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The impact of recent reforms to Local Housing Allowances: Summary of key findings

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A report of research carried out by the Centre for Regional Economic and Social Research, Sheffield Hallam University, the Blavatnik School of Government, University of Oxford, the Institute for Fiscal Studies and Ipsos-Mori on behalf of the Department for Work and Pensions

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The Authors

Christina Beatty is Professor of Applied Economic Geography in the Centre for Regional Economic and Social Research at Sheffield Hallam University. She was Project Manager for this research project on the impact of recent measures for Local Housing Allowances in the private rented sector.

Ian Cole is Professor of Housing Studies in the Centre for Regional Economic and Social Research at Sheffield Hallam University. He was the Director of this research project.

Ryan Powell is Principal Research Fellow in the Centre for Regional Economic and Social Research at Sheffield Hallam University.

Peter Kemp is a Professor of Public Policy in the Blavatnik School of Government, and a member of the Oxford Institute of Social Policy, at the University of Oxford.

Mike Brewer is Professor of Economics and Director of the ESRC Research Centre for Micro-Social Change, based at the Institute for Social and Economic Research at the University of Essex; and a Research Fellow at the Institute for Fiscal Studies.

James Browne is a Senior Research Economist in the Direct Tax and Welfare sector at the Institute for Fiscal Studies.

Carl Emmerson is Deputy Director of the Institute for Fiscal Studies, and programme director of their research on direct tax and welfare policy.

Andrew Hood is a Research Economist in the Direct Tax and Welfare sector at the Institute for Fiscal Studies.

Robert Joyce is a Senior Research Economist in the Direct Tax and Welfare sector at the Institute for Fiscal Studies.

List of abbreviations

BRMA	Broad Rental Market Area
CLG	Communities and Local Government
CPI	Consumer Price Index
CRESR	Centre for Regional Economic and Social Research
CTB	Council Tax Benefit
DHP	Discretionary Housing Payment
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
ESA	Employment and Support Allowance
Great Britain	Great Britain
HB	Housing Benefit
HMO	Housing in Multiple Occupation
IFS	Institute for Fiscal Studies
IB	Incapacity Benefit
IM	Ipsos MORI
LHA	Local Housing Allowance
LA	Local Authority
NI	Northern Ireland
PIPs	Personal Independence Payments
PMR	Private Market Rents
PRS	Private Rented Sector
RCT	Rhondda Cynon Taf
SAR	Shared Accommodation Rate
SRR	Single Room Rate
SRS	Social Rented Sector
VOA	Valuation Office Agency

1 Introduction

This report summarises the main findings from a series of technical research papers that form the final outputs from the independent evaluation of the recent changes to Housing Benefit (HB) claims assessed under the Local Housing Allowance (LHA) rules in the private rented sector (PRS) in Great Britain, which were rolled out to claimants between April 2011 and December 2012. The project has been running in parallel to a similar study being undertaken in Northern Ireland (NI) on the impact of the LHA measures (Beatty et al, 2014a). This evaluation has been undertaken by a research consortium from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University, the Institute for Fiscal Studies (IFS), the Blavatnik School of Government at the University of Oxford and Ipsos MORI (IM). This evaluation has been funded by the Department for Work and Pensions (DWP), the Department for Communities and Local Government (CLG), the Scottish Government and the Welsh Government.

This report provides a thematic summary of the findings from the technical reports produced by the research team, being published at the same time. These reports are:

- a longitudinal analysis of primary research undertaken with landlords letting to LHA claimants¹ and housing and benefits advisers in two survey waves in 19 local housing markets in Great Britain (Beatty et al, 2014a). In wave 1, a postal survey of landlords was carried out between September and November 2011, followed by qualitative interviews with both landlords and housing and benefits advisers in early 2012. In wave 2, a second postal survey of landlords was carried out between September and December 2012, followed by qualitative interviews with landlords in early 2013 and with housing and benefits advisers in October and November 2013. For the purposes of this summary and to aid clarity of reference, this report will be referred to as the *Landlords report* (LR) throughout, and references to material in this report are shown in terms of the relevant chapter number;
- a longitudinal analysis of the response of tenants to the LHA measures in two survey waves in the same 19 case study areas in Great Britain (Kemp et al, 2014). In wave 1, a face-to-face survey of 1,900 tenants was undertaken between September and November 2011, and this was supplemented by qualitative interviews with tenants in early 2012. In wave 2, the survey was repeated between September and November 2012 with a sample of over 1,100 tenants who had responded to the first survey. Qualitative interviews were also held with 95 tenants in early 2013. For the rest of this summary this will be referred to as the *Tenants report* (TR) throughout;
- an assessment of impacts on HB entitlements, rent levels and property choices for existing claimants, analysing data covering the whole of Great Britain (Brewer et al, 2014) from January 2010 to November 2013. For this summary this will be referred to as the *Econometric report* (ER) throughout;
- an analysis of the spatial effects of the measures at local authority level across Great Britain and an examination of different outcomes by place (Beatty et al, 2014b), using data

¹ Throughout the report the term ‘LHA claimants’ is used as shorthand for Housing Benefit claimants assessed under the LHA rules.

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from January 2010 to August 2013. For this summary this will be referred to as the *Spatial report* (SR) throughout.

The overall research programme for this study of the impacts of the LHA reforms in Great Britain ran from May 2011 until May 2014. An initial report was published in 2012 on the findings from the wave 1 postal survey of landlords and the face-to-face survey of claimants (Beatty et al, 2012). The interim report on the research was published in 2013 (DWP, 2013a). This brought together the findings from the wave 1 qualitative interviews with claimants, landlords and housing advisers in the nineteen case study areas with the first stage of the spatial analysis on differential impacts at local authority (LA) level and the econometric analysis on initial impacts on rents and HB entitlements on new LHA claimants only. This summary of research findings concentrates primarily on an analysis of the second wave of primary research in the case study areas in late 2012 and early 2013, and on the spatial and econometric data analysis for the whole of Great Britain from 2010 through to late 2013.

It should be borne in mind that when the second wave of the primary research with landlords and tenants was completed in spring 2013, the LHA measures had only just started to affect all claimants (from January 2013), partly due to the transitional protection that was introduced by the Government. The impact of the measures on some claimants will have also been reduced because of the temporary support provided by Discretionary Housing Payments (DHPs). It is likely that some lagged effects will continue to emerge in the coming months and years, but it will also be increasingly difficult over time to attribute any changes to the LHA reforms as opposed to other welfare reform measures, broader changes in the housing market and so on.

The LHA measures that are the focus of this research are summarised in Chapter 2, and the research programme is described in Chapter 3. Chapters 4 to 10 present a thematic summary of the main findings about impacts on tenants and landlords and how they vary by geographical area and by sub-groups affected by specific measures. Chapter 11 is the Conclusion. Much more detailed information on the findings, the methodology and the survey instruments is provided in the separate technical reports.

2 The policy context

The Local Housing Allowance (LHA) is a way of calculating the eligible rent for tenants claiming Housing Benefit (HB) in the deregulated private rented sector (PRS) that ensures that tenants in similar circumstances in the same area receive the same amount of financial support for their housing costs. These arrangements were initially introduced from April 2008 for people making new claims for HB and for existing claimants if they had a change of address, change of circumstances or a break in their claim. Different LHA rates are set according to different Broad Rental Market Areas (BRMAs) across Great Britain. The boundaries of BRMAs were intended to reflect the areas in which people live and access services. Under the original 2008 LHA scheme, rental market evidence was collected in each of these areas and rates were then set according to property size².

The changes to LHA, initially announced in the June 2010 Budget and the Spending Review of October 2010, formed an important part of the Government's package of measures to reform HB. The measures included:

- changing the basis for **setting LHA rates** from the median (50th) to the 30th percentile of local market (i.e. non-LHA) rents;
- **capping weekly LHA rates** (initially, in April 2011, the caps were set at £250 per week for one bed; £290 per week for two bed; £340 for three bed; £400 for four bed or more – thereby scrapping the five bed rate). These levels of cap are binding in some parts of inner London, but not elsewhere;
- **changing the method for uprating HB rates**. The existing system of monthly uprating was ended and the April 2012 LHA rates were frozen for a year; from April 2013 rates were uprated for a year at the 30th percentile of market rents or the September 2012 Consumer Price Index (CPI) rate, whichever was the lower. A more recent measure in the 2013 Welfare Benefits Uprating Act annually uprates HB by the 30th percentile of market rents or one per cent, whichever is the lower, for April 2014 and April 2015, with some exceptions in areas where rental levels are changing more rapidly;
- **removing the £15 excess** payable to tenants whose rent was below what they were receiving in HB. This policy was announced by the previous Labour Government's 2009 Budget for implementation in April 2010 but was subsequently deferred until 2011 and was implemented by the current government, along with the other measures, in April 2011;
- **uprating non-dependant deductions** to reflect rent increases since 2001/2 in three stages from April 2011 to 2013;
- **including an additional bedroom within the size criteria used to assess HB claims** where a disabled person, or someone with a long term health condition, has a proven need for overnight care and it is provided by a non-resident carer who requires a bedroom.

All these changes (apart from the withdrawal of the £15 excess, the additional bedroom for overnight carers and uprating by CPI) applied to **new and repeat LHA claimants** from April 2011 and to **existing LHA claimants** from the anniversary of their claim, with an additional nine months transitional protection, unless they had a change of circumstances which required the local authority (LA) to re-determine the maximum rent. In the absence of

² Originally there was no upper limit to the property size covered by LHA, but this was then capped at five bedrooms in April 2009.

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changes in circumstances, existing claimants were, therefore, brought under these measures (depending on the date of their review) in the period from January 2012 to December 2012. The loss of the £15 excess was not covered by transitional protection and was therefore applied to all new claimants from April 2011 and then applied to existing tenants from the first renewal of their claim after April 2011. The £15 excess had therefore been removed from all eligible tenants by the end of March 2012. The overnight carer measure applied to all eligible claimants from April 2011. Uprating by CPI was introduced in April 2013 and there was no transitional protection applied to this measure.

Other relevant measures that have affected PRS tenants receiving LHA have included an increase in the government's contribution to the Discretionary Housing Payment (DHP) budget by £10 million in 2011/12 and by £40 million for 2012/13, 13/14 and 14/15. DHPs are distributed by LAs and can be paid to claimants to ease the process of transition to the new regime, as in situations where there is an increased shortfall between their LHA entitlement and the contractual rent. The Government also announced in 2010 that the discretion of LAs to make **direct HB payments to landlords** would be widened temporarily where it was considered that this would support tenants in retaining and securing a tenancy.

