securing an extra £15 of income. These findings reflect the Pathfinder evaluation where the excess claimants could keep was not limited.
38. Whilst it was found that LHA had little effect on tenants' motivation to move, tenants did report that advance knowledge of the LHA rate would influence their decisions in any future move. Reports by some advisers<sup>34</sup> that there was confusion among tenants as to why they were receiving the extra money, with tenants often being unsure as to whether they could keep it, suggest that at least among these claimants the excess could not have been influential in their selection of a property.
39. The Tenants and Advisers research also found that feelings towards the excess policy and its potential removal were mixed among both tenants and advisers in LAs and independent advice agencies. The majority of tenants interviewed were not in receipt of an excess, and presumably because of this (at least in part) advisers had greater knowledge of excesses than tenants.
40. Advisers who were against the removal of the excess were commonly concerned about the financial impact on tenants who had become used to and reliant on it. Arguments advisers gave in favour of the excess are that it:
- promoted responsibility for continuing to pay rent, particularly if the rent had been negotiated down in order for the tenant to benefit from the excess;
  - increased security of the tenancy since the landlord knew there was some extra income to recover any potential arrears;
  - enabled tenants to save for a deposit for future house moves<sup>35</sup>.
  - provided an incentive for landlords to keep rents below LHA rates in order to attract 'good' tenants; and
  - acted as a disincentive for landlords to increase their rent to the full LHA rate.

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<sup>34</sup> Confusion about the excess was reported by both advisers in LAs and in independent advice agencies.

<sup>35</sup> Inability of an HB tenant to pay a deposit is considered a key factor in limiting availability of accommodation.

41. A few tenants were also in favour of the excess and held the opinion that allowing tenants to keep an excess was sometimes warranted due to the poor quality of some accommodation, and also that the additional income would help the finances of the household. For example, one respondent said that receiving an excess meant that she could afford the fare to allow her to broaden the area where she could consider working.
42. Despite adviser arguments in favour of retaining an excess, the dominant feeling among tenants was that LHA should cover contractual rent and no more. Even some tenants who were in receipt of the excess said that they would consider it “fair enough” if it was taken away. Tenants who were living with a shortfall felt strongly that it was unfair for some people to be getting more than they needed while others were getting less.
43. Some advisers were also in favour of the excess being removed. Generally this was because they thought there were more effective ways in which the money could be used, for example helping to fund rent deposit schemes. In cases where direct payments were being made to the landlord, advisers highlighted that receiving an excess could be problematic both in terms of administering a split payment but also because these tenants did not always have a bank account into which the excess could be paid.
44. Similar to the Pathfinder evaluation, this review found that the excess did not act as a “shopping incentive” for tenants, because of a lack of understanding of benefit entitlement and because other factors, not just the rent being charged, were considered more important when making decisions about where to live. There was not overwhelming support for retaining the excess.

### 3.3.2 Over- or Under-Occupation and Trading Off Quality and Size of Accommodation versus Price

45. DWP administrative data on the actual size of property occupied is not of sufficient quality to undertake detailed analysis of the accommodation choices of LHA cases. This is because the Single Housing Benefit Extract only records information required for the HB calculation. Existing survey data does not permit large enough sample sizes for detailed analysis, but allows an overview. The Department would have had to carry out primary research to address this question fully, for which resources were not available.

46. The table below shows that about one third of LHA households were accommodated in properties larger than their household size warranted in the first year after national roll-out. This is lower than the proportion under-occupying among non-HB households in the PRS. This may in part reflect a relatively low degree of willingness among LHA cases to trade off the quality and price of the accommodation. But it is also likely to reflect the composition of the LHA caseload in 2008-09. As seen in Chapter 2, claimants aged 60 or over have been among the slowest to move onto the LHA and this group, in particular, is likely to have relatively higher levels of under-occupation where, for example, the tenant has remained in a larger home that once accommodated their family.

**Table 3.2 Over- and Under-Occupation of LHA Households and Non-HB Households in the Deregulated PRS, 2008-09**

Circumstances of Household	Percentage of LHA-HB Households	Percentage of Non-HB Households in the PRS
Over-occupied (not enough bedrooms)	4%	6%
Appropriately accommodated	63%	45%
Under-occupied (too many bedrooms)	33%	49%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Source: Family Resources Survey, 2008-09

Notes: 1. LHA households are defined as private tenants living in either furnished or unfurnished PRS accommodation, where the rent is not registered as a fair rent. To be classed as a LHA household, the most recent HB claim must be reported by the claimant to have started no earlier than April 2008, approximating to the National roll out date of 7 April 2008. Households are only counted once, even if there are multiple benefit units living in a single household. The figures take into account all persons living in the household, including non-dependants.

2. All percentages are based on the grossed up weighting factors that are used in the responses to the Family Resources Survey to ensure that results are nationally representative.

3. The table does not include LHA cases from the pilot phases prior to national roll-out.

4. The table does not take account of the shared accommodation rate restriction which applies to some HB claims under LHA rules.

5. Figures for non-HB households in the PRS are based upon respondents not declaring receipt of HB. Benefit receipt is frequently under-reported in both the Family Resources Survey and other similar surveys. As a consequence this category may include a number of respondents who have failed to declare that they are in receipt of HB.

6. While the number of survey respondents underlying the analysis above is considered large enough to give reasonable estimates, the numbers are still very low and likely to be subject to substantial sampling variation.
47. It is not possible to determine whether the tenants under-occupying properties experienced excesses or shortfalls between the relevant LHA rates and their contractual rents. Because the above table is based on a small sample of tenants it is not possible to provide a further breakdown of the figures (for example, by employment status).
48. However, the results clearly show that the proportion of LHA cases that were over-occupying accommodation is much lower than the proportion of LHA cases who had an excess (44 per cent, on average in February 2009). This suggests that only a minority of excesses may have resulted from claimants occupying smaller accommodation than they may reasonably have required, and the majority of excesses were a result of claimants finding suitably sized accommodation below the relevant LHA rate.
49. The Tenants and Advisers research found that the lack of availability of suitably sized living accommodation sometimes led to over- or under-occupation, rather than necessarily tenant choice. For example in Crawley, there was an over-supply of three bedroom properties and an under-supply of smaller properties, while in Edinburgh four or five bedroom properties tended to be at the luxury end of the market and not available or affordable to LHA cases.

### 3.4 Conclusion

50. Landlord rent setting behaviour is influenced by a range of factors and there are a wide range of factors that influence the level at which rents are set. There is some clustering of rents around LHA rates from November 2008, but a lack of data covering the period immediately after national roll-out prevents determining if this pattern existed in the market from April 2008 or was a response from landlords to the publishing of LHA rates.
51. There is clearly reluctance from some landlords to let to HB claimants. Payment of HB directly to tenants under the LHA, combined with difficulties affording a deposit or being able to make payment in advance, was also found by some landlords to compound problems such as rent arrears and claimants leaving without paying the last rent instalment. The reasons for reluctance among some landlords to let to LHA cases are not exclusively related to the LHA and there is not clear evidence of landlords exiting the HB market as a result of LHA on a wide scale.

52. Although about a third of LHA households may live in properties larger than their family size warrants, less than 10 per cent live in accommodation that is smaller than their needs and the £15 excess is not a significant factor in tenants' decisions about accommodation.

# Chapter 4

## Personal Responsibility

### 4.1 Introduction

1. Under Local Housing Allowance (LHA) rules the previous Government's aim was, wherever possible, to pay Housing Benefit (HB) directly to tenants and thereby promote financial inclusion and help develop the skills unemployed tenants will need as they move into work.
2. This chapter looks at the prevalence of payments directly to tenants and whether it differs across various groups. Within the limitations of available evidence, it also looks at rent arrears and the success of the safeguards in protecting tenants having or likely to have difficulty in managing their finances.
3. Together with the roll-out of the LHA there has been work to improve the financial inclusion of claimants by increasing use of bank accounts. This chapter examines the success of this and the impact on different groups of claimants, together with any knock-on effects on the methods which claimants use to pay their landlords.
4. The chapter concludes with a consideration of issues that the payment arrangements of HB under LHA have raised for the management of claimants' finances.

### 4.2 Direct Payments and Rent Arrears

#### 4.2.1 Development of Direct Payments

5. Before the creation in 1982 of the HB scheme, administered by local authorities (LAs), most private and housing association tenants had been paid their rent allowances along with their supplementary benefit. This practice was still the norm in the early years of HB: most housing association and private tenants remained responsible for paying their rent to landlords.

6. Broadly speaking, after 1982, council tenants continued to receive rent rebates but now in the form of HB, which was credited directly to their rent account. This has remained unchanged, although the Welfare Reform Act 2007 did give DWP a power to enable HB to be paid directly to council tenants for the first time.
7. As a backdrop to this, there were large changes in the nature of the social rented sector:
  - Legislation on homelessness and allocations in the late 1970s led to new social lettings becoming increasingly targeted on households with the greatest needs.
  - The creation of the Right to Buy in 1980 allowed many council tenants to buy their own homes.
  - From the late 1980s, much of the remaining council housing stock transferred to housing associations.
  - And housing associations became the main providers of new social housing.
  - During the 1990s, housing associations increasingly shifted to receiving HB payments directly from LAs. Direct payment of HB to housing associations became the norm.
8. A similar move towards direct payments of HB to landlords occurred in the Private Rented Sector (PRS) during the 1990s. Private tenants were more likely to be in work, on partial HB and a higher proportion of private tenants than housing association tenants remained responsible for paying their rent to landlords. But in some areas, the proportion of private landlords receiving direct payments came to approach that seen in the housing association sector.
9. By the time of the LHA Pathfinders' baseline of 2003-04, the percentage of private tenants in the Pathfinder areas receiving their HB directly ranged from 20 per cent to 60 per cent<sup>36</sup>.
10. This change in practice to direct payment to landlords was also spurred by the problems of administrative delays in making HB payments in the 1990s and early years of this century. A report by the previous Government, 'Building choice and responsibility: a radical agenda for Housing Benefit' estimated that in 2001-02 the mean processing time for a new HB or Council Tax Benefit (CTB) claim was about 9 weeks nationally and about 15 weeks in inner London. In about five per cent of LAs, it was estimated that the mean processing time exceeded 100 calendar days.
11. Some social landlords considered direct payment to themselves as essential to management of rent arrears and were generally tolerant of

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<sup>36</sup> Local Housing Allowance Final Evaluation: Implementation and delivery in the nine Pathfinder areas, Table 3.1, p25.



arrears whilst HB was being processed on the promise of eventually receiving payment directly into their bank account. For private landlords, although less tolerant of arrears, direct payment to themselves offset their general preference of not letting to tenants in receipt of HB.

12. Despite a general fear of arrears, the experience of the Pathfinders, in which levels of direct payment to tenants of around 80 per cent were achieved, large scale arrears failed to materialise. Both DWP's evaluation and research commissioned by the Joseph Rowntree Foundation<sup>37</sup> found that tenants had a strong commitment to paying rent, not falling behind in payments and gave rent a high priority compared to other household bills.

## 4.2.2 DWP Administrative Evidence on Direct Payments, Rent Arrears and Operation of the Safeguards

13. Although the original policy intention was to have LHA paid directly to tenants as much as possible, some safeguards were put in place to protect tenants and landlords from rent arrears and enable payments to be made to landlords instead. These are:

- if a tenant is considered to be unlikely to pay rent, for example if they have poor rent payment history ("Unlikely to pay"); and
- if a tenant is considered to have difficulty paying rent, for example if they have a learning disability or an addiction problem ("Difficulty paying").

Additionally, there is a statutory requirement for LAs to make payments to the landlord where the customer is in arrears with their rent by eight weeks or more, unless it is in the interest of the customer not to do so (Eight week arrears rule).

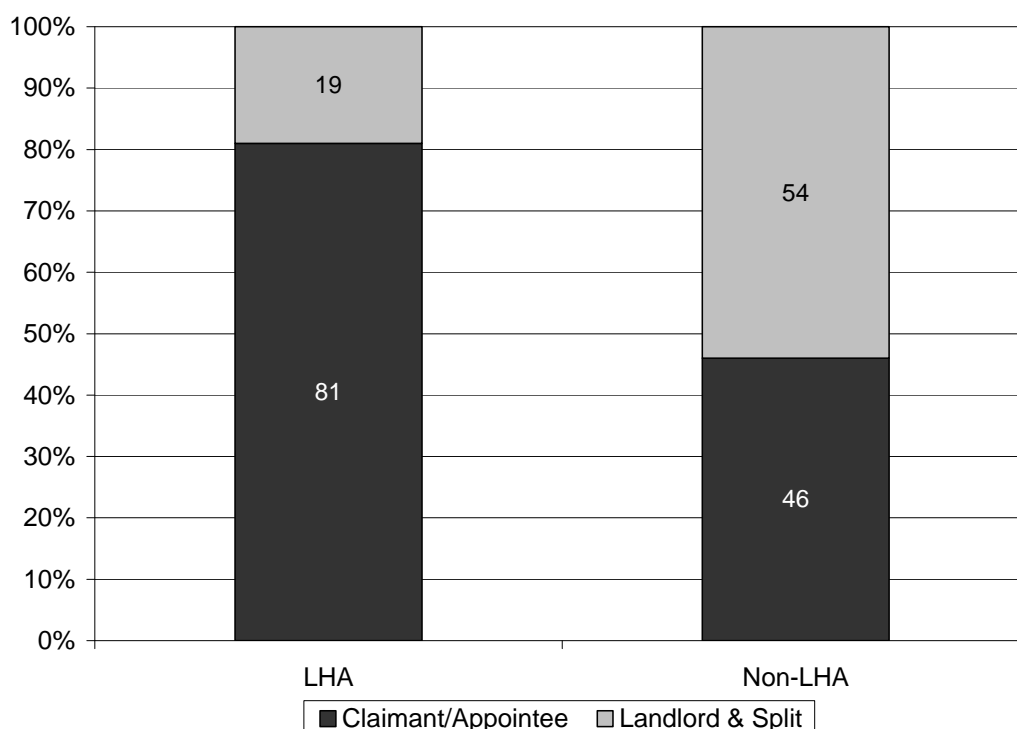
14. The review considered LA administrative data on the prevalence of payments directly to claimants and payments to landlords due to the eight week arrears rule compared to the other two discretionary safeguards. This section examines this before looking at the wider evidence on rent arrears and the safeguards separately.
15. A high level of direct payments of benefit to claimants has been achieved under the LHA system. In February 2010, 81 per cent of LHA cases were receiving direct payments compared to 46 per cent of non-LHA cases in the PRS. A similar pattern of payment destinations appears to have

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<sup>37</sup> Kemp et al, Paying Housing Benefit: Claimant Perspectives, JRF, 2007

prevailed for both groups over the whole period from November 2008 to February 2010<sup>38</sup>.

**Figure 4.1 Payment Destination by LHA Status, February 2010**



Source: Single Housing Benefit Extract, February 2010.

Notes: 1. A split payment occurs where a claimant has an excess, ie their LHA rate (and their HB award in this case) is higher than their contractual rent, but payment of rent is being made to the landlord under one of the safeguards. The excess amount will be paid to the tenant although the rent is being paid to the landlord.

2. An appointee is someone the Secretary of State or local authority (LA) may appoint 'to exercise on behalf of the person who is unable to act, any right to which that person might be entitled under the Act [the Social Security Contributions and Benefits Act 1992] and to receive and deal on his behalf with any sums payable to him'. (HB Reg 82(3) -(5)). The circumstances under which a claimant may have an appointee are:

- 'a person who is liable to make payments in respect of a dwelling is unable for the time being to act' and
- no deputy, judicial factor, guardian or attorney is acting on behalf of the claimant (see HB Reg 82(2)).

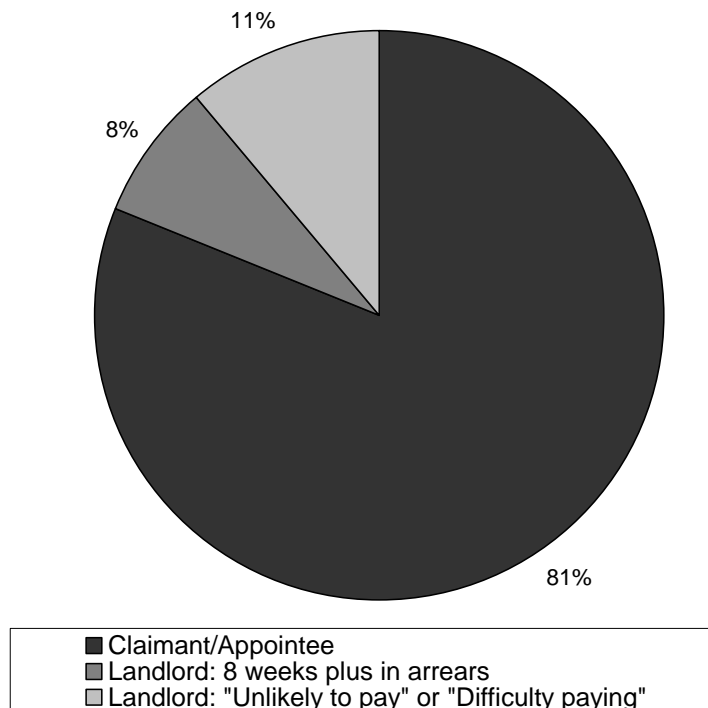
3. LHA Tenants may include a small number of non-LHA cases making a new claim since 7 April 2008.

4. Those cases with unknown payment destination are excluded from this analysis.

<sup>38</sup> A software error (relating to the record of payment destination) for a major systems provider to collect administrative data on HB from a number of LAs means that they had to be excluded from payment destination analysis for the period November 2008 to August 2009. Hence analysis is focused on the latest time period.

16. Estimates based on the administrative data suggest that in February 2010, for about eight per cent of the LHA caseload payment was made to the landlord due to the operation of the eight week arrears rule and for about 11 per cent due to the “unlikely to pay” or “difficulty paying” safeguards. Other claimants who have had payments transferred to the landlord, but not as a result of the eight week arrears rule, may also have had arrears. Furthermore, tenants still receiving payments themselves may also be in arrears without payment having been redirected to the landlord. Unfortunately this review is unable to quantify this with the evidence available.

**Figure 4.2 Payment Destination and Reason for Payment to Landlord, for LHA Cases, February 2010**



Source: Single Housing benefit Extract, February 2010

- Notes:
1. A small number of non-LHA cases making a new claim since 7 April 2008 may be included in this analysis.
  2. Those cases with unknown payment destination are excluded from this analysis.
  3. About 20 per cent of cases having payments made to their landlord in February 2010 either had no reason given for this or had a reason recorded that was incompatible with the LHA system. These cases were excluded from the analysis. Percentages of LHA cases having payments made to the landlord due respectively to the eight week arrears rule or one of the discretionary safeguards are estimated by multiplying the proportion of cases having payment made to the landlord by the conditional proportions due to the eight week arrears rule or due to one of the other two safeguards, given payment is made to the landlord.

17. These figures reflect the overall national picture for LHA. Different LAs will have differing working practices for applying the safeguards as well as differing composition of their caseload. So the proportions of payments to landlords, and the reasons for these direct payments, will differ between LAs. Thus the prevalence of the eight week arrears rule will not only be an indicator of levels of rent arrears but will also be influenced by the readiness of LAs to apply either of the “unlikely to pay” or “difficulty paying” safeguards before eight weeks of arrears are accumulated.
18. For those with direct payments to the landlord, this section compares the prevalence of the eight week arrears rule with the application of either of the other two safeguards. Note that the data quality is not high enough to reliably separate the “unlikely to pay” and “difficulty paying” safeguards.
19. It also looks at whether the prevalence of direct payments to the claimant compared to payments to the landlord, and the reasons for these, were similar for various groups of tenants<sup>39</sup>. Figures illustrating these findings are in Annex B of the report.
20. In February 2010, 68 per cent of the LHA caseload defined as disabled<sup>40</sup> (equating to around a fifth of the overall LHA caseload) had HB payments made to themselves. This compares to 84 per cent for non-disabled claimants and the average of 81 per cent. This finding is likely to reflect the operation of one of the safeguards which arranges for rental payments to go to the landlord where tenants are likely to have difficulty managing their finances. About 23 per cent of claimants with disabilities had payments made to their landlord due to one of the discretionary safeguards compared to about eight per cent of claimants not defined as disabled.
21. In February 2010, 77 per cent of claimants aged under 25 on LHA received direct payments, slightly lower than the 81 per cent for those aged 25 to 59. Eighty-nine per cent of LHA cases aged 60 or over were paid directly. About three per cent of claimants aged 60 or over were estimated as having had payments made to their landlord due to the claimant being eight weeks or more in arrears. This proportion was noticeably lower, even taking into account the already lower proportion of claimants in this group having had payments made to their landlord at all, than the nine per cent and eight per cent figures for the two working age groups i.e. those aged under 25 and 25-59 respectively.

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<sup>39</sup> As ethnicity is only partially completed on the Single Housing Benefit Extract, it is not possible also to look at payment destination and reason for payments to landlord for different ethnic groups.

<sup>40</sup> The disabled group, estimated from the Work and Pensions Longitudinal Study (WPLS) includes Housing Benefit awards with a Disability Premium or Severe Disability Premium, or those passported to full Housing Benefit by an award of Employment and Support Allowance or Income Support with a Disability Premium.

22. Single working age claimants had a below average proportion of claimants with direct payments to themselves in February 2010, with 74 per cent being paid directly. Claimants aged 60 or over and working age couples with children had a noticeably higher than average proportion of direct payments to the claimant, at 89 per cent. Among working age lone parents and working age couples with or without children, the proportions with payments made to their landlords due to the eight week arrears rule and due to the application of one of the discretionary safeguards were similar. In contrast, it was more common for working age, single claimants or those aged 60 or over for payments to have been made to landlords due to the operation of one of the discretionary safeguards than the eight week arrears rule.
23. In February 2010, compared to the average of 81 per cent, 73 per cent of males received LHA payments directly. This compares to rates of 83 per cent for females and 89 per cent for couples. Among those claiming as couples, roughly equal proportions had payments made to their landlords due to the eight week arrears rule compared to the application of one of the discretionary safeguards. In contrast, it was substantially more common for single, male claimants to have had payment made to their landlord due to one of the reasons “unlikely to pay” or “difficulty paying”.
24. In February 2010, 81 per cent of those single and under 25 years on the shared accommodation rate<sup>41</sup> had payments made to the claimant, in line with the average for the LHA caseload as a whole. This finding is, on the face of it, surprising as the caseload is comprised of young, single people, predominantly male and with a lower than average proportion in work, all groups found in this section to have lower than average proportions of payments made to the claimant.
25. Possible reasons for the relatively high rate of payments to these claimants may be the exclusion of tenants with severe disabilities, who are more likely to have payment made to the landlord under the safeguards, as well as the exclusion of care-leavers. Alternatively, it could be that as many of the claimants are jobseekers and have associated relatively short durations claiming HB that may reduce opportunities to have payment made to the landlord.
26. The breakdown of reasons for payments having gone to the landlord for the single, under 25 shared accommodation rate group are also very

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<sup>41</sup> The shared accommodation rate is also known as the shared room rate. This group of claimants is single, under 25 years of age, have no dependants, no non-dependants, are not severely disabled and not care leavers. They are not entitled to LHA rates for one bedroom, self-contained accommodation but only to an LHA rate for shared accommodation. There are older claimants or couples without children who if they choose to occupy shared accommodation and do not have disabilities and are not care leavers, will be assessed based on the shared accommodation rate, but who would otherwise be entitled to a one bedroom LHA rate.

similar to the overall average, with about seven per cent having been due to the eight week arrears rule and about 12 per cent due to application of one of the discretionary safeguards.

27. Non-passported claimants who were in employment had an above average proportion of direct payments to the claimant at 94 per cent. This fell to 76 per cent for passported cases. This finding suggests that fewer tenants in work have had difficulty managing their finances or are expected to have difficulties and may reflect the preferences of landlords for working tenants, because they are viewed as more reliable at paying the rent (see Chapter 3 on Choice). However, the finding may also reflect other factors such as shorter spells on HB, leaving less opportunity to get into arrears, or the HB taper and earnings disregard leaving working claimants with more money to help prevent arrears.
28. For the relatively small number of claimants who were non-passported and in work and had direct payment to the landlord, it was slightly more common for the reason to be the eight week arrears rule than one of the other two safeguards. In contrast, for passported and non-passported out of work claimants it was more common for payment to have been made to the landlord due to a discretionary safeguard.
29. It has been interesting to note that for those claiming as couples, those with families or those in work who had payments made to their landlord, it was most likely to be a result of the eight week arrears rule. There could be many reasons for this. For example, the higher expenses for families in accommodating and caring for their children may make it more likely that these groups fall into arrears. Furthermore, LAs and landlords may find it more difficult to gather evidence to implement the “unlikely to pay” or “difficulty paying” safeguards for couples, families or tenants in work than for working age singles or tenants out of work, because they may view the former groups as less at risk of not paying rent. The result of this may then be that underlying problems in being able to pay the rent only come to the surface once the claimant is eight weeks or more in arrears. We cannot, however, be sure of the explanation.
30. Scotland and three northern Government Office Regions (GORs) (North East, North West and Yorkshire and Humberside) had a below average proportion of claimants being paid directly.
31. In February 2010, in Scotland, London and the South West, it was around twice as likely for payments to be made to landlords due to one of the reasons “unlikely to pay” or “difficulty paying” compared to operation of the eight week arrears rule. A closer examination nevertheless reveals a high degree of variation in this proportion across LAs within these regions. Similarly to the other results, the regional results are likely to reflect

differing practices across LAs for identifying cases when payments to landlords are appropriate as well as different claimant bases.

32. Thus the claimants with the lowest levels of payments to themselves tend to be younger, single, males, on passported benefits, with disabilities or in Scotland or one of three northern regions. These groups will therefore be benefiting less from the personal responsibility intentions envisaged by the LHA scheme. Single, under 25 shared accommodation rate tenants, however, have an average level of direct payments to themselves.
33. The high proportion of tenants with disabilities reported as having payments directed to the landlord due to the “difficulty paying” or “unlikely to pay” safeguards suggests that, at least to some extent, the safeguards are operating as intended for tenants with disabilities.
34. There is considerable variation in the proportions of the different safeguards being applied by different LAs. This suggests differing practices among LAs as well as different claimant bases. It is possible that the issuing of improved guidance on the safeguards in December 2009 (see Chapter 1), may be leading to more consistency in their application, but it is not yet possible to conclude this with certainty. The application of the safeguards by LAs is considered further in Chapter 7.

### 4.2.3 Rent Arrears

35. The chapter now considers the wider evidence on rent arrears, looking at further evidence on their prevalence as well as the amounts of arrears, how they arise and the issues they cause for landlords.
36. Landlords<sup>42</sup> generally had a negative view on direct payments of HB to tenants, stating it caused problems with tenants falling into arrears. Some had experience of arrears occurring while others harboured fears of this. A few landlords noted that they had let to the same tenant who had been “good” on the previous HB scheme, but had become a non-payer once they had moved onto the LHA.
37. There was general agreement between landlords<sup>43</sup> and LAs that the introduction of the LHA had some negative impact on the level of tenant arrears. In January 2010, around a third of LAs thought that the LHA had

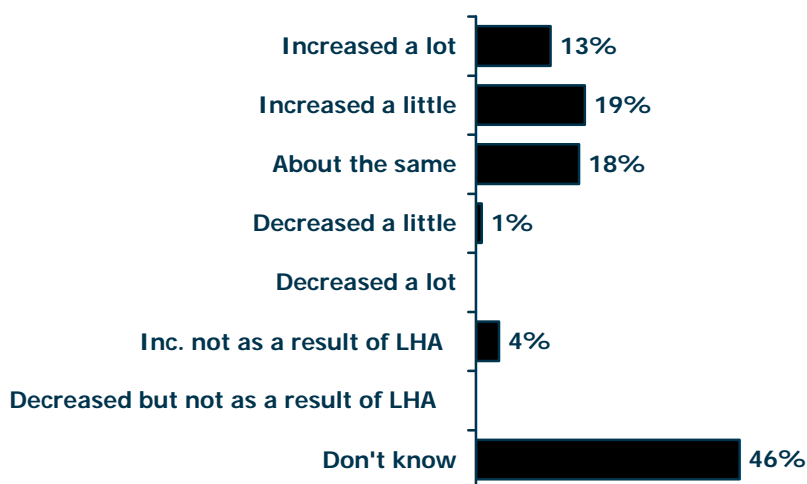
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<sup>42</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

<sup>43</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

increased arrears a little (19 per cent) or a lot (13 per cent), as shown in Figure 4.3. However, almost half of the respondents (46 per cent) said that they did not know if LHA had affected arrears and around one in five (18 per cent) thought that the problems were no worse under LHA than it was under the previous HB system. This view was also supported by a small number of landlords interviewed in the landlords research who felt that the problem of arrears was no worse, or only marginally worse, under LHA than it was under the previous HB system.

**Figure 4.3 LA Perceptions of Effect of LHA on Rent Arrears, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Percentages may not sum to 100 per cent due to rounding.

38. The overall view of advisers<sup>44</sup> was that the majority of LHA cases were managing their money well and paying their rent in full and on time. However, particularly advisers from independent advice agencies reported a significant minority of claimants who were not managing their rent payments because of the LHA arrangements to pay the claimant wherever possible.

39. Rental arrears were a common complaint from landlords responding to the Business Development Research Consultants' (BDRC) online survey, among both those letting to HB tenants and to non-HB tenants. It should, however, be noted that there is likely to be some self-selection bias in the results, with landlords experiencing problems possibly more likely to respond to the survey. The proportion of all landlords reporting arrears was around a third from September 2009 to June 2010. The proportion of HB landlords reporting arrears was around 50 to 60 per cent. With the

<sup>44</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010



available evidence, it is not possible to say how this translates into a number of tenants in arrears. Among all landlords experiencing arrears, they report being owed £1,100 at the mean, with a third reporting arrears over £1,000. Portfolio landlords report being owed the most (about £1,800 at the mean), although the individual impact of arrears on smaller landlords may be greater as they will have fewer properties over which to spread the risk and losses.

40. Across the waves of the survey, about 70 per cent of BDRC panel landlords<sup>45</sup> letting to HB tenants requested that HB be paid directly to them. It should, however, be noted again that there is likely to be some self-selection bias in the results with landlords experiencing problems possibly more likely to respond to the survey. The most common reasons given for requesting this were “to speed up rent collection”, “tenant has poor payment history” and “tenant has arrears of 8 weeks or more”<sup>46</sup>.
41. When asked to give their reasons for not letting to HB claimants, BDRC panel landlords not currently letting to HB tenants often raised direct payments as a reason. Among the most common reasons they gave was “not being able to guarantee the rent” (up to about 45 per cent of respondents), while up to about 40 per cent of respondents gave the issue of direct payments to tenants as a reason for not letting to HB claimants. Up to about a third of respondents also said they would reconsider if direct payments to tenants were abandoned.
42. It is likely that the recession has had an influence on the levels of rent arrears among HB and non-HB tenants, however, the review has no evidence that demonstrates this. Those flowing onto HB in the PRS in the recession may already be in financial difficulty prior to making a claim. And those in transition from work to benefit may be likely to get into arrears, as debts and bills that were manageable while in work become unmanageable and creditors demand payment, possibly diverting money that might otherwise pay the rent until their benefit claim is assessed. This was something that was noted in the Pathfinders, however, losing employment was much less likely at that time. Another likely scenario, particularly in this recession, is that the move to benefit is triggered during a period of declining work income rather than complete termination of employment, again arrears may have built up as bills and debts are juggled with declining income. Another possibility is that those who begin their tenancy while in employment and paying their rent themselves could find that they are only eligible for an LHA rate based on a property size smaller than the one they are renting. For such a group a move onto benefit while still working would not cover the full rent and the likelihood of arrears must be greater, although they should still qualify for up to 13 weeks worth of protection if they could previously afford their rent.

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<sup>45</sup> DWP, Analysis of BDRC Landlord’s Panel, London, 2011

<sup>46</sup> This final reason was only offered from the December 2009 survey and varied between 29% and 38%

43. Landlords<sup>47</sup> highlighted that arrears can occur as a result of HB being paid in arrears and as a result of initial claims taking a while to process. They pointed out that this put HB tenants at a disadvantage compared to non HB tenants. Aside from these “technical arrears” landlords reported two types of arrears which occur:
- irregular arrears, which are often caused by financial crisis or decisions to spend rent money on other things; and
  - committed non-payers who have no intention of paying rent.
44. Many landlords reported an increase, as a result of LHA, in management effort required on tenancies to minimise the risk of arrears. Methods practiced included:
- more careful selection of tenants;
  - micro-managing HB tenancies;
  - obtaining permission to enquire about the claim;
  - insisting upon a guarantor; and
  - informal networks to keep informed on committed non-payers.
45. Of those landlords who insisted upon guarantors some reported that the threat of going to the guarantor was often more effective than other practical solutions. However, it was also noted that often the guarantor had very little money with which to pay rent arrears.
46. There is a provision to enable any excess a claimant may be receiving to be paid to the landlord to cover previous rent arrears. The proportion of claimants for whom this may be happening is relatively small and we are unable to say from the available evidence to what extent it is happening in practice. About three per cent of LHA cases were recorded in February 2010 as having an excess paid to themselves or an appointee while their rent is paid directly to their landlord either under the eight week arrears rule or one of the two discretionary safeguards. Thus the provision is likely to be applied for less than three per cent of cases as not all claimants having their rent paid to their landlord will have accumulated arrears.
47. A small number of landlords<sup>48</sup> also commented on using the excess as a means of paying off arrears. A point to emerge was the variable practice that seemed to be taking place in different LA areas in this regard once HB had been redirected to the landlord. Some advisers<sup>49</sup> in both LAs and

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<sup>47</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

<sup>48</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

<sup>49</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

independent advice agencies noted that a disadvantage of removing the excess from 2011 would be the loss of the facility to use this to pay off previous rent arrears.

48. A high proportion of landlords participating in research or surveys for the review have reported problems with rent arrears and increased effort to minimise the risk of these as a result of payment being made to the claimant under LHA rules. More generally, evidence from LAs and advisers in independent advice agencies supports some increase in arrears due to LHA but does not support the scale of problem suggested by landlords.

#### 4.2.4 Success of Safeguards in Protecting People in Vulnerable Situations

49. Further to the administrative data on the discretionary safeguards and eight week arrears rule presented above, this section now considers the wider evidence on their operation. It also looks at additional evidence on the prevalence of each of the measures being implemented, issues arising, and the switching of payments back to tenants.

50. LAs, advisers in independent advice agencies and landlords all indicate that the eight week arrears rule is more commonly used than the two discretionary safeguards.

51. LAs indicated that the most common reason for claimants or their appointees requesting that direct payments be made to their landlords was having rent arrears of eight weeks or more (84 per cent). This is in agreement with findings from landlords who noted that this rule was used much more often than the other two safeguards. Reasons for this were that landlords tended to be better informed on the eight week rule and advisers often had difficulty obtaining supporting evidence for the “unlikely to pay” or “difficulty paying” safeguards.

**Figure 4.4 LA Perceptions of Reason for Claimants or Their Appointees Requesting Direct Payments to Landlords, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Respondents were given the opportunity to select multiple answers, therefore, proportions will not sum to 100 per cent

52. This chapter now looks at problems raised with the eight week arrears rule and each of the safeguards in turn.

53. Both landlords and advisers in LAs and independent advice agencies thought that eight weeks is too long to wait before re-directing payment to the landlord.