Two further measures were announced in October 2010. The first of these measures involved raising the age below which the Shared Accommodation Rate (SAR) (formerly the Single Room Rate (SRR)) applied from 25 to 35. This was introduced in January 2012. For existing claimants, it applied on their next review after January 2012 or, if they were covered by the transitional protection period, when this period ended. The second measure concerned capping total benefits received by working age households at £500 per week for a couple or family and £350 per week for a single person with no children. This was introduced in four London boroughs from April 2013, and implemented in all other LAs during summer 2013, and all households subject to the cap had been identified by the end of September 2013. This measure does not form part of this evaluation directly, and it was introduced after the wave 2 survey and interviews with tenants and landlords were undertaken, but it is related to HB since the cap will be achieved by reducing HB payments.

Of course, these measures have been introduced alongside a range of other welfare reform initiatives which might also impact, to varying degrees, on LHA claimants. Since April 2013 this includes a ten per cent reduction in central funding for Council Tax Benefit (CTB) for working age households in Great Britain. The implementation of the new Council Tax Reduction scheme was devolved to local areas. Consequently the reduction was not passed on to claimants by the Scottish Government, Welsh Government and 57 English LAs. Changes to the Tax Credit system, the replacement of Disability Living Allowance (DLA) with Personal Independence Payments (PIPs), the migration of Incapacity Benefit (IB) claimants on to Employment and Support Allowance (ESA), and the time-limiting of non-means-tested ESA claims were also introduced according to various timescales from autumn 2010 onwards. For households who have been, or are about to be, affected by one or more of these other welfare reform measures, it is naturally difficult to disentangle the exact impact of the changes to LHA. However the research instruments did attempt to distinguish between changes that could be attributed to LHA and those caused by other factors according to the perceptions of landlords and claimants.

By introducing the various LHA measures, in addition to reducing directly the amount of taxpayer support available, the Government wished to encourage HB claimants to operate in a more 'cost-conscious' manner in the private rented housing market, by moving to cheaper accommodation if they could not afford to continue to meet any gap between their LHA

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entitlement and the rent charged by the landlord. It was also envisaged that landlords might want to retain some tenants and might therefore reduce rents.

The LHA Impact Assessments have described the aims of the package of measures as:

- reducing HB expenditure;
- providing a fairer HB system by removing situations where individuals can potentially receive large HB payments in areas of high market rents;
- ensuring those families on benefits cannot choose to live in properties that would be unaffordable to many people in work and thereby removing work disincentives created by the receipt of high rates of benefit;
- ensuring that HB rules reflect the housing expectations of people of a similar age not on benefits;
- removing a potential work disincentive;
- exerting a downward pressure on private sector rent levels through the break with the link to median PRS market rents and restricting growth in LHA rates to CPI, or in later years to a one per cent uprating.

(DWP, 2010; DWP, 2011; for the uprating changes, see DWP, 2012; DWP, 2013c)

3 The research programme

The main aim of the research programme was to assess the impact of the changes to Housing Benefit (HB) and Local Housing Allowances (LHAs) on claimants and landlords over a two year period. The measures were rolled out to claimants between April 2011 and December 2012, as shown in Chapter 2, but continuing the primary research into 2013 made it possible to capture some of the impacts amongst the shifting balance of new claimants and existing claimants over time, to assess how landlords had absorbed the various changes and to assess trends in entitlements, caseloads and flows over a longer timeframe. The research methodology comprised a combination of quantitative and qualitative approaches.

For the strand of work with landlords and housing advisers covered in the *Landlords report* (LR), a wave 1 postal survey was undertaken of over 1,200 landlords in 19 case study areas across Great Britain between September and November 2011. This was supplemented by qualitative one-to-one interviews with a mixed sample of eight landlords from each case study area. Four London Boroughs, three Welsh and three Scottish local authorities (LAs) were selected as case studies, as well as nine other LAs across England.³ The case study areas contained just over 150,000 LHA claimants in December 2012, amounting to nine per cent of the total stock of claimants in Great Britain. The areas diverged considerably in terms of both the size of the LHA claimant population within the LA and the size of the LHA sub-market within the local private rented sector (PRS).

This first stage was then followed by interviews with housing and benefits advisers working in the case study areas in summer 2012, looking more widely at impacts on tenants, the housing service, the PRS market and the implications for local services. For wave 2, a second postal survey was sent to all landlords who had responded to the wave 1 survey and was undertaken between September and December 2012. Six hundred and sixty responses were received that could be incorporated into the longitudinal analysis. Five further follow-up qualitative interviews were held with landlords in each of the areas after the survey stage had been completed. Follow-up interviews and focus groups were also held in autumn 2013 with advisers and other housing officers who provided advice and support for HB claimants in the case study areas (for more information on methods, see LR: Chapter 2, Appendix B, Appendix C).

The research methodology for the strand of work covered in the *Tenants report* (TR) also comprised quantitative and qualitative approaches. In wave 1, a face-to-face survey of 1,900 tenants was undertaken in the same nineteen case study areas between September and November 2011, and this was supplemented by qualitative interviews with tenants in early 2012. In wave 2, the survey was repeated between September and November 2012 with a sample of over 1,100 tenants who had responded to the first survey. Qualitative interviews were also held with 95 tenants in early 2013. (For more information about the research methods, see TR: Chapter 2, Appendix B and Appendix C).

³ The case study local authorities were: Barking and Dagenham, Blackburn with Darwen, Bradford, Brent, Cardiff, Denbighshire, Edinburgh, Exeter, Fenland, Hackney, Newcastle, North Lanarkshire, Perth and Kinross, Portsmouth, Rhondda Cynon Taf, Tendring, Thanet, Walsall, Westminster.

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For the strand of work assessing entitlements, rents and property choices covered in the *Econometric report* (ER), administrative data were used from the Single Housing Benefit Extract (SHBE) for the period January 2010 to November 2013. This was made up of returns submitted to the Department for Work and Pensions (DWP) each month by all local authorities (LAs) in Great Britain and contained information on the status of each claim. The interim report focused only on **new and repeat LHA claimants**, for those whose claim began shortly before (June to November 2010 inclusive) or shortly after (June to November 2011 inclusive) the reforms were introduced in April 2011. The second wave of analysis examined **existing claimants** who were claiming LHA shortly before the reforms took effect.

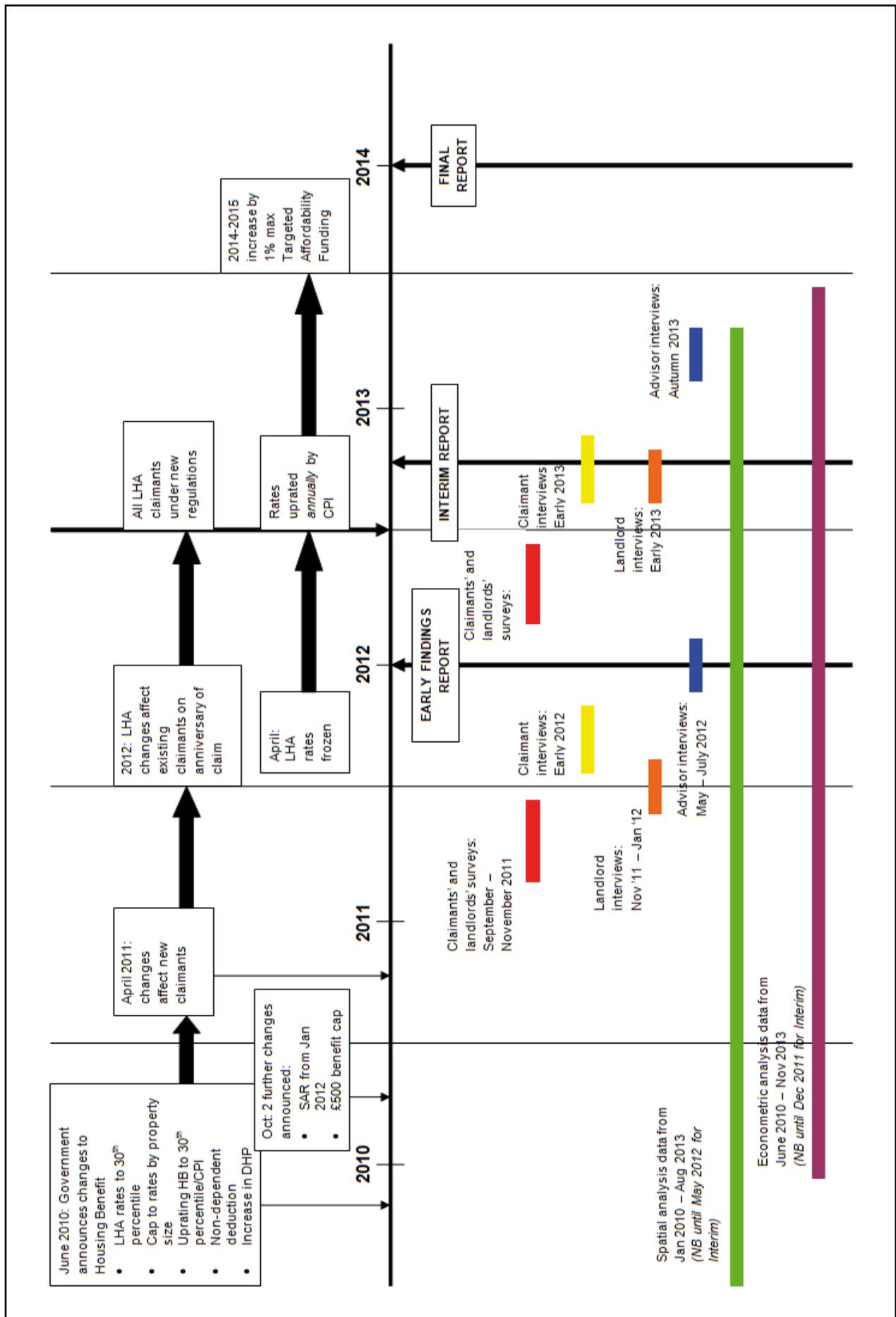
The key data utilised in the second wave of the econometric analysis included information on claimants' contractual rents, LHA rates, Broad Rental Market Areas (BRMAs), LAs, LHA bedroom entitlements, actual number of bedrooms, family type and age on a particular day for each month between January 2010 and November 2013. Discretionary Housing Payments (DHPs) (see Chapter 6) were added to LHA entitlements when tracking what happened to entitlements over time, but this made a negligible difference in practice to the estimates of the impacts. (For further information on the methods used, see ER: Chapter 3 and Appendix).

The analysis of differences between geographical areas covered in the *Spatial report* (SR) is primarily based on time series data of aggregate LA level data from the DWP SHBE, for the period January 2010 to August 2013. The data were extracted by DWP from the SHBE database specifically for the purposes of this project. The data included the monthly PRS HB caseload figures during this period, including both new and existing claimants, and on-flows and off-flows over time to the PRS HB. By November 2013, tenants making claims under the LHA system constituted more than 80 per cent of the total PRS HB caseload. On-flows captured repeat claims as tenants moved within or between local authorities, as well as entirely new claims or claims from tenants who were previously in the social rented sector (SRS). Off-flows included claimants who moved off PRS HB entirely, as well as those tenants who ended a claim but made a new HB claim at another address (including any move to the SRS).

An innovative set of data was also created by DWP which examined the origins and destinations (according to LA district) of those PRS HB claimants who had moved over time. The data allowed an analysis of any emerging patterns of geographical mobility by PRS HB tenants over time. Particular attention was given to household mobility in and around London (see Chapter 11). (For further information about methods, see SR: Chapter 2 and Appendix A).

In the foregoing analysis in Chapters 4 to 10, the findings from these different strands of research are brought together under a series of questions about the impact of the LHA measures up to 2013. Figure 3.1 gives a timeline covering the phased introduction of the various LHA reforms and the different stages in the four strands of work in the research programme. Particular attention needs to be given to this timetable when considering the research findings, due to the way in which different measures were phased in over a 21 month period from April 2011.

Figure 3.1 Policy and research timelines



4 Housing Benefit caseloads, expenditure and entitlements

Summary findings

There was a nine per cent growth overall in the private rented sector (PRS) Housing Benefit (HB) caseload from January/March 2011 to June/August 2013. The PRS HB caseload increased by an average of 23,300 a month in 2009, and this had more than halved to an average increase of 11,400 a month in 2010 and dropped again to an average increase of 4,200 a month by 2012. The caseload reached a plateau in the middle of 2013 and then began to fall for the first time since 2008.

After the reforms were introduced, the average award for all Local Housing Allowance (LHA) tenants fell from £114.46 (March 2011) to £106.07 (November 2013) and increasingly converged with the rent levels for pre-2008 deregulated PRS claimants. The average award for LHA tenants in the PRS has therefore moved below the level it was when LHA was introduced in 2008 (when it was £107.12).

Eleven months after being rolled onto the reformed system, the LHA reforms had reduced existing claimants' maximum entitlements in given property types by an estimated average of £6.84 per week. This was comprised of average contractual rent reductions for landlords of £0.79 per week and average reduced LHA relative to contractual rents for tenants of £6.06 per week. This suggests that 89 per cent of the incidence of reduced LHA entitlements was on tenants and 11 per cent on landlords. Effects varied by household type and region.

4.1 Housing Benefit caseloads and the changing private rented sector

The total number of households in the PRS in Great Britain increased by 80 per cent between 2001 and 2011 and the latest data from the 2012/13 English Housing Survey (DCLG, 2014) indicated that around 18 per cent of all households now live in the sector, compared to 17 per cent in the social rented sector (SRS). Between November 2008 and November 2013, the total number of households claiming HB in all rented sectors increased by 20 per cent. One third of these HB claimants lived in the PRS by November 2013, up from a quarter five years earlier. An estimated 37 per cent of all households living in the PRS in Great Britain were claiming HB in March 2011 (SR Chapter 3).

The number of households claiming HB (the 'HB caseload') has been growing much faster in the PRS than in the SRS. By November 2013, there were 1,645,500 HB claimants in the PRS, a 56 per cent increase since 2008. This was in contrast to just a seven per cent growth in SRS HB claimants over the same period. However, the rate of growth in PRS HB claimants slowed considerably during this time. The PRS HB caseload increased by an average of 23,300 a month in 2009, and this had more than halved to an average increase of 11,400 a month in 2010 and dropped again to an average increase of 4,200 a month by 2012. The caseload reached a plateau in the middle of 2013 and then began to fall for the first time since 2008 (SR Chapter 3).

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The PRS HB caseload⁴ has grown at a slower rate for all area types (described in Chapter 5) in each year following the introduction of the LHA reforms compared to the year prior to the reforms. There was a nine per cent growth overall in the PRS HB caseload from January/March 2011 to June/August 2013. In the first year after the reforms, the caseload grew by six per cent, then fell to half this rate in the subsequent year (2012/13) and was static in the period after January/March 2013. Recent trends may partly reflect the stronger economic growth in the latter part of 2013. The reduction in caseload also reflected the impact of introducing the higher age threshold for the Shared Accommodation Rate (SAR) from January 2012. This effect is discussed further in Chapter 10.

The LHA measures had a varied impact on different cohorts in the PRS HB caseload. One example concerns those households (predominantly large families) who were formerly entitled to the five bedroom LHA rate, prior to its abolition in April 2011. In total, 10,700 households – including 45,300 children – were affected by the abolition of the five-bedroom rate. Thirty per cent of these households lived in (inner and outer) London (which contained just 17 per cent of all households in the PRS HB caseload at the time). The removal of the five bedroom rate therefore had a disproportionate effect on households receiving HB in the PRS in London (SR Chapter 3).

The increase in the HB caseload of couples with children (25 per cent) was considerably greater than for lone parents with children (12 per cent) during this period (SR Chapter 3). The proportion of PRS HB households in work increased from 26 per cent prior to the reforms being introduced in April 2011 to 32 per cent by June/August 2013. However, the proportion of claimants in work had already been rising and therefore this cannot be attributed to the LHA measures (SR Chapter 3).

4.2 Trends in government expenditure on Housing Benefit

As seen earlier, one of the main aims of the LHA reforms, as of the wider package of measures in the government's welfare reform programme, was to reduce public expenditure on some benefits. When the new LHA measures were announced, particular concern had been expressed about stemming the apparently relentless increase in HB expenditure over the past ten years or more. The annual growth in PRS HB expenditure was higher than the growth in the PRS HB caseload in the period leading up to the reforms in April 2011. In March 2011, for example, the caseload had increased by 22 per cent while expenditure increased by 30 per cent; in March 2010 the comparable figures were eight per cent and ten per cent respectively. However, in the period after the reforms, the growth in the PRS HB caseload has been greater than, or the same as, the growth in expenditure. In the year leading up to March 2012, for example, the caseload growth was six per cent, and expenditure growth two per cent; in the following year the comparable figures were two per cent and one per cent respectively. In the most recent period where data were available, March to November 2013, both the caseload and expenditure fell by one per cent. The reduction in PRS HB expenditure was to be achieved over time by significantly reducing the level of rent met by HB in expensive areas and exerting a downward pressure on rents more generally across areas (SR Chapter 3).

⁴ The whole HB caseload for the PRS is used here, not just the LHA sub-market, to control for the effect that the LHA-only caseload will inevitably increase over time, as more pre-2008 claimants are transferred across to it.

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Average HB awards for claims in the PRS were significantly higher than average awards in the SRS, but this gap has narrowed. (In March 2011 they were on average £38.18⁵ higher and by November 2013 they were £23.41 a week higher). Over time, as a growing proportion of all HB claimants are in the PRS, overall HB expenditure would therefore increase, other things being equal. Furthermore, in March 2011, the average weekly award for LHA claimants was over £10 higher than for claimants in the pre-2008 deregulated PRS. This might be expected, given that the deregulated sector might be more 'dormant', through longer standing tenancies than those in the LHA sub-market. As a greater proportion of PRS HB claims become subject to the LHA system, as new claims are made and as existing claimants are brought under the new regime, this would also have the effect of driving up overall HB expenditure, other things being equal.

After the reforms were introduced, the average award for all LHA tenants fell from £114.46 (March 2011) to £106.07 (November 2013) and increasingly converged with the rent levels for pre-2008 deregulated PRS claimants, as intended through the policy. The average LHA award moved below this level when LHA was introduced in 2008 (when it was £107.12). The measures have also helped to rein in the rate of growth in overall HB expenditure. In the course of 2012/13 the annual spend on HB overall was £23.9 billion, a 4.7 per cent increase on the previous year. This represented a slower rate of increase than in the two preceding financial years, but was still greater than nominal growth in the economy in 2012/13 (1.2 per cent) (SR Chapter 3).

A month-by-month breakdown of overall HB expenditure, calculated on the basis of average HB award and caseload by tenure, showed that expenditure stabilised and then began to fall during the most recent six months for which data were available (June to November 2013), especially due to reductions in the PRS HB caseload in this period. If the reforms had not been introduced, and if LHA rates had continued to be linked to median private rents, then overall government expenditure on HB over the whole period would have been higher (SR Chapter 3).

4.3 The impact of the LHA measures on entitlements and rents

In order to assess how the LHA reforms have affected rents and entitlements, and the consequences for landlords and claimants, the econometric analysis was conducted in two phases. In the first phase, it examined the impact of the LHA reforms on the entitlements for new and repeat claimants by comparing those who started a claim before and after the reforms were introduced in April 2011. This analysis estimated that the LHA reforms reduced maximum LHA entitlements for new claimants up to the end of 2011 by an average of £8.21 per week. This amount was comprised of reduced LHA relative to contractual rents for tenants of £7.76 per week and contractual rent reductions of £0.46 per week for landlords over this period. These estimates implied that 94 per cent of the initial incidence of reduced LHA entitlements fell on tenants and six per cent fell on landlords (DWP, 2013b).

The second phase of the analysis focused on existing LHA claimants at January 2011. As shown in Chapter 2, the LHA measures were rolled out to existing claimants between April 2011 and December 2012. The dates at which particular claimants were affected by the reforms were linked to their annual claim reassessment dates. Otherwise-identical

⁵ All figures are cash out-turn figures.