54. Landlords suggested a key problem with the eight week rule was that it was a long period for arrears to build up, during which time they had to cover expenses such as mortgages from other resources. Also there was often a build up of arrears beyond eight weeks while the claim was suspended and investigated. Landlords considered this created a large financial burden for them. Furthermore, landlords said that it would be very difficult to recover eight weeks of arrears from tenants.

55. It was common for landlords to suggest that the eight week arrears rule should be reduced to four weeks (which was considered to be an acceptable level of arrears for both the landlord and tenant to bear). It was also suggested that first and last payments should be directed to the landlord in order to take away the temptation of spending a large initial cheque and the temptation to move out at the end of a tenancy without paying for the final month. Application of the option to make the first HB instrument of payment payable to the landlord appeared to be fairly rare.

56. Advisers also suggested that payments should be transferred earlier so that landlords are not able to start the eviction process. Edinburgh LA reported that they begin the process of transferring payment to a landlord after only one month in arrears in order to reduce the risk of tenants losing their tenancy over arrears<sup>50</sup>.

57. The problems reported by advisers in both LAs and independent advice agencies with the “unlikely to pay” and “difficulty paying” safeguards relate mainly to difficulties obtaining or providing appropriate supporting evidence. In addition, landlords showed limited awareness of these two safeguards. They were uncertain how they worked, what circumstances they were meant to cover and what evidence was required to support redirecting payments to landlords under these provisions.

58. LA advisers reported difficulty implementing the “unlikely to pay” safeguard provision due to difficulties identifying tenants with a history of arrears. It is not a requirement for claimants to disclose or LAs to keep a record of claimants’ history of arrears.

59. Similarly advisers from independent advice agencies struggled to provide appropriate supporting evidence to justify that a tenant would have difficulty managing their finances. Letters from themselves were deemed insufficient, while obtaining other forms of evidence could have a financial cost and take substantial time and effort. Letters from professionals such as GP’s and social workers were often required. Two key problems were reported by advisers attempting to gather this information:

- lack of or delay in responses to requests for supporting evidence; and
- difficulty in finding supporting evidence, for example if a tenant is not registered with a GP.

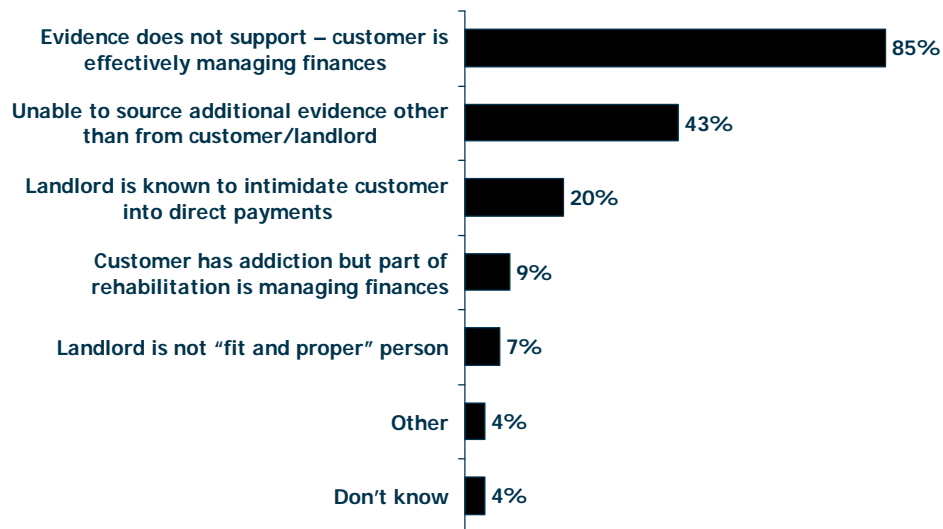
Additionally, advisers and landlords reported that some GP’s charged for supporting letters.

60. The most common reasons for rejecting claims to have payments directed to landlords was that evidence did not support that the tenant was ineffectively managing their finances (85 per cent) and that LA advisers were unable to source any additional evidence other than that from the landlord and customer (43 per cent). One in five LAs also reported that requests were rejected as landlords were known to intimidate customers into requesting payments to the landlord.

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<sup>50</sup> This practice is also common among other LHA Pathfinders

**Figure 4.5 Reasons for LAs Rejecting Claims to have Payments Directed to Landlords, January 2010**

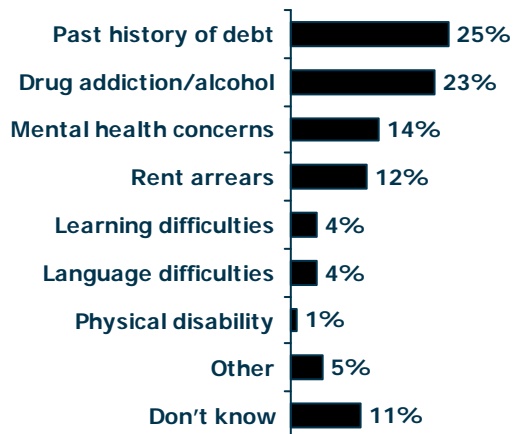


Source: LA Omnibus Survey Wave 20

Notes: 1. Respondents were given the opportunity to select multiple answers, therefore, proportions will not sum to 100.

61. Further to this, gathering evidence of past debt history was the piece of evidence LAs reported in January 2010 as finding most difficult to acquire. A quarter of LAs (25 per cent) stated that they have difficulty obtaining such evidence as shown in figure 4.6. In addition, around a quarter (23 per cent) stated that gathering evidence on drug addiction / alcoholism was difficult.

**Figure 4.6 Evidence LAs Find it Difficult to Collect When Making Assessments on Safeguards, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Respondents were asked to select only one option. Percentages may not sum to 100 due to rounding.

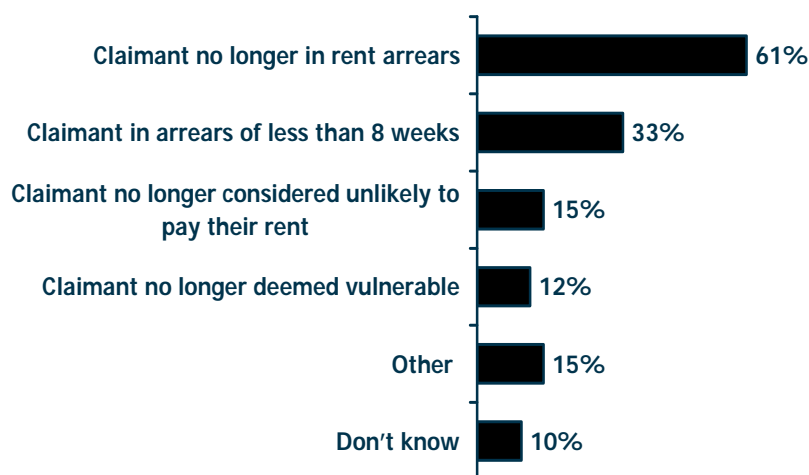
62. The safeguard provisions were reported as working best where an application could be backed up by a confirmed diagnosis from a healthcare professional. Advisers from independent advice agencies reported they worked less well where tenants did not fall into clear categories outlined in the provisions and there were difficulties providing appropriate supporting evidence. Advisers felt the provisions needed to be broader to cover the needs of their clients as some claimants who were vulnerable (such as those at risk of temporary arrears due to relationship breakdown, for example) were falling through the safety net. No mention was made in research among landlords or tenants and advisers of the provision to make payment to the landlord for the first eight weeks while the LA considers whether any of the discretionary safeguards applies to the claimant.

63. Landlords were concerned about committed non-payers who could build up arrears of just under eight weeks in a series of properties or tenants who would pay just enough to keep them under eight weeks of arrears and thus prevent the LA from stepping in, while staying in the same property. Many of the large landlords and the letting agents were in strong agreement that the problem of committed non-payers was increasing. They felt such tenants were not being captured by the safeguard provisions.

64. When payments are being made to the landlord instead of the claimant their case tends to be reviewed by the LA every six months although practices are likely to differ between LAs. However, it is possible for the

claimant or their agent subsequently to request payments to be switched back to them. In January 2010, the main reason for claimants or their agents requesting that payments be switched back to them is that the claimant is no longer in arrears (61 per cent) or that they are in arrears of less than eight weeks (33 per cent).

**Figure 4.7 LA Perceptions of Reasons for Claimants or Their Appointees Requesting Payments be Switched Back to the Claimant, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Respondents were given the opportunity to select multiple answers, therefore, proportions will not sum to 100

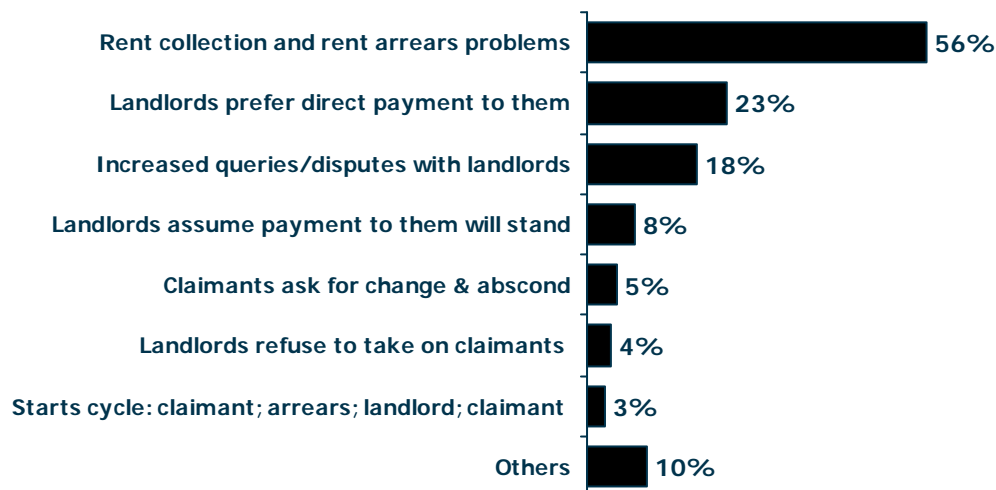
65. Some landlords questioned the appropriateness of having six monthly reviews where payment had been successfully redirected to themselves. It was thought that this was too short a time for a tenant's situation or attitude to have changed enough to prevent them falling into arrears again. Advisers in both LAs and independent advice agencies also expressed concern about this, suggesting that transferring payments back once a tenant was no longer in arrears gave some landlords the incentive to continue with the eviction process or to end a tenancy, rather than risk the tenant falling into arrears again.

66. In January 2010, LAs indicated that these concerns may be justified. When asked to select all applicable problems they noted arising from switching payments back to the claimant, more than half (56 per cent) of LAs stated that it caused problems with rent collection and arrears. Around a quarter (23 per cent) said that problems are caused because landlords prefer direct payment to them, and about one in five (18 per cent) stated this increased queries / disputes with landlords. Only a very small proportion (five per cent) stated that it causes claimants to abscond after the change back to them, and an even smaller proportion (three per cent)



stated that it causes a cycle of benefits being transferred back and forth between landlord and tenant due to arrears.

**Figure 4.8 LA Perceptions of Problems when Claimants or Their Appointees Request Payments be Switched Back to the Claimant, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Respondents were given the opportunity to provide multiple answers, therefore, proportions will not sum to 100

67. It has been suggested, by landlords and LAs, that the eight week arrears rule is more commonly applied than the other two safeguard measures. Both advisers and landlords suggest that eight weeks of arrears is too long a period of arrears to allow to accumulate, and the provision does not adequately protect tenants as they cannot repay such large debts and are put at risk of eviction. The other two safeguards may be less commonly applied due to lack of awareness of these and difficulties in providing appropriate supporting evidence.

68. It was felt that tenants may be falling through the safety net of these provisions where histories of arrears could not be proven or tenants did not fall into the clear categories of vulnerability that could be confirmed in diagnoses by health care professionals. Furthermore concerns were raised about the facility to revert payments to tenants after relatively short periods of time.

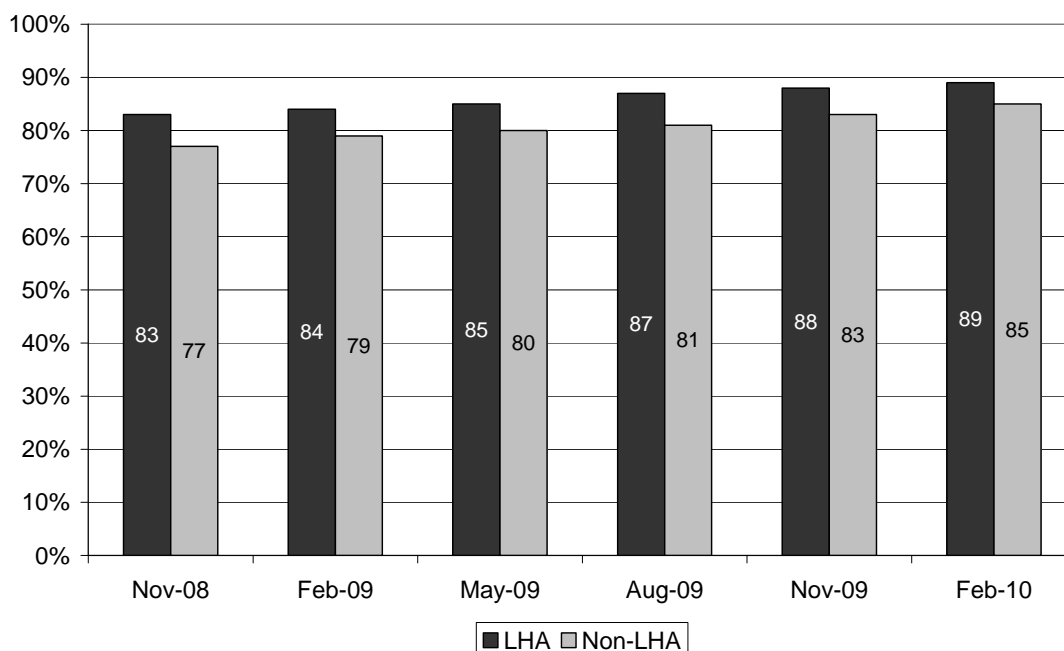
## 4.3 Method of Payment

### 4.3.1 Method of Payment to Tenants

69. A key objective of direct payments to tenants is to encourage financial inclusion of tenants in receipt of HB under LHA rules. Payment by electronic means requires the tenant to have a bank account<sup>51</sup>, an important step to enhancing financial inclusion.

70. In February 2010, 89 per cent of LHA cases having benefit payments made to the claimant received payment via Automated Credit Transfer (ACT), compared to 85 per cent of non-LHA cases receiving payment themselves. These figures have been steadily rising every quarter since November 2008. The same pattern can be seen for both LHA and non-LHA cases. LAs have reported that while implementing electronic means of payment under LHA, they also did so for other cases.

**Figure 4.9 Payment by Automated Credit Transfer, November 2008 to February 2010**



Source: Single Housing Benefit Extract

Notes: 1. LHA tenants may include a small number of non-LHA cases making a new claim since 7 April 2008.

<sup>51</sup> Tenants cannot have housing benefit paid into a Post Office® account.

2. Analysis of payment by automated credit transfer only considers cases where the payment destination is recorded as being to the claimant or split due to payment of rent going to the landlord but payment of an excess going to the claimant.
3. Those missing method of payment information have been excluded from this analysis.

71. This section now looks at whether different groups of LHA cases have been able to take advantage of electronic means of payment to differing degrees<sup>52</sup>. Figures illustrating the results below are contained in Annex B of the report.
72. In February 2010, all age groups had a similar proportion of claimants, who were receiving their benefit directly, being paid by ACT compared to the overall average (around 89 per cent).
73. The incidence of payment by ACT among single, working age claimants who are receiving direct payments was around three percentage points lower than the overall average of 89 per cent. In contrast, the incidence of payment by ACT among working age couples with children, and with direct payments, was around three percentage points higher than the overall average.
74. In February 2010, 86 per cent of male LHA cases receiving direct payments were paid their HB by ACT. This compares to 91 per cent of couples and 90 per cent of females.
75. The incidence of payment by ACT was two percentage points lower among claimants with disabilities<sup>53</sup> and receiving their benefit payments than the overall average of 89 per cent.
76. In February 2010, the same proportion of non-passported out of work claimants being paid their benefit directly were paid by ACT as the overall national average of 89 per cent. Non-passported in work claimants receiving direct payments were more likely to be paid by ACT by around three percentage points, whilst passported claimants with direct payments were less likely to be paid by ACT by around two percentage points. The higher incidence of ACT payments among non-passported claimants could be expected as they are likely to have other sources of income, most likely

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<sup>52</sup> As ethnicity is only partially completed on the Single Housing Benefit Extract, it is not possible also to look at payment by automated credit transfer for different ethnic groups.

<sup>53</sup> The disabled group, estimated from the Work and Pensions Longitudinal Study (WPLS) includes Housing Benefit awards with a Disability Premium or Severe Disability Premium, or those passported to full Housing Benefit by an award of Employment and Support Allowance or Income Support with a Disability Premium.

paid into a bank account. In addition, one would expect the greatest degree of financial inclusion to be associated with those in work.

77. All GORs and devolved administrations had broadly similar percentages of claimants receiving direct payments being paid by ACT, apart from Scotland where 78 per cent received their LHA by ACT. This resulted from a small number of LAs in the region not having had the facility to make electronic payments.
78. There has been an increase in the incidence of electronic means of payment seen since the introduction of the LHA system, both among LHA and non-LHA cases, but ostensibly due to the introduction of the new scheme for paying HB to tenants. There are some differences in levels of payment by ACT between different groups of cases, but most of the differences are not big. Working age single cases, males, claimants with disabilities and passported cases who are having benefit payments made to themselves all have slightly lower incidence of payment by ACT. The biggest difference is a regional one, where a small number of LAs in Scotland had yet to introduce electronic means of payment for their caseloads.
79. Most of the LHA cases interviewed in research commissioned for the review<sup>54</sup> were receiving their HB by electronic transfer and were satisfied with this method of payment since it was quicker, did not require a trip to the bank to pay in a cheque and was viewed as safe. Advisers both in LAs and independent advice agencies, however, reported that there were some claimants who were paid by cheque either because they did not have bank accounts or were unwilling to have it paid into their account often because of fears of the funds being used by the bank to pay other debts or overdrafts leaving the tenant unable to pay their rent and causing them to go into arrears.
80. Some advisers reported that tenants were finding it easier to open basic bank accounts whereas others reported that they were still facing difficulties. Difficulties normally occurred due to stringent requirements on identification imposed by some banks. In addition, it was reported that banks often did not promote their basic bank accounts. To assist tenants in becoming financially included, some LAs have established a connection with a local bank in order to support tenants in opening a bank account. It was also found during the Pathfinders evaluation that direct interaction with banks was essential to aid tenants in setting up accounts.

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<sup>54</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

81. Where tenants did not have bank accounts, landlords<sup>55</sup> raised a concern that this resulted in some tenants having to use a cheque cashing service and paying a proportion of their cheque as a service fee. Landlords suggested that when a claimant does not have a bank account, it would be more appropriate to have the payment made direct to a landlord rather than issuing the claimant a cheque for which they then have to pay in order to cash. In January 2010, only 43 per cent of LAs reported they had facilities for claimants to cash their HB cheques free of charge<sup>56</sup>. Of these, only 5 per cent said that this facility was introduced as a result of LHA.
82. Key remaining difficulties with electronic means of payment to LHA cases appear to be a) the redeployment by banks of benefit payments to pay off other debts or overdrafts incurred by claimants and b) difficulties opening bank accounts due to strict identification requirements or (c) lack of promotion by banks of basic accounts.

### 4.3.2 Method of Payment to Landlords

83. No data was available for the review to track tenants' payments to landlords but this section looks at qualitative evidence from interviews with tenants, advisers and landlords. It was expected that, under the LHA system, claimants would use standing orders to pay their rent. This would help claimants learn to use bank accounts to full effect and develop the skills that would be used once claimants moved into employment.
84. Landlords<sup>57</sup> reported a variety of payment methods from tenants, these included standing orders, direct debits, cash and cheque payments. Some landlords had standard payment practices which they insisted all tenants followed regardless of HB status, whereas others used different methods depending on whether tenants were on HB or not. Often this was due to tenants not having bank accounts or being unwilling to set up automatic transfers to landlords, rather than landlords' preferred practices. Landlords had also experienced tenants who tried to give benefit cheques to them in order to pay rent. Others had experienced tenants who had used cheque cashing services and who had to use a percentage of the cheque face-value to pay for the service.

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<sup>55</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

<sup>56</sup> LA Omnibus Survey Wave 20

<sup>57</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

85. The use of standing orders by claimants to pay their landlords appeared to be mixed<sup>58</sup>. Some tenants preferred not to use standing orders to pay rent to landlords as the constrained and precarious nature of their financial circumstances meant they could incur bank charges if their account went overdrawn or else payment may be refused due to insufficient funds. A further barrier to setting up standing orders for rent payments was the lack of alignment between fortnightly or four weekly benefit payments and rents that were mostly paid monthly. Combined with constrained financial circumstances, this could leave a tenant particularly prone to going overdrawn. This problem was compounded by the fact that payment dates change from month to month without tenants being advised when a payment has been made. These issues were also raised in the Pathfinder evaluation. The misalignment of benefit and rent payments is not peculiar to the LHA arrangements, but the associated issues become more important when benefit is paid to the tenant in order for them to take responsibility for covering their rent. The alignment of rent and benefit payment periods is considered in more detail later in this chapter.
86. For tenants not using standing orders or online payments, payments tended to be either by cash or by personally transferring money into the landlord's account. Tenants who paid by cash enjoyed the control they felt it gave them over their finances. However, they also noted that the daily withdrawal limit imposed by banks could be problematic in terms of the time it took if several trips to the bank were required. This posed particular difficulties for tenants with poor mobility. Further to this, it was highlighted that withdrawing large sums of cash could pose a security risk for some tenants.
87. Some tenants did use standing orders or online payments as they felt it enabled them to keep on top of their finances to make payment of their rent in full, on time and as soon as possible after receipt of their HB. Tenants using these methods also valued the proof of payment it gave them on their bank statement in case of any dispute later on.
88. The constrained financial circumstances of tenants combined with the misalignment of rent and benefit payment cycles inhibit the use of standing orders to pay rent as well as inhibiting claimants' use of bank accounts to full effect.

## 4.4 Financial management by tenants

89. Having looked at the incidence of arrears above, this section looks at how tenants coped with the personal responsibility of receiving benefit with

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<sup>58</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

which to pay their rent. It considers the financial management strategies used by tenants, features of HB or LHA that influence these strategies and tenants' use of money advice services.

90. The tenants and advisers research<sup>59</sup> concluded that most claimants on the LHA scheme were exercising significant personal responsibility over their household finances in advance of receiving HB under LHA, even though some were in financial difficulty. This observation was based on the effort tenants were having to put into meeting a range of financial commitments from low incomes, with little scope for flexibility. Overall, advisers from both LAs and independent advice agencies reported that LHA cases were managing their money well, but there were a significant minority who were not managing due to multiple debts and having to live on low income on a long-term basis. They felt further that some were not being picked up by the LHA safeguard provisions.
91. The research noted that tenants viewed rent as the most important bill to pay. This finding was also highlighted by the Pathfinder evaluation. Advisers thought that most claimants were not using rent to pay for other bills, but were nevertheless concerned that some may be tempted to do so. Fears or experiences of not receiving rent made landlords<sup>60</sup> emphasise this temptation to a far greater extent, particularly where large initial benefit payments followed delays in processing the initial claim for benefit, or at the end of a tenancy where a claimant may move out before receiving the final benefit payment.
92. Many tenants were positive about direct payments, stating that they valued having control over paying their rent as it made them feel empowered<sup>61</sup>. Some tenants also felt that direct payments enabled them to be a bit more flexible with their finances. For example, if benefit was paid prior to their rent due date, they could use it for another commitment then balance the rent with other income. Of those interviewed who were not in receipt of direct payments, all spoke of feeling disempowered and distrusted.
93. However, there were also some tenants who did not value having the benefit paid directly to them. This group of tenants felt that it caused problems as it could be tempting to spend the benefit on other things. Often these tenants spoke of temptation as something that was more likely to affect others, such as tenants in vulnerable situations. Further to this, one respondent reported a problem with direct payments being "swallowed up" by the bank. Similar problems were also highlighted by landlords.

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<sup>59</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

<sup>60</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

<sup>61</sup> It was noted in the research that tenants who had difficulty paying or were unlikely to pay were probably less likely to participate in the research.

Claimants interviewed who did not value direct payments had no specific problems managing them, they would simply rather that they were made direct to the landlord so that they did not have to take responsibility and experience any associated anxiety or stress.

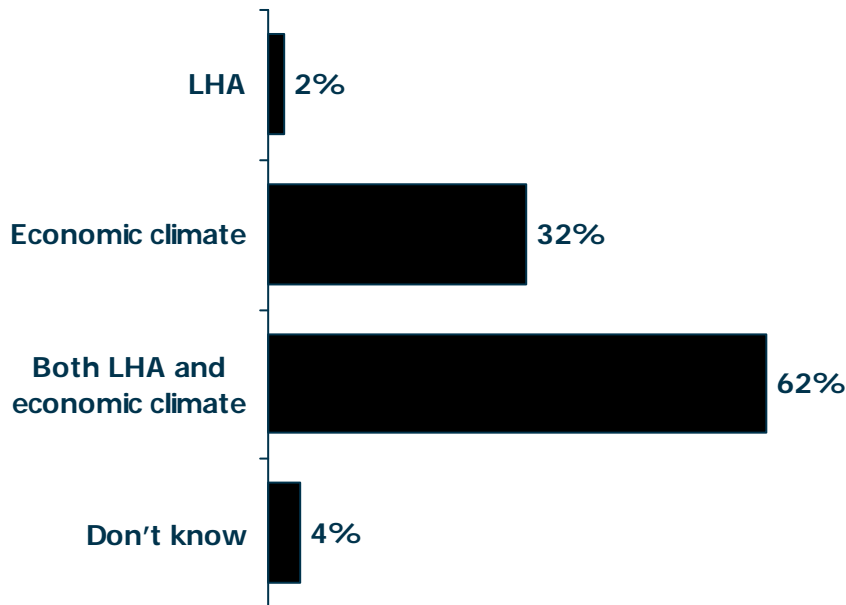
94. Some advisers saw only allowing benefit payments to be made to the landlord under the safeguards or eight week arrears rule as removing freedom of choice from tenants. In addition, they held the opinion that many of the financial difficulties they believed were caused by direct payments could be resolved by giving tenants the choice of directing payments to landlords.
95. For some tenants direct payment is achieving its objective of enhancing personal responsibility. For others it may not be causing harm but the added responsibility still may not be welcomed. For a further minority the system may be causing particular difficulties.
96. To avoid arrears some tenants on the LHA scheme had adopted various strategies such as:
  - coinciding paying rent with receipt of HB;
  - paying rent as soon as receiving HB (regardless of rent due date); and
  - separating HB from other money upon receipt.
97. To cope with shortfalls, tenants normally used other income sources such as tax credits, used their savings, or cut back or borrowed money. Some also made applications for Discretionary Housing Payments (DHPs). While tenants often acknowledged that sustaining a shortfall in the long term was not realistic, often they felt that moving to a cheaper alternative was neither financially possible nor realistic. Tenants who were looking for work considered work to be the best way to deal with a shortfall.
98. Most LAs thought the number of awards of DHPs had increased either a little (35 per cent) or a lot (26 per cent) between January 2009 and January 2010<sup>62</sup>. However, almost no LAs thought DHPs had increased due to LHA alone (two per cent). LAs were more likely to consider this to be a consequence of both LHA and the current economic climate (62 per cent) or the current economic climate alone (32 per cent).

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<sup>62</sup> LA Omnibus Survey Wave 20



**Figure 4.10 LA Perceptions of Reason for Increases in Discretionary Housing Payments in Past Year, January 2010**



Source: LA Omnibus Survey Wave 20

#### 4.4.1 Features of HB or LHA Inhibiting Good Financial Management

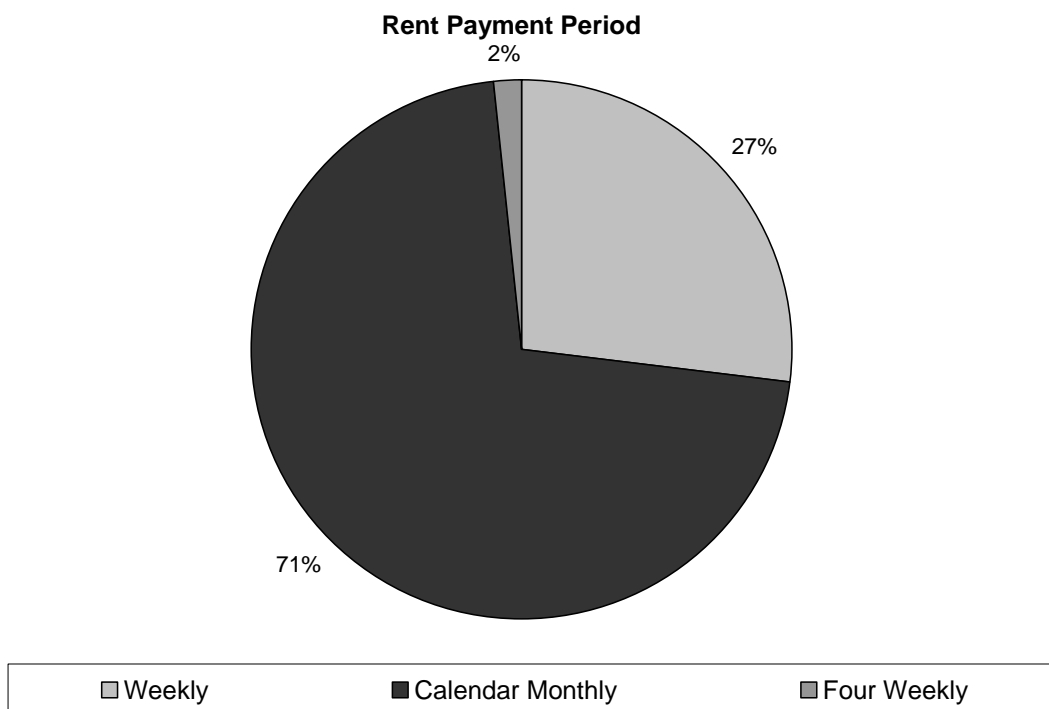
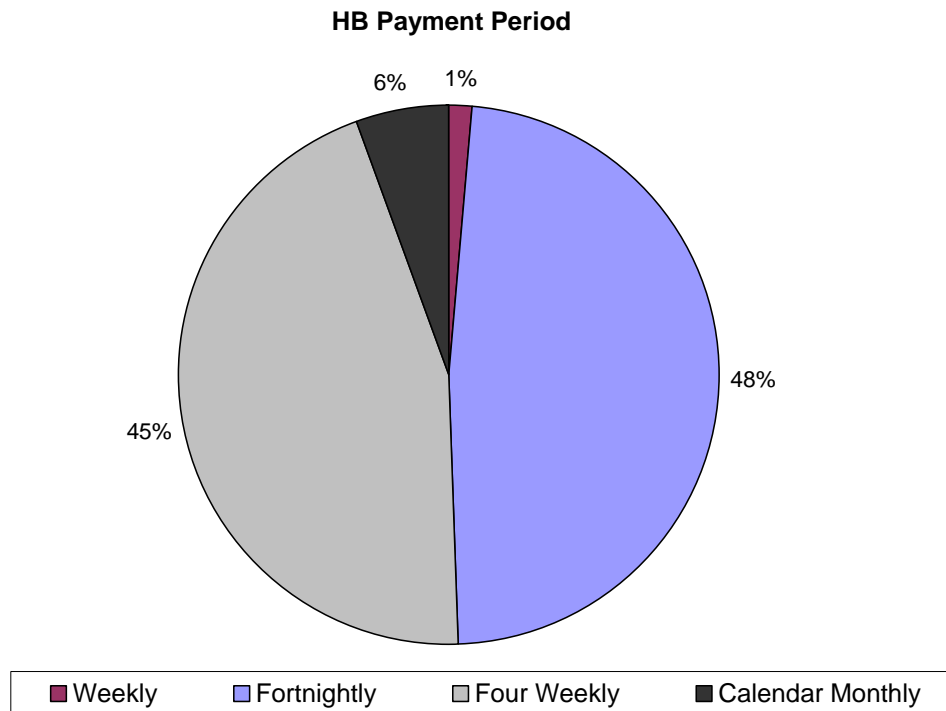
99. Landlords, tenants and advisers in independent advice agencies have all cited problems with the misalignment between HB payment dates (largely in weekly multiples) and rent due dates (most often on monthly cycles). Although the misalignment does not originate with the LHA, they claim the problems it causes are magnified under the LHA. They suggest that aligning HB payments with the date when rent was due would help meet the policy objective of financial inclusion.
100. This chapter discussed above how this misalignment acted as a barrier to tenants using standing orders. Advisers also noted that it was common for tenants to be unclear on the amount of their shortfall, as they often overestimated it as they compared four weeks of HB payment to one month of contractual rent.
101. Landlords felt payment periods in weekly multiples ran counter to most business practice where monthly payment periods, including for the mortgages on their properties, were most usual. Particularly where benefit was paid fortnightly instead of every four weeks and rent was due monthly, landlords felt there may be a strong temptation for tenants to

spend the benefit on something else. They therefore felt the need to more closely manage their tenants and “catch them” as soon as possible after benefit was paid to ensure that they received the rent. Landlords also highlighted problems when HB was paid every four weeks with waiting for the thirteenth benefit payment while the benefit payment cycles caught up with rent payment cycles. Some landlords found that tenants moving out before the end of the year may never pay the final rent instalment, particularly as HB is also paid in arrears.

102. This section now looks at the evidence from departmental administrative data sources on the prevalence of coinciding benefit and rent payment cycles.

103. In February 2010, about 48 per cent of HB claimants subject to the LHA were being paid their HB fortnightly, 45 per cent four weekly, six per cent calendar monthly and one per cent weekly. In contrast 71 per cent of HB claimants subject to the LHA rules were reported as paying their rent calendar monthly, 27 per cent weekly and two per cent four weekly.

**Figure 4.11 Rent and HB Payment Periods, for LHA Cases, February 2010**



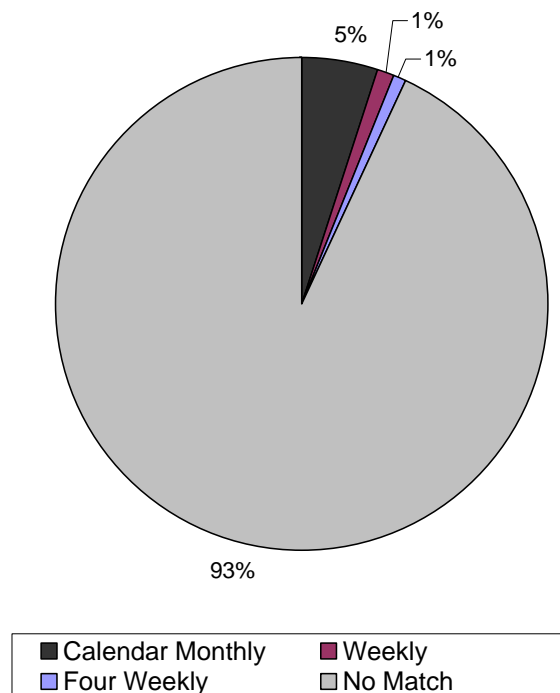
Source: Single Housing Benefit Extract, February 2010

- Notes: 1. A small number of non-LHA cases making a new claim since 7 April 2008 may be included in this analysis.
2. Those cases with unknown rent or benefit payment periods are excluded from this analysis.