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individuals observed at the same time in the same area could therefore face different LHA systems. The analysis of existing claimants therefore exploited this phased feature of the roll-out in order to estimate the causal impacts of the reforms on existing claimants, using administrative data on HB claimants in Great Britain.

Eleven months after being rolled onto the reformed system, the LHA reforms had reduced existing claimants' maximum entitlements in given property types by an estimated average of £6.84 per week. This was comprised of average contractual rent reductions for landlords of £0.79 per week and average reduced LHA relative to contractual rents for tenants of £6.06 per week. This suggests that at this stage 89 per cent of the incidence of reduced LHA entitlements had been on tenants and 11 per cent on landlords (ER Chapter 4).

Effects varied by household type and region. As one might expect, families with children, who had higher initial entitlements, experienced a larger reduction in entitlement than those without children (approximately in proportion to their initial level of entitlement). The estimates suggest that the average reduction in weekly LHA entitlement⁶ was £8.43 for lone parents (86 per cent of which was incident on tenants) and £7.96 for couples with children (96 per cent falling on tenants) – compared to £5.85 (of which just six per cent was incident on tenants) for couples without children (ER Chapter 5). The equivalent reductions for single men and women were £5.18 (89 per cent incident on tenants) and £5.34 (97 per cent on tenants) respectively (ER Chapter 5). For those single people between 25 and 34 years old without dependents who were affected by the SAR changes, 11 months after they had been moved on to the new regime, individuals saw their maximum LHA entitlement fall on average by £13.06 a week⁷, of which 63 per cent was incident on tenants and 37 per cent on landlords (ER Chapter 6). The position of those affected by the SAR changes is discussed in more detail in Chapter 10.

The econometric analysis examined the impact of the abolition of the five bedroom LHA rate on those who had been entitled to it at January 2011. These individuals saw their maximum LHA entitlement in given properties fall by an average of £29.21 per week (compared to £6.80 for the sample as a whole). Sixty per cent of this reduction was being felt by tenants and forty per cent by landlords (equivalent to a reduction in average rental values of £11.69 per week). After taking account of these lower contractual rents, these individuals had on average £17.52 per week less income after paying their contractual rent, given their property type. Those affected by the abolition of the five bedroom rate were, however, also more likely to move into cheaper properties with fewer bedrooms. This reduced the average fall in their after-housing-costs income from £17.52 to £12.56 per week (ER Chapter 6).

Taking how LHA reductions were shared between landlords and tenants and examining how this varied according to the density of LHA claimants in the local PRS did not reveal any clear pattern. This could be taken as tentative evidence that the rental markets for LHA and non-LHA claimants were segmented to a substantial degree: in other words, a substantial number of landlords let properties only to LHA tenants, while some let only to non-LHA claimants. We return to this issue when examining change in the London housing market in Chapter 9.

⁶ All these figures refer to the situation for existing LHA claimants (at January 2011) 11 months after the household had been rolled on to the new LHA regime.

⁷ After controlling for property type.

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Analysis of changing entitlements at regional level showed that the largest reductions in the maximum LHA entitlement were in high rent areas, amounting to a reduction of £13.39 in London⁸ (of which 74 per cent fell on tenants), compared to £5.77 in Scotland (78 per cent), for example, and £5.58 in Wales (89 per cent) (ER Chapter 5). The reduction in entitlements in London was also relatively high as a proportion of initial entitlements – perhaps unsurprisingly, given that the national LHA caps are binding only in parts of inner London. The geographical variations in the impact of the reforms on the number of households claiming HB in the PRS are considered in more detail in the next chapter.

⁸ For claimants 11 months after being brought under the new LHA rules.

5 How has the Housing Benefit caseload changed in different areas since the LHA reforms?

Summary findings

Between January/March 2011 and June/August 2013, the private rented sector (PRS) Housing Benefit (HB) caseloads in Mining and Manufacturing areas increased by 13 per cent and by ten per cent in both London Suburbs and Cities and Services areas. There was a slower rate of growth (between six to eight per cent) in Southern Seaside towns, Coastal and Countryside areas and Prospering UK areas.

The increase in the PRS HB caseload in London Cosmopolitan areas over this period was only four per cent, all occurring in the first year after the reforms. Thereafter the trend was static in 2012/13 and the caseload contracted from the start of 2013 onwards.

London Centre was the only area type where the caseload declined (by 14 per cent) in the full period from 2011 to 2013. This was a marked change from the trend in the year before the reforms, when the caseload had increased by seven per cent.

Average on-flows of Local Housing Allowance (LHA) claimants in Great Britain (GB) fell in the year before the reforms began to be introduced (up to January/March 2011) then stabilised in the first year after the reforms, when just new and repeat claimants were subject to the measures. The average on-flow then began to fall in 2012, when existing LHA claimants were moved on to the new system. However, there were again marked variations by area type.

Between January/March 2011 and June/August 2013, the overall HB caseload increased by eleven per cent in LHA Dominant areas, compared to eight per cent in all other markets. In the sub-set of Southern Seaside Towns, the increase in the caseload was six per cent.

5.1 Changes in the Housing Benefit caseload by area type

One important aspect of this evaluation was to assess geographical differences across Great Britain in the impact of the measures. LHA rates vary widely from one local housing market to the next, even though these differentials have narrowed due to the operation of LHA caps in some London Broad Market Rental Areas (BRMAs), bringing down rates at the top end of the market. In order to evaluate area differences systematically, it was thought that a classification of local authorities (LAs) by economic function, labour market attributes and housing market type would be more instructive to assess different impacts than a purely regional analysis.

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A modified version of the National Statistics Area Classification for LAs at Supergroup level was used for this purpose. In the revised groupings, all London Boroughs were placed within one of three London area classifications and no LAs outside London were included in these three groups. A further sub-group of Southern Seaside Towns was also created, due to the specific policy interest in these areas as potential 'reception points' for any households in the PRS in receipt of HB who might be displaced from high cost markets in and around London.⁹ The area types were: Mining and Manufacturing areas, Southern Seaside Towns, Coastal and Countryside areas, Prospering UK areas, Cities and Services areas, London Suburbs, London Cosmopolitan areas¹⁰ and London Centre¹¹ (see SR Appendix B for further details).

The pattern of PRS HB caseload change since the LHA reforms has varied by area type. Between January/March 2011 and June/August 2013, HB caseloads in both London Suburbs and Cities and Services areas increased by ten per cent. There was a slower rate of growth (between six to eight per cent) in Southern Seaside towns, Coastal and Countryside areas and Prospering UK areas. Mining and Manufacturing areas experienced the highest rate of growth (13 per cent) during this period. However, at the end of this period, during the first eight months of 2013, only this area type and London Suburbs witnessed any continued growth in the caseload (SR Chapter 4).

The position in the two 'inner' London area types, London Cosmopolitan areas and London Centre, was different from the other areas. The increase in the PRS HB caseload in London Cosmopolitan areas over the full time period was only four per cent, all occurring in the first year after the reforms. Thereafter the trend was static in 2012/13 and the caseload contracted from the start of 2013 onwards. London Centre was the only area type where the caseload **declined** (by 14 per cent) in the full period from 2011 to 2013. This was a marked change from the trend in the year before the reforms, when the caseload had **increased** by seven per cent. The decline was particularly evident in 2012/13, when the new Shared Accommodation Rate (SAR) rules were introduced and transitional protection came to an end. (SR Chapter 4) The trends in the HB caseload therefore diverge considerably from one area type to another, and this is not wholly explicable as a function of the different compositions of caseload.

5.2 The dynamics of change: on-flows and off-flows

An analysis of flows of claimants on and off HB over time can show a finer grain picture of how the composition of the caseload changes and how this differs by area type. **On-flows** include those existing claimants who have a new claim due to a change of address or circumstances, as well as completely new cases. Average on-flows of PRS HB claimants in Great Britain overall fell in the year before the reforms began to be introduced (up to January/March 2011) then stabilised in the first year after the reforms, when just new and repeat claimants were subject to the measures. The average on-flow then began to fall in

⁹ These included four substantial seaside towns in the South East and Eastern Regions which were relatively close to London, have large concentrations of LHA tenants in PRS markets and relatively low house prices.

¹⁰ Brent, Hackney, Haringey, Lambeth, Lewisham, Newham and Southwark.

¹¹ Camden, City of London, Hammersmith and Fulham, Islington, Kensington and Chelsea, Tower Hamlets, Wandsworth and Westminster.

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2012, when existing LHA claimants were moved on to the new system. The total number of on-flow claimants in the first quarter of 2013 was therefore 700 fewer than the year before, and by June/August 2013 it was a further 1,600 claimants fewer than in the first quarter of that year. The falls in on-flows in 2013 are also likely to reflect the improving economic outlook.

However, there were, again marked variations by area type. In the period just before the reforms (February/March 2011) to the most recent period for data (June/August 2013), on-flows of LHA claimants in Mining and Manufacturing areas **increased** by five per cent. This increase may reflect some displacement from other areas, as rents are on average cheaper here than in any other area type. Equally, it may also reflect the relatively poor state of local labour markets. During the same period, on-flows in Southern Seaside Towns were, perhaps surprisingly, static. There was no notable influx of LHA claimants here. On-flows **reduced** by seven to eight per cent in London Cosmopolitan areas, Coastal and Countryside areas and Prospering UK areas. But the most marked change was in London Centre, where on-flows **fell** by 16 per cent during this period. The rate of decline was most marked in the first year following the reforms (SR Chapter 4), which may partly reflect the lower mobility of existing LHA claimants during the period of transitional protection (see Chapter 7). Given that London Centre, London Cosmopolitan areas and London Suburbs are all part of the same wider labour market area, these differences in caseload on-flows are unlikely to be explained by different labour market conditions.

In Great Britain as a whole, the proportion of **off-flows** in terms of the total HB caseload fell in the period immediately after the reforms, reflecting the lower mobility of households during the period of transitional protection (when any move would create a new claim and hence remove the protection). This trend was especially marked in London. There was a return to higher rates of claimant off-flow during 2013, in all area types except for London Cosmopolitan areas. This might reflect that stickiness in the market was starting to decrease, as well as some seasonality in the most recent period of analysis (June/August 2013).