3. Investigations revealed that some groups of LAs were recording contractual rent payment periods as weekly regardless of the actual payment period. This data had to be excluded from the analysis.
4. Overall about five per cent of cases were excluded. The proportion excluded was higher in Scotland resulting in additional uncertainty around those estimates.
5. This analysis relates to all payments, both those made to the claimant and those made to the landlord.

104. In February 2010, for about 93 per cent of LHA cases their HB payment period did not match that recorded for their rent. About five per cent of LHA cases had matching HB and rent payment periods with a frequency of a calendar month, about one per cent matched with a weekly frequency and about a further one per cent matched with a four weekly frequency<sup>63</sup>. This misalignment of payments may be causing some LHA cases additional difficulties when managing their finances.

**Figure 4.12 Coincidence of Rent and HB Payment Periods for LHA Cases, February 2010**



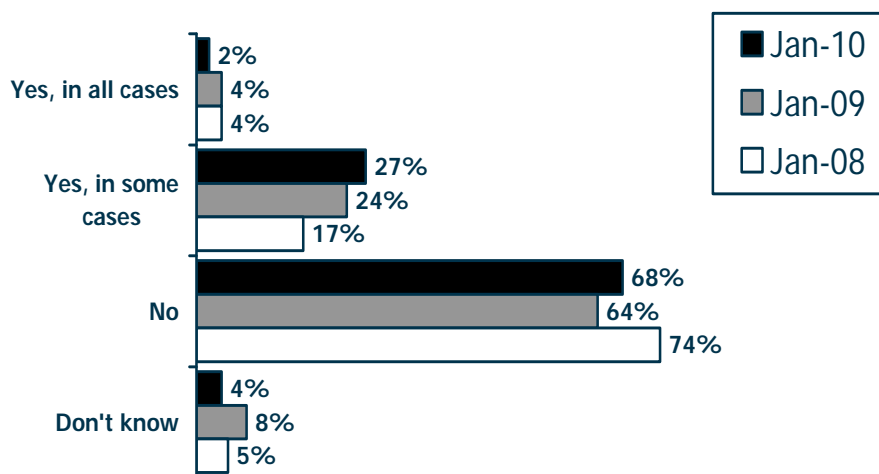
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 5 to Figure 4.11.

<sup>63</sup> Even where the payment periods of rent and benefit do match, there will also need to be a match on the payment date in order to achieve full alignment and resolve the issues raised here with misalignment. The review does not have information on the extent to which payment dates match, where there is a match in the payment periods.

105. Reports from LAs indicate that the majority of LAs do not align HB payments under LHA to rent due dates and that there has only been a little movement towards alignment between January 2008 and January 2010. As can be seen in Figure 4.13, the proportion of LAs that say they do not align payments remained broadly similar (74 per cent in January 2008, 64 per cent in 2009 and 68 per cent in 2010). In both January 2009 and 2010, around three in ten (28 per cent and 29 per cent respectively) said that they coincide payments of benefit with rent charging cycles although most of these were “yes in some cases” rather than “yes in all cases”<sup>64</sup>.

**Figure 4.13 Frequency of LAs Coinciding HB-LHA Payments to Rent Due Dates, January 2008, 2009 and 2010**



Source: LA Omnibus Survey Waves 16, 18 and 20

Notes: 1. Percentages may not sum to 100 due to rounding

106. Although the overall alignment of payments is low, Scotland in particular has a relatively high proportion (32 per cent) of aligned cases, which is driven by the good practice of five LAs. Of all claims in Scotland, 28 per cent had both calendar monthly benefit and rent payment cycles, three percent had four weekly cycles on both and one per cent had weekly cycles on both<sup>65</sup>. Several LAs in London and the South East also showed high levels of aligned calendar monthly payments. One LA in Wales had high levels of aligned benefit and rent payment cycles, but these are weekly rather than calendar monthly as seen in other regions.

107. The data show that the alignment of benefit and rent payment cycles is uncommon, and suggests that this form of best practice is largely concentrated in a relatively small proportion of LAs.

<sup>64</sup> In 2008 the figure was 21%, although this is lower it is not actually significant

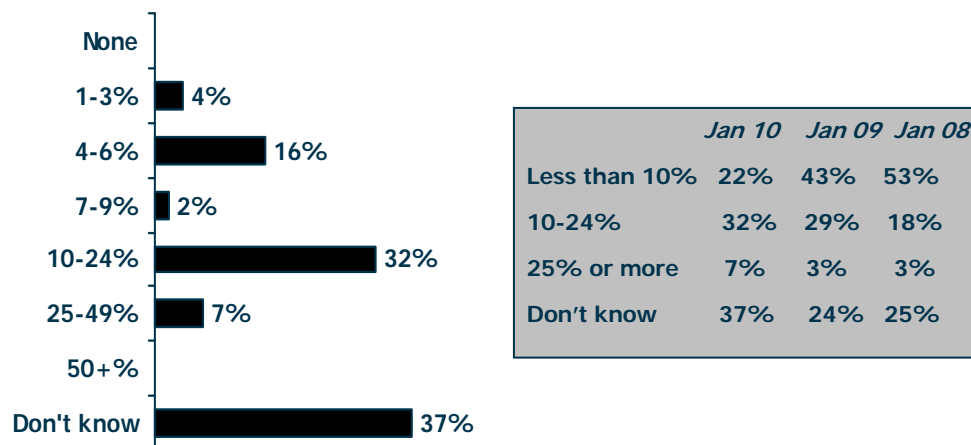
<sup>65</sup> As noted below Figure 4.11, data quality issues around this data for Scotland result in additional uncertainty around these estimates.

108. A feature of the LHA that has been highlighted by tenants and landlords as posing problems for financial management is the possibility that entitlement may go down when the claim reaches its anniversary date, and the LHA rate is reviewed. In some areas, rents and LHA rates have fallen. The result has been that either a) tenants have experienced an unplanned shortfall, b) landlords have been forced to accept a lower rent than agreed or c) tenants have fallen into arrears. Although tenants may choose accommodation based upon the prevailing LHA rate, they are not necessarily protected from reductions in this rate in the future. However, it was also theoretically possible for entitlement to go down at the anniversary date under the previous scheme for HB in the PRS.

#### 4.4.2 Use of Money Advice Services

109. Before the national roll-out of LHA more than half of LAs expected fewer than 10 per cent of LHA cases would need money advice. Following the national rollout of LHA, a growing percentage of LAs have suggested the proportion of claimants needing money advice was more than one in ten. This change most likely has a link with the economic downturn. Advisers<sup>66</sup> from independent advice agencies reported that where tenants did use services it tended to be about general financial matters rather than directly related to LHA and difficulty managing rent payments.

**Figure 4.14 LA Reports of Percentage of LHA Cases that have Needed Money Advice January 2010**



Source: LA Omnibus Survey Waves 16, 18 and 20

Notes: 1. Percentages may not sum to 100 due to rounding.

<sup>66</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

110. Some tenants reported that they did not have their finances under control and were still accruing more debt or struggling to service debt accumulated prior to claiming HB. This was attributed to competing demands for money and a limited income. Despite this, it appears that tenants were under-utilising money advice services. Tenants were occasionally unaware of these services or reluctant to use them. Advisers from both LAs and independent advice agencies reported that tenants often sought help on financial matters only at the "last minute" such as when they had already been served an eviction notice (or evicted), which was a source of frustration to advisers.

## 4.5 Conclusion

111. Relatively high levels of direct payment to tenants have been achieved under the LHA.
112. It is estimated about eight per cent of the LHA caseload in February 2010 were having benefit payments made to the landlord as they had fallen into arrears of eight weeks or more. A high proportion of landlords, participating in research or surveys for the review, have reported problems with rent arrears and increased effort to minimise the risk of these as a result of payment being made to the claimant under LHA rules. Evidence from LAs and advisers in independent advice agencies supports an increase in arrears due to LHA, but does not support the scale of problem suggested by some landlords.
113. Concerns were raised over the success of safeguards in protecting tenants in vulnerable situations. Both advisers, in LAs and independent advice agencies, and landlords suggest that eight weeks of arrears is too long a period of arrears to allow to accumulate. Lack of awareness of the other two safeguards and difficulties providing appropriate supporting evidence were reported to hinder the application of these. It was felt that tenants may be falling through the safety net of these provisions where histories of arrears could not be proven or tenants did not fall into the clear categories of vulnerability that could be confirmed in diagnoses by health care professionals.
114. An increase in the incidence of electronic means of payment has been seen since the introduction of the LHA system, both among LHA and non-LHA PRS cases ostensibly due to the introduction of the new scheme for paying HB to tenants. The constrained financial circumstances of tenants combined with the misalignment of rent and benefit payment cycles inhibit the use of standing orders to pay rent and claimants' use of bank accounts to full effect.

115. Most tenants were reported to cope well with the financial management of their rent payments and evidence suggested that tenants took the responsibility of paying rent very seriously, but a significant minority were reported not to be coping. Thus for some tenants direct payment is achieving its objective of enhancing personal responsibility. For others it may not be causing harm, but the added responsibility still may not be welcomed. For a further minority, the system may be causing particular difficulties.



# Chapter 5

## Fairness

### 5.1 Introduction

1. The Local Housing Allowance (LHA) aims to ensure households in similar circumstances in the same area will be entitled to similar amounts of benefits. Housing Benefit (HB) under LHA rules is calculated using a flat rate based on the area in which a claimant lives and the size and composition of their household, rather than individual property referrals. As a result of this design feature, LHA could be considered as fairer to claimants than its predecessor scheme, which relied upon individual rent officer decisions and the claimant's actual rent for determining HB awards.
2. This chapter considers the differences between the contractual rents and applicable LHA rates for different groups of claimants to assess which groups may be disproportionately benefiting or being adversely affected by the LHA. In particular, it reviews the impacts of the shared accommodation rates<sup>67</sup> and rates for properties with six bedrooms or more. It should, however, be noted that the differences will also partly reflect the tenant's choice of accommodation.
3. Further contextual information on the rents paid by low income households not on HB is given by the research reports that the Department for Work and Pensions (DWP) recently published on Low Income Working Households<sup>68</sup>.
4. This chapter also looks briefly at the issues that have arisen concerning the geographical basis on which LHA rates are set.
5. Impacts of other aspects of the LHA, such as direct payment to tenants, on different equality groups have been considered in other chapters.

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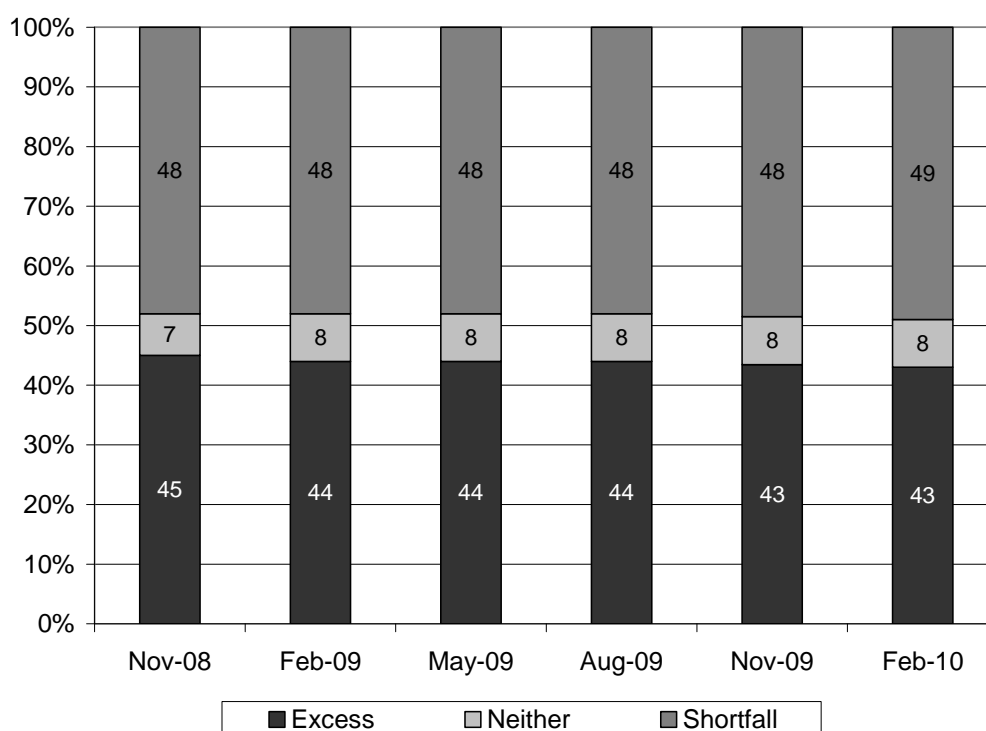
<sup>67</sup> Also known as shared room rates.

<sup>68</sup> Walker, B. & Niner P, Low income working households in the private rented sector, London, 2010.

## 5.2 Comparison of LHA Rates to Contractual Rents for Different Groups

6. Around 43 per cent of LHA cases had an excess in February 2010, about eight per cent of LHA cases had contractual rents equal to their applicable LHA rate and about 49 per cent had a shortfall<sup>69</sup> between their LHA rate and their contractual rent.
7. So approximately half of contractual rents for LHA cases were above the applicable LHA rates, resulting in a shortfall, and approximately half were equal to or below the LHA rate, resulting in an excess or neither an excess nor a shortfall. This pattern suggests LHA rates do in practice broadly correspond to the previous government's policy intention of setting LHA rents at the midpoint of the local rental market. Figure 5.1 shows that this pattern has remained stable over the review period.

**Figure 5.1 Proportion of LHA Cases Experiencing Excesses and Shortfalls between the Relevant LHA Rate and Contractual Rent, between November 2008 and February 2010**



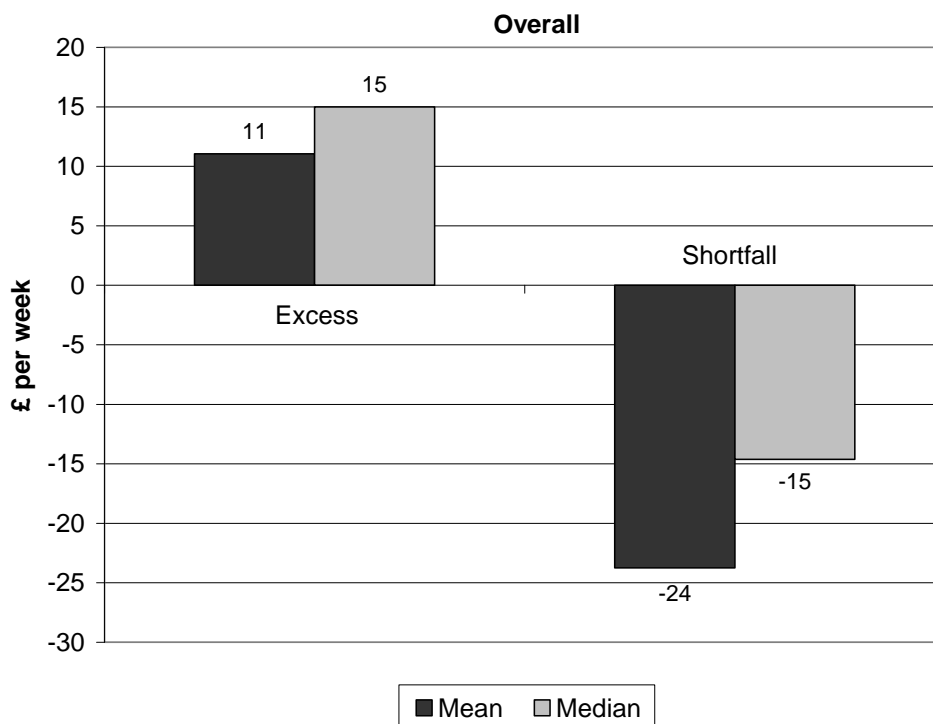
Source: Single Housing Benefit Extract

<sup>69</sup> It is important to note that shortfalls here do not reflect the difference between the HB award and the rent. Levels of income higher than the claimant's applicable amount or deductions for non-dependants may make the HB award lower than the LHA rate and increase the shortfall beyond what is shown here. The definition used here is consistent with that used in impact assessments of changes to the LHA.

- Notes:
1. Only those of the National Statistics LHA caseload with positive LHA rates and positive contractual rents recorded have been included in this analysis.
  2. If the claimant and/or any member of their household could afford the financial commitments of their home when they first entered into them, and the claimant or their partner have not received HB during 52 weeks before their current claim, or due to having suffered a bereavement, their local authority (LA) should not use the maximum rent figure for the first 13 weeks of their claim. These protected cases are also excluded from the analysis.
  3. Adjustments have been made to correct implausibly low LHA rate entries.
  4. Adjustments have also been made to deal with inconsistent recording of contractual rent values and the period to which they relate, eg recording a weekly value but noting the period of payment as monthly. Some adjustments have no effect on the certainty of the estimate. Other issues have required the omission of data or reasonable estimates were made using the available data.
  5. A further issue with contractual rent values appeared to be the recording, for a small group of cases, of rents for the entire property where a claimant was a joint tenant, rather than just the claimant's share of the rent. In the absence of other information to derive reasonable contractual rents for these cases, this group of cases has been excluded from the analysis. The issue only affects a small proportion of all joint tenants.
  6. Following the adjustments above, a small number of local authorities (LAs) still showing implausibly high increases in average weekly contractual rent amounts (in excess of 150%) between November 2008 and May 2009 were also removed from the analysis. These were deemed due to data shortcomings rather than real changes.
  7. Finally, all cases where shortfalls exceeded -£400 were excluded. The -£400 threshold results in the removal of between 0.5% and 1% of cases. This was judged as a reasonable threshold for identifying outlying shortfall values most likely resulting from data errors rather than real shortfalls.
  8. Combined, these changes remove between 8% to 11% of the National Statistics LHA caseload, with higher numbers of cases being removed particularly in November 2008 and February 2009, when reasonable adjustments could not be derived for more of the issues, and lower numbers of cases falling out in the later periods.
  9. Percentages may not sum to 100 due to rounding.
- 
8. Across the period of the review, the mean excess value was around £11 per week and the mean shortfall around £24 per week. The majority of LHA cases in receipt of an excess were receiving the full £15 limit, resulting in the median excess being £15. For half of those whose LHA rate did not cover their rent, the shortfall was £15 or more per week, resulting in the median shortfall also being £15.
  9. The cap on the value of the excess that a claimant can keep restricts the value of any excess. There is no comparable restriction on the size of any shortfall. However, in February 2010, at the median, for tenants with an excess, LHA rates were 13 per cent higher than contractual rents and, for those with a shortfall, LHA rates were 12 per cent lower than contractual rents. This again suggests that the previous government's policy intention of LHA rates being at the midpoint of the market is being achieved.

10. Over the review period, average excess and shortfall values have remained broadly similar.

**Figure 5.2 Average Excess and Shortfall Amounts for LHA Caseload, February 2010**



Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 8 to Figure 5.1.

## 5.2.1 Excesses and Shortfalls by Region and Entitlement Based on Property Size

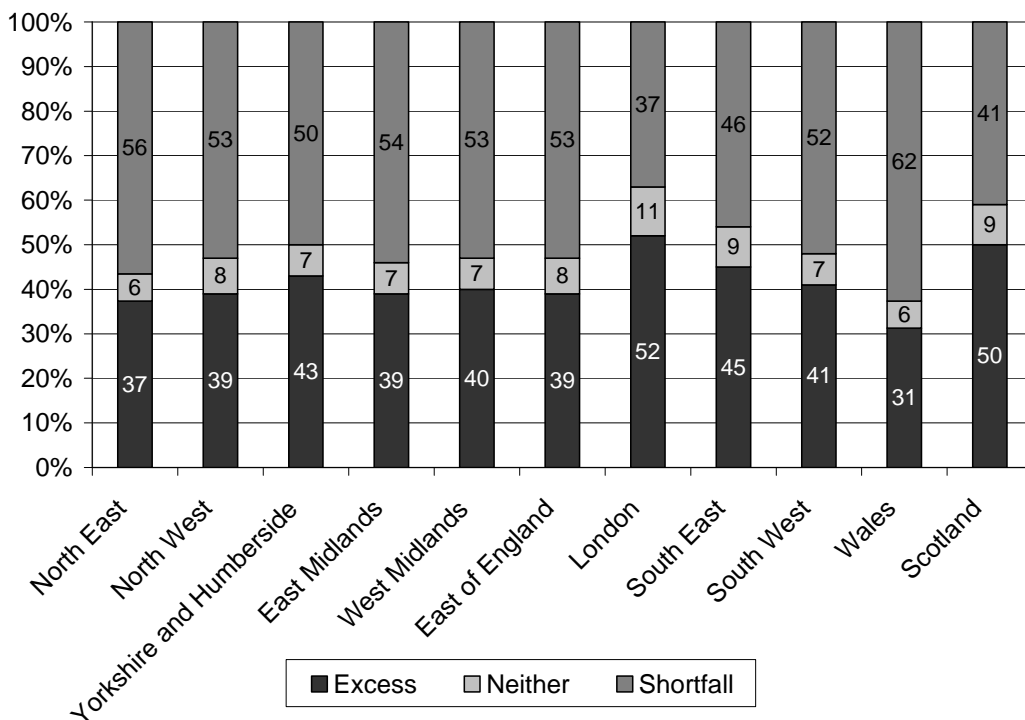
11. The next section looks at the differences between LHA rates and contractual rents by region and entitlement based on property size. It focuses on these differences as LHA rates are set separately for different property sizes and areas.

12. Throughout the review period, the proportion of tenants experiencing excesses in London, the South East and Scotland has been relatively high compared to other Government Office Regions, standing at 52 per cent, 45 per cent and 50 per cent respectively in February 2010. Hence the proportion experiencing shortfalls in these areas has been relatively small,

standing at 37 per cent, 46 per cent and 41 per cent, respectively in February 2010.

13. In contrast, Wales had a relatively high proportion of shortfalls and low proportion of excesses across the review period. For example, in February 2010, 62 per cent of LHA cases had a shortfall and 31 per cent had an excess.
14. One interpretation would be that claimants in London, the South East and Scotland have tended to disproportionately benefit from the LHA scheme, whereas claimants in Wales have fared relatively less well. However, these patterns are also a result of many other factors including the supply of appropriate accommodation, mobility of claimants and claimants' choice of accommodation.

**Figure 5.3 Proportion of LHA Cases Experiencing Excesses and Shortfalls, by Government Office Region, February 2010**



Source: Single Housing Benefit Extract, February 2010.

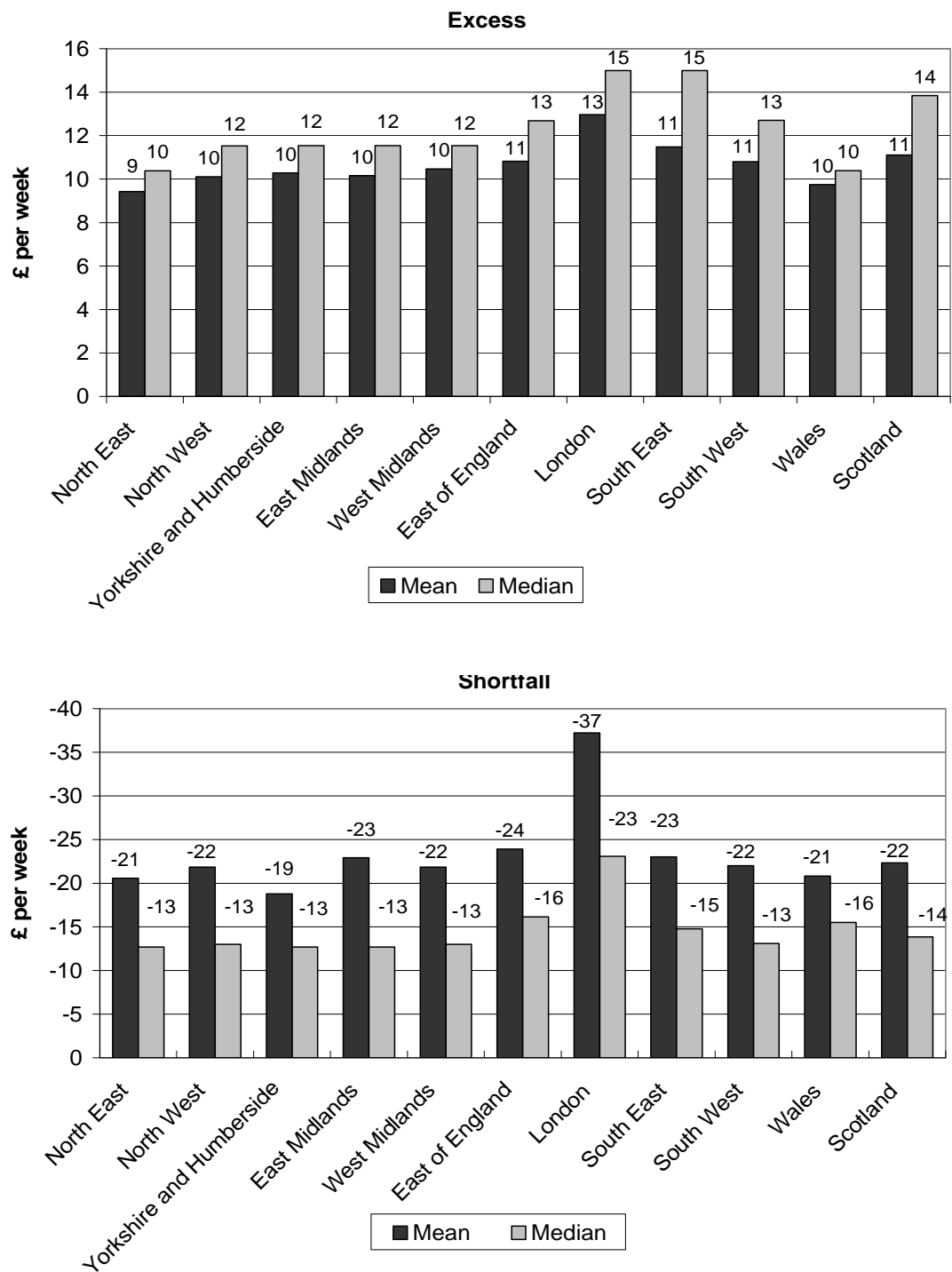
Notes: 1. See notes 1 to 8 to Figure 5.1.

2. Estimates for contractual rents in Scotland are particularly affected by the issues described in note 4 to Figure 5.1. Weekly contractual rents were estimated for about 14 per cent of cases in Scotland in February 2010.

3. Percentages may not sum to 100 due to rounding.

15. Median excess values of £15 per week in both London and the South East suggest the majority of claimants in receipt of an excess in these areas were receiving the excess limit of £15 per week.
  
16. Although London had relatively lower proportions of shortfalls compared to other regions, both mean, £37 per week, and median, £23 per week, shortfall figures were relatively high compared to other regions. This reflects the higher LHA rates and rents for properties in London. The proportion by which LHA rates fell short of contractual rent values, for those with a shortfall in London, was broadly similar to other regions.
  
17. It is possible that employment income may enable some claimants in London to sustain such high shortfalls. In February 2010, among claimants in London with a shortfall, the proportion of non-passported in work claimants stood at 29 per cent compared to the overall average proportion in work, among claimants with a shortfall, of 23 per cent.

**Figure 5.4 Average Excess and Shortfall Amounts for LHA Caseload, by Government Office Region, February 2010**



Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 8 to Figure 5.1.

2. See note 2 to Figure 5.3.

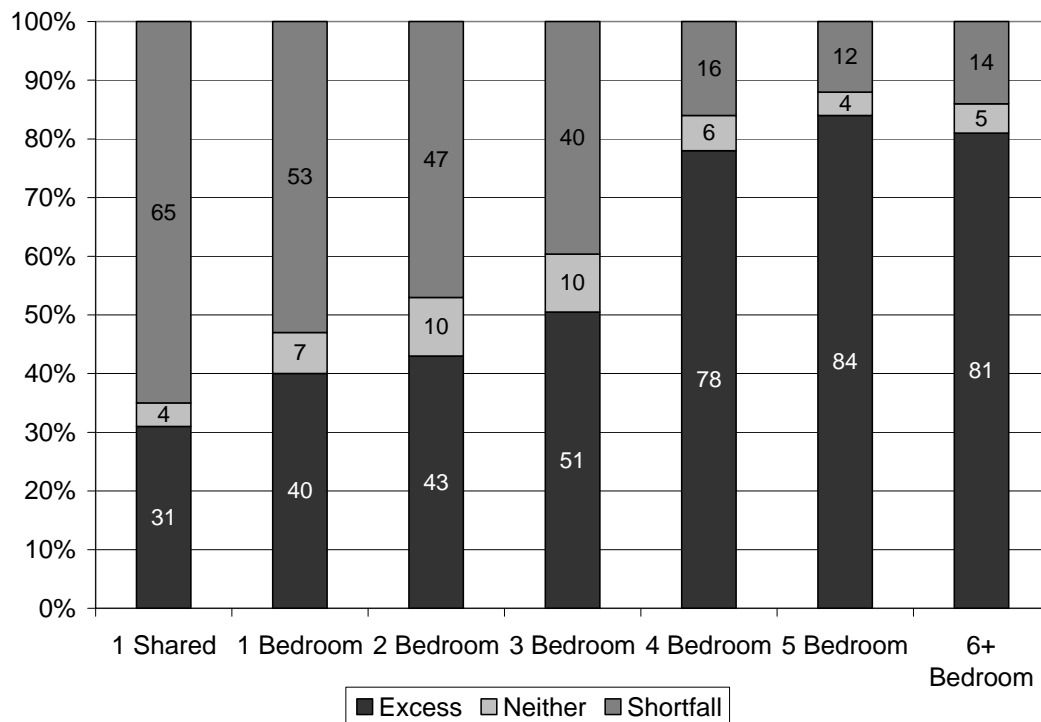
18. For February 2010, data shows that as the size of a property on which entitlement is based increased, the proportion of claimants with an excess also increased, with the exception of the six or more bedroom category. The pattern for claimants entitled to six or more bedrooms has, however, been changing over time with the proportion of claimants experiencing an excess decreasing since the policy change the previous government made in April 2009 to cap LHA rates at the five bedroom rate. For claimants entitled to the shared accommodation rate, 31 per cent received an excess, whilst the figure stood at 84 per cent for claimants entitled to five bedroom properties (slightly lower at 81 per cent for those previously entitled based on six or more bedroom properties) in February 2010.
19. This may reflect that LHA cases entitled to larger properties have tended to disproportionately benefit from the relevant LHA rates, but it may also reflect a number of other factors, including greater variability in the rents charged for larger properties, a general shortage of supply of large properties or the properties larger families have chosen to occupy. There is potentially greater scope for claimants entitled to larger properties to downsize to smaller properties, albeit at the risk of overcrowding, although the evidence in Chapter 3 suggested that in the region of only four per cent of LHA cases were overcrowding in 2008-09<sup>70</sup>. The proportion of the LHA caseload entitled to properties of 4 bedrooms or more in February 2010 was estimated at four per cent, as shown in Chapter 2. We cannot say with certainty whether those who were overcrowding relative to LHA bedroom criteria also experienced excesses.

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<sup>70</sup> Overcrowding is considered relative to the LHA bedrooms criteria.



**Figure 5.5 Proportion of LHA Cases Experiencing Excesses and Shortfalls, by Accommodation Size upon which HB Entitlement is Calculated, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 8 to Figure 5.1.

2. Breakdown by entitlement based on property size does not include recipients with unknown entitlement based on property size. This constitutes about six per cent of the National Statistics LHA caseload in February 2010.

3. The split of cases between the shared accommodation rate and the one bedroom rate was adjusted after it was discovered that there was an issue with certain software providers not recording any claimants on the shared accommodation rate. This issue was addressed by looking at the caseload recorded as entitled to HB based on a one bedroom property, for cases that should be restricted to the shared accommodation rate (single, under 25 claimants, with no dependants or non-dependants and with no severe disability premium). The LHA rates for these cases were then compared with official monthly LHA rates in order to find those with LHA rates close to the shared accommodation rate for their area

4. Although maximum LHA rates were capped at the five bedroom rates from April 2009, the change only came into effect for existing claimants from the anniversary date of their claim and they were also given 26 weeks of transitional protection. This is why there are still claimants entitled based on six or more bedrooms in February 2010.

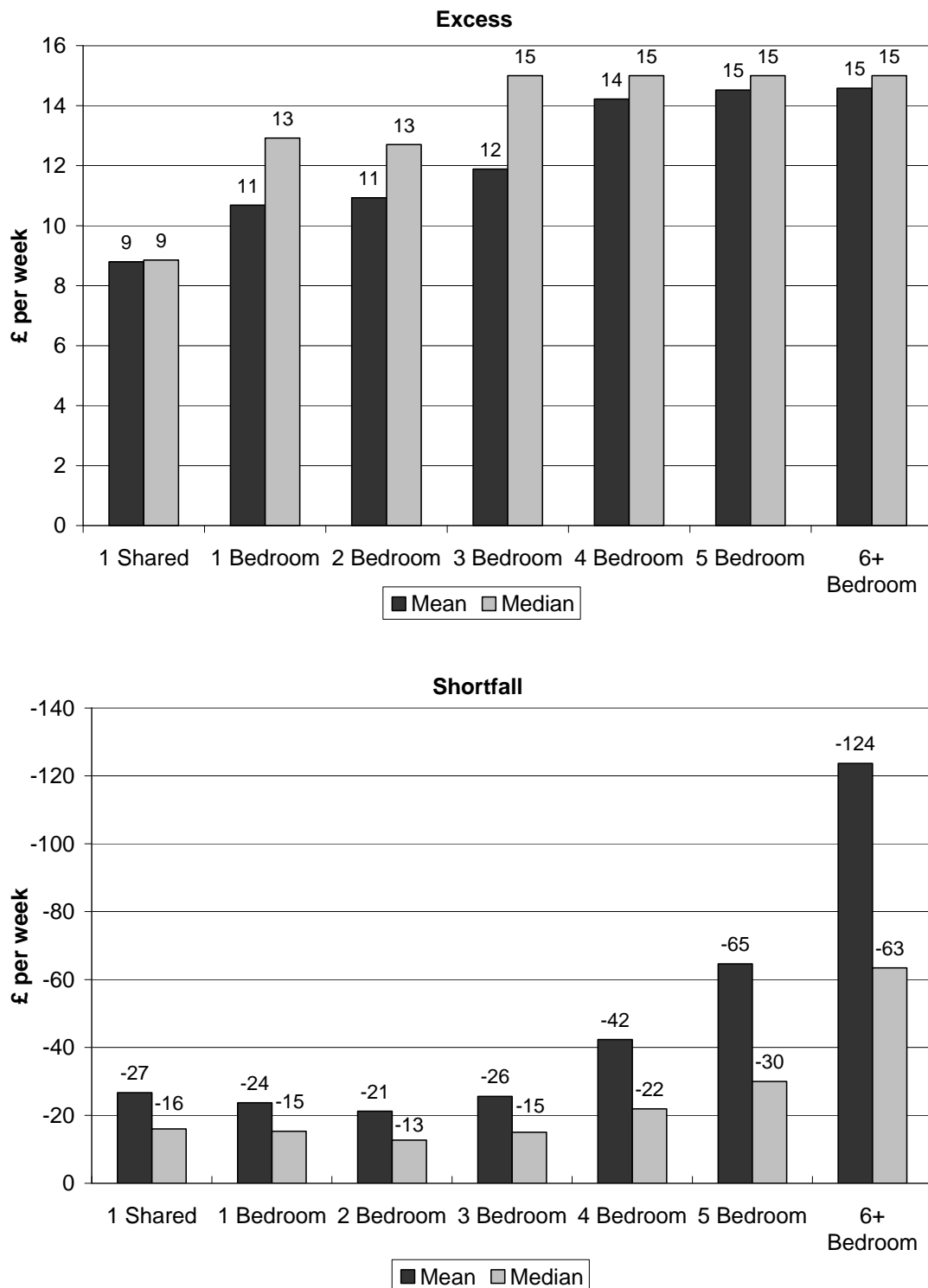
5. Percentages may not sum to 100 due to rounding.