The reforms produced some narrowing between average LHA rates by area type. In the period immediately before the reforms were introduced (January/ March 2011), the average weekly LHA rate in Mining and Manufacturing areas was £99 and in London Centre it was £321. By June/August 2013, the equivalent figures were £93 and £249. Again this mostly occurred in the year after the reforms. In the first half of 2013, the average LHA rate across all area types had either remained stable or had increased by one or two per cent.

5.3 LHA Dominant markets

In addition to the above area classification, we were interested in assessing change in those areas where the HB sub-market constituted more than 50 per cent of the total PRS (as at June/August 2013) in the LA area. The wave 2 interviews with landlords, for example, had suggested that in these 'LHA Dominant' areas, landlords were more likely to negotiate a lower rent with tenants, due to the lack of alternative sources of demand (LR Chapter 8). Over a quarter of districts in Great Britain (99) fall into the category of LHA Dominant areas and just over a third of PRS HB claimants live in LHA Dominant areas.

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Would these areas now act as a magnet for more and more LHA claimants because of the reforms? Only, it seems, to a limited degree. The HB caseload in these areas increased by 11 per cent between January/March 2011, just prior to the reforms, and June/August 2013. This compares to an increase of eight per cent in all other markets. In the sub-set of Southern Seaside Towns, which were seen as potential 'reception areas' for displaced LHA claimants, the increase in the PRS HB caseload was only six per cent. The impact of the SAR changes (Chapter 10) is especially important in explaining the relatively low level of increase in these areas.

6 How have tenants responded to the LHA changes?

Summary findings

Reductions in day-to-day spending by tenants to make up shortfalls on their rent were far more common than housing-related responses. Forty-six per cent of respondents said they had spent less on household essentials; 38 per cent of respondents in wave 2 said they had spent less on non-essentials¹²; 31 per cent of respondents said they had borrowed money from family or friends.

About half of all claimants with a shortfall at both wave 1 and wave 2 had taken housing-related actions in response. One in four tenants had tried to negotiate a lower rent when they originally took on the accommodation where they were living at the time of the wave 1 survey. The same proportion had also done so when they moved to new accommodation in the year prior to the wave 2 survey. One in five tenants who had not moved by wave 2 had tried to renegotiate the rent of their existing home with the landlord since wave 1. Of those tenants who tried to negotiate the rent in this way, 45 per cent, and 48 per cent of tenants who had moved in wave 2, had been successful in their negotiations.

Nineteen per cent of tenants who were living in workless households at wave 1 were in working households at wave 2. Meanwhile, 13 per cent of tenants in working households at wave 1 were living in workless households by wave 2. About a quarter of claimants said they had attempted to make up the shortfall by looking for a job, similar to wave 1; and smaller proportions had taken other work-related actions such as increasing their hours of work, looking for a better paid job or looking for an additional job.

The proportion of tenants living in households where at least one person was in paid work increased from 37 per cent at wave 1 to 44 per cent at wave 2. Among tenants who were still claiming Local Housing Allowance (LHA), 38 per cent were in working households at wave 2.

The proportion of LHA claimants whose Housing Benefit (HB) was paid directly to them decreased from 73 per cent at wave 1 to 65 per cent at wave 2. At wave 2, the LHA was significantly more likely to be paid to the tenant among those living in working (83 per cent) rather than in workless (54 per cent) households.

The proportion of tenants who said that it was difficult to afford to pay the rent increased slightly from 42 per cent in the wave 1 survey to 46 per cent in wave 2. Meanwhile, the proportion of tenants who reported that it was easy to afford the rent fell by the same amount, from 38 to 34 per cent.

Continued

¹² The terms 'essentials' and 'non-essentials' were defined by the respondents themselves.

The proportion of tenants who reported that they were in arrears on their rent increased from ten per cent at wave 1 to 12 per cent at wave 2. Two per cent of tenants in arrears at wave 1 said that the reduction in HB was the single most important reason why they were behind with their rent. By wave 2, one in five tenants ascribed their arrears to reductions in HB; and it was the most commonly cited reason for rent arrears.

Forty seven per cent of landlords said they had witnessed an increase in rent arrears among their tenants since the reforms started, an increase of seven percentage points from wave 1.

In the wave 2 survey, six per cent of claimants with a shortfall had applied for a Discretionary Housing Payment (DHP) and three per cent were in receipt of one.

6.1 Attribution and awareness of the LHA reforms

The primary research with tenants in the 19 case study areas was designed to examine their perceptions and experiences of the LHA measures over time. Of course, attribution of any change in tenants' attitudes and behaviour over this period to specific policy measures is, as ever with this kind of research, hazardous. Respondents do not carefully distinguish between the salience of different factors affecting their lives. In the case of complex policy changes such as the LHA reforms, it is also easy to overestimate how much tenants know about these measures. The wave 1 survey of tenants, for example, revealed that many of them knew very little indeed about them (Beatty et al, 2012).¹³ The qualitative interviews in both wave 1 and wave 2 also revealed that many tenants had little or no idea about how their LHA was calculated.

Although tenants in paid employment who had variable hours of work knew that their LHA changed accordingly, that was generally as much as they knew. Very often, tenants did not know why their LHA had changed. Although some tenants read the letters they had received from the Housing Benefit Office, many did not; and some of those who had read them found the letters to be too technical for them to understand. In the qualitative interviews, some tenants went to great lengths to explain how their income had been affected by changes in their personal circumstances or in their eligibility for benefits, while others found it difficult to understand why and how their household income had been affected.

The impact of the LHA changes will therefore be mediated and moderated by a range of factors, such as imperfect knowledge, non-economic motives behind decision-making, and the fact that many other changes were taking place in people's lives besides the reforms to LHA. It is therefore far from straightforward to assess the individual impact of the LHA measures on people's subsequent decisions and experiences. Nevertheless, the pattern of responses of tenants to a shortfall (or an increased shortfall) between their HB and the contracted rent merited closer attention.

¹³ This can partly be explained by the fact that the interviews were undertaken in autumn 2011, and existing LHA claimants were still being covered by transitional protection at that time.

6.2 Reducing household expenditure and increasing borrowing

The proportion of claimants with a shortfall between the rent and their LHA payment increased from two-thirds at wave 1 to three-quarters at wave 2.¹⁴ Women, people whose ethnic background was White, and couples with dependent children were more likely to have a shortfall than other types of claimant. (TR Chapter 7) Claimants whose households did not include someone with a disability or long-term health condition were more likely to have a shortfall than households with a resident with a disability. Claimants living in working households – as one would expect – were more likely to have a shortfall than those in workless households (TR Chapter 7). The main responses by tenants to the shortfalls are considered in turn below.

Reductions in day-to-day spending to make up shortfalls were far more common than housing-related ones. There was a similar profile of responses in both waves of the tenant survey. The three most common income-related actions taken to make up shortfalls were to have:

- **spent less on household essentials.**¹⁵ Forty-six per cent of respondents in wave 2 said that they had done this. This response was more prevalent among younger respondents. Some tenants said they now faced a real struggle to meet the shortfall. (TR Chapter 7) A 32 year old lone parent in Edinburgh said: *'Basically, it's the fine line between living here and not living here, pretty much, making me homeless and me moving back in with the parents. So, yes, it's impacted greatly.'* A 35 year old working parent in Perth and Kinross commented: *'If it was a struggle before, it's going to be worse now ... but you just keep going don't you? You find the money from somewhere';*
- **spent less on non-essentials.** Thirty-eight per cent of respondents in wave 2 said they had done this. In the qualitative interviews, several tenants said they had found that the shortfall was more or less manageable. A 55 year old tenant living with his partner and two children in Tendring noted: *'it just means that we've got less to go round ... it's not been catastrophic'*. A 29 year old woman living in Exeter with her working partner and children said *'it doesn't affect us much ... it's only a few quid here and there';*
- **borrowed money from family or friends.** Thirty-one per cent of respondents in wave 2 said they had done this and a further 11 per cent said they had borrowed money through a loan or credit card (TR Chapter 7). Single people were more likely than other households to have borrowed money from family and friends (and in many cases, this was often not intended to be repaid and hence were gifts in all but name). Female respondents were twice as likely as male respondents to have borrowed money via a credit card or loan.

¹⁴ Such shortfalls may arise not only because of a difference between the LHA rate and contractual rent that claimants have to pay. They may also occur where assessed income is above the 'applicable amount' that qualifies claimants for full benefit or because they have non-dependents living with them. The size of shortfalls varies depending upon the precise circumstances of the claimant and the LHA rate in their area.

¹⁵ The terms 'essentials' and 'non-essentials' were defined by the respondents themselves in the survey interviews.

6.3 Reducing housing-related expenditure

Just under half of all claimants with a shortfall at both wave 1 and wave 2 had taken any housing-related actions to make up the shortfall. (TR Chapter 7) The three most common housing-related actions claimants had taken in the previous year to make up the shortfall were to have:

- looked at lower rent private rented sector (PRS) properties;
- spoken to their landlord about lowering the rent;
- sought advice about their LHA.

The question of claimants moving elsewhere or staying put in response to the LHA changes is covered in more detail in Chapter 7.

One in four tenants had tried to negotiate a lower rent when they originally took on the accommodation where they were living at the time of the wave 1 survey. The same proportion had also done so when they moved to new accommodation in the year prior to the wave 2 survey (TR Chapter 6). Tenants who had moved and had a shortfall between the rent and their LHA were significantly more likely to have tried to negotiate a lower rent than those who did not have a shortfall (37 per cent compared with eight per cent respectively). Of those tenants who tried to negotiate the rent in this way, 45 per cent of this group in wave 1, and 48 per cent of tenants who had moved in wave 2, had been successful in their negotiations (TR Chapter 6).

One in five tenants who had **not** moved by wave 2 had tried to renegotiate the rent of their existing home with the landlord since wave 1. The qualitative interviews revealed that many tenants were reluctant to try to renegotiate the contractual rent on their existing accommodation – because they did not know they could, because the rent was lower than prevailing rents in the area, because they were worried it might prompt the landlord to raise their rent to the market level, or because they felt they were otherwise in a weak bargaining position (TR Chapter 6).

LHA claimants who had a shortfall between the rent and their LHA payment were no more likely to have attempted to renegotiate the rent of their existing home than claimants who did not have a shortfall (TR Chapter 6). Twenty-nine per cent of those tenants who had not moved and had tried to renegotiate the rent on their existing accommodation were successful. Fourteen per cent of those tenants who stayed put and had successfully negotiated a lower rent said the landlord had agreed to their request in return for LHA being paid to them instead of directly to the tenant (TR Chapter 6). Landlords' responses to rent negotiations, and the role of direct HB payments to landlords, are considered in Chapter 8.