20. Mean excess values increased with entitlement based on property size, from £9 for shared properties to £15 for entitlements based on five and six or more bedrooms. This was true across the review period. In February

2010, the majority (based on median values) of claimants entitled to three, four, five and six or more bedrooms, in receipt of an excess were receiving the full £15 limit.

21. Mean shortfall values were noticeably higher for entitlements based on four or more bedrooms. The increase in median shortfall values became steeper as property size increased. This may have related to the smaller supply of properties of these sizes, although it would not be unreasonable to expect some positive correlation between the absolute size of excess or shortfall and LHA entitlement based on bedrooms owing to rents tending to be higher for larger properties. It should, however, be recalled that the proportion of these cases with shortfalls is much lower than the average.

**Figure 5.6 Average Excess and Shortfall Amounts, by Accommodation Size upon which HB Entitlement is Calculated, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 8 to Figure 5.1.

2. See notes 2 to 4 to Figure 5.5.

## 5.2.2 Shared Accommodation Rates

22. The introduction of the shared accommodation rate<sup>71</sup> under the LHA scheme aimed to address the large shortfalls experienced by claimants restricted by the single room rent prior to the LHA. For national rollout of the LHA:

- the definition of what accommodation can be counted under the shared accommodation rate was widened, making it more reflective of the range of accommodation available to tenants;
- using the median to calculate LHA rates, including the shared accommodation rate, should mean that about half of the shared accommodation properties in each Broad Rental Market Area (BRMA) should be affordable at the appropriate rate.

These should have led to an increase in shared accommodation rates relative to the levels of their predecessor, the single room rent, and improved both the affordability and availability of shared accommodation. The Department committed to make an initial assessment of the impact of the rollout of the LHA on shared accommodation rates as part of the 'Two Year Review of the LHA'.

23. It should be noted that the results shown in the section above for the shared accommodation rate, relate to all claimants to whom the shared accommodation rate is applied. This includes both claimants, of any age, who choose to live in shared accommodation, although they would otherwise be entitled to one bedroom rates, and those claimants only entitled to the shared accommodation rate because they are single, under 25 years, have no dependants or non-dependants and are not severely disabled or a care leaver under the age of 22. This section now looks more closely at the second group of claimants, which we shall refer to as the single, under 25 shared caseload.

24. Apart from the characteristics of this claimant group determined by the HB regulations, other characteristics of the single, under 25 shared accommodation rate cases in February 2010 were that:

- Most were male (about 60 per cent) compared to 42 per cent of non-couple claimants in the LHA caseload as whole.
- Most were JSA(IB) claimants (about 55 per cent) compared to just over one fifth of the LHA caseload as a whole. Associated with a large proportion of jobseekers, they had relatively short durations on HB.

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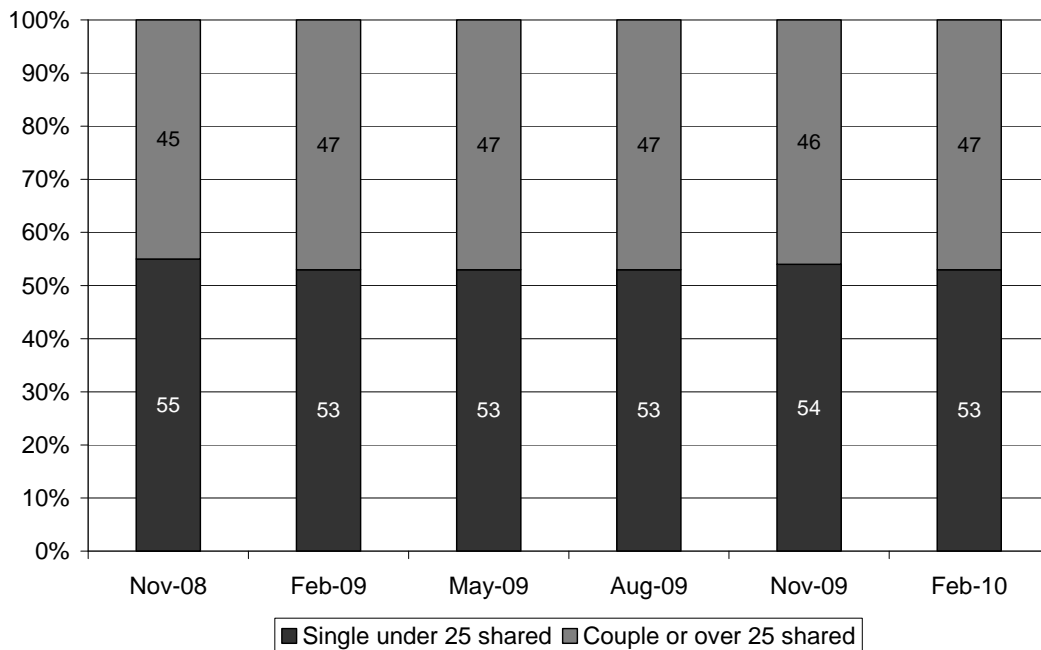
<sup>71</sup> Also known as shared room rates.

- And about 14 per cent were non-passported in work, compared to about one quarter of the LHA caseload under age 60.

In addition, the single, under 25 shared group made up about 35 per cent of all under 25 LHA cases.

25. As seen from Figure 2.11 in Chapter 2, all shared accommodation rate cases make up about 11 per cent of the whole LHA caseload. Figure 5.7 shows that the single, under 25 shared group made up about 53 per cent of the shared accommodation rate caseload in February 2010 and this proportion did not change much over the review period. Thus there was a sizeable proportion of the caseload choosing to occupy shared accommodation.

**Figure 5.7 Proportion of Shared Accommodation Rate LHA Caseload Comprised of Single, Under 25 Cases, November 2008 to February 2010**



Source: Single Housing Benefit Extract

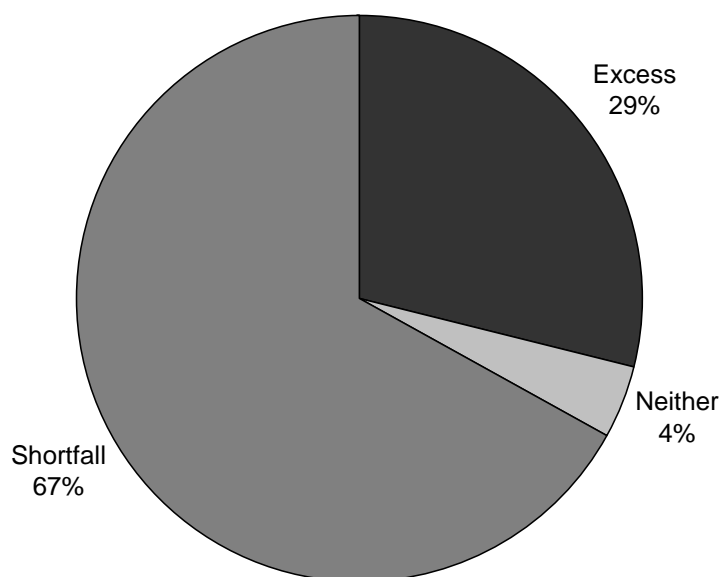
Notes: 1. See notes 2 and 3 to Figure 5.5.

2. The single, under 25 shared group are not entitled to one bedroom LHA rates. The couple or over 25 shared group are only entitled to the shared accommodation rate because they choose to live in shared accommodation, although they would otherwise be entitled to one bedroom LHA rates.

3. Those cases with missing family type or age information are excluded from the analysis.

26. In February 2010, the proportion of single, under 25 shared accommodation rate cases experiencing shortfalls was higher than for all claimants, at 67 per cent compared to 49 per cent. It was also slightly higher than the proportion of shortfalls amongst the shared accommodation rate caseload as a whole (65 per cent).

**Figure 5.8 Proportion of Single, Under 25 Shared Accommodation Rate LHA Cases Experiencing Excesses and Shortfalls, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 8 to Figure 5.1.

2. See notes 2 and 3 to Figure 5.5.

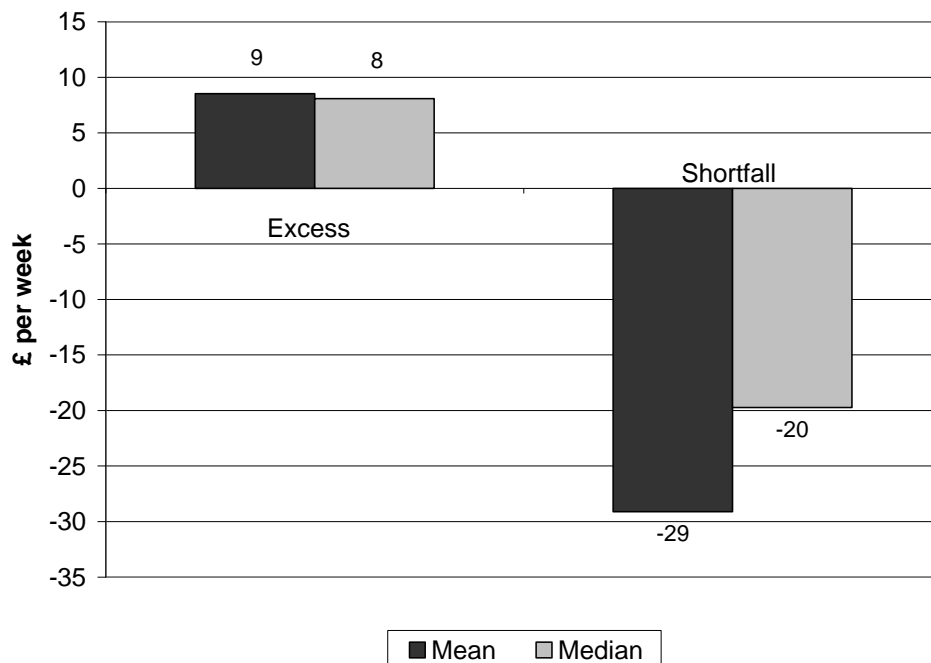
3. Those cases with missing family type or age information are excluded from the analysis.

27. Over the review period, the values of average excesses and shortfalls for all claimants and single, under 25 shared accommodation rate claimants have remained relatively stable. However, from the mean shortfall and excess values, single, under 25 shared accommodation rate cases appear to be facing larger shortfalls compared to LHA cases as a whole. For example, in February 2010, the single, under 25 shared accommodation cases had a mean excess value of £9 per week compared to £11 per week for all claimants and a mean shortfall value of £29 per week compared to £24 per week. The mean shortfall amount for single, under 25 shared cases is also higher than for the over 25 or couple shared accommodation caseload (about £24 per week).

28. The average shortfall for claimants restricted by the single room rent was around £47 per week before the introduction of the LHA<sup>72</sup>. However, it was estimated only around 20 per cent of the claimants affected by this restriction were actually living in shared accommodation. The majority lived in self-contained accommodation. For those actually living in shared accommodation, the level of shortfall was around £29 per week. This was similar to the average shortfall faced by other claimants subject to rent restrictions – which was around £25 per week.

29. As deduced from the median values, of all LHA cases the majority who are in receipt of an excess receive the full £15 per week limit, compared to £8 per week for single, under 25 shared accommodation rate cases.

**Figure 5.9 Average Excess and Shortfall Amounts for Single, Under 25 Shared Accommodation Rate LHA Cases, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 8 to Figure 5.1.

2. See notes 2 and 3 to Figure 5.5.

3. Those cases with missing family type or age information are excluded from the analysis.

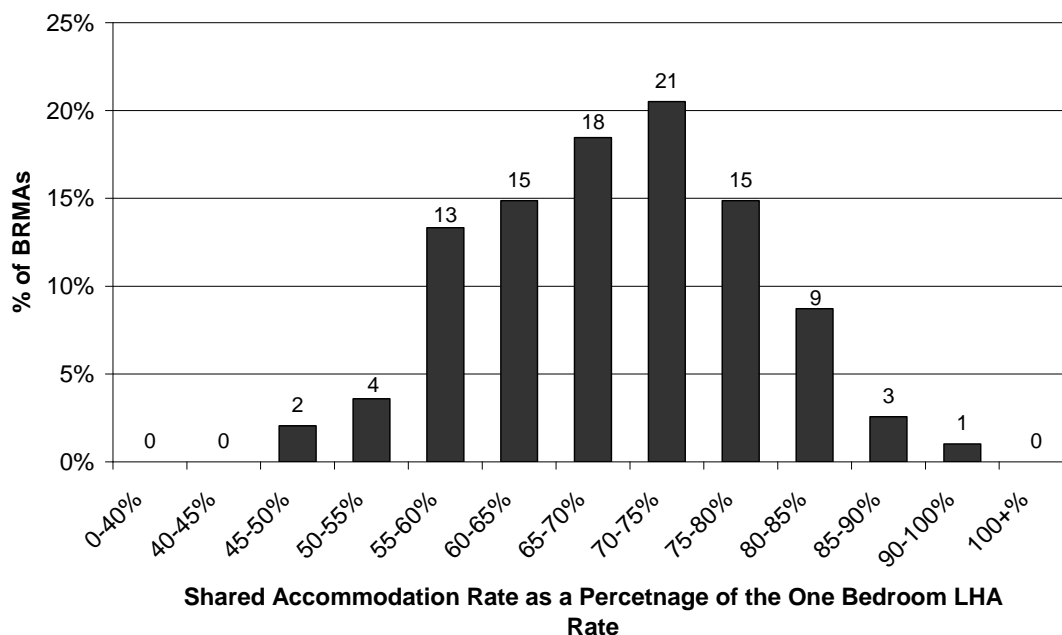
30. The comparatively higher proportions in the single, under 25 shared group experiencing shortfalls as well as the relatively higher values of these shortfalls may be the result of a number of factors. Some of the single,

<sup>72</sup> Rent Officer Referrals Data, 2006-07

under 25 shared group may be occupying one bedroom self-contained properties.

31. The chart below shows that in February 2010, just over half of BRMAs had shared accommodation rates that were 30 per cent or more lower than the one bedroom LHA rate in the same BRMA.

**Figure 5.10 Distribution of Ratio of Shared Accommodation Rate to One Bedroom LHA Rate within Each BRMA, February 2010**



Source: LHA rates for England (Valuation Office Agency), Wales (Rent Officers Wales) and Scotland (Rent Registration Service), February 2010

32. This review is unable to indicate what proportion of the single, under 25 shared caseload occupy one bedroom or larger accommodation instead of shared accommodation either through choice or due to lack of availability of shared accommodation. This is due to the limited evidence available.
33. However, rent officers have reported a shortage of shared accommodation in some areas, such as rural or small market town locations, when collecting rents to inform the LHA rates. A further issue reported by rent officers in relation to the shared accommodation market is that many rooms are let by word of mouth by small resident landlords. This may make accessing some shared accommodation partly dependent on access to these word of mouth advertisements. Nonetheless, the high proportion of shared accommodation rate claimants who have apparently chosen to live in shared accommodation (about 47 per cent of claimants entitled



based on the shared accommodation rate were couples or over 25<sup>73</sup>) does suggest that concerns about availability to HB claimants could be overstated.

34. The LHA rates for shared accommodation are by design less generous than the one bedroom rates so that young, single claimants do not find themselves in accommodation they could not afford should they move into work. This policy is not specific to the LHA but was carried over from the previous scheme for HB claimants in the Private Rented Sector (PRS). For comparison, it is estimated that around 45 per cent of non-student, single, under 25s in the PRS, with no children and who have not declared any HB receipt live in shared accommodation<sup>74</sup>.

### 5.2.3 Entitlements Based on Six or More Bedrooms

35. As described in Chapter 1, Section 1.4, from April 2009 the maximum LHA rate that could be applied to a claim became the five bedroom rate. This section looks at the caseload affected. Figures illustrating the results below are contained in Annex C of the report.

36. Figure 2.11 in Chapter 2 shows that the LHA caseload entitled to six or more bedrooms comprised less than half a per cent of the whole caseload in February 2010. The caseload increased to just under 900 at its maximum around May 2009. Existing claimants entitled to LHA based on six or more bedrooms had their applicable LHA rates revised at the anniversary of their claim following April 2009; however, they were allowed up to 26 weeks of transitional protection from their anniversary. Thus one would expect most cases with entitlement based on six or more bedrooms to have had the five bedroom cap applied by October 2010. By February 2010, just over 400 households receiving HB-LHA were entitled to LHA rates for six or more bedrooms under the pre-April 2009 scheme. This section now looks at the equality characteristics of these cases compared to the LHA caseload as a whole in May 2009.

37. Almost all of the caseload (about 97 per cent) were aged between 25 and 59 years. This was higher than the proportion for the LHA caseload as a whole (74 per cent in May 2009). This is unsurprising, as households of these ages are most likely to have large families living with them.

38. Similarly the family type profile differed substantially from the working age LHA caseload, with 41 per cent made up of working age lone parents and

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<sup>73</sup>Single Housing Benefit Extract, February 2010.

<sup>74</sup>Family Resources Survey, 2008-09

55 per cent made up of working age couples with children. This contrasts with 34 per cent and 15 per cent of the LHA caseload under age 60 in May 2009. The remaining four per cent were mostly claimants aged over 60 with dependants, while a small number of claimants had entitlement based on large properties as a result of the number of non-dependants in their household.

39. The gender profile of the caseload differed substantially with 58 per cent of claimants comprised of couples and 40 per cent of single females, mostly lone parents, compared to 21 per cent and 46 per cent for the LHA caseload as a whole in May 2009. The remaining two per cent comprised of single male claimants would either have been lone parents or entitled to a large property based on the non-dependants in their household.
40. The proportion of disabled claimants entitled to these large properties was very similar to the whole LHA caseload at about 19 per cent.
41. In May 2009, the caseload entitled to LHA based on six or more bedrooms was concentrated in London with 34 percent of the caseload entitled based on six or more bedrooms located there compared to 15 per cent of the LHA caseload as a whole.
42. In addition, the proportion of these claimants reported as non-passported in work in May 2009 was about 28 per cent compared to about 24 per cent of the LHA caseload under age 60 in May 2009.
43. In summary, LHA cases who were entitled based on six or more bedrooms up to April 2009 were more likely to have been couples or females with children, aged between 25 and 59, more likely to live in London and slightly more likely to be non-passported in work than the general LHA caseload.
44. We cannot say what size of accommodation claimants who were previously entitled to six or more bedrooms were subsequently occupying. However, the high proportion of claimants entitled to four or more bedrooms who experienced excesses (as shown in Figure 5.5) and the fact that the majority were receiving the maximum excess limit (as shown in Figure 5.6) suggests some degree of flexibility in the properties that could be afforded.
45. Due to lack of suitably robust data the review has been unable to monitor the characteristics of the properties that cases entitled based on six or more bedrooms are occupying.

## 5.2.4 Excesses or Shortfalls By Diversity Characteristics

46. This section looks at how excesses and shortfalls differ by age, gender, disability, family type and passporting status or employment group<sup>75</sup>. Figures illustrating the results below are contained in Annex C of the report. There is no reason of design to suggest that excesses and shortfalls should disproportionately affect any of these groups. However, different choices or capacities among these groups to respond to the LHA may lead to different experiences of excesses and shortfalls.
47. Across the review period the proportion of claimants aged 60 or over with a shortfall was relatively high compared to both the under 25 and the 25-59 age groups. In February 2010, 57 per cent of LHA cases who were aged 60 or over had a shortfall, compared to 52 per cent for the under 25's and 48 per cent for the 25-59 year old group.
48. Several reasons may be behind this, including those aged 60 or over may be less able and receptive to changing accommodation compared to the other age groups and may be living in larger properties which once accommodated their families. However, those aged 60 or over who have been living in their family home and claiming HB for longer than two years are unlikely to be claiming under LHA rules, as seen in the relatively high proportion of claimants aged 60 or over among remaining non-LHA caseload in Chapter 2, Figure 2.5. These claimants are unlikely to have broken their previous claim to move onto the LHA unless it were more generous than their previous entitlement, even if it still resulted in a shortfall.
49. The majority (based on the median values) of claimants who received an excess in the 60 or over and 25-59 age groups received the maximum amount of £15 per week, in February 2010. In contrast, the under 25 median value stood slightly lower at £11 per week. However, the mean values across the three age groups were very similar, at £10 per week for the under 25's and £11 per week for both the 25-59 and 60 or over age groups.
50. In conjunction with the proportion of claimants aged 60 or over with a shortfall being higher compared to other age groups, the average values of these shortfalls were also slightly higher. In February 2010, the mean and median shortfall values for claimants aged 60 or over stood at £27 per week and £19 per week respectively, compared to £23 per week and £13

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<sup>75</sup> As ethnicity is only partially completed on the Single Housing Benefit Extract, it is not possible also to look at the excesses and shortfalls experienced by different ethnic groups.

per week for the under 25's and £23 per week and £14 per week for the 25-59 age group.

51. One possible explanation as to why they may be more able to sustain shortfalls in the long term is due to higher entitlements to income related benefits, compared to their working age counterparts. In February 2010, about 30 per cent of the group aged 60 or over and with shortfalls was not passported onto HB by entitlement to another benefit and so may have additional sources of income from which to make rent payments. In the same month, the proportion of those aged 60 or over experiencing shortfalls and living with at least one non-dependant stood at six per cent compared to the overall average across all age groups and with at least one non-dependant of four per cent. Again non-dependants could be a source of additional income from which to cover shortfalls if they contribute more towards the rent than is deducted from benefit entitlement through any non-dependant deduction.
52. Over the review period, single male and female claimants, alongside those that claim as couples had similar proportions of excesses and shortfalls.
53. Of single females and couples that had an excess, the majority (based on the median values) received the maximum amount of £15 per week. This compares to a median value of £12 per week for male claimants. This may be partly due to the higher proportion of males on the shared accommodation rate. However, the mean excess values for couples, females and males were similar at £12, £11 and £10 per week respectively in February 2010.
54. In addition, the mean shortfall value for couples, at £27 per week was higher compared to those of female (£23 per week) and male (£23 per week) claimants. The higher value for couples may be linked to the higher shortfall amounts noted for claimants entitled to larger properties in Figure 5.6.
55. In February 2010, both working age lone parents and couples with children were more likely to experience an excess, 45 per cent and 50 per cent respectively, compared to those without children. This pattern was observed across the review period. This is likely to be related to their entitlements based on larger property sizes shown above in Figure 5.5. The proportion of working age couples without children experiencing shortfalls was noticeably higher than any other group, at 62 per cent. Again this is likely to be related to their entitlements based on smaller property sizes shown in Figure 5.5.
56. In February 2010, mean excess values were similar across all family types, at around £11 per week. However, median excess values show that the majority of claimants aged 60 or over, lone parents and couples with

children were receiving the full £15 per week excess, whereas half of single claimants and couples without children were receiving less than £12 per week.

57. As discussed in the excess and shortfall analysis by age, average shortfall values were higher for claimants aged 60 or over compared to other family types<sup>76</sup>. Shortfall values for working age couples without children were similarly high, with a mean value of £26 per week. Around half of this group had shortfalls of £18 per week or more. In February 2010, the proportion of working age couples without children experiencing shortfalls and living with at least one non-dependant stood at eight per cent compared to the overall average across all family types and with at least one non-dependant of four per cent, possibly explaining how some could sustain the higher shortfalls i.e. if the non-dependant contributed more towards the rent than is deducted from benefit entitlement through any non-dependant deduction.

58. In February 2010, a slightly higher proportion of claimants with a disability<sup>77</sup> experienced a shortfall compared to their non-disabled counterparts, 53 per cent compared to 48 per cent respectively. This pattern was observed across the review period. This may be a result of a number of factors. Among these may be lower availability of suitable properties or being less able or receptive to changing accommodation. It is also the case that disabled claimants tend to have smaller household sizes and entitlements based on smaller properties were associated with a higher prevalence of shortfalls.

59. The mean excess value for both non-disabled and disabled claimants was about the same, at £11 per week. However, the majority (from median values) of non-disabled claimants received the excess limit of £15 per week, compared to a median value of £12 per week for disabled claimants. Both mean and median shortfall figures were relatively consistent for both disability statuses, at around £23 to £24 per week and £14 to £15 per week respectively.

60. In February 2010, both non-passported out of work and passported claimants had slightly higher proportions experiencing shortfalls (51 per cent and 50 per cent respectively) compared to non-passported in work claimants (45 per cent). This pattern was observed across the review period.

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<sup>76</sup> It is important to note that the group aged 60 or over includes single and couple claimants, with and without children.

<sup>77</sup> The disabled group, estimated from the Work and Pensions Longitudinal Study (WPLS) includes Housing Benefit awards with a Disability Premium or Severe Disability Premium, or those passported to full Housing Benefit by an award of Employment and Support Allowance or Income Support with a Disability Premium.

61. The mean excess and shortfall values across all employment states were similar, at around £11 to £12 per week and £23 to £25 per week respectively. However, the majority (from median values) of non-passported in-work and non-passported out of work claimants in receipt of an excess, received the excess limit of £15 per week, compared to a median value of £13 per week for passported claimants.
62. It is interesting to note that non-passported claimants who have other sources of income may have chosen to or been able to live in cheaper accommodation, resulting in higher proportions with excesses and more experiencing the full excess. Alternatively, it may be that landlords do not apply a risk premium for claimants in work.
63. Claimants aged 60 or over and working age couples without children were therefore more likely to experience shortfalls and higher levels of shortfalls than other groups. This may be linked to their entitlements based on smaller property sizes as well as a number of other factors.

## 5.3 Geographical Areas over which LHA Rates are Set

64. Payments of HB (both in LHA cases and prior to the introduction of the LHA) need to reflect the different rent levels that exist in the PRS in different parts of the country.
65. The boundaries for HB geographical areas, now called BRMAs, are determined by rent officers in the Valuation Office Agency in England, Rent Officers Wales in the Welsh Assembly Government and the Rent Registration Service in the Scottish Government. They are intended to represent an area from which to draw a pool of comparative market rental evidence so that maximum rates of benefit can be determined.
66. Prior to the introduction of the LHA, these areas were known as 'localities'. At this time, there were over 300 in England, about 20 in Wales and over 80 in Scotland. Rent officers are responsible for keeping these areas under review so that they accurately reflect the patterns of areas in which people live and make use of services and the rental values within these areas. Partly in preparation for the introduction of the LHA, rent officers undertook a wide ranging review of localities in the run-up to national roll-out in April 2008.
67. The result of these (and subsequent reviews of areas) has been to reduce the number of HB areas due to changes in the way that people access health and education services as well as retail and recreational facilities. As at April 2008, the number of areas was around 150 in England, about

68. BRMAs are determined by reference to the following factors:
- an area within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services;
  - there is a mix of residential premises held on a variety of different tenures; and
  - the area is suitably large to contain within it sufficient properties across relevant categories of dwelling to allow representative Local Reference Rents or LHA rates to be determined.

69. Although the Department has made minor modifications to the definitions of BRMAs, the key elements of the definition have been in place since 1997.

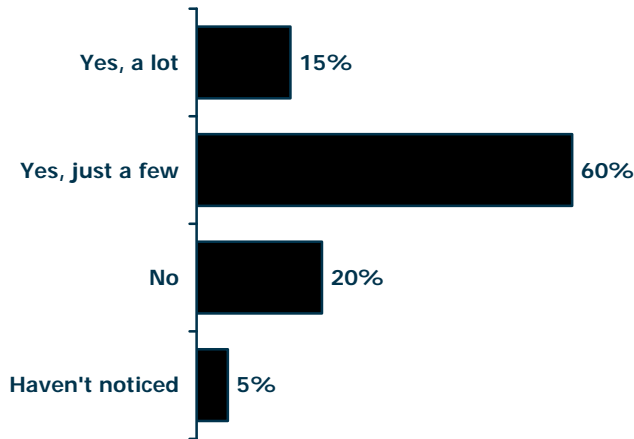
70. However, some Local Authorities (LAs) and external organisations have expressed concerns about how BRMAs are set. Many concerns stem from the size of BRMAs where regional services and facilities are concentrated within a small geographical area. Large areas can create problems of local housing affordability within some parts of them, requiring claimants to move some distance in order to find affordable housing. However, much smaller areas may result in pockets of either very low or very high LHA rates.

71. Examples where the problem has been highlighted by landlords and advisers are Cornwall and Edinburgh. In Cornwall rent levels tended to be higher in the coastal areas, where both services and work are concentrated, so that tenants who chose to live in such high demand areas would have higher contractual rents than those in cheaper areas away from the coast. During the Pathfinders evaluation Edinburgh had four BRMAs whereas under the national rollout they were amalgamated into one; LA advisers reported that this has resulted in a fall in LHA rates in the city and thus pushed LHA cases out of the city centre.

72. Conversely, it was a concern when rolling out LHA nationally that, in areas where the LHA rate was more generous, a number of tenants would break their existing HB claim for one week in order to move onto LHA rules. According to the LA Omnibus survey, in January 2010, 75 per cent of LAs perceived that to some extent, claimants were doing this. 15 per cent of LAs reported this happened a lot, whereas 60 per cent reported just a few cases. The Tenant and Advisers research also found perceptions that breaking claims to move onto higher LHA rates was common. In addition, independent advisers in Islington reported that some landlords had

terminated their contract with existing HB tenants in order to find new tenants and benefit from the more generous LHA rate.

**Figure 5.11 LA Perceptions of HB Claimants Breaking Claim to Move onto LHA, January 2010**



Source: LA Omnibus Survey Wave 20

73. The LAs that reported the breaking of claims happened a lot are likely to have been located within parts of BRMAs in which rents were relatively cheap compared to the BRMA as a whole. The scale of this occurrence may give some indication of the extent to which large BRMAs encompass diverse local rental markets.

74. In addition, there have been concerns that the setting of areas is not always understood and this has been a further source of controversy. The Department is exploring different ways to define local areas in the context of its wider HB reform strategy.

## 5.4 Conclusion

75. The evidence suggests that the LHA rates to which HB claimants were entitled were higher relative to their contractual rents for those entitled based on larger properties and in certain regions. These differences may result from a number of factors, such as greater variability in rents and claimants' choice of accommodation.

76. The LHA rates for shared accommodation are by design less generous than the one bedroom rates.



77. The relatively high proportion of shared accommodation rate cases apparently choosing to live in shared accommodation suggests some degree of availability to HB claimants, although we do not have evidence on the actual size of the accommodation the single, under 25 shared group are occupying.
78. LHA cases who were entitled based on six or more bedrooms up to April 2009 were more likely to be couples or female with children, working age and over 25 and located in London than the general LHA caseload. Although we cannot say what properties this group of claimants now occupy, we can say that the apparent generosity of LHA rates for properties with four or more bedrooms may suggest some degree of flexibility for finding suitable accommodation for larger families.
79. Claimants aged 60 or over and working age couples without children were more likely to experience shortfalls and higher levels of shortfalls than other groups. This may be linked to their entitlements based on smaller property sizes as well as a number of other factors.
80. There has been some controversy over the geographical areas in which LHA rates are set both due to difficulties understanding how boundaries are arrived at and where large areas have created problems of local affordability within them. But it should be noted that HB areas are not specific to the LHA arrangements and are also used in the operation of the previous scheme in the PRS.

# Chapter 6

## Transparency

### 6.1 Introduction

1. One of the objectives of the Local Housing Allowance (LHA) was to introduce greater clarity and transparency into Housing Benefit (HB) regulations for the private rented sector (PRS) with the aim of benefiting all of those who come into contact with this part of the benefit system.
2. Conclusions on the level of transparency are fairly mixed and depend on whether it is looked at from the perspective of a claimant, landlord or adviser.

### 6.2 Transparency to Tenants and Their Advisers

3. Overall the view of people responsible for advising and assisting claimants was that the LHA made it much easier to advise claimants about their likely entitlements. They also thought it was easier for claimants to understand. However, it was noted that the publication of rates meant that it was more difficult to provide advice to tenants who were not entitled to the full amount, such as those who were in work. This was both because some claimants thought the published LHA rate was what they would get and because the assessment of income rules remains difficult to understand under the LHA and as such is not an issue with LHA in particular.
4. Advisers were often of the opinion that many tenants were not aware that LHA rules for assessing HB had replaced the previous set of rules for the PRS or of the difference; a view which was generally supported by the tenants who were interviewed.
5. Claimants reported that they were not always well informed about the LHA. In particular, a lack of information about how entitlement was calculated or the provision for them to keep an excess were noted concerns. These findings were similar to those found in the Pathfinder evaluation. Local authorities (LAs) also reported that one of the most

6. The information given by local authority (LA) advisers was often in relation to the application form and other practicalities rather than explanation of rate calculations and excesses. Whilst tenants tended to be satisfied with the information they received they occasionally felt that further clarification was needed. In addition, claimants sometimes felt that LA staff did not fully understand the system and that different staff members would give conflicting information. Naturally this was a concern to claimants and undermined the confidence they had in the LHA system.
7. It was common for tenants to be more aware of the method of direct payment than any other aspect of LHA. A small number of claimants, who had some knowledge of the LHA, reported that they acquired this through their own research.
8. Overall, the main issue for tenants was with the understanding of how their entitlement was calculated from the LHA rates. The lack of clarity on this issue had a direct, negative impact on a tenant's ability to effectively exercise choice over accommodation.

## 6.3 Transparency to Landlords

9. The LHA Pathfinders evaluation found that, even amongst many landlords who remained opposed to the LHA, they "knew where they were" with fixed and publicised LHA rates. The absence of Rent Officer determinations and Pre-Tenancy Determinations (PTDs) for claims assessed under LHA rules has removed any major uncertainties concerning the level of rent which will be eligible for HB for an individual property; enabling claimants to make more informed decisions.
10. This benefit has continued into the national LHA scheme where the publication of the rates have been widely considered a positive change; valued by landlords, tenants and advisers. Landlords in particular appreciated the removal of PTDs. This made the process of selecting and letting to a HB tenant quicker and helped put HB tenants more on par with non-HB tenants.
11. Landlords also valued the publication of rates because it provided assurance about how much rent they could expect to receive from HB tenants. Landlords tended to be fully aware of where to find LHA rates, what they were and that the benefit would be paid directly to the tenant.

12. The main issue for landlords was in relation to the provisions of direct payments. Whilst payments are usually made direct to tenants, they can be made to landlords in certain circumstances. Often landlords were only aware of a safeguard if they had used it; as such awareness of the eight week arrears rule was much more common among landlords interviewed than awareness of the discretionary safeguards (and those who were aware found them unclear). Further discussion of the safeguards can be found in Chapters 4 and 7.

## 6.4 Conclusion

13. The evidence on the transparency of the national LHA scheme seems to broadly mirror the experience of the Pathfinders. The publication of the LHA rates has been well received by advisers in both LAs and independent advice agencies, landlords and some tenants. However, the wider issues of lack of awareness among claimants around entitlement and calculation in particular seem to have persisted. This has diluted the clarity under which the LHA system now operates. There are similar findings, among landlords, around the lack of awareness around the operation of safeguards.

# Chapter 7

## Improved Administration and Reduced Barriers to Work

### 7.1 Introduction

1. The Local Housing Allowance (LHA) aimed to provide a simpler system to help speed up administration of housing payments and give tenants more confidence when starting a job that any in work benefit will be paid more quickly.

### 7.2 Processing times

2. An objective of the LHA was to improve the administration of Housing Benefit (HB) and reduce processing times. The evaluation of the Pathfinders concluded that modest gains had been made, in part due to the fact that the LHA only changed part of the administration of HB (e.g. the rent calculation and making payments to the claimant by default together with the operation of associated safeguards). Time consuming areas such as verification of information to support a claim were unaffected. These modest gains have continued into the national scheme.
3. Table 7.1 shows that, overall, new claims processing times for HB have continued to improve since the introduction of the LHA. The change in processing times from immediately prior to LHA national roll-out to two years later, shows that average processing times for all HB new claims fell by around three days between the fourth quarter in 2007-08 and the fourth quarter in 2009-10. The overall improvement has been driven by significant improvements in the Private Rented Sector (PRS): Average processing times in the PRS improved by around seven days during this period. This reduction is also reflected in the majority of local authority (LA) processing times. However there are some LAs that have shown an increase in new claims processing times.

**Table 7.1 New Claims Processing Times for HB, by Tenure, Fourth Quarter 2007-08 and Fourth Quarter 2009-10**

	Private Rented Sector	Social Rented Housing Associations	Social Rented Sector: Local Authority Housing	HB Overall
Fourth Quarter: 2007-08	30	21	23	25
Fourth Quarter: 2009-10	23	20	21	23
<b>Change in Days</b>	<b>-7</b>	<b>-1</b>	<b>-2</b>	<b>-3</b>

Source: Stats 124 and Single Housing Benefit Extract

Notes: 1. Processing times are in calendar days (i.e. including weekends and bank holidays). Duration is from the day the claim was received to the day claim decided inclusive. Processing times include unsuccessful claims. If the customer is asked to provide further information to support a claim, then the time taken by the customer to come back with that information counts towards the processing time.

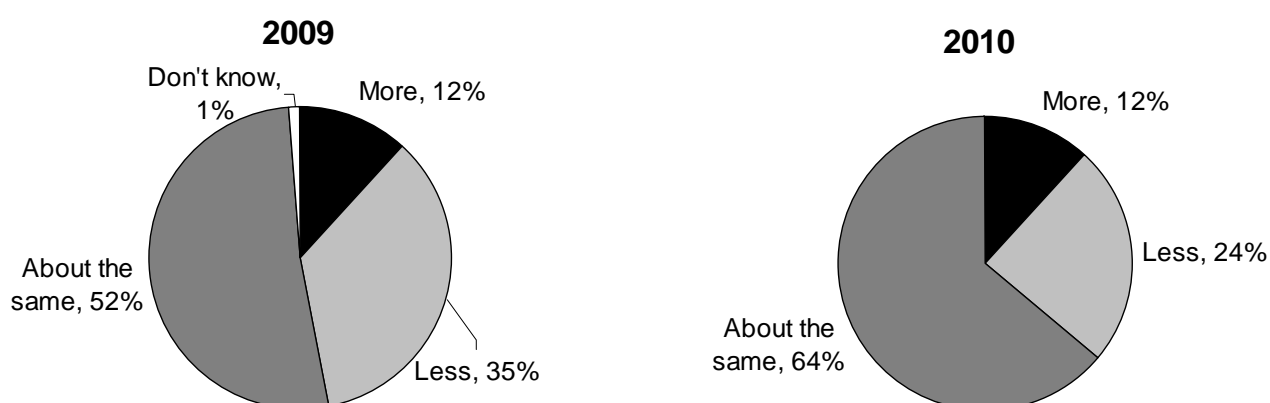
2. Changes may not equal the difference in processing times between the two periods due to rounding.

3. Processing times are calculated as an average over a financial quarter, with the fourth quarter running from January to March of the financial year.

4. There could be many different reasons for the improvements in processing times and whilst it is not possible to attribute it definitively to the introduction of the LHA, this was biggest change to the way new PRS HB claims were administered over this period. This improvement should also be considered within the context of increased volumes of claims during the recession, particularly in the PRS. The number of people receiving HB was 4.7 million at February 2010. This is an increase of 0.5 million (or 13 per cent) since November 2008. The increase in the HB caseload can be largely attributed to the increase of working age recipients in the PRS. The caseload in the PRS has grown by 0.4 million (or 34 per cent) over the same period. In addition, the improvement should be seen in the context of the ongoing trend of a reduction in processing times for all new HB claims. However, improvements in processing for the PRS caseload were more significant than for the overall HB caseload.
5. A comparison of processing times for changes of circumstance under the LHA and the previous system cannot be made as a change in definition for changes of circumstances included in the measure between 2007-08 and 2009-10 means that direct comparisons over time are not meaningful.

6. LAs<sup>78</sup> were, however, asked about overall processing times and the majority reported they have not perceived an overall improvement when considering all aspects of processing LHA cases together. In January 2010, around a quarter of LAs felt that administration time of LHA cases was less than the previous scheme. This was down from 35 per cent in January 2009. Most felt that the time taken to administer LHA cases had stayed about the same as on the previous scheme. This broadly reflects the experience in the Pathfinders, where the removal of the need for rent officer referral has helped to offset the introduction and operation of the safeguards in terms of time and more efficient administration. Not only was less time needed to process a new claim due to the removal of rent officer referrals, but, for example, LA advisers in Islington reported that the number of appeals they received had fallen, as a result of claimants being informed of their housing support before entering into a tenancy agreement<sup>79</sup>.

**Figure 7.1 LA Reports of Time Taken to Administer LHA Compared to Previous Scheme, January 2009 and 2010**



Source: LA Omnibus Survey Waves 18 and 20

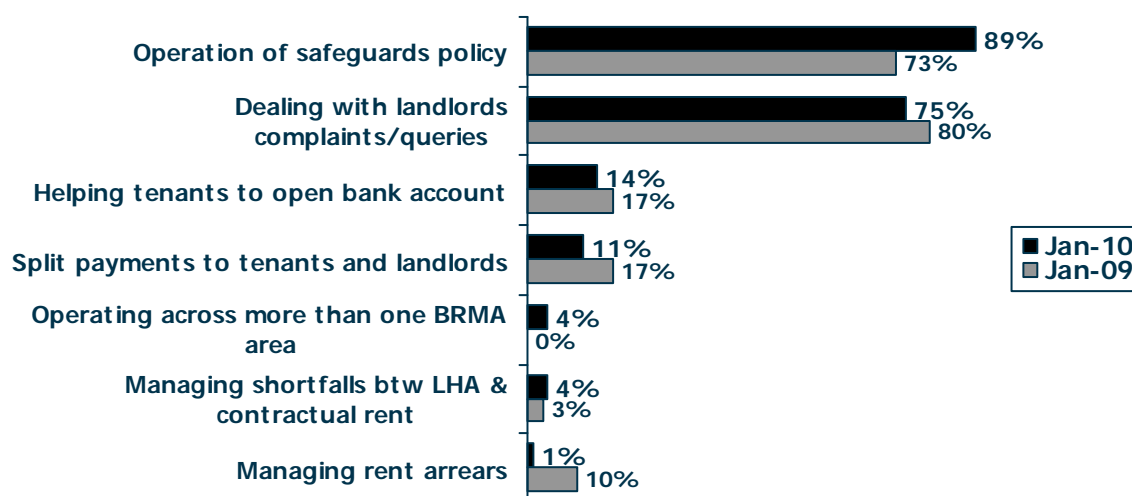
7. The small number of LAs who suggested that LHA cases were taking longer to administer than the previous PRS scheme were asked what the issues were that were taking up more staff time. These are shown in Figure 7.2. The issues were broadly similar in both January 2009 and 2010. In both years the most frequently cited issues were: the operation of the safeguards policy (73 per cent and 89 per cent respectively) and dealing with landlord complaints and queries (80 per cent and 75 per cent respectively)<sup>80</sup>.

<sup>78</sup> LA Omnibus Survey Waves 18 and 20

<sup>79</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

<sup>80</sup> Care should be taken with these figures which only 12% of authorities answered (30 in 2009, 28 in 2010)

**Figure 7.2 LA Reports of Aspects of LHA Taking up More Staff Time, January 2009 and 2010**



Source: LA Omnibus Survey Waves 18 and 20

Notes: 1. Respondents were given the opportunity to select multiple responses, therefore, percentages will not sum to 100.

8. Many landlords<sup>81</sup> noted the quicker processing times since the introduction of the LHA. However, there were variations in this experience even among landlords in the same area. There was general agreement that the administration is simpler than under the previous system, with the removal of rent officer referrals seen as positive. They commented that this improved the process of selecting and letting to tenants and somewhat helped to level the playing field between HB and non-HB tenants.

9. Some reasons given by landlords for delays in processing were as follows:

- complexity of claim forms;
- the efficiency of some LAs and their ability to handle queries; and
- tenants not providing accurate or complete information on their claim form.

10. Landlords suggested that the length of time a claim took to process was more important in the context of direct payments of benefit to tenants. This was because the longer the claim took to process, the larger the initial payment would be, which could be used for purposes other than rent. This issue was touched upon in Chapter 4. Thus landlords adopted different strategies to try and minimise the potential for losses associated with delays in processing HB claims. Some larger landlords and agents issued

<sup>81</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010



a notice to quit if the claim was taking longer than two months to process, while other landlords worked closely with their tenants to help complete the claim forms.

## 7.3 Fraud and error

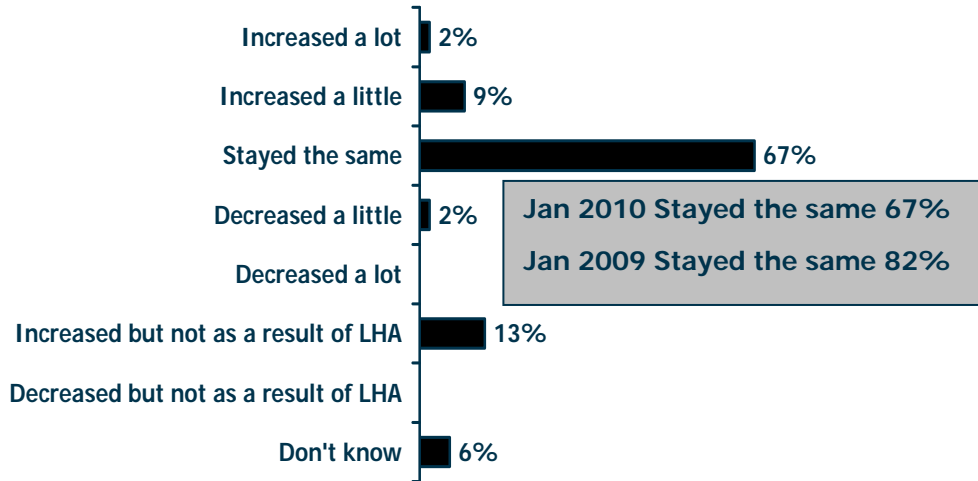
11. A key aspect of improving administration is reducing the level of fraud and error that occurs.
12. Within the limitations of the HB Review sample we could not detect a significant difference between LHA and non-LHA (PRS) fraud and error over the period October 2008 to September 2009<sup>82</sup>.
13. The percentage of expenditure estimated to be overpaid was slightly higher for LHA customers (seven per cent) than for non-LHA customers in the PRS (six per cent). However, this is not a statistically significant difference due to the wide margins of error around these survey results. In addition, this difference appears to be caused by the difference in the characteristics of the LHA and non-LHA caseloads rather than a direct consequence of the LHA rules. There were a greater number of high risk claimants in receipt of LHA, particularly non-passported working age claimants. Low risk claimants, such as passported claimants aged 60 or over, were less likely to be in receipt of the LHA. Comparing levels of overpayments within claimant groups, revealed similar levels of overpayment for LHA and non-LHA cases.
14. Similar conclusions can be drawn when considering the percentage of cases overpaid at any one time, 20 per cent under the LHA system compared to 18 per cent under non-LHA rules.
15. The average weekly overpayment was higher under the LHA. This was mainly a result of higher entitlements to HB for claims assessed under the LHA.
16. The most common reason for an overpayment of HB was non-declaration, or under-declaration, of earnings. This made up a higher proportion of overpayments for LHA cases than for non-LHA cases, due to the differences in claimant profile. Among working age claimants, the likelihood of overpayment due to earnings was the same for both LHA and non-LHA cases.

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<sup>82</sup> The estimates presented here are for the caseload and expenditure within the scope of the sample and do not account for non-coverage issues. See Annex A for further details on the HB Review.

17. The views of LAs largely confirmed the findings from the HB Fraud and Error Survey. Figure 7.3 shows that the majority of LAs felt that since the introduction of LHA, fraud and error had stayed the same (over 80 per cent in January 2009 and nearly 70 per cent in January 2010).

**Figure 7.3 LA Reports of Change in Level of Fraud and Error as a Consequence of the Introduction of the LHA, January 2010**

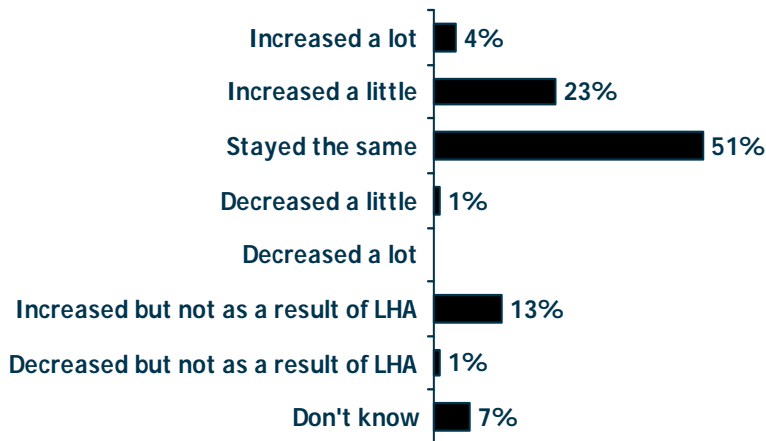


Source: LA Omnibus Survey Waves 18 and 20

Notes: 1. Percentages may not sum to 100 due to rounding

18. In January 2010 around half of the LAs who responded to the survey thought that the level of overpayments had remained the same.

**Figure 7.4 LA Reports of Change in Level of Overpayments as a Consequence of the Introduction of the LHA, January 2010**

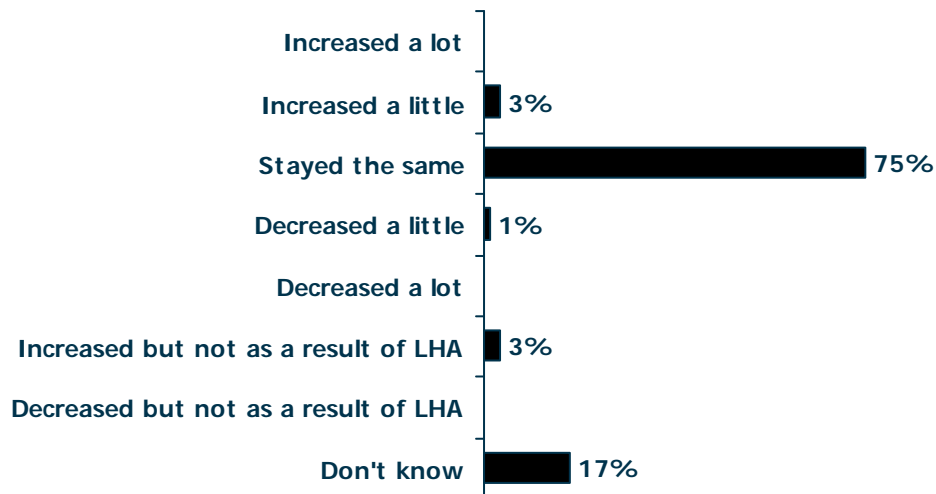


Source: LA Omnibus Survey Wave 20

Notes: 1. Percentages may not sum to 100 due to rounding

19. As with overpayments the majority of LAs thought the level of underpayments had not changed since the introduction of LHA. This is shown in Figure 7.5.

**Figure 7.5 LA Reports of Change in Level of Underpayments as a Consequence of the Introduction of the LHA, January 2010**



Source: LA Omnibus Survey Wave 20

Notes: 1. Percentages may not sum to 100 due to rounding

## 7.4 LA Work on Safeguards, Reorganisation, Tenant Queries, Landlord Interactions and Homelessness

20. The evaluation of the Pathfinders concluded that the application of the safeguards and the eight week arrears rule was an issue for the claimants and landlords under the LHA system. This has continued into the national scheme. However, the additional guidance and lessons learnt from the Pathfinders have been beneficial to the operation of the safeguards.

## 7.4.1 Safeguards and Eight Week Arrears Rule

21. In January 2010, local authorities (LAs) indicated that almost 90 per cent of them felt that the Department for Work and Pensions (DWP) provided enough guidance to implement the safeguards consistently. However, around one in ten felt that they did not receive enough information. In addition, most respondents (almost 70 per cent) stated that they could not think of any further information that would be helpful, while a small number stated that classification of the guidelines and sharing best practice would be helpful. It is important to note that this survey was conducted immediately following the issuing of improved guidance by the DWP on the application of the safeguards and the eight week arrears rule.
22. In contrast to this some of the qualitative research conducted for the review, and which completed fieldwork before the issuing of the new guidance, found less favourable views about the application of the safeguards and eight week arrears rule. Landlords were frustrated by the difficulty in implementing safeguards, reporting several problems that they encountered. Many respondents had tenants who they felt should fall under the “difficulty paying” or “unlikely to pay” safeguards, but few managed to arrange for payments to be made directly to the landlord.
23. Some landlords and advisers from independent advice agencies felt that the interpretation and application of the safeguards varied both between and within LAs. Some landlords had experience of payments from one tenant being redirected but not payments from another, despite claimants being in similar circumstances. In these cases no explanation was offered by the LA. This apparent inconsistency only added to confusion amongst landlords with regard to the application of safeguards.
24. Of those landlords interviewed for the Business Development Research Consultants’ (BDRC) Survey<sup>83</sup> in 2010, who had requested HB payments be made directly to them, up to a third reported no problems with the process of diverting payments to themselves. However, for those reporting problems, slow processing by the LA was the most commonly reported issue. Around one fifth of the landlords noted problems proving that the claimant met the criteria for the safeguards.
25. Although there appear to have been several problems with the process of deciding whether payments should be transferred, in particular the gathering of appropriate supporting evidence, the Tenants and Adviser research indicates that once this decision was made, that LA advisers found the process of transferring payments simple. This evidence appears to contradict the reports of landlords in the BDRC online survey. It must be

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<sup>83</sup> DWP, Analysis of BDRC Landlord’s Panel, London, 2011

noted, though, that there may be some selection bias with landlords having had problems more likely to participate in the BDRC survey.

26. In the case of the eight week arrears rule, if a tenant did not contest that they were in arrears within a specific time period then payments could be transferred. LA advisers reported that it was uncommon for the request to be contested. However, on a few occasions, they had been caught up in a dispute between the landlord and tenant.
27. Reflecting the position after the issuing of improved guidance, the LA Omnibus Survey suggests that LAs do not think they need more guidance on the application of safeguards. Results from other research, conducted before the new guidance was issued, suggest problems with the practical application of the safeguards and eight week arrears rule. A key issue appeared to be inconsistent application of the safeguards and the lack of information from LAs to landlords on which rule had been applied and why.

## 7.4.2 Reorganisation

28. The intention of the introduction of the LHA was, in part, to improve administration. To facilitate these changes LAs were expected to train staff and, if necessary, reorganise their claims processes. A particular area expected to put pressure on administration of HB under LHA rules was the operation of the safeguards for tenants experiencing or likely to have difficulty with managing their own finances.
29. Results from January 2008 LA Omnibus Survey, prior to national roll-out of the LHA, indicated that over half of LAs had already trained staff to aid decision making on LHA safeguards. Of the LAs who were yet to train their staff, around 95 per cent had plans to complete training before national roll-out.<sup>84</sup>
30. Prior to national roll-out, in January 2008, over half of LAs intended to have staff with specific expertise to deal with the operation of the LHA safeguards, whilst less than 40 per cent expected this system to be dealt with by their processing teams. By January 2010, around 40 per cent of LAs had in place expert staff while around 50 per cent had instead integrated this function into the standard functions of their processing teams.

### **Figure 7.6 How LAs Organise Dealing with Safeguards, January 2008, 2009 and 2010**

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<sup>84</sup> 4% planned to train staff after the national rollout and 2% did not know when they would train staff.



Source: LA Omnibus Survey Waves 16, 18 and 20

Notes: 1. Percentages may not sum to 100 due to rounding.

### 7.4.3 Queries from tenants

31. Prior to the national roll-out there was concern that it would result in LAs being inundated with queries from tenants on the LHA. Tenants<sup>85</sup> considered Jobcentre Plus (JCP) to be a key source of information, though they normally only highlight to a tenant that they may be eligible for LHA rather than actually giving detailed advice on it. Local Citizens Advice Bureaux had also been useful for some tenants. LA HB offices were the most common source of information. However, contrary to their expectations most LA advisers had not been inundated with tenant queries and their work had not been impacted in the way that they had envisaged; this was attributed to the phased approach of rolling out HB under LHA rules to new claims and customers changing address.

32. Figure 7.7 shows the questions asked most frequently of LAs. They also reflect the questions reported in the Tenants and Advisers Research<sup>86</sup>. The most common query from tenants in both January 2009 and January 2010, reported by over 70 per cent of LAs, was whether payments could be made directly to the landlord. In both periods a sizeable proportion of LAs mentioned shortfalls between rent and LHA as a commonly asked question. The fall in the percentages of LAs reporting this issue will have

<sup>85</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

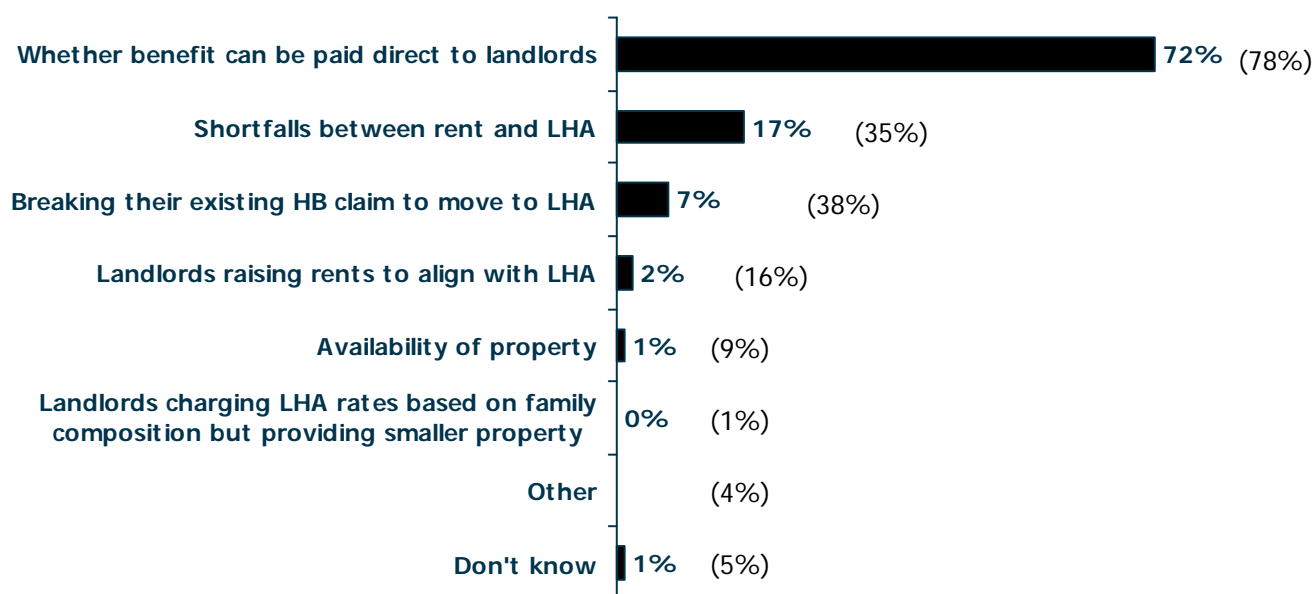
<sup>86</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

resulted partly from changes in the way the question was asked, but may also have resulted from growing familiarity with the LHA system. Likewise, the decrease between 2009 and 2010 in the proportion of LAs reporting breaking the existing claim to move onto LHA as a commonly asked question could result both from changes to the question and growing familiarity with the LHA system. In addition, one would expect that if a claimant were going to break their claim in order to benefit from the LHA rules, they would have done so soon after the national roll-out of the new rules.

33. The Tenants and Advisers Research also highlighted the following two additional tenant queries among the most commonly asked:

- enquiries about the excess and whether it could be kept; and
- if benefit could be paid into a Post Office® account.

**Figure 7.7 LA Reports of Most Commonly Asked Tenant Queries about the LHA, January 2010 (and 2009 in brackets)**



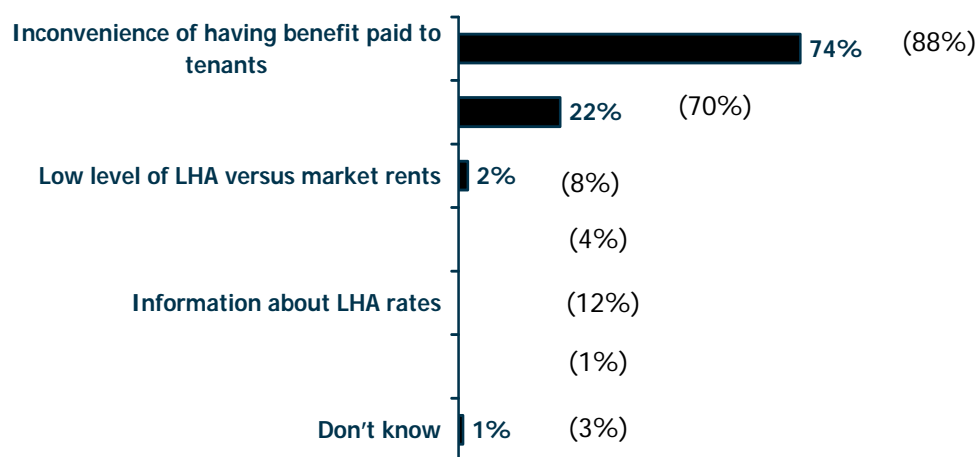
Source: LA Omnibus Survey Waves 18 and 20

Notes: 1. In January 2009 respondents were invited to choose the two most frequent queries from a list (i.e. tick two boxes), whereas in January 2010 they were asked to select a most common and second most common (i.e. two columns, one tick box from each column). Thus percentages will not sum to 100 for the January 2009 results, but should sum to 100 for the January 2010 results, although rounding may mean that percentages do not sum exactly. Thus the percentages for the two periods are not directly comparable.

## 7.4.4 Landlord Interactions

34. The most common query from landlords, in both 2009 and 2010, related to the inconvenience of HB payment being made directly to the tenant, reported by three quarters of LAs in January 2010. More notable was the reduction in queries regarding rent arrears or missing payments, from 70 per cent to just over 20 per cent by 2010. Care needs to be taken in interpreting this result due to changes in the way the question was asked rendering the proportions not directly comparable. Beyond this, the change could result from a number of factors including growing familiarity with the LHA system and how the safeguards and eight week arrears rule may be applied by LAs. There was no evidence in Chapter 4 to suggest a dramatic change in levels of payments being made to landlords or levels of rent arrears between 2009 and 2010.
35. LA advisers in the Tenants and Advisers Research<sup>87</sup> also highlighted that in the initial period after the national roll-out of the LHA system, queries from landlords about what the relevant LHA rates were, were among the most commonly asked.

**Figure 7.8 LA Reports of Most Commonly Asked Landlord Queries about the LHA, January 2010 (and 2009 in brackets)**



Source: LA Omnibus Waves 18 and 20

Notes: 1. In January 2009 respondents were invited to choose the two most frequent queries from a list (i.e. tick two boxes), whereas in January 2010 they were asked to select a most common and second most common (i.e. two columns, one tick box from each column). Thus percentages will not sum to 100 for the January 2009 results but should sum to 100 for the January 2010 results, although rounding may mean that percentages do not sum exactly. Thus the percentages for the two periods are not directly comparable.

<sup>87</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010



36. The Landlords research<sup>88</sup> provides insight into landlords' perceptions regarding the level of communication between landlords and LAs. A few respondents gave the impression that communication had improved. A number of landlords in Newham were positive about the attitude of the LA; for example there was a council liaison team to deal with landlords' HB queries. Other respondents felt smaller LAs provided good customer service. A couple of accredited landlords stated that their LA viewed them more positively due to their accreditation and as such they were more likely to be able to obtain information than unaccredited landlords or agents. A few respondents noted the importance of involving tenants in discussions to improve information flow, reduce claim time and facilitate transfers of payments to landlords where appropriate. The majority of landlords stated that they were careful to always obtain the tenants' consent before approaching the LA with queries.
37. On a more negative note, many respondents felt there was pressure on the landlord and tenant relationship due to minimal landlord-LA interaction regarding payment. This was a particular issue for the first HB payment as landlords have to rely on the tenant providing the correct information. Landlords thought some tenants may lie about receiving payment when they did not intend to stay beyond eight weeks. Some landlords were frustrated by the lack of communication between landlords and LAs on the subject of rent arrears, where there was less than eight weeks of rent arrears. This related to problems justifying the "unlikely to pay" safeguard.
38. Respondents noted varying experiences, both across different and within the same LAs, when dealing with different members of staff. They suggested sharing best practice might improve service. In some cases there was little information provided, thus it was difficult to ascertain the status of the claim. Furthermore, levels of contact varied between LAs, where some requested that all correspondence be in writing with responses guaranteed within 28 days, while other LAs were content to discuss cases over the telephone.

## 7.4.5 Homelessness

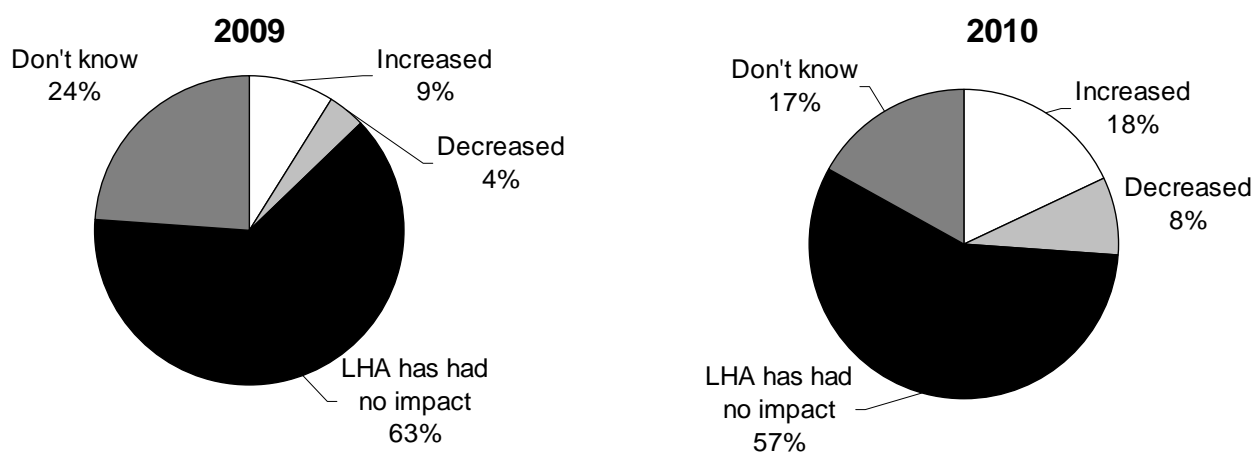
39. In January 2009 and 2010 the majority (around 60 per cent) of LAs thought the LHA had no effect on homelessness. Some LAs felt there was a negative impact on homelessness, and between 2009 and 2010 the proportion of LAs holding this view doubled (around 10 per cent to 20 per cent). However, the proportion of LAs who felt that homelessness had reduced as a result of the LHA rules also doubled over the same period. It

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<sup>88</sup> Rhodes D & Bevan M, Private landlords and the Local Housing Allowance system of Housing Benefit, London, 2010

is important to note that this question asked for LAs opinions and whilst homelessness may have increased within LA areas it is difficult to establish that this is a direct result of LHA rules.

**Figure 7.9 LA Perceptions of How LHA has Affected Homelessness, January 2009 and 2010**



Source: LA Omnibus Survey Waves 18 and 20

40. Some LAs with whom the Department has engaged as part of the review, for example Brighton and Hove, said that under the LHA system it was easier to get homeless people into the PRS as an alternative to temporary accommodation. Most advisers<sup>89</sup> in both LAs and independent advice agencies thought there was insufficient evidence to link LHA directly to an increase in homelessness.

41. Between January 2008 and 2010 the three main reasons given by LAs for homelessness, among those who would normally be housed in the PRS are:

- relationship breakdown (75 per cent and 76 per cent respectively);
- family dispute (56 per cent and 59 per cent respectively); and
- rent arrears (53 per cent and 49 per cent respectively).

42. None of the differences across time for these three were significant. However, one of the causes of homelessness that could potentially result from LHA rules (availability of accommodation) has shown a declining prominence among what LAs report as the causes of homelessness in the

<sup>89</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

PRS, decreasing significantly from 33 per cent to 17 per cent between January 2008 and 2010.

## 7.5 JCP awareness of LHA

43. Tenants interviewed for the Tenants and Advisers research<sup>90</sup> indicated that they considered JCP to be a key source of information on the LHA. However, they also noted that JCP staff only highlighted their potential eligibility rather than providing any detailed information on their actual entitlement or the nature of HB under the LHA rules.

## 7.6 Movement into Work

44. We have no quantitative evidence on whether the LHA has encouraged movement into work. This would be particularly difficult to test in the economic climate of recession in which the review has taken place.

45. Tenants and advisers<sup>91</sup> reported that the LHA had very little or no influence on their decision to find work. Many of the tenants interviewed were already actively seeking employment to increase income and improve their quality of life. Some commented that finding employment would be a personal achievement. While other claimants were reasonably indifferent as to whether working would improve their financial circumstances, it was simply important to find employment. Tenants who held this view were more likely to be young single males with fewer commitments. Lone parents, however, felt it was more important to assess the financial benefit of returning to work against a reduction in benefit income and the cost of childcare.

46. Advisers in Islington suggested that the high LHA rates may be acting as a disincentive to work because if claimants moved into work and lost their entitlement to benefit, they would have difficulty affording the rents in their local areas.