6.4 Looking for work

One of the main objectives of the wider package of welfare reform measures is to increase incentives for working age adults to seek and find paid employment. There was inevitably some turnover in labour market participation between the two waves of the tenant survey. Tenants who had moved home and those who were living in working households were significantly more likely than other types of tenant to have ceased claiming LHA. Nineteen per cent of tenants who were living in workless households at wave 1 were in working households at wave 2. Meanwhile, 13 per cent of tenants in working households at wave 1 were living in workless households by wave 2 (TR Chapter 4).

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About a quarter of claimants said they had attempted to make up the shortfall by looking for a job; and smaller proportions had taken other work-related actions such as increasing their hours of work, looking for a better paid job or looking for an additional job (TR Chapter 7). Younger claimants were twice as likely as older claimants (aged 55 and above) to have looked for a job during the previous year. Lone parents and couples with dependent children were more likely than other household types to have increased the hours they worked in their current job.

Behind these statistics, the qualitative interviews captured the specific steps some people had made. For example, a 26 year-old single man living in Brent said: *'I just got fed up with the whole Benefit changes and everything so, yeah, it did push me, it did push me. Like it got to a point where I went to Yellow Pages and bought myself a stack of envelopes, like 200, and I wrote the addresses from the Yellow Pages on these envelopes and stuffed my CV in each one and sent them out to every office space and every [...] customer service building in the W or EC4 areas.'*

A 41-year-old female lone parent living in Edinburgh reported that she had taken 'cash in hand' work to make up the shortfall. Without the money this provided, her family would be: *'Struggling. If we didn't have cash in hand coming in, we wouldn't have probably the heating on as often as we do. The children certainly wouldn't be getting to do anything other than eat, sleep and go to school. We almost certainly would be forced to look to relocate somewhere and we would almost certainly have to borrow money from someone to help us relocate to somewhere else, and you know that's massively disruptive.'*

The proportion of tenants who **had taken** work-related actions in the 12 months prior to the wave 2 survey was very similar to the actions that tenants at wave 1 said they **would take** if they were to face a reduction in their benefit resulting in a shortfall or a larger shortfall (TR Chapter 7).

6.5 Registering on social housing waiting lists

Three out of ten tenants were registered on a social housing waiting list. This was the case with both the wave 1 and wave 2 surveys. (TR Chapter 5) The qualitative interviews revealed that many tenants with children saw entry to social housing as the solution to the problems they faced – high rents and having to move too frequently due to insecurity of tenure – in the private rental sector. (TR Chapter 5) One mother living with her partner and children in North Lanarkshire had just been offered a council tenancy when she was interviewed, after having been on the waiting list for more than five years. The stability it offered was seen as the key benefit: *'Hopefully, because of the age of my three kids, we've had to move too many times and quite frankly they're fed up with moving. But when we've moved we've tried to keep them ... they've been at the same school ... everything has been kept the same bar where we've stayed and stuff. So this time we've told them we are not moving again, this is our house.'*

Overall, it is clear that there were a variety of responses from tenants to the reduction in their LHA entitlements. In many cases, it seemed that the last thing tenants wanted to change was their housing position. Many gave priority to a stable housing situation. Cutting back on expenditure was therefore preferable and moving house was seen as a last resort.

6.6 Rent payments and arrears

The proportion of tenants who said that it was difficult to afford to pay the rent increased slightly from 42 per cent in the wave 1 survey to 46 per cent in wave 2. Meanwhile, the proportion of tenants who reported that it was easy to afford the rent fell by the same amount, from 38 to 34 per cent. The proportion of tenants who reported that they were in arrears on their rent increased from ten per cent at wave 1 to 12 per cent at wave 2 (TR Chapter 8).

Two per cent of tenants in arrears at wave 1 said that the reduction in HB was the single most important reason why they were behind with their rent. By wave 2, one in five tenants ascribed their arrears to reductions in HB; and it was the most commonly cited reason for rent arrears (TR Chapter 8).

Forty seven per cent of landlords said they had witnessed an increase in rent arrears since the reforms started, an increase of seven percentage points from wave 1. Forty seven per cent of respondents in the overall sample in wave 2 (ranging from 28 per cent in Rural areas to 63 per cent in inner London) thought the arrears had increased specifically due to the LHA reforms (LR Chapter 8).

6.7 The use of Discretionary Housing Payments

The increased use of DHPs has been vital in helping to support some tenants to meet increased rental shortfalls. The support given through DHPs has varied broadly in accordance with rent levels and the scale of the reduction in LHA rates. In the case study areas, it varied from £31,000 in Fenland to £3.6 million in Westminster and just over £2 million in Brent in 2012/13. Taking the latter stages of the period covered by the research (April to September 2013), the number of DHP awards made represented up to two per cent of the total LHA caseload for each of the local authorities, with the exception of Rhondda Cynon Taf (three per cent), Cardiff (five per cent) and Westminster (six per cent) (LR Chapter 5).

DHPs enabled a minority of tenants to be given significant financial support in some high rent, high demand areas, especially if landlords could also be persuaded to reduce their rents partially. Landlords gave several examples where the use of DHPs had sustained a tenancy, although others felt that the temporary nature of the support was merely staving off the inevitable. Some case study LAs were active in attaching conditions to the renewal of DHPs for tenants; elsewhere a more open-ended 'first come, first served' approach prevailed. The use of DHPs varied, as was always intended, from one LA to another. Members of the Westminster focus group of housing advisers, for example, mentioned that DHPs were being used to get landlords to reduce the rent in the direction of the LHA rates for those tenants who were threatened with homelessness. Typically, landlords reduced their rents partially and then the remainder of the shortfall between the LHA rate and the rent was 'propped up' by DHPs to enable the tenant to remain in their home (LR Chapter 5).

Many of the housing advisers across the LAs suggested that DHPs were rarely being used by tenants to provide breathing space to scan other more affordable housing options. It was primarily seen, in the words of one adviser, as 'a short term fix' to deal with immediate pressures on their budgets (LR Chapter 5). The relatively small number of tenants receiving DHPs echoed this view: DHPs were not being used as an opportunity to look for somewhere cheaper to rent (TR Chapter 7).

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In the wave 2 survey, six per cent of claimants with a shortfall had applied for a DHP and three per cent were in receipt of one (TR Chapter 7). The qualitative interviews with claimants revealed that few of them had heard about DHPs. Even some of the tenants who were in receipt of a DHP were not sure what exactly they were, and how it was to be distinguished from their LHA entitlement. Nonetheless, all tenants receiving DHPs were very relieved to have them (TR Chapter 7).

7 What has been the impact of the LHA reforms on residential mobility?

Summary findings

Fifteen per cent of tenants had moved since wave 1. Thirteen per cent of movers had moved more than once (in most cases, twice). Tenants living in Inner London were significantly less likely to have moved than were those living elsewhere.

Most tenants had not moved very far: the majority of movers were living in the same local area and the same local authority (LA) district as before. Two-fifths of the movers had moved less than a mile and four-fifths less than five miles. Only a minority of moves at wave 2 appeared to be due to the Local Housing Allowance (LHA) changes.

The most common reasons for moving were poor property condition, personal or family reasons, wanting a large house or flat, and wanting to pay a lower rent. Less common reasons included: because the Housing Benefit (HB) payment was reduced, job-related reasons, and being asked to leave or evicted due to rent arrears.

A third of LHA claimants who moved said they had difficulties finding new accommodation. In Inner London, it was three-fifths of claimants. The most common difficulties were: lack of the type of property needed, rents being generally unaffordable, landlords being unwilling to let to tenants on HB, competition from tenants not on HB, and rents being unaffordable due to lower HB payments.

The LHA reforms reduced the probability that existing claimants would move house by an estimated 0.3 percentage points (ppts) per month on average at the start of the transitional protection period. Eleven months later the probability that claimants would move house was increased by an estimated average of 0.5ppts per month.

There is little change in mobility at the regional level between January/March 2010 and January/March 2013, suggesting there was no inter-regional displacement effect, even in the year after transitional protection ended. The proportion of in-region moves remained constant at 93 per cent. However, there was more of a marked change within London, especially London Centre. Here the proportion of those claimants who moved to elsewhere within London Centre fell from 64 per cent in January/March 2011 (just prior to the reforms) to 50 per cent one year later.

Two per cent of tenants (13 per cent of movers) had been homeless at some point during the year since the wave 1 survey.

7.1 The lagged impacts of the LHA measures on residential mobility

Much of the discussion about the potential impact of the LHA measures in the early stages suggested that household mobility would probably increase as a result. In its 'pro-active' variant, it was assumed that claimants attempting to meet increased shortfalls in their current accommodation would be scanning the market for more affordable alternatives, whether in lower rented properties locally or in cheaper housing markets further afield. The more 'reactive' variant of this scenario suggested that LHA claimants would be increasingly displaced from higher rental areas to cheaper markets elsewhere, even if this created other problems for them, as labour market conditions, for example, might be less favourable as well. It is therefore important to establish the extent to which this has started to happen.

Either way the mobility effects of the LHA reforms are likely to be more lagged than other impacts: the decision to move is often the culmination of having exhausted other options that would enable the household to stay put, and the employment, educational and social ramifications of moving for different members of the household require careful consideration. This means that particular attention has to be given to the different timelines for different strands of the research programme, when considering the results. As we will see, the lagged effects have been further emphasised by the introduction of transitional protection for existing LHA claimants from April 2011 onwards.

7.2 Claimants' experiences of moving

The wave 2 survey was undertaken in autumn 2012, towards the end of the year in which existing LHA claimants were being moved on to the new regime. It was therefore still fairly early to judge impacts on mobility. Fifteen per cent of tenants had moved since wave 1. Thirteen per cent of movers had moved more than once (in most cases, twice) (TR Chapter 5). Tenants who were no longer on LHA were almost three times as likely to have moved home as those who were claiming it. Tenants living in Inner London were significantly **less** likely to have moved than were those living elsewhere (TR Chapter 5).

Most tenants had not moved very far: the majority of movers were living in the same local area and the same local authority (LA) area as before. Two-fifths of the movers had moved less than a mile and four-fifths less than five miles (TR Chapter 5).