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<sup>90</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

<sup>91</sup> Hartfree Y, Whitfield G, Waring A, Sandu A & Hill K, Tenants' and advisers' early experiences of the Local Housing Allowance national rollout, London, 2010

## 7.7 Conclusion

47. There is some evidence of improved processing times for new claims that may be linked to the LHA. A number of areas administered by LAs are likely not to have changed as a result of the introduction of the local housing allowance including fraud and error and homelessness.
48. The key areas of queries addressed to local authorities by both tenants and landlords have been about making payments to landlords. And a key area of complaint about LA administration of LHA cases was in the application of safeguard guidance to protect claimants experiencing financial difficulties or likely to do so in the face of payments being made to tenants by default. However, it is still possible that the issuing in December 2009 by DWP of improved guidance on the safeguards may have led to improvements in their application.
49. Little evidence is available on the influence of LHA rules on claimants moving into work, though tenants reported LHA had very little or no influence on their decision to find work and high LHA rates may act as a work disincentive.

# Chapter 8

## Conclusion

### Introduction

1. This chapter draws together the evidence on whether the original policy objectives of the Local Housing Allowance (LHA) were being met over the first two years of its operation.

### Choice

2. Analysis suggests that many tenants have chosen accommodation that is cheaper than their applicable LHA rate and thus had an excess of maximum LHA over their contractual rent. Few claimants occupy properties that are smaller than their household size warrants, in line with non-HB tenants in the PRS. Some LHA cases have chosen accommodation that is larger than their household size warrants.
3. However, the review found that the excess did not motivate tenants' decisions about accommodation, due to a lack of understanding of benefit entitlement and because other factors were considered more important when making decisions about where to live. These findings are broadly similar to those of the LHA Pathfinders.
4. Some landlords set rents at the LHA rate and thus limited the scope for LHA cases to trade off the quality and price of their accommodation. Other landlords would not let to HB tenants thus limiting the availability of accommodation for claimants to choose from. However, neither of these issues were found to be widespread problems. Again, these findings broadly mirror those of the LHA Pathfinders.

### Personal Responsibility

5. A high proportion of direct payment to tenants has been achieved under the LHA and a high proportion of these payments were made by automated credit transfer, suggesting positive impacts on financial inclusion.

6. For some tenants direct payment is achieving its objective of enhancing personal responsibility. For others it may not be causing harm but the added responsibility still may not be welcomed. For a further minority the system may be causing particular difficulties.
7. Concerns were raised over the success of safeguards in protecting tenants in vulnerable situations. Eight weeks was considered too long a period to wait to transfer payments to landlords. Evidence showed a lack of awareness of and difficulties in providing acceptable supporting evidence for the discretionary safeguards. Improved guidance on the safeguards issued towards the end of the review period may be helping to address some of these issues, but the review has not been able to assess this fully.

## Fairness

8. The principle that two households with similar circumstances living in the same area will be entitled to similar amounts implies the LHA system is fairer than its predecessor.
9. The overall pattern of excesses and shortfalls observed among LHA cases, suggests that LHA rates do in practice broadly correspond to the stated policy intention of setting LHA rents at the midpoint of the local rental market. This pattern was not, however, consistent across all property sizes and regions. LHA rates to which HB claimants were entitled were higher relative to their contractual rents for those entitled based on larger properties and in certain regions. These differences may result from a number of factors, such as greater variability in rents and claimants' choice of accommodation.
10. There has been some controversy over the geographical areas in which LHA rates are set both due to their lack of transparency and where large areas have created problems of local affordability within them. However, it should be noted that Housing Benefit (HB) areas are not specific to the LHA arrangements and are also used in the operation of the previous scheme in the private rented sector (PRS).

## Transparency

11. Evidence from advisers in both LAs and independent advice agencies, landlords and some tenants suggests that the LHA is perceived to be simpler and clearer, with the publication of LHA rates and the removal of

12. However, advisers encountered problems helping tenants who were not entitled to the maximum HB, based upon the LHA rates, to understand entitlement rules. And landlords criticised the lack of clarity around safeguard provisions. These factors have diluted the clarity under which the LHA system operates.

## Improved Administration and Reduced Barriers to Work

13. Improvements have continued to be seen in the time taken to process new claims under the LHA arrangements, likely to be associated with the removal of rent officer referrals to determine maximum HB entitlement.

14. However, consistent with the Pathfinder experience, in terms of the overall time taken to administer claims under the LHA, the time taken to operate the safeguard measures and deal with landlord queries often about direct payments to tenants may have offset some of the gains on new claims.

15. Little evidence is available on the influence of LHA rules on claimants moving into work, though tenants reported LHA had very little or no influence on their decision to find work and high LHA rates may act as a disincentive to work.

# Annex A

## Data Sources

### A.1 Introduction

28. A number of data sources – qualitative and quantitative, were used to assess the operation of the Local Housing Allowance (LHA). This section briefly describes the data sources used and research commissioned for this review and highlights some of their limitations. The data sources include:

- Department for Work and Pensions (DWP) administrative data source on Housing Benefit (HB), the Single Housing Benefit Extract (SHBE)
- HB fraud and error survey, the HB Review (HBR)
- Family Resources Survey (FRS)
- LA Omnibus Survey
- Tenants and Advisors Early Experiences of the Local Housing Allowance National Rollout
- Private landlords and the Local Housing Allowance system of Housing Benefit
- Business Development Research Consultants (BDRC) Continental Landlords Panel Survey
- Consultation with key stakeholders

### A.2 Single Housing Benefit Extract

29. SHBE is the primary source of HB and Council Tax Benefit (CTB) data returned to the DWP by local authorities (LAs). SHBE is a monthly electronic scan of claimant level data direct from local authority computer systems. There are in the region of 300 pieces of information potentially recorded for each claimant record across a range of aspects of HB and CTB administration.

30. This is a new data source, replacing other DWP data sources on HB and CTB. Around the time of the transition to SHBE as the new primary source of data on HB and CTB, there is a gap in the data available on HB and CTB. Thus the review has not been able to draw on detailed administrative data for the period immediately before and after national roll-out of LHA in April 2008.



31. Initially when the data returns for SHBE started to become available in the second half of 2008 around 70% of LAs made valid SHBE returns, but for February 2010, the latest period considered by the review, about 99% of LAs had made valid data returns. The earliest period considered to have sufficient data returns in order to derive robust statistical estimates is November 2008, resulting in this being the earliest period that could be considered by this review. November 2008 is also the earliest period for which National Statistics on HB and CTB have been produced from SHBE.
32. For the review, it was decided to take the general approach of considering monthly snapshots one quarter apart in order to look for any trends over time. Thus snapshots for the months February, May, August and November are considered within a calendar year. As February 2010 is the last quarter within the two year period from April 2008 to April 2010, this is the latest SHBE data considered in the review. Recipients are as at the second Thursday of the relevant month.
33. The following definitions have been used in this report. A case has been categorised as an LHA case if it is categorised as a private tenant or private boarder, and it has been assessed under LHA regulations or the housing benefit claim start date is on or after the national roll-out date of the 7 April 2008. LHA cases in the nine pathfinder areas and further nine pilot areas commencing their claims prior to national roll-out from 2003 onwards are included along with all the other LHA claims commencing after national roll-out from April 2008. All other private tenant or private boarder cases are classed as non-LHA cases.
34. The working age group is defined as those claims where the maximum age of the claimant or their partner is under 60, unless specified otherwise.
35. All percentages and monetary amounts have been rounded to the nearest whole value. Any caseload figures have been rounded to at least the nearest 10.

## A.3 Housing Benefit Review

36. The HBR is a DWP survey of fraud and error on HB claims. The fraud and error review process involves the following activity:
- A preview of the case by collating information from a variety of DWP or Local Authority (LA) systems to develop an initial picture of the case and to identify any discrepancies between information from different sources;
  - The interview of the customer at their home, which follows a structured and detailed set of questions about the basis of their claim. This aims to identify any discrepancies between the customer's current

circumstances and the circumstances upon which their benefit claim was based.

- If a suspicion of fraud is identified, an investigation is undertaken by a trained Fraud Investigator with the aim of resolving the suspicion.

37. The analysis for this review is based on the HBR sample for October 2008 – September 2009. This was the most recent data available at the time analysis for the LHA Two Year Review was carried out. The HBR sample contained in the region of 12,000 HB claims. The analysis presented in this report was based on the sub-set of about 2900 claims that were in the private rented sector (PRS), of which 1686 were non-LHA and 1214 were LHA cases.

38. The analysis presented on fraud and error is for the caseload and expenditure within the scope of the HBR sample, equivalent to the data shown in the Additional Tables of the National Statistics.<sup>92</sup> Some of the HB caseload and expenditure and is not represented in the sample. The full National Statistics are extrapolated to account for the caseload and expenditure outside the sample. For all of the results shown in the report, the sample cases have been scaled up to represent the entire Great Britain PRS caseload within the scope of the sample.

## A.4 Family Resources Survey

39. The FRS covers a wide range of issues such as income and state support, tenure and housing costs, assets and savings, occupation and employment, health and ability to work, pensions and insurance, and childcare and carers.

40. The latest survey results available for consideration in the LHA Two Year Review covered the period from April 2008 to March 2009. The sample size for this period was about 25,000 households. This represented an overall response rate of about 58 per cent.

41. The Family Resources Survey is known to under-record benefit receipt so the estimates presented should be treated with caution. The figures are based on a sample of households which have been adjusted for non-response using multi-purpose grossing factors which align the Family Resources Survey to Government Office Region population by age and sex. Estimates are subject to sampling error and remaining non-response error.

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<sup>92</sup> For the Additional Tables and Technical Appendix see:  
[http://research.dwp.gov.uk/asd/asd2/index.php?page=fraud\\_error\\_arc](http://research.dwp.gov.uk/asd/asd2/index.php?page=fraud_error_arc)

## A.5 LA Omnibus Survey

42. The LA Omnibus Survey, commissioned by DWP, is a survey of housing benefit managers in each of the 381 (previously 408) local authorities in England, Scotland and Wales. Although the survey is not compulsory the participation rate is usually in the region 60-70%. Evidence in this report is from waves 16, 18 and 20. Limitations of this data relate to the response rates. Although response rates are robust, we need to remember that the findings do not represent the views of the entire population of housing benefit managers.
43. Wave 16 of the LA Omnibus Survey was conducted between the 14 January and the 14 March 2008. Results are based on 246 interviews which represents a 54% response rate. Results from wave 16 reflect local authorities' plans and expectations of LHA rather than their actual experiences as research was conducted prior to the national rollout, thus when results from this wave are mentioned this should be kept in mind. In this report wave 16 will be referred to as research carried out in January 2008.
44. Wave 18 of the LA Omnibus Survey was conducted between the 14 January and the 13 March 2009. Results are based on 246 interviews which represents a 60% response rate, although 12 local authorities did not complete every section. Results from wave 18 reflect local authorities' experience during the first year of the national rollout of LHA. In this report wave 18 will be referred to as research carried out in January 2009.
45. Wave 20 of the LA Omnibus Survey was conducted between the 18 January and the 12 March 2010. Results are based on 227 interviews which represents a 60% response rate. Results from wave 20 reflect local authorities' experience during the second year of the national rollout of LHA. In this report wave 20 will be referred to as research carried out in January 2010. In previous waves, questions on LHA would make up one section, but in wave 20 all sections were dedicated to LHA.

## A.6 Tenants' and Advisers' Early Experiences of the Local Housing Allowance National Rollout

### Research Design

46. The research was conducted by a team at the by Centre for Research in Social Policy (CRSP) at Loughborough University in five local authority areas Crawley, Islington, Edinburgh, Gedling and Torridge.
47. The areas were selected to include a range of geographies and Local Authority (LA) types (urban, rural and county district) and to include LAs that were comparable to the LHA Pathfinder authorities. There were two main elements to the qualitative research: consultation with advisors and in-depth interviews with tenants. Fieldwork took place between July 2009 and January 2010.

### Consultation with Advisers

48. The term 'Advisers' is used to describe people in two key stakeholder groups: local authority advisers and advisers from independent advice agencies.
49. LA advisers were staff employed by the local authority in a number of different roles. They included staff based within HB departments such as managers, team leaders, benefit claim assessors/processors, and discretionary housing payment officers. Staff in these roles were responsible for delivering LHA as well as providing information to claimants. LA advisers also included staff from housing services, such as homelessness/housing needs officers and managers, and staff running rent deposit schemes. Staff in these roles were responsible for giving advice to tenants and assisting those living in temporary or unsettled accommodation to secure housing in the private rented sector. Some, such as Islington Housing Aid Centre, were also involved in assisting people with claims for LHA and resolving any problems.
50. Advisers from independent advice agencies were from a range of organisations which provided support and help to tenants with money advice, support in sustaining a tenancy and help with finding new accommodation. Some advisors had responsibility for specific client groups such as under 21 year olds and people with mental health

conditions, whilst others were generic advisors providing support to a wide range of clients.

51. Focus groups were the main method used for consulting with advisors. Two separate groups were conducted in each area, one with LA advisors and a second with advisors from independent advice agencies. In two areas (Islington and Gedling) where it had not been possible to convene a focus group with advisors from different independent advice agencies, individual interviews were conducted.

## **Consultation with HB-LHA Tenants**

52. Consultation with tenants was conducted through individual in-depth face-to-face interviews. A sample of tenants in receipt of LHA was drawn from DWP's Single Housing Benefit Extract (SHBE). The sample was purposively selected to include tenants from the following household types: under 25 year olds, lone parents, working age couples with children, working age couples without children, single adults of working age and pensioners. Opt-out letters were sent to all tenants on the database and tenants who had not opted-out were recruited to take part in the research by telephone.
53. The interviews followed a semi-structured topic guide to elicit information on a core set of topics, a copy of the topic guide is included in the research report. In total, 35 interviews with tenants were conducted, with between six and eight interviews conducted per LA area.

## **Research limitations**

54. The main limitation of this research in providing an understanding of tenants' and advisers' experiences of the LHA national rollout scheme is the lack of information from the tenants' perspective on the operation of the LHA safeguards. Only three tenants in the sample did not receive direct payments and only one of these was classified as being unable to manage their finances. Tenants who do not receive direct payments are a minority of all LHA claimants and, therefore, would only have occurred in the tenant sample frame in very small numbers. Furthermore, sample bias is likely to have arisen because tenants who are considered unlikely or unable to manage their rent payments are probably less likely to agree to take part in a research interview than those who are not. It is also possible that tenants who are experiencing financial difficulties may be harder to get hold of, for example, if they do not have credit on their mobile phone, or if they have moved address because of arrears. However, the research

can draw upon the experiences of advisors from independent advice agencies, who work with vulnerable tenants, in understanding this issue.

55. A separate report on the findings of this research was published on the DWP website on 30<sup>th</sup> September  
[http://research.dwp.gov.uk/asd/asd5/report\\_abstracts/rr\\_abstracts/rra\\_688.asp](http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_688.asp)

## A.7 Private Landlords and the Local Housing Allowance System of Housing Benefit

### Research Design

56. The research was conducted by a team at the Centre for Housing Policy University of York. The study took a qualitative approach, involving 60 semi-structured, in-depth interviews with private landlords and letting agents. To allow for possible impacts of different types of area and private rented markets on the operation and experiences of the LHA, six differing case study locations were selected, which included the local authority areas of Bradford, Cornwall, Coventry, Edinburgh, London borough of Newham, and Sunderland. Appendix A of the report sets out details of the six case study areas included in the research, and the reasons for their selection.

57. Fieldwork began in September 2009 and ran until December 2009.

### Profile of respondents

58. A total number of 60 respondents were interviewed, comprising 20 small-scale landlords, 25 larger landlords, 10 letting agents, and five national or regional landlords.

59. Appendix B of the report provides a detailed profile of the respondents.

### Research limitations

60. As a result of the qualitative approach and the recruitment method, the findings of the research cannot be considered to be representative in a statistical sense. It is not possible for this research to provide an

assessment of the scale or incidence of the respondents' views and experiences, as would be the case with a quantitative survey.

61. A separate report on the findings of this research was published on the DWP website on 30 September  
[http://research.dwp.gov.uk/asd/asd5/report\\_abstracts/rr\\_abstracts/rra\\_689.asp](http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_689.asp)

## A.8 BDRC Continental Landlords Panel Survey

62. The DWP commissioned questions on an online survey of landlords, run by market research organisation BDRC Continental. The online surveys cover a wide range of subjects including:

- Portfolio and tenant profile
- Buy or sell intentions
- Financial issues - mortgage lending, income, voids, cost of upkeep, yields etc
- Regulation or legislation
- Property purchase strategies
- Optimism and general outlook

63. Although some of the questions already included were of interest to the review, more specific questions were added on the impacts of the LHA system on landlord behaviour. DWP commissioned four waves of the survey between September 2009 and June 2010.

64. The landlord panel survey was established in 2006 and interviews around 500 landlords once a quarter in September, December, March and June. The sample was formed from two sources:

- "Valued Opinions" administered by Research Now! – Consists of 370,000 consumers on the UK's largest online survey panel.
- National Landlords Association (NLA) members on the NLA research panel.

65. The data does not distinguish between non-LHA and LHA HB claimants. However, in September 2009, of all the sampled landlords that let to HB claimants, 80 per cent were letting to claimants on the LHA scheme. Throughout this report we refer to landlords renting to HB tenants, on either scheme, as HB landlords.

66. Some sample bias could result from landlords who are experiencing problems with tenants being more willing to participate in a survey such as this.
67. Please note that all percentages quoted from this research have been rounded to the nearest whole value and for several questions landlords were given the opportunity to select multiple answers, therefore, not all proportions will sum to 100%.

## A.9 Consultation with stakeholders

68. Evidence gathering for the review has also involved engagement with rent officers, LAs, landlords, other government departments and external organisations such as Citizens Advice Bureau, Shelter and Crisis through existing DWP networks.



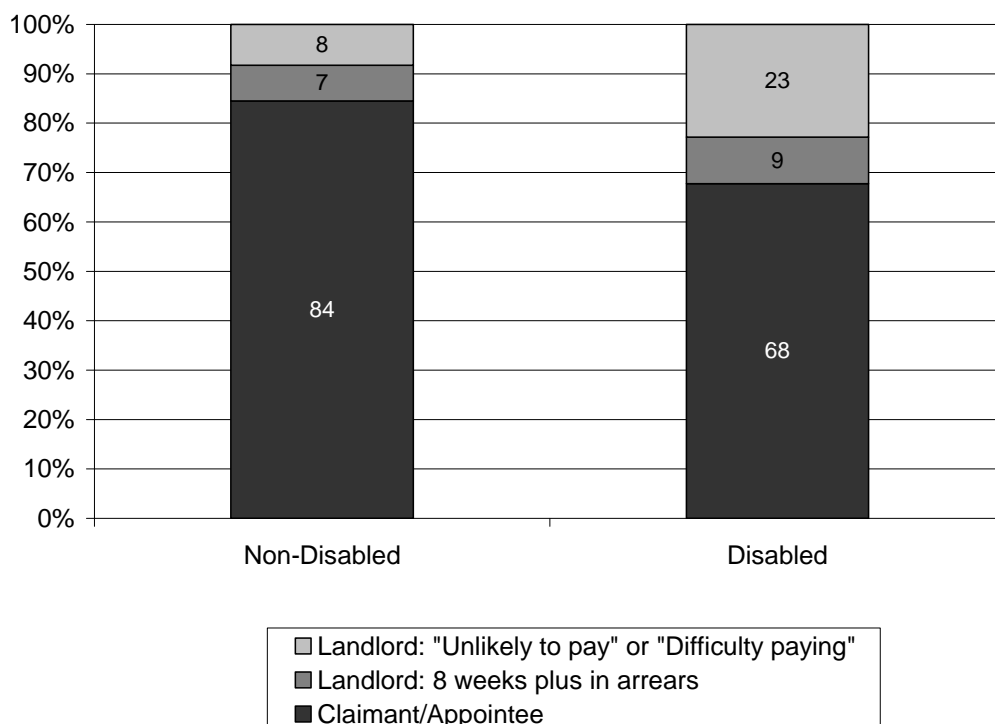
# Annex B

## Diversity Impacts of Payment Destination and Method of Payment to Tenant

### B.1 Direct Payments, Rent Arrears and the Operation of the Safeguards

1. The discussion of the figures below can be found in Chapter 4.

**Figure B.1 Payment Destination and Reason for Payment to Landlord, by Disability Status, for LHA Cases, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. A small number of non-LHA cases making a new claim since 7 April 2008 may be included in this analysis.

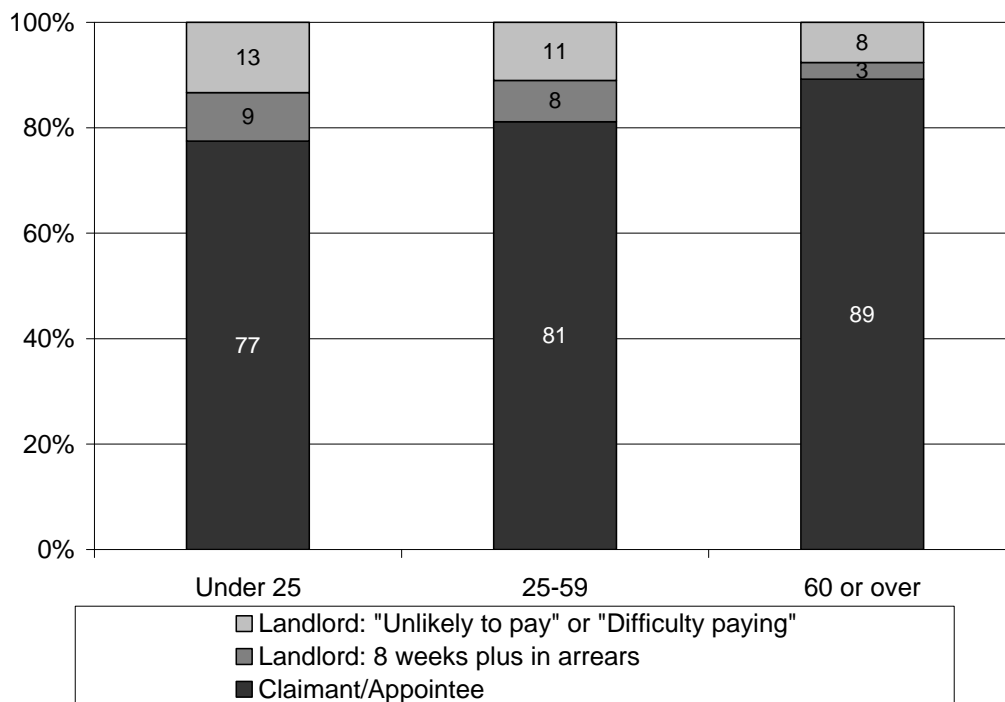
2. Those cases with unknown payment destination are excluded from this analysis.

3. About 20 per cent of cases having payments made to their landlord in February 2010 either had no reason given for this or had a reason recorded that was incompatible with the LHA system. These cases were excluded from the analysis. Percentages of LHA cases having payments made to the landlord due respectively to the eight week arrears rule or one of the discretionary safeguards are estimated by multiplying the proportion of cases having payment made to the landlord by the conditional proportions due to the eight week arrears rule or due to one of the other two safeguards, given payment is made to the landlord.

4. The disabled group, estimated from merging Work and Pensions Longitudinal Study (WPLS) data entries onto Single Housing Benefit Extract data entries, includes HB awards with a Disability Premium or Severe Disability Premium, or those passported to full HB by an award of Employment and Support Allowance or Income Support with a Disability Premium.

5. Percentages may not sum to 100 due to rounding.

**Figure B.2 Payment Destination and Reason for Payment to Landlord, by Age, for LHA Cases, February 2010**



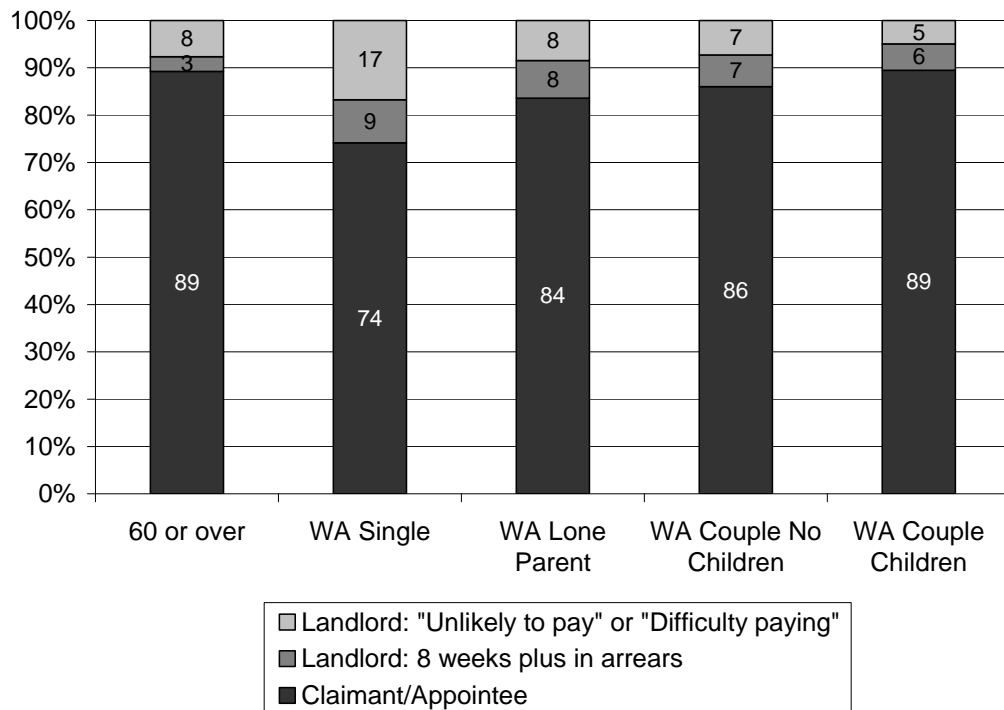
Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 3 to Figure 4.2

2. Those cases with missing age information are excluded from the analysis.

3. Percentages may not sum to 100 due to rounding

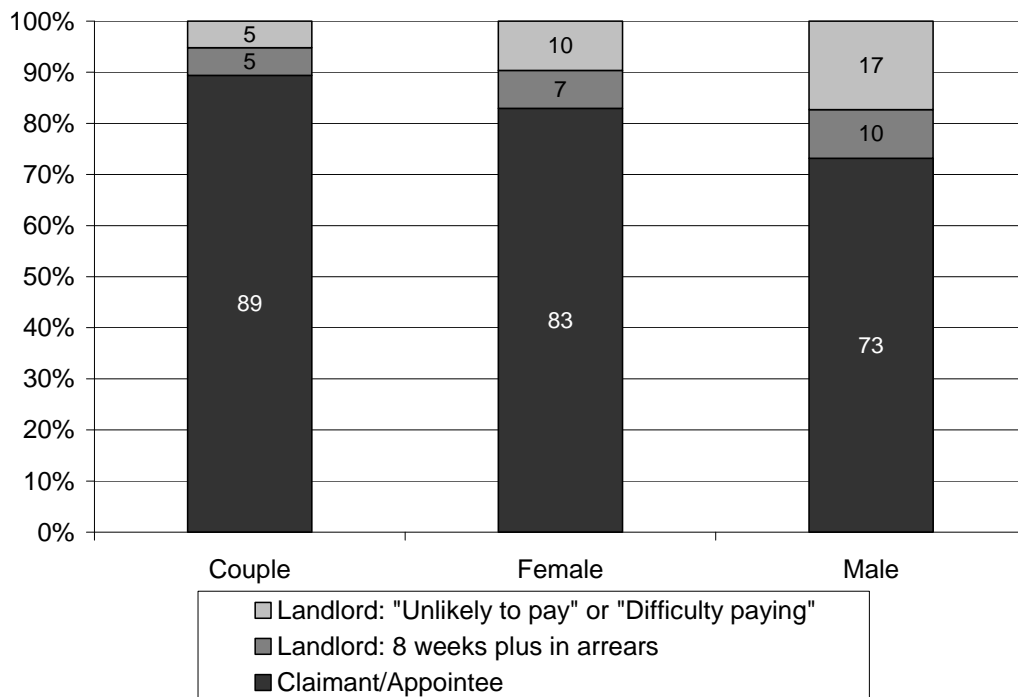
**Figure B.3 Payment Destination and Reason for Payment to Landlord, by Family Type, for LHA Cases, February 2010**



Source: Single Housing Benefit Extract, February 2010

- Notes:
1. See notes 1 to 3 to Figure 4.2
  2. Those cases with missing family type information are excluded from the analysis.
  3. The category 60 or over could include claimants 60 or over in couples or single claimants, as well as claimants with or without children.
  4. Percentages may not sum to 100 due to rounding

**Figure B.4 Payment Destination and Reason for Payment to Landlord, by Gender, for LHA Cases, February 2010**



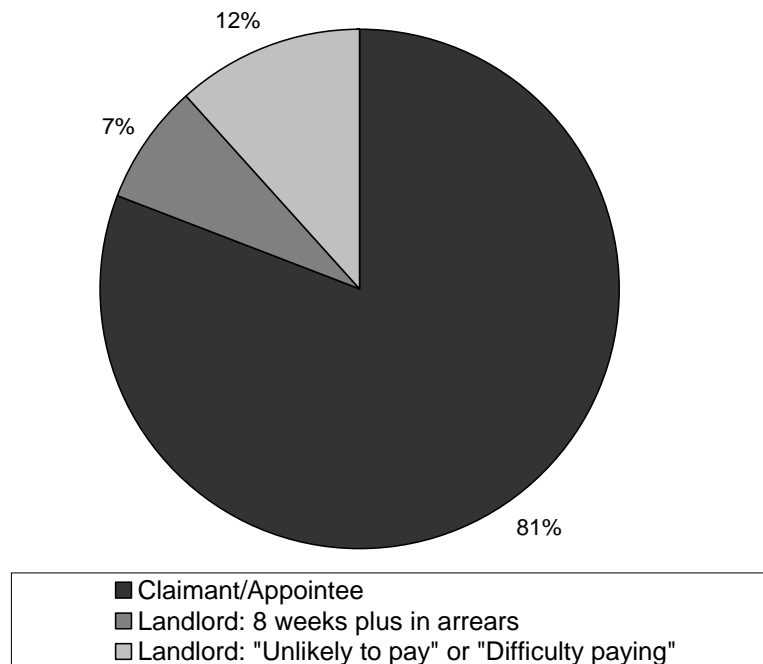
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 3 to Figure 4.2

2. Those cases with missing gender information are excluded from the analysis.

3. Percentages may not sum to 100 due to rounding.

**Figure B.5 Payment Destination and Reason for Payment to Landlord, for Single, Under 25 Shared Accommodation Rate LHA Caseload, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 3 to Figure 4.2

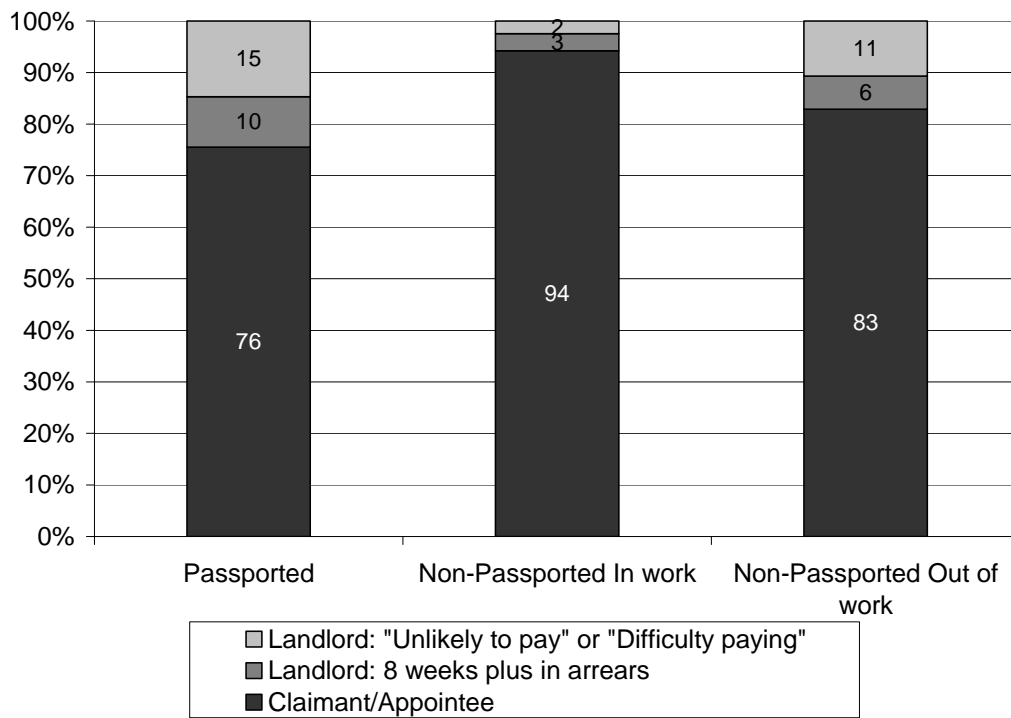
2. The split of cases between the shared accommodation rate and the one bedroom rate was adjusted after it was discovered that there was an issue with certain software providers not recording any claimants on the shared accommodation rate. This issue was addressed by looking at the caseload recorded as entitled to HB based on a one bedroom property, for cases that should be restricted to the shared accommodation rate (single, under 25 claimants, with no dependants or non-dependants and with no severe disability premium). The LHA rates for these cases were then compared with official monthly LHA rates in order to find those with LHA rates close to the shared accommodation rate for their area.

3. The shared accommodation rate caseload is restricted here to the single, under 25 group who are not entitled to one bedroom LHA rates. There is another group, including for example couples without children or single claimants over 25 years of age, who are only entitled to the shared accommodation rate because they choose to live in shared accommodation although they would otherwise be entitled to one bedroom LHA rates.

4. Those cases with missing family type or age information are excluded from the analysis.

5. Percentages may not sum to 100 due to rounding.

**Figure B.6 Payment Destination and Reason for Payment to Landlord, by Passported and Employment Status, for LHA Cases, February 2010**



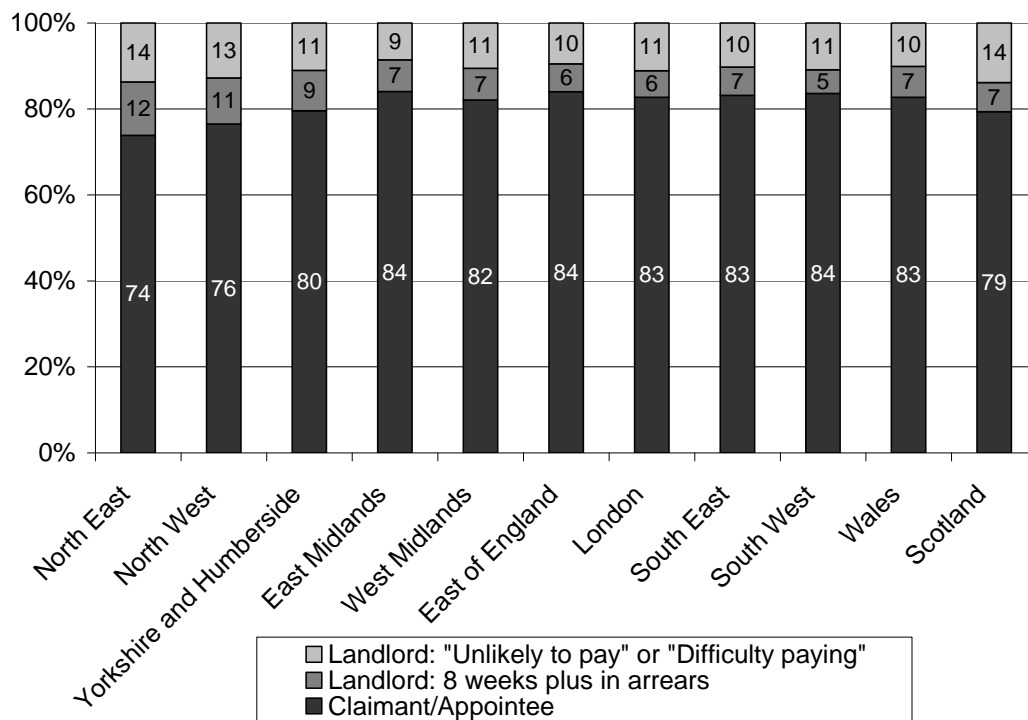
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 3 to Figure 4.2

2. Those cases with missing passported or employment status are excluded from the analysis.

3. Percentages may not sum to 100 due to rounding.

**Figure B.7 Payment Destination and Reason for Payment to Landlord, by Government Office Region, for LHA Cases, February 2010**



Source: Single Housing Benefit Extract, February 2010.

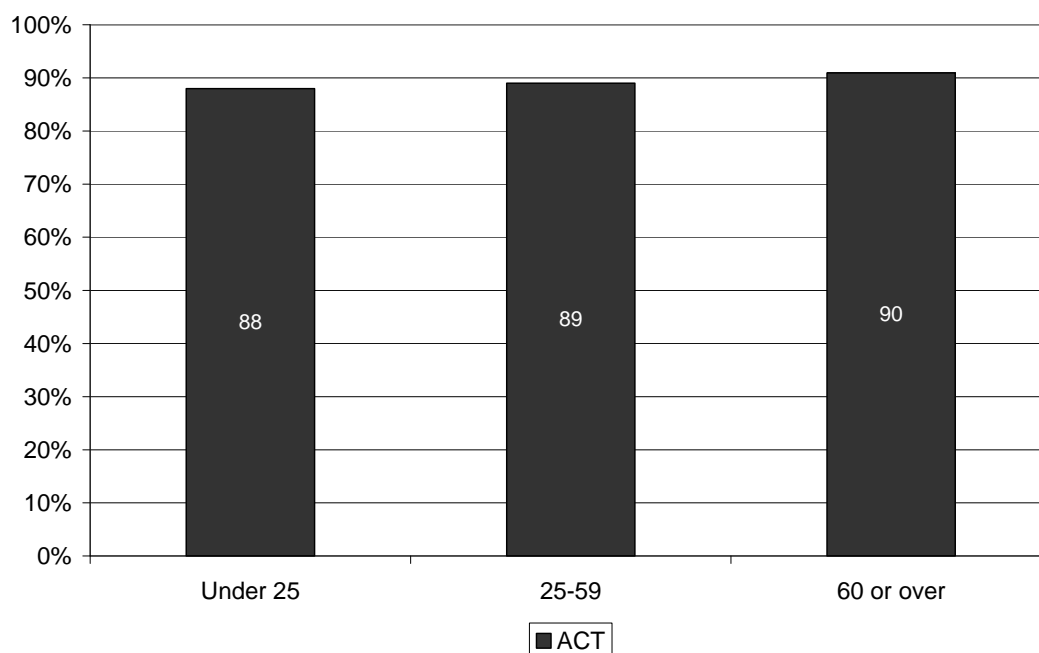
Notes: 1. See notes 1 to 3 to Figure 4.2

2. Percentages may not sum to 100 due to rounding.

## B.2 Method of Payment to Tenants

2. The discussion of the figures below can be found in Chapter 4.

**Figure B.8 Payment by Automated Credit Transfer, by Age, for LHA Cases Being Paid Directly, February 2010**

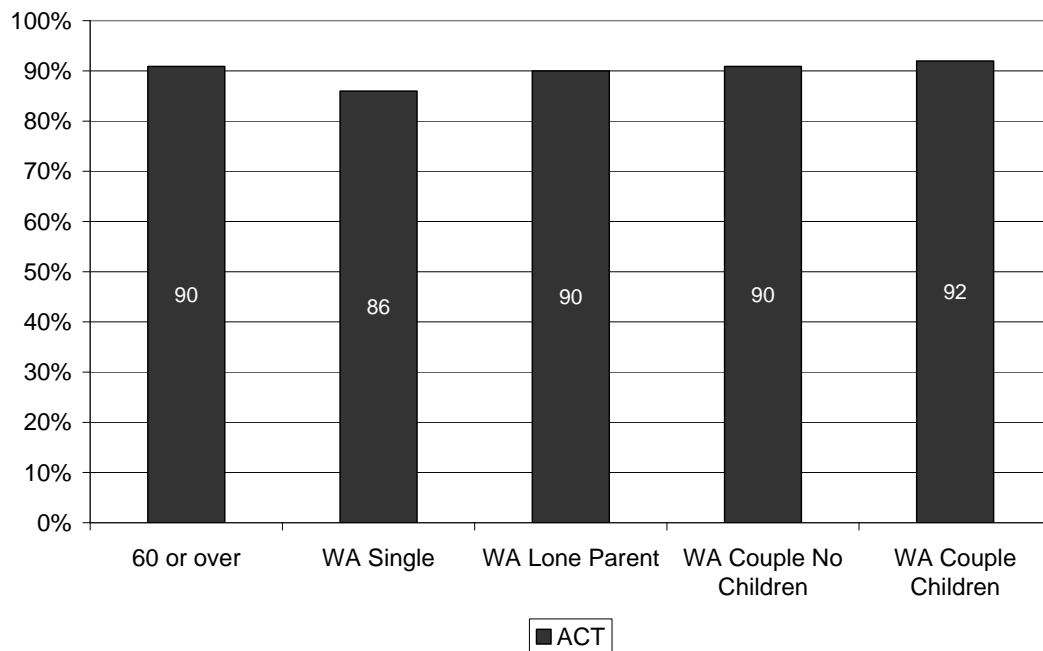


Source: Single Housing Benefit Extract, February 2010

- Notes:
1. LHA tenants may include a small number of non-LHA cases making a new claim since 7 April 2008.
  2. Analysis of payment by automated credit transfer only considers cases where the payment destination is recorded as being to the claimant or split due to payment of rent going to the landlord but payment of an excess going to the claimant.
  3. Those missing method of payment information have been excluded from this analysis.
  4. Those missing age information have been excluded from this analysis.



**Figure B.9 Payment by Automated Credit Transfer, by Family Type, for LHA Cases Being Paid Directly, February 2010**



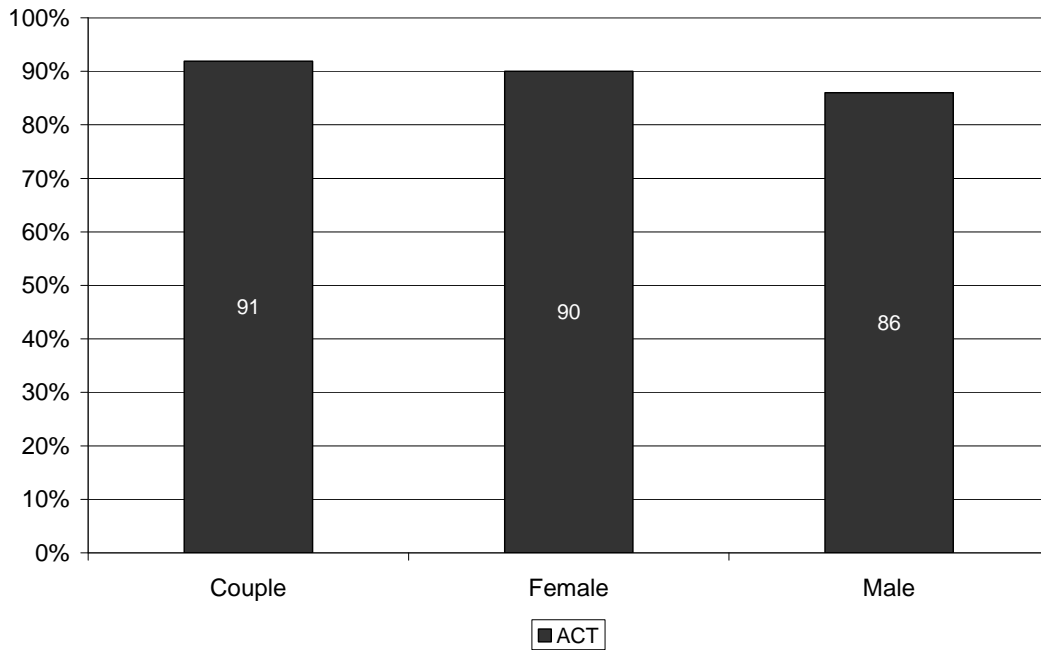
Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 3 to Figure 4.2.

2. Those cases with missing family type information are excluded from the analysis.

3. The category 60 or over could include claimants 60 or over in couples or single claimants, as well as claimants with or without children.

**Figure B.10 Payment by Automated Credit Transfer, by Gender, for LHA Cases Being Paid Directly, February 2010**

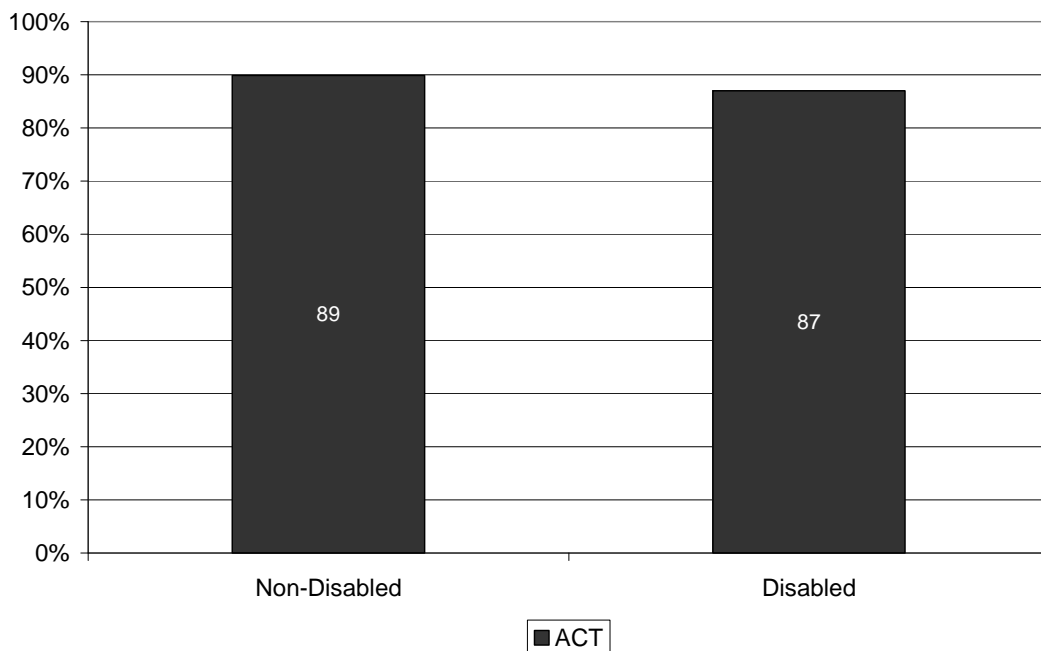


Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 3 to Figure 4.2.

2. Those cases with missing gender information are excluded from the analysis.

**Figure B.11 Payment by Automated Credit Transfer, by Disability Status, for LHA Cases Being Paid Directly, February 2010**

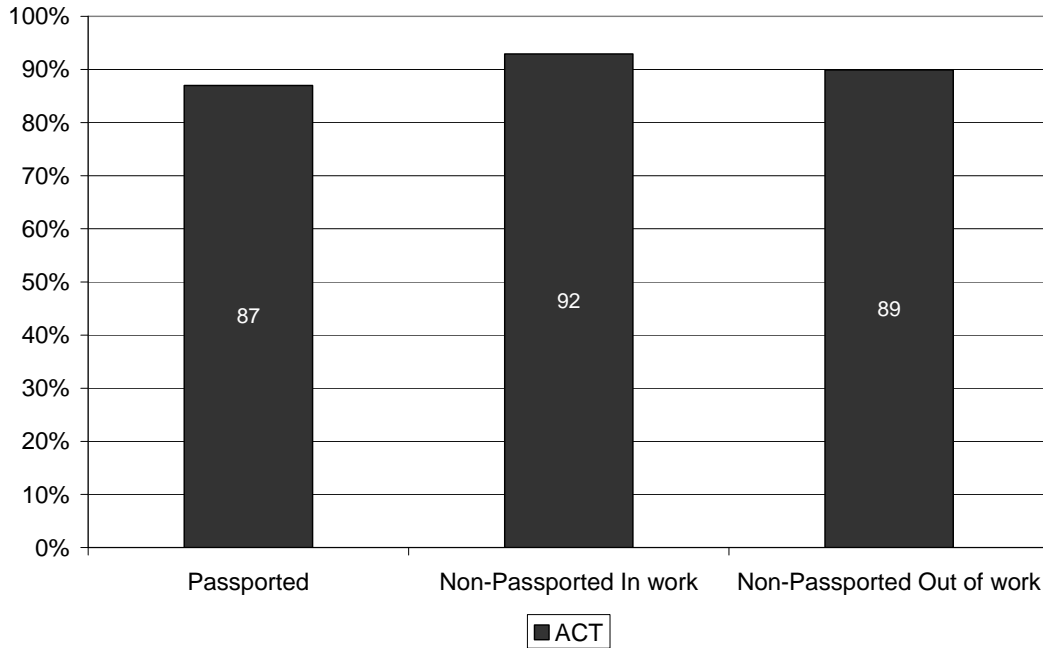


Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 3 to Figure 4.9.

2. The disabled group, estimated from merging Work and Pensions Longitudinal Study (WPLS) data entries onto Single Housing Benefit Extract data entries, includes Housing Benefit (HB) awards with a Disability Premium or Severe Disability Premium, or those passported to full HB by an award of Employment and Support Allowance or Income Support with a Disability Premium.

**Figure B.12 Payment by Automated Credit Transfer, by Passported and Employment Status, for LHA Cases Being Paid Directly, February 2010**

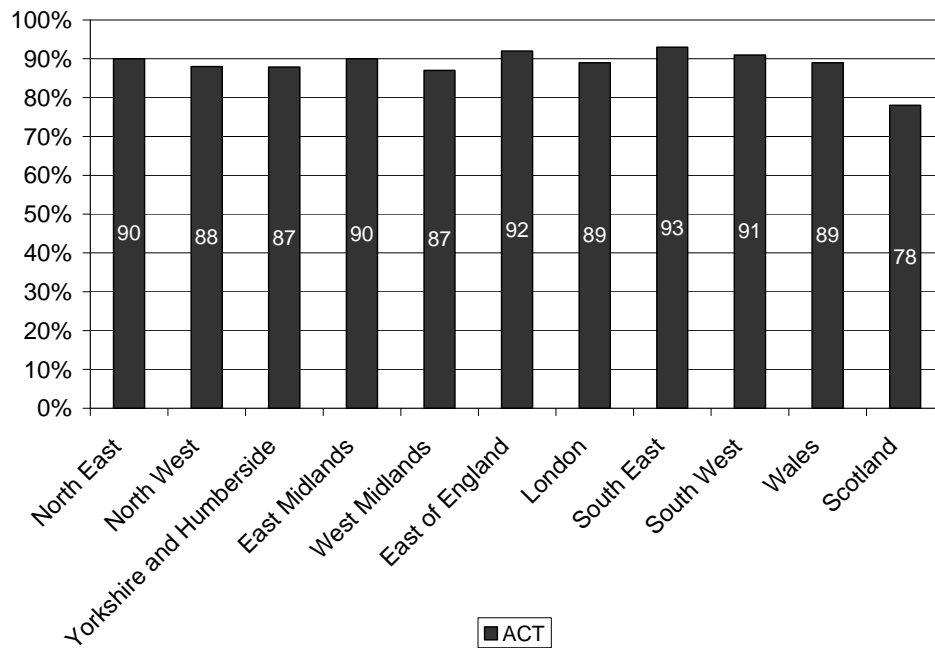


Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 3 to Figure 4.9.

2. Those cases with missing passported or employment status are excluded from the analysis.

**Figure B.13 Payment by Automated Credit Transfer, by Government Office Region, for LHA Cases Being Paid Directly, February 2010**



Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 3 to Figure 4.9.

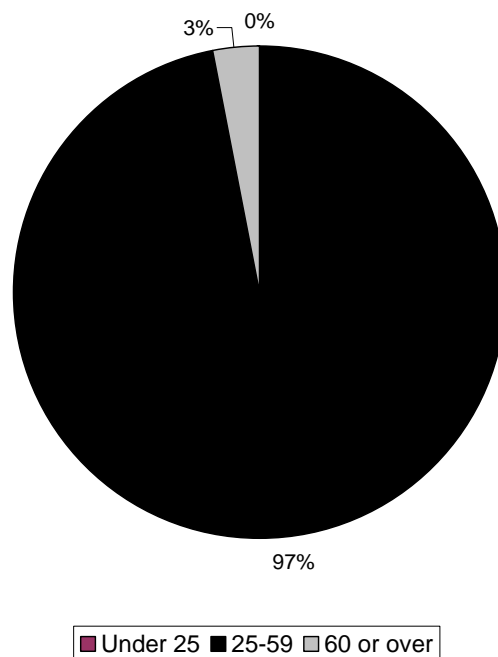
# Annex C

## Diversity Impacts of LHA Rates

### C.1 Entitlements Based on Six or More Bedrooms

1. The discussion of the figures below can be found in Chapter 5.

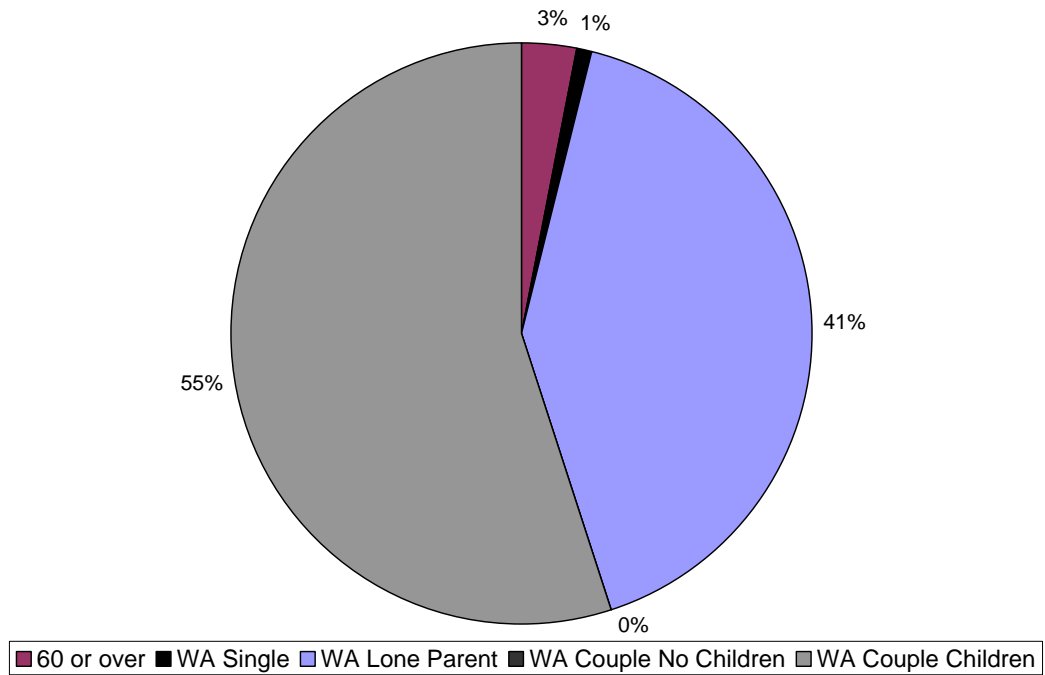
**Figure C.1 Proportion of LHA Cases with Entitlement Based on Six or More Bedrooms, by Age, May 2009**



Source: Single Housing Benefit Extract, May 2009

Notes: 1. Those missing entitlement based on property size or age information are excluded from this analysis.

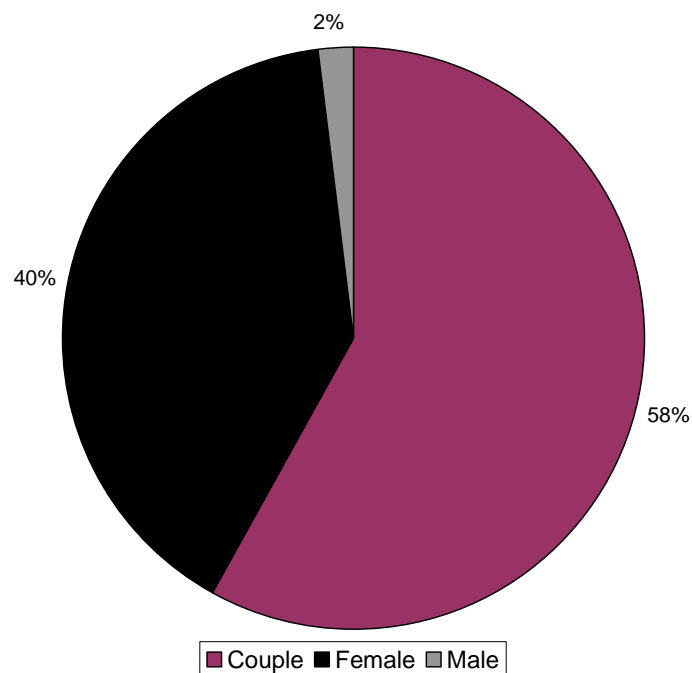
**Figure C.2 Proportion of LHA Cases with Entitlement Based on Six or More Bedrooms, by Family Type, May 2009**



Source: Single Housing Benefit Extract, May 2009

Notes: 1. Those missing entitlement based on property size or family type information are excluded from this analysis.

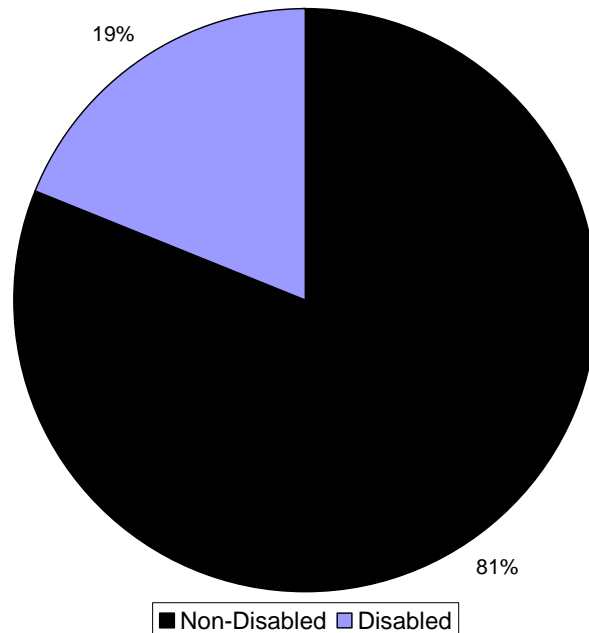
**Figure C.3 Proportion of LHA Cases with Entitlement Based on Six or More Bedrooms, by Gender, May 2009**



Source: Single Housing Benefit Extract, May 2009

Notes: 1. Those missing entitlement based on property size or gender information are excluded from this analysis.

**Figure C.4 Proportion of LHA Cases with Entitlement Based on Six or More Bedrooms, by Disability Status, May 2009**

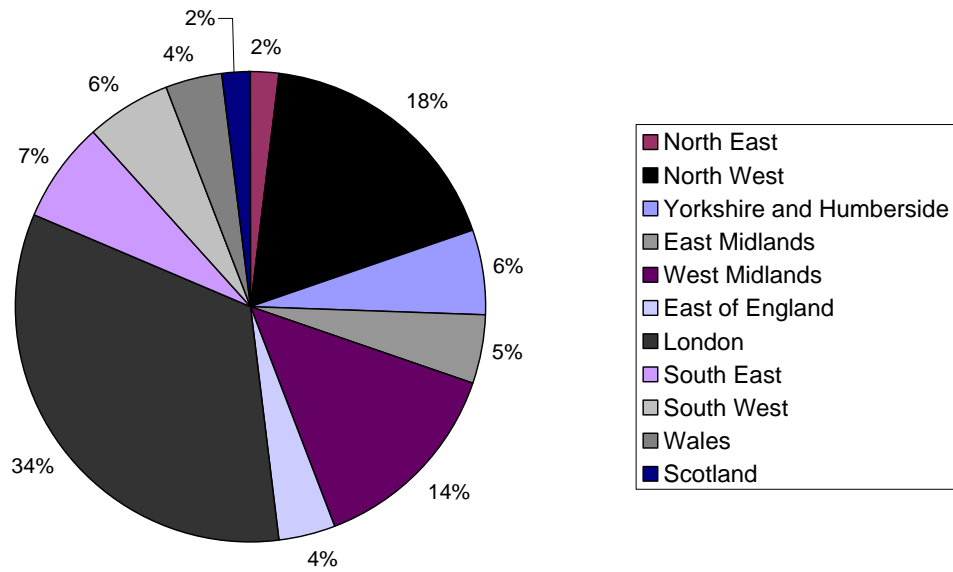


Source: Single Housing Benefit Extract, May 2009

Notes: 1. Those missing entitlement based on property size information are excluded from this analysis.

2. The disabled group, estimated from merging Work and Pensions Longitudinal Study (WPLS) data entries onto Single Housing Benefit Extract data entries, includes Housing Benefit (HB) awards with a Disability Premium or Severe Disability Premium, or those passported to full HB by an award of Employment and Support Allowance or Income Support with a Disability Premium.

**Figure C.5 Proportion of LHA Cases with Entitlement Based on Six or More Bedrooms, by Government Office Region, May 2009**

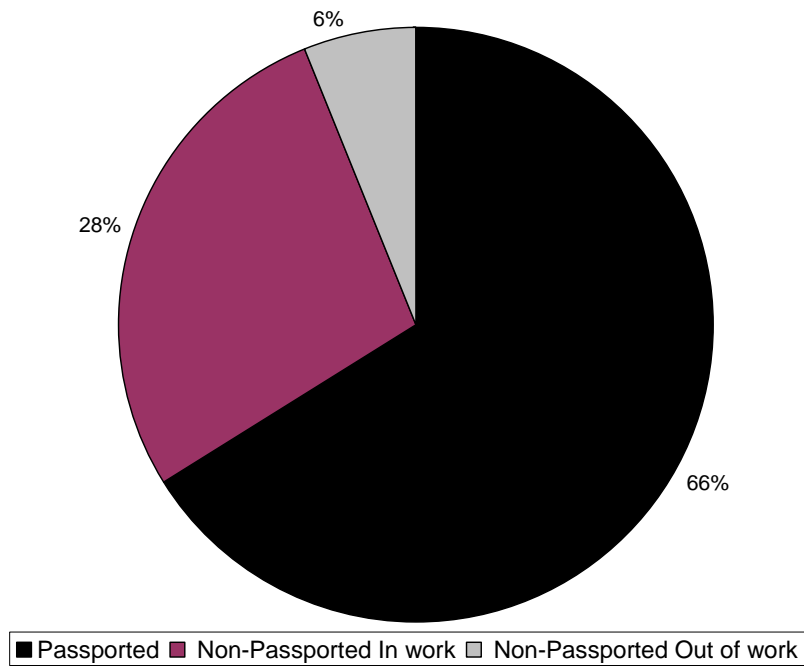


Source: Single Housing Benefit Extract, May 2009

Notes: 1. Those missing entitlement based on property size information are excluded from this analysis.



**Figure C.6 Proportion of LHA Cases with Entitlement Based on Six or More Bedrooms, by Passported and Employment Status, May 2009**



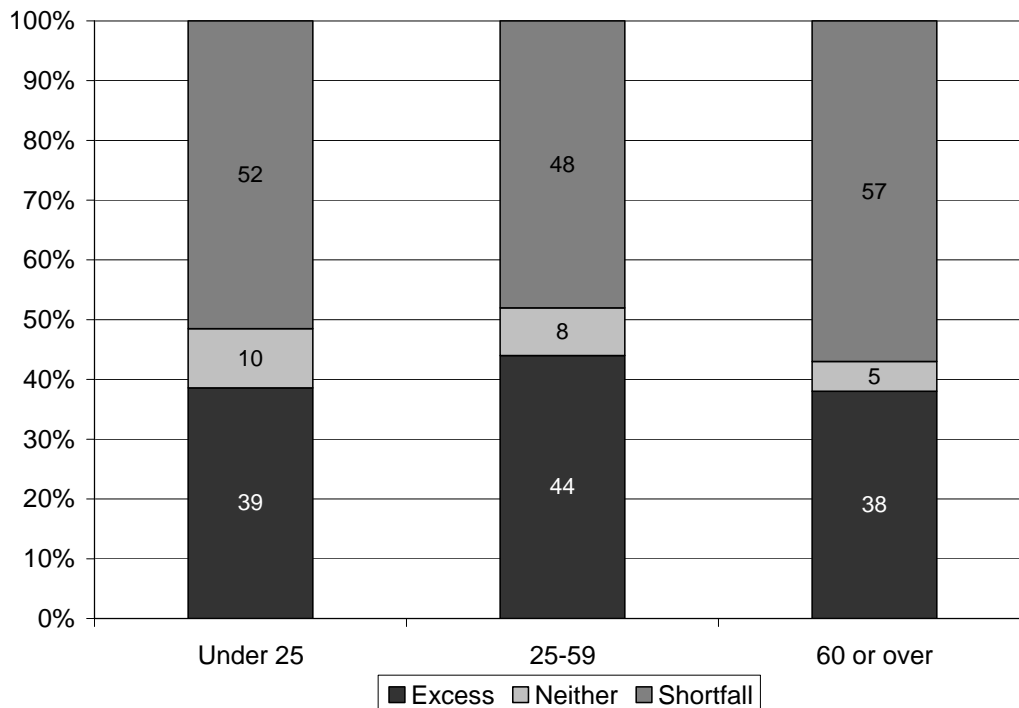
Source: Single Housing Benefit Extract, May 2009.

Notes: 1. Those missing entitlement based on property size or passported or employment information are excluded from this analysis.

## C.2 Excesses or Shortfalls By Diversity Characteristics

2. The discussion of the figures below can be found in Chapter 5.

**Figure C.7 Proportion of LHA Caseload Experiencing Excesses and Shortfalls, by Age, February 2010**



Source: Single Housing Benefit Extract, February 2010.

- Notes:
1. Only those of the National Statistics LHA caseload with positive LHA rates and positive contractual rents recorded have been included in this analysis.
  2. If the claimant and/or any member of their household could afford the financial commitments of their home when they first entered into them, and the claimant or their partner have not received HB during 52 weeks before their current claim, or due to having suffered a bereavement their local authority (LA) may not use the maximum rent figure for the first 13 weeks of their claim. These protected cases are also excluded from the analysis.
  3. Adjustments have been made to correct implausibly low LHA rate entries.
  4. Adjustments have also been made to deal with inconsistent recording of contractual rent values and the period to which they relate, eg recording a weekly value but noting the period of payment as monthly. Some adjustments have no effect on the certainty of the estimate. Other issues have required the omission of data or reasonable estimates were made using the available data.
  5. A further issue with contractual rent values appeared to be the recording, for a small group of cases, of rents for the entire property where a claimant was a joint tenant, rather than just the claimant's share of the rent. In the absence of other

information to derive reasonable contractual rents for these cases, this group of cases has been excluded from the analysis. The issue only affects a small proportion of all joint tenants.

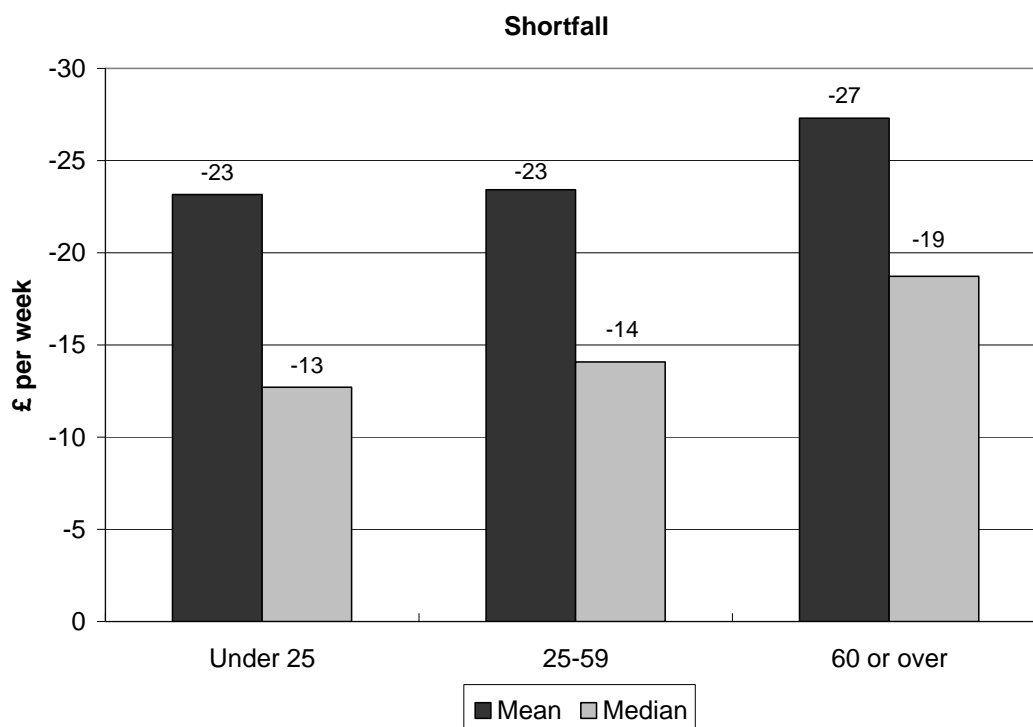
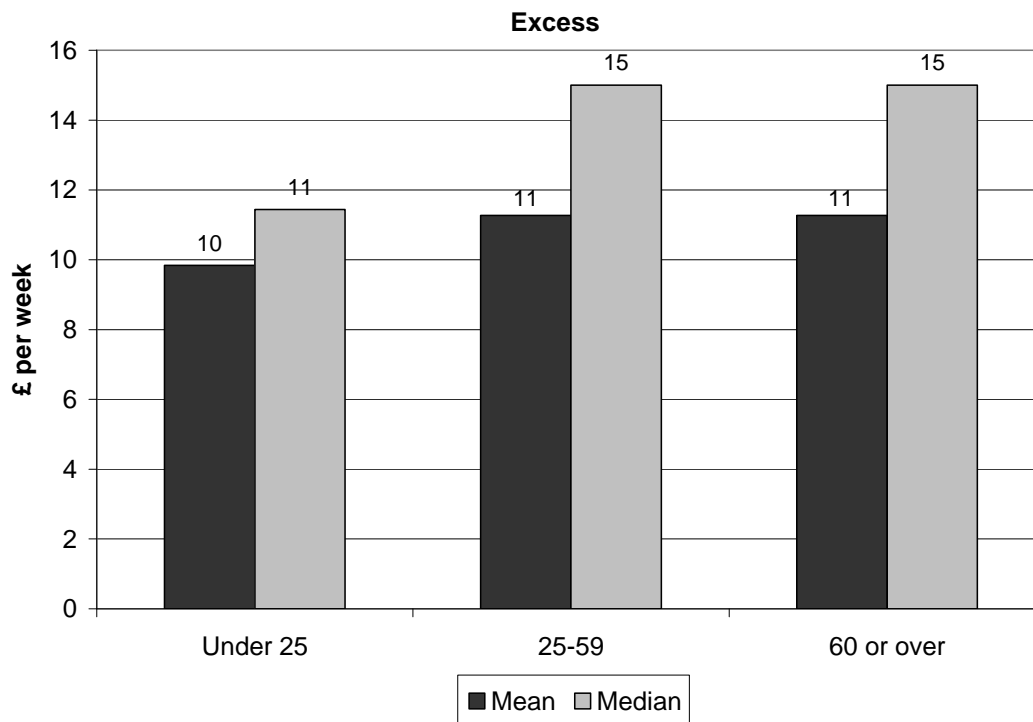
6. Finally all cases where shortfalls exceeded -£400 were excluded. The -£400 threshold results in the removal of between 0.5% and 1% of cases. This was judged as a reasonable threshold for identifying outlying shortfall values most likely resulting from data errors rather than real shortfalls.