Only a minority of moves among wave 2 respondents appeared to be due to the LHA changes. The most common main reasons for moving were: poor property condition (22 per cent of moves); personal or family reasons (21 per cent); wanting a larger house or flat (20 per cent); and wanting to pay a lower rent (15 per cent). Among the less common main reasons for moving were: because the HB payment was reduced (three per cent); job-related reasons (three per cent); and being asked to leave or evicted due to rent arrears (two per cent).

A third of LHA claimants who had moved said they had difficulties finding new accommodation. The most common difficulties were:

- lack of the type of property needed;
- rents being generally unaffordable;
- landlords being unwilling to let to tenants on HB;

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- competition from tenants not on HB;
- rents being unaffordable due to lower HB payments (TR Chapter 5).

The qualitative interviews with tenants revealed that previous difficulties encountered when moving whilst in receipt of LHA helped to explain why some tenants had decided to stay put, even though their current rent was difficult to afford. The interviews also revealed that the cost of moving home – particularly the need to pay a deposit and high charges levied by lettings agents – was an important reason why many respondents had not moved. Many tenants also commented that they only wanted to move locally and that longer distance moves were either unacceptable or impractical; there was a strong desire among many households to stay put, especially in high demand private rented sector (PRS) markets, due to social and support networks, the desire to avoid children moving schools, the proximity to employment and the lack of other affordable housing options elsewhere. (TR Chapter 5) Similar reasons were given by landlords when they noted the strong preference among most of their tenants only to move short distances (LR Chapter 6).

About a third of movers were paying a higher rent, and about two-fifths a lower rent, on their new accommodation than on their previous home. Thus, contrary to some expectations, only a minority of tenants had moved to cheaper accommodation. Satisfaction with their accommodation increased very substantially among movers, but fell slightly among those who had not moved. Thus, again contrary to some expectations, most tenants were more, rather than less, satisfied with their new accommodation (TR Chapter 5).

The majority of moves taken by tenants therefore seemed to be for 'positive' reasons, although the proportion of respondents who mentioned 'wanting to pay a lower rent' as a reason for moving had increased from five per cent in wave 1 to fifteen per cent in wave 2. This was echoed by the findings of the wave 2 landlords survey undertaken in late 2012, which found that 23 per cent of all respondents (39 per cent in Inner London) said that there had been an increase in tenants wanting to move in the past year because they could no longer afford the rent (LR Chapter 6). The LHA reforms were not the most significant reason why claimants moved, but they were becoming more important over time.

7.3 Residential mobility and property choices

The econometric analysis examined the impact of transitional protection on the mobility and property choices of existing LHA claimants (at January 2011) and estimated that the LHA reforms reduced the probability that they would move house by an estimated 0.3 percentage points (ppts) per month on average at the start of the transitional protection period. If tenants did move during this period, it would provoke a new claim, and so they would lose any remaining period of transitional protection. However, by the time claimants had been rolled on to the new LHA regime for a period of 11 months, the probability that claimants would move house was increased by an estimated average of 0.5ppts per month (ER Chapter 5).

The econometric analysis examined the impact of the reforms on the mobility of different groups. The analysis found that those likely to be affected by the national caps were more likely to move out of the capped areas of inner London; and there is some evidence that those likely to be affected by the abolition of the five bedroom rate were more likely to move to cheaper properties with fewer bedrooms, reducing the average fall in their income after housing costs from £17.52 to £12.56 per week. Claimants likely to be affected by the Shared

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Accommodation Rate (SAR) change¹⁶ were, due to the reform package, an estimated 12.9ppts more likely to be in shared accommodation 11 months after the point of impact (ER Chapter 5). The impact of the SAR changes is discussed further in Chapter 10.

Eleven months after they had moved to the new LHA regime, the proportion of adults over 60 who had moved had reduced by 1.1 ppts, compared to working age claimants who were more likely to move than before (by 0.6ppts for those without children, and 0.7ppts for those with children) (ER Chapter 5).

In the Spatial report (SR), an analysis was undertaken of the percentage of moves taken by LHA claimants within the same region over time, that could be taken as a gauge of the degree of 'self-containment' in the region's HB sub-market. There was little change between January/March 2010 and January/March 2013, suggesting there was no inter-regional displacement effect, even in the year after transitional protection ended. The proportion of in-region moves remained constant at 93 per cent. However, there was more of marked change within London, especially in London Centre. Here the proportion of moving claimants who moved to elsewhere within London Centre fell from 64 per cent in January/March 2011 (just prior to the reforms) to 50 per cent one year later. This suggests that during the transitional protection period, when existing PRS HB claimants were slightly more likely to stay put, a higher proportion of those who did move may have had to look further afield than before. However, in the following year (during 2012) this proportion of all moves to elsewhere within London Centre increased back to 60 per cent of all moves. Impacts in London are considered in more detail in Chapter 10.

¹⁶ Most single people aged 25 to 34 without dependent children who were not previously in shared accommodation.

8 How have landlords responded to the LHA reforms?

Summary findings

In wave 2, 73 per cent of landlords said they let to out-of-work benefit claimants, down from 79 per cent in wave 1. Among Inner London landlords, it was 54 per cent, down from 66 per cent.

In terms of future plans, 74 per cent of all landlords in wave 2 (the same as in wave 1) and 64 per cent in the Inner London sub-sample (62 per cent in wave 1) said they intended to continue letting to Local Housing Allowance (LHA) tenants in the coming year. When asked in a more general way whether they were 'considering' or 'planning' to exit the market for LHA properties in the following 12 months, 35 per cent of landlords in wave 2 (compared to 31 per cent in wave 1) said they were. It is likely that a much smaller proportion than this will actually exit the market in the next 12 months.

Twenty-seven per cent of landlords said there had been an increase in negotiations with current tenants since April 2011, rising to 48 per cent of Inner London landlords.

The proportion of landlords who said they would be prepared to negotiate over rents in order to receive Housing Benefit (HB) paid directly to them increased from 29 to 37 per cent by wave 2.

According to tenants, the most common response by their landlord to any arrears was to ask tenants to pay the money back gradually over time.

Thirty-seven per cent of landlords had taken action to evict, not renew or end tenancies of LHA tenants since April 2011, compared to 27 per cent who had taken action against non-LHA tenants.

Thirty per cent of landlords in wave 2 said HB was paid direct to them for all their tenants and a further 17 per cent for the majority of their tenants.

In wave 2, 19 per cent of landlords overall felt that rental voids had increased as a result of the LHA reforms; this rose to 26 per cent of respondents from Rural areas.

In many areas outside London, especially where the gap between the contracted rent and the LHA rate was relatively small, landlords said they had adapted quickly to the new regime. In LHA Dominant case study areas, a higher proportion of landlords than in other areas said that the reductions in LHA rates had placed particular pressure on landlords' margins due to the lack of other sources of demand outside the LHA market. As a result many landlords said they had little option but to reduce their rents in line with the reduced LHA rate, and/or to reduce maintenance expenditure.

8.1 Assessing the impacts of the measures on landlords

As with tenants, primary research was conducted in two waves with landlords in the nineteen case study areas to examine their perceptions and experiences of the LHA measures over time. Of course, attribution of any changes in attitudes and behaviour over this period to specific policy measures is also hazardous, although as a group landlords were more conversant with the various LHA measures than tenants, as one might expect. This chapter focuses on changes in landlords' responses over time, but it is important not to overstate the overall impact of the measures on landlords by the end of 2012. The proportion of landlords who said they had been affected by the LHA measures in some way increased from 26 per cent in wave 1 (autumn 2011) to 46 per cent in wave 2 (late 2012). The increase was most marked in Inner London areas (up from 33 to 60 per cent) and least evident in the Cities area type (up from 33 to 44 per cent). However, 24 per cent of respondents in wave 2 still said they had not been affected at all.

In several case study areas, especially where the gap between the contracted rent and the LHA rate was still relatively small, landlords said they had adapted quickly to the new regime (LR Chapter 5). This was also more likely to be the case for smaller landlords, for landlords without mortgages and for landlords with properties in rural areas.

8.2 Impact on lettings priorities

Concerns had been expressed that landlords would be more reluctant to let to LHA claimants due to the reforms. There was indeed some change in lettings preferences, contingent on housing market type. In wave 2 the proportion of landlords letting to out-of-work benefit claimants was lower (73 per cent) than in wave 1 (79 per cent). Among Inner London landlords, it was 54 per cent, down from 66 per cent. The proportion of all landlords who said they were currently letting to lone parents fell from 53 per cent in wave 1 to 46 per cent in wave 2; and the proportion letting to childless couples fell from 45 to 38 per cent (LR Chapter 4).

Thirty-five per cent of all landlords said they had changed their letting strategy since wave 1 and nearly all of this group (30 per cent of all respondents) had done so because of the LHA reforms. In interview, some landlords said they were attempting to move out of the LHA sub-market, whereas others said they valued the continuity of retaining tenants, even if they had to forego some of their rental income as a result. A smaller proportion of landlords in LHA Dominant areas than elsewhere said they no longer let to LHA tenants. Often this was simply because of the absence of alternative sources of demand. However, concerns about the increased risk of arrears had led many landlords to adopt more stringent vetting procedures for applicants (LR Chapter 6).

The contrasting practices of landlords across the case study areas were evident in the qualitative interviews. Some landlords were clearly attempting to move out of the LHA sub-market, whereas others valued the continuity of retaining tenants even if they had to forego some of their rental income because of difficulties in meeting the shortfall. This is reflected in the following responses, which both suggest that landlords think that LHA recipients are by definition not in work, whereas about a third of them are in work (see Chapter 4). A large landlord in Brent commented:

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'We've managed to get rid of a lot of the people who are on DSS¹⁷ ... the tenants don't have a job and therefore they can't meet the shortfall ... they can't pay and eventually a court proceeding takes place to get rid of them, so I'd rather leave my property empty than give it to these people and then try and get them out, it's bad practice.'

By contrast, a small landlord in Walsall, working in a different kind of local housing market, took a pragmatic view:

'When this tenant moves on I'd be looking for a private [i.e. non LHA] tenant but I doubt I would be able to get one round here. In Walsall, unless you are willing to take DSS there's not much hope of getting a paying tenant because most people don't have a job ... It's just the demographic of the area. Rent levels are pretty static I think. I keep mine slightly below the LHA rate. Better to have someone paying £20 less than have an empty property.'