7. Combined these changes remove about 8% of the National Statistics LHA caseload in February 2010.

8. Those cases with missing age information are also excluded from the analysis.

9. Percentages may not sum to 100 due to rounding

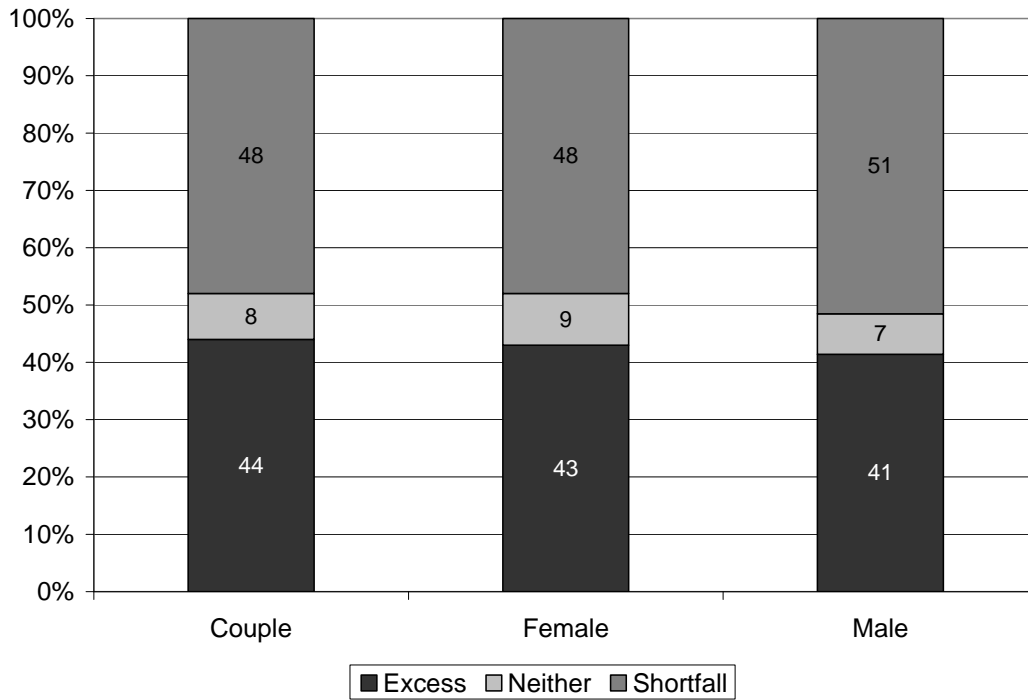
**Figure C.8 Average Excess and Shortfall Amounts for LHA Caseload, by Age, February 2010**



Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 8 to Figure C.7.

**Figure C.9 Proportion of LHA Caseload Experiencing Excesses and Shortfalls, by Gender, February 2010**



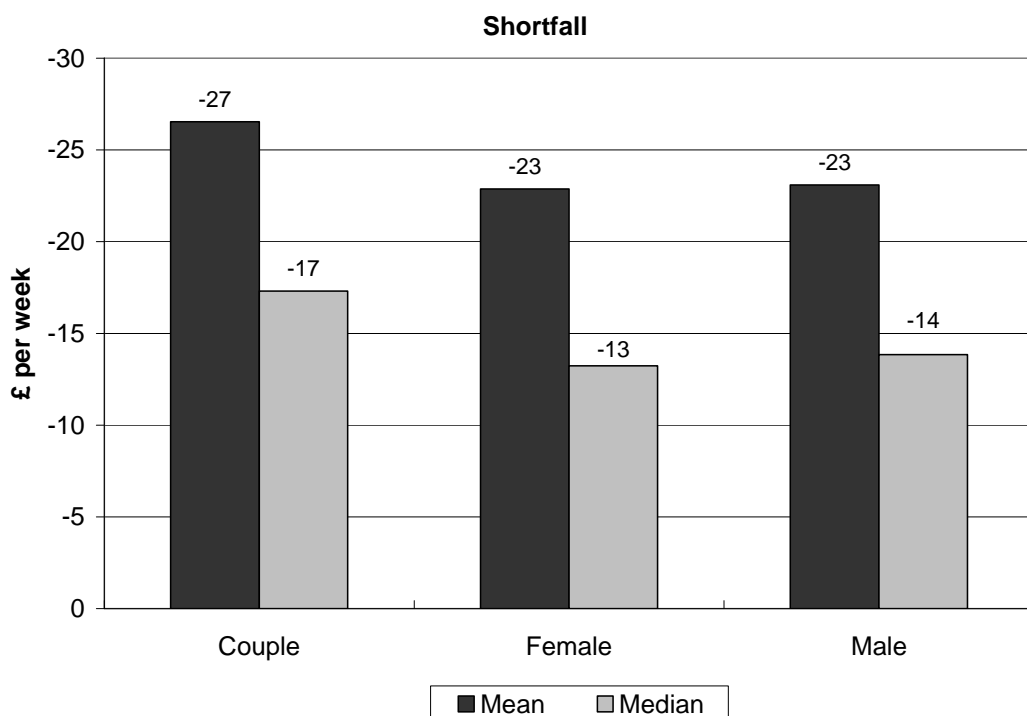
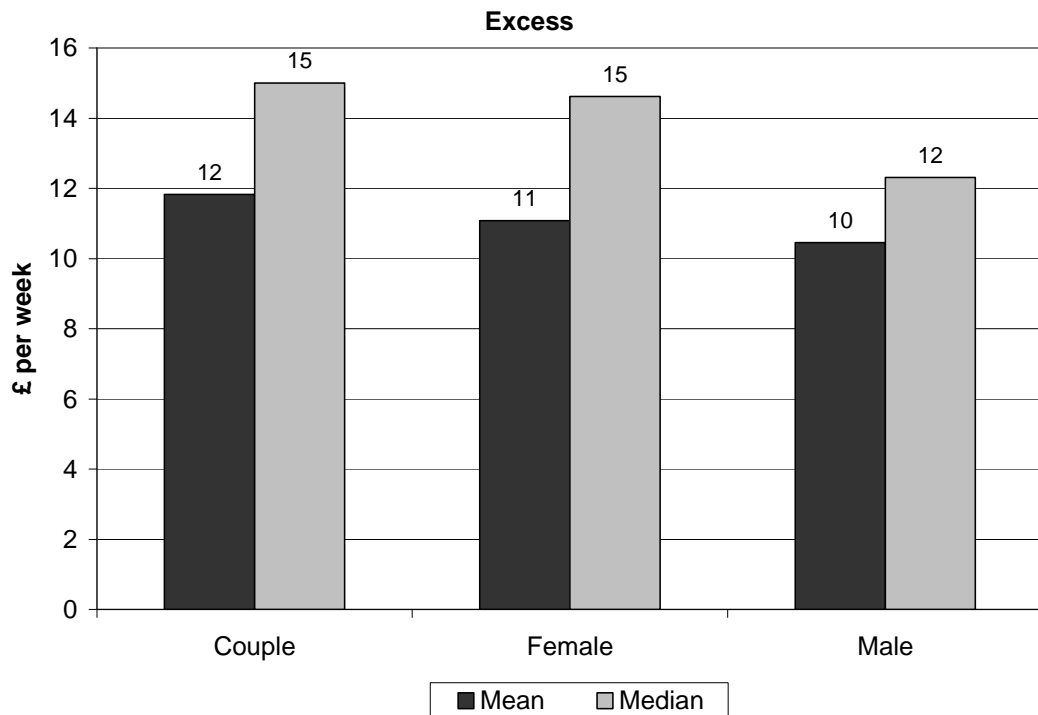
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 7 to Figure C.7.

2. Those with missing gender information are excluded from this analysis.

3. Percentages may not sum to 100 due to rounding.

**Figure C.10 Average Excess and Shortfall Amounts for LHA Caseload, by Gender, February 2010**

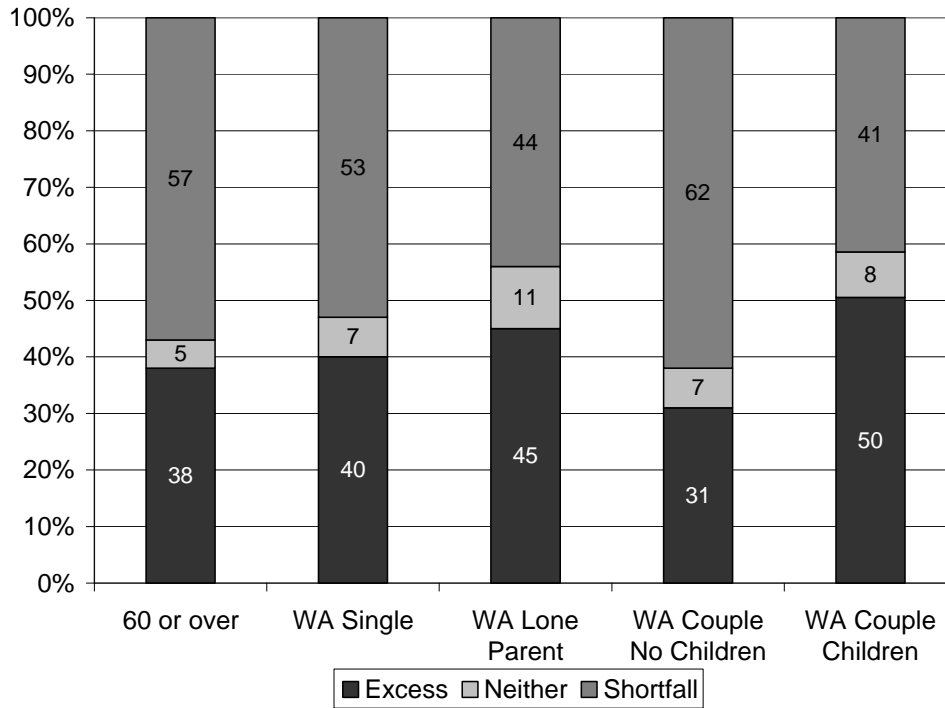


Source: Single Housing Benefit Extract, February 2010

Notes: 1. See notes 1 to 7 to Figure C.7.

2. Those with missing gender information are excluded from this analysis.

**Figure C.11 Proportion of LHA Caseload Experiencing Excesses and Shortfalls, by Family Type, February 2010**



Source: Single Housing Benefit Extract, February 2010.

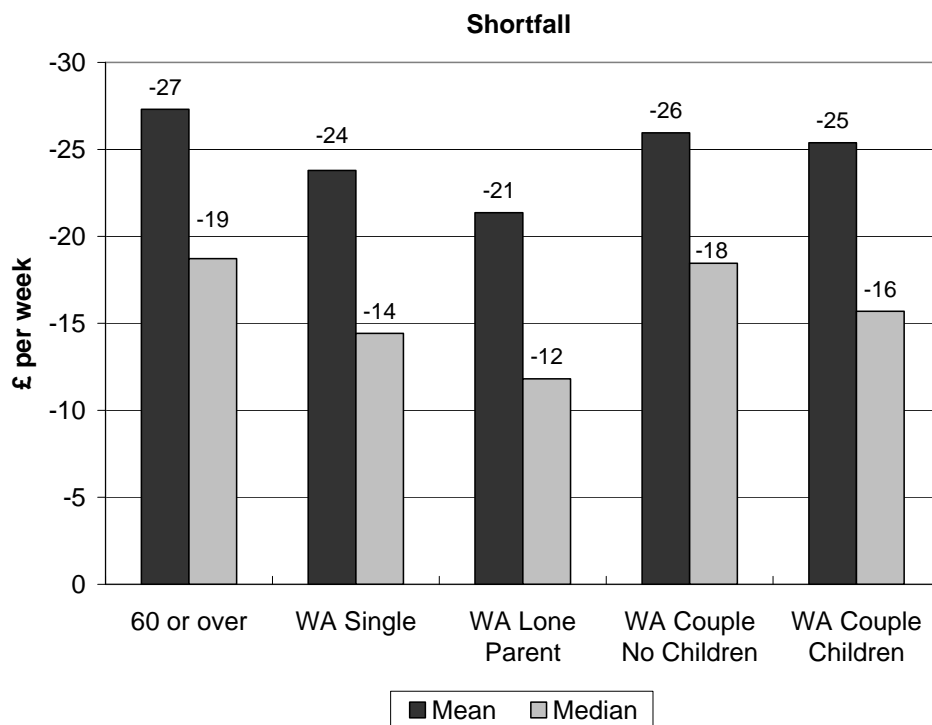
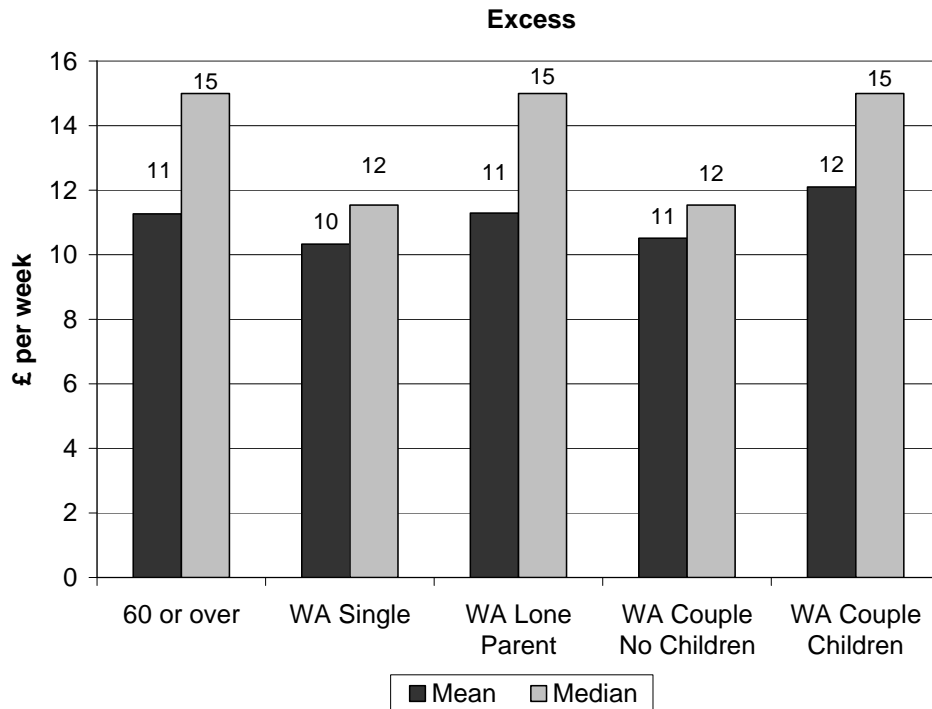
Notes: 1. See notes 1 to 7 to Figure C.7.

2. Those with missing family type information are excluded from this analysis.

3. The category 60 or over could include claimants 60 or over in couples or single claimants, as well as claimants with or without children.

4. Percentages may not sum to 100 due to rounding.

**Figure C.12 Average Excess and Shortfall Amounts for LHA Caseload, by Family Type, February 2010**



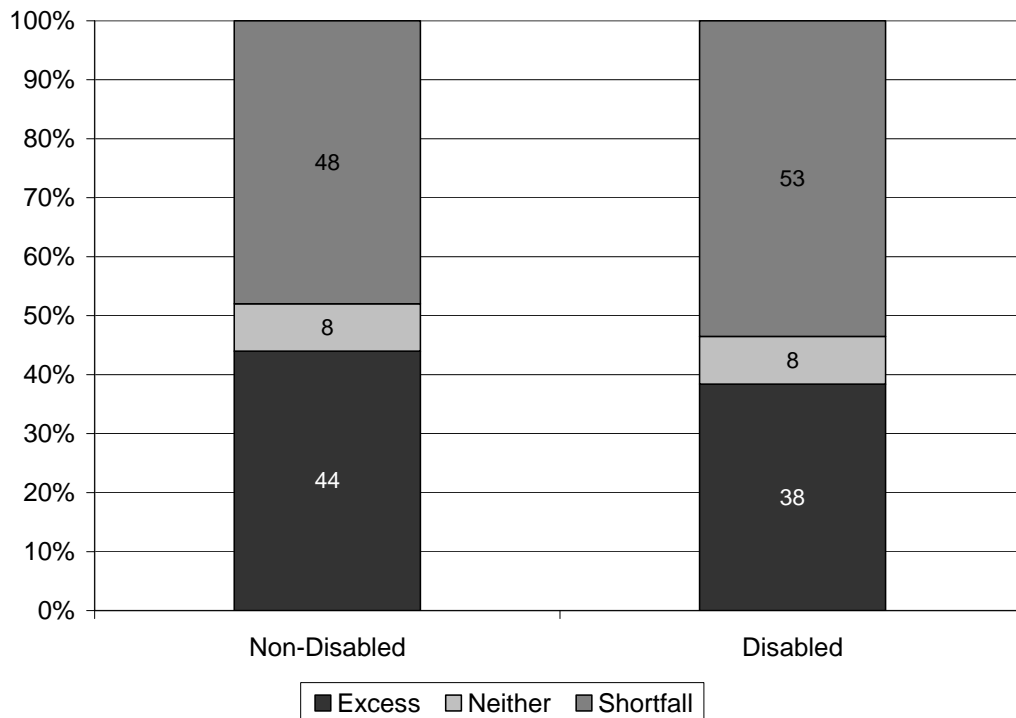
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 7 to Figure C.7.

2. See notes 2 and 3 to Figure C.11.



**Figure C.13 Proportion of LHA Caseload Experiencing Excesses and Shortfalls, by Disability Status, February 2010**



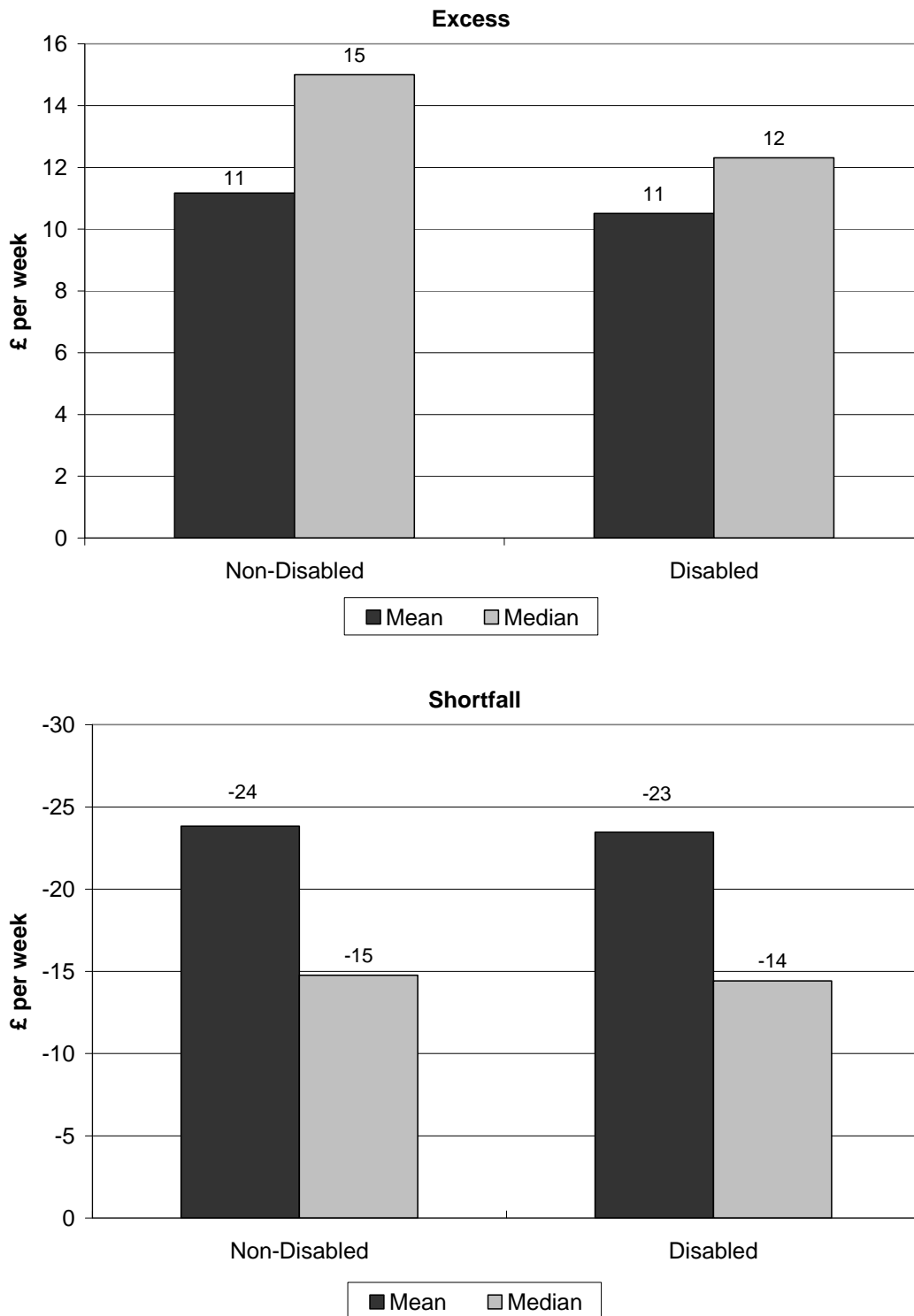
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 7 to Figure C.7.

2. The disabled group, estimated from merging Work and Pensions Longitudinal Study (WPLS) data entries onto Single Housing Benefit Extract data entries, includes HB awards with a Disability Premium or Severe Disability Premium, or those passported to full HB by an award of Employment and Support Allowance or Income Support with a Disability Premium.

3. Percentages may not sum to 100 due to rounding.

**Figure C.14 Average Excess and Shortfall Amounts for LHA Caseload, by Disability Status, February 2010**

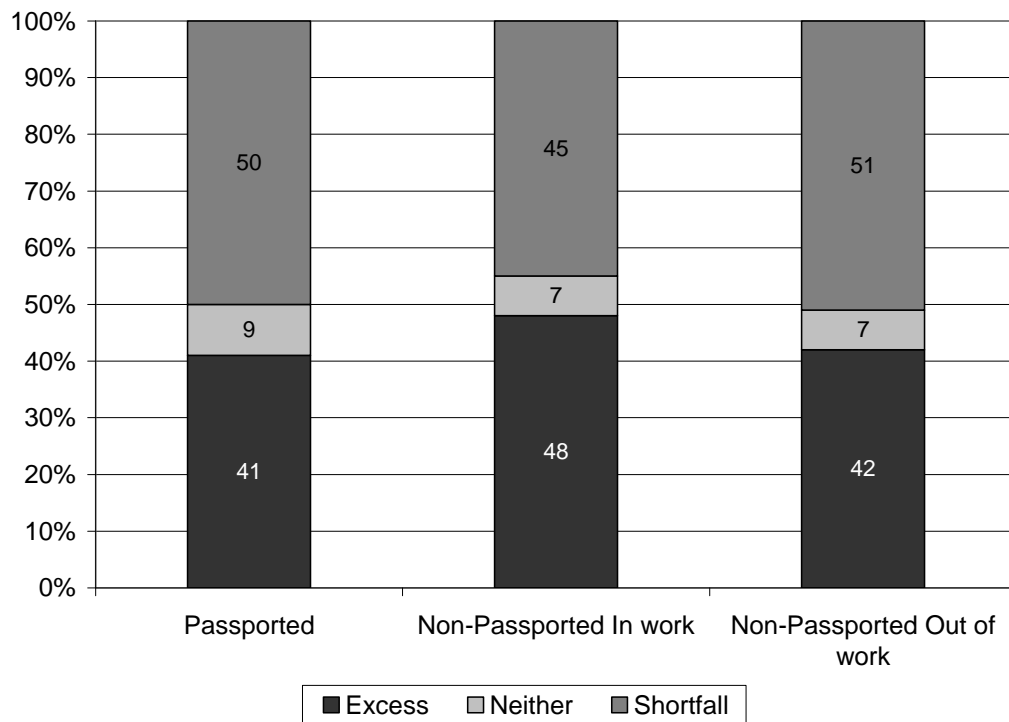


Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 7 to Figure C.7.

2. For a definition of the disabled group, see note 2 to Figure C.13.

**Figure C.15 Proportion of LHA Caseload Experiencing Excesses and Shortfalls, by Passported and Employment Status, February 2010**



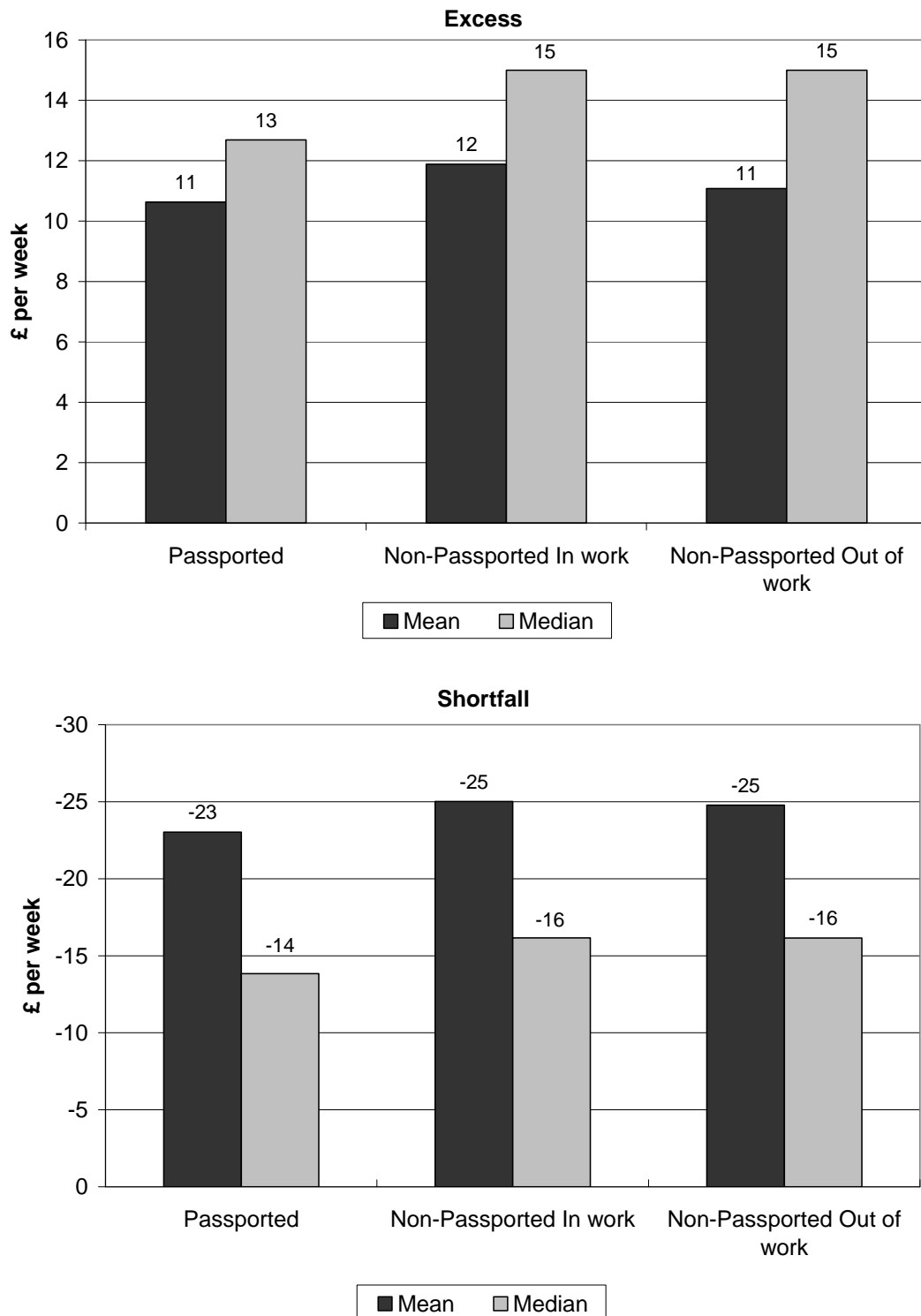
Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 7 to Figure C.7.

2. Those missing passported or employment status are excluded from this analysis.

3. Percentages may not sum due to rounding.

**Figure C.16 Average Excess and Shortfall Amounts for LHA Caseload, by Passported and Employment Status, February 2010**



Source: Single Housing Benefit Extract, February 2010.

Notes: 1. See notes 1 to 7 to Figure C.7.

2. Those missing passported or employment status are excluded from this analysis.

# Glossary

Automated Credit Transfer (ACT)	Direct payments electronically to a bank account.
BDRC (Business Development Research Consultants)	Independent market research consultancy group who carry out a quarterly landlord panel survey.
Broad Rental Market Area (BRMA)	An area within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services
Caseload	The number of active claims for Housing Benefit at a particular point in time.
Claimant	An individual who is claiming benefit.
Contractual rent	The rent charged to the tenant by the landlord for a property
County Court Judgements (CCJ)	Legal decisions on monetary sums, handed down by County Courts
Direct payments/paid direct	Payments made to the claimant (not the landlord)
Discretionary Housing Payments (DHP)	A payment made to a claimant when the claimant is having problems paying their rent. The award is at the discretion of the LA though some additional rules apply.
Eligible rent	The maximum amount of Housing Benefit a claimant could receive based on the circumstances of the tenant, the locality in which they live and a range of restrictions applied by a Rent Officer (i.e. before adjustments for income or non-dependents).
Employment and Support Allowance (ESA)	Introduced in 2008, Employment and Support Allowance replaced Incapacity Benefit and Income Support paid on the grounds of incapacity for new claimants.
Excess	Where the LHA is higher than the claimant's

	contractual rent.
Housing Benefit (HB)	Sometimes called rent rebate (for local authority tenancies) or rent allowance (for tenancies in the Private Rented Sector and Registered Social Landlords). It is a benefit that is paid by local authorities to assist people to pay their rent. The amount that claimants receive depends on their financial and personal circumstances. It may not cover all of their rent.
Housing benefit amount	Refers to the amount of LHA or Housing Benefit that claimants receive after adjustments for income or non-dependants
Housing benefit in Payment	This is the amount of LHA or Housing Benefit that claimants receive after adjustments for income or non-dependants
Income-based Jobseeker's Allowance (JSA(IB))	Means-tested benefit paid to jobseekers
Income Support (IS)	Means-tested benefit for people who would not be required to actively seek work. Usually applies to lone parents and carers.
Jobcentre Plus (JCP)	An executive government agency of DWP which advertises job vacancies and administers benefits such as Job Seeker's allowance.
LA Omnibus Survey	A survey of local authority benefit managers carried out twice a year with questions changing for each wave depending on policy demands of the time
Local Authority (LA)	Organisation responsible for the delivery of public services and facilities within a specific area.
Local Housing Allowance (LHA)	A flat-rate allowance towards rent costs that is calculated on the basis of the circumstances of the tenant and the broad rental market area in which they live
Management Information (MI)	Statistics collected by DWP from Local Authorities for LHA evaluation
Mean	The result obtained from adding two or more amounts together and dividing the total by the number of amounts.
Median	The value which is the middle value in a series

	arranged in order of size.
Over-occupation	Claimants who live in property that is smaller than their requirements under the DWP size criteria
Pathfinder area	An area determined by specific criteria used to trial the Local Housing Allowance scheme prior to national roll-out.
Passported case	Case where the claimant automatically receives maximum housing benefit based on their entitlement to Income Support, income-based jobseeker's allowance, income-related Employment and Support Allowance or Pension Credit Guarantee Credit.
Pension Credit Guarantee (GC)	Benefit that guarantees a minimum income for pensioners.
Pre-Tenancy Determinations (PTDs)	An assessment by a rent officer that determines the eligible rent for housing benefit purposes which is carried out before a tenant enters into a rental agreement. No longer relevant for claimants under the LHA rules.
Private Rented Sector (PRS)	Sector of the housing market occupied by tenants renting from a private landlords, rather than an LA, Housing Association or Registered Social Landlord.
Rent Officers Wales (ROW)	Local Housing Allowance rates are set by rent officers in Wales.
Rent Registration Service (RRS)	Local Housing Allowance rates are set by rent officers in Scotland.
Registered Social Landlord (RSL)	A government-funded not-for-profit organisations that provides affordable housing.
Safeguards	Regulations that allow LAs to make payment of housing benefit assessed under LHA rules to the landlord rather than the tenant
Shared Accommodation Rate	The LHA rate for a single room with shared living room, kitchen, bathroom and toilet. Also known as Shared Room Rate.
Shortfall	Where the LHA is lower than the claimant's contractual rent.
Size criteria	The criteria applied to calculate the number of bedrooms and living rooms that a claimant and their household is assessed as requiring. LHA

rates are based on these criteria. One room is allowed as a bedroom for:

- a married couple;
- a single person aged 16 or more;
- two children of the same sex under the age of 16;
- two children (of the same or opposite sex) under the age of 10;
- a child under the age of 16

In addition, living rooms are allocated as follows;

- one, if there are one to three occupiers
- two, if there are four to six occupiers
- three, if there are seven or more occupiers

Social Rented Sector (SRS)	Sector of the housing market occupied by tenants renting from a social landlord, such as a LA, Housing Association or Registered Social Landlord.
Surplus	Claimants have a 'surplus' if their Housing Benefit amount is more than their rent
Tenancy Deposit Scheme (TDS)	Scheme whereby a rental deposit is kept independently of both landlord and tenant
The Rent Service (TRS)	A former executive agency of the DWP, (now part of the VOA within HMRC), that collates information on rents in the Private Rented Sector and provides a range of rental valuations.
Welfare Reform Act 2007	Act of Parliament allows the LHA rules to be applied across the de-regulated private rented sector
Under-occupation	Claimants who live in property that is larger than their requirements under the DWP size criteria
Valuation Office (VOA)	Local Housing Allowance rates are set by rent officers in England.