In terms of future plans, 74 per cent of all landlords in wave 2 (the same as in wave 1) and 64 per cent in the Inner London sub-sample (62 per cent in wave 1) said they intended to continue letting to LHA tenants in the coming year. When asked in a more general way whether they were 'considering' or 'planning' to exit the market for LHA properties in the following 12 months, 35 per cent of landlords in wave 2 (compared to 31 per cent in wave 1) said they were. However, based on following up the evidence from responses to the same question in wave 1¹⁸, it is likely that a much smaller proportion than this will actually exit the market in the next 12 months (LR Chapter 9).

8.3 Landlords' attitudes to rent negotiation

There was a statistically significant increase in the preparedness of landlords to enter into negotiations with their tenants over rent levels. The proportion of landlords who said they would be prepared to negotiate over rents in order to receive direct HB payment increased from 29 to 37 per cent by wave 2. (LR Chapter 8) Twenty-seven per cent of landlords said there had been an increase in negotiations with current tenants since April 2011, rising to 48 per cent of Inner London landlords. In lower value private rented sector (PRS) markets, opinions varied on whether it was necessary to reduce rents to LHA rates because there were no alternatives for letting property, or whether reductions could not be countenanced because returns were so low. The proportion of landlords who expected to be negotiating lower rents with current and prospective tenants in the year ahead increased from eight per cent to 12 per cent and from 12 to 16 per cent respectively. The comparable increases for landlords with properties in Inner London case studies were from one to 11 per cent in terms of negotiations with current tenants and from ten to 18 per cent for prospective tenants (LR Chapter 9).

¹⁷ DSS – the (long since renamed) Department of Social Security. Still used to describe households on benefits.

¹⁸ About a fifth of those who said they would exit the LHA sub-market had done so, one year on.

8.4 Landlords' responses to rent arrears

According to tenants, the most common response by their landlord to any arrears was to ask tenants to pay the money back gradually over time. In both wave 1 and wave 2 tenant surveys, about half of all tenants in arrears said that was how their landlord had responded. The next most common landlord response, cited by a quarter of tenants in arrears in both surveys, was 'nothing at all' – that is, their landlord had just not responded to the arrears. (TR Chapter 8) Most other reported landlord responses that might ultimately conclude with the tenant having to leave the accommodation – asking the tenant to pay the arrears back immediately, serving or threatening to serve a notice to quit, verbally asking the tenant to leave, refusing to renew the tenancy – declined in importance between waves 1 and 2¹⁹ (TR Chapter 8).

Landlords were also asked about actions taken on any of their tenancies. Thirty-seven per cent of respondents had taken action to evict, not renew or end tenancies of LHA tenants since April 2011, compared to 27 per cent who had taken action against non-LHA tenants. Twenty per cent of all landlords in wave 2 said they had taken these actions on LHA tenancies specifically because of the LHA reforms. Housing advisers in some areas suggested that landlords were now more robust in evicting LHA tenants who were in arrears; advisers in other areas suggested landlords were mainly seeking not to renew tenancies, due to the cost and time involved in evictions (LR Chapter 8).

Housing advisers interviewed in most case study areas thought there would be a time lag before the impact of the LHA measures on tenancy terminations became fully evident. This was variously due to landlords finally running out of patience with tenants in arrears, tenants no longer being able to juggle their budgets to stay in their current accommodation, and tenants having to move once Discretionary Housing Payment (DHP) support ended. That said, in many areas outside London, the new LHA processes had been incorporated into the wider PRS without too many problems: there had been some changes in the proportion of tenants living in shared accommodation, Houses in Multiple Occupation (HMOs) and one bedroom properties, but the LHA market had not contracted to any marked degree (LR Chapter 9).

One reason for landlords being prepared to retain tenants who were struggling to pay the rent, at least for the moment, was the increased use of having HB paid directly to themselves rather than to tenants, especially in lower demand markets. The survey results suggested that there has been a marked move back towards landlords seeking the security of having HB paid directly to them, and not just under the criteria stated in the new LHA measures. Thirty per cent of landlords in wave 2 said they received direct payments for all their tenants and a further 17 per cent for the majority of tenants. (LR Chapter 8). The proportion of claimants whose LHA was paid to themselves had fallen from 73 per cent at wave 1 of the tenants survey to 65 per cent at wave 2 (TR Chapter 4).

¹⁹ Although this number may have been low partly because of selection effects: any tenant who had been evicted would be more difficult to trace for a follow-up interview at the wave two stage, so this group is likely to be under-represented.

8.5 Impact on portfolios and yields

A higher proportion of landlords were thinking of reducing their portfolios in the case study areas than were thinking of expanding them but there was no significant change between waves 1 and 2. Four per cent of landlords in the wave 2 sample said they were planning to exit the PRS market altogether due to the LHA reforms; there were no significant differences by area type (LR Chapter 7).

Several landlords said that the cumulative effects of reduced LHA rates year on year, and the inability of their tenants to make up shortfalls, were placing undue pressure on their margins and they were reducing their maintenance budgets as a result. In wave 2, 19 per cent of landlords overall felt that rental voids had increased as a result of the LHA reforms; this rose to 26 per cent of respondents from Rural areas (LR Chapter 7). In wave 2, a minority of all landlords (19 per cent), increasing to 34 per cent of landlords in Inner London, had expressed concerns about the decisions to limit the uprating of LHA rate in April 2013 to the lower of CPI or the thirtieth percentile of market rents.

In LHA Dominant case study areas, the reductions in LHA rates were considered to have placed particular pressure on landlords' margins due to the lack of other sources of demand outside the LHA market. As a result many landlords said they had little option but to reduce their rents in line with the reduced LHA rate. However, across Great Britain as a whole the econometric analysis did not find any clear pattern in how the magnitudes of any rent reductions varied with the density of LHA claimants in the local PRS (ER Chapter 5). One response to these financial pressures, especially among buy-to-let landlords with a mortgage, was to reduce their expenditure in maintaining properties (a response that would not be possible to detect in the econometric analysis) – landlords here were as likely to negotiate with tenants over responsibility for repairs as over the level of rent. Longer term, landlords and housing advisers expressed concerns about the decline in housing quality within the PRS as a result of these financial pressures, compounded by future limits on LHA rates, which meant many landlords would not invest as much as before in their properties (LR Chapter 10).

9 What has been the impact of the LHA reforms in London?

Summary findings

The pattern of change in the overall Housing Benefit (HB) caseload in London varied. In London Centre the caseload declined by 14 per cent between the quarter prior to the reforms being introduced and June/August 2013, whereas it increased by four per cent in London Cosmopolitan areas and by ten per cent in London Suburbs.

On-flows of Local Housing Allowance (LHA) claimants in London Centre fell by 16 per cent between the quarter before the reforms began to be introduced (January/March 2011) to June/August 2013; they fell by eight per cent in London Cosmopolitan areas in this period; they decreased by nine per cent in the first year after the reforms in London Suburbs but then increased by nine per cent between January/March 2012 and June/August 2013, so there was no overall change taking the period as a whole. The annual pattern of caseload change varied between these area types.

Existing LHA claimants (at January 2011) in London had a greater average reduction in their LHA entitlement in given property types than in Great Britain (GB) as a whole – a weekly reduction of £13.39 compared to £6.84 for GB. Seventy-four per cent of this reduction in London as a whole was incident on tenants (compared to 89 per cent for GB) and 26 per cent was on landlords.

An analysis of moves made by LHA claimants at LA level showed a distinct ripple effect out from central London borough to neighbouring districts, rather than a leap-frogging to more distant LAs (SR Chapter 6). This was also observed for London Cosmopolitan areas. The most popular destination for those PRS HB claimants moving out of London Cosmopolitan areas is Enfield; but the biggest increase over time was to Barnet.

A significantly greater proportion of landlords with property in London were seeking to reduce lets to LHA tenants and were planning to get out of the LHA sub-market altogether in the future. Over a quarter (compared to a fifth of respondents overall) said they had taken actions (non-renewal or cessation of a tenancy, or eviction) against tenants specifically because of the effects of the LHA reforms.

There had been a ten percentage point increase between waves 1 and 2 in the proportion of Inner London landlords who had negotiated a lower rent with their tenants. Seventeen per cent of landlords in the high demand Inner London private rented sector (PRS) also said that voids had increased because of the LHA measures.

The number of households giving the end of an assured shorthold tenancy as the main reason for homelessness almost doubled between 2011 and 2013. Fifty-nine per cent of this increase could be attributed to London, where an additional 3,880 households gave the end of a tenancy as the main reason.

9.1 Potential impacts in London

As soon as the proposed LHA reforms were announced in 2010, one of the key concerns raised by housing professionals and campaign organisations was the potential impact on households in London, and especially in high demand central London. Due to the widely acknowledged and acute housing affordability issues in London, many commentators speculated that there would be widespread displacement of those households receiving LHA, as the shortfall between their HB and the contracted rents would be too large for them to bridge. As a result, it was claimed, these households would need to seek out alternative accommodation, possibly well outside the capital. Concerns were also expressed about the impact of the changes on levels of homelessness in the capital.

9.2 Changing HB caseloads within London

The pattern of change in the overall HB caseload in London varied. In London Centre the caseload declined by 14 per cent between the quarter prior to the reforms being introduced and June/August 2013, whereas it increased by four per cent in London Cosmopolitan areas and by ten per cent in London Suburbs. The most marked change in caseload was therefore in London Centre. During this period, the number of single parent households in London Centre fell by 20 per cent, the number of couples with children only fell by two per cent and the number of working age households fell by 15 per cent. The number of children in lone parent families claiming HB in London Centre fell by nearly a quarter in this period. Not only was the LHA sub-market in London Centre shrinking during this period – but the scale of the decline was markedly different amongst some sub-groups of claimants.

On-flows of LHA claimants in London Centre fell sharply in the year immediately after the reforms began to be introduced (2011/12) and then stabilised during 2013. This perhaps suggests that a ‘core’ HB sub-market now remains, following the sharp reductions in the immediate wake of the reforms. On-flows continued to fall in London Cosmopolitan areas, while they have returned to their pre-reform level in London Suburbs, possibly indicating some displacement from the ‘inner ring’ around the central core to outer London over the past year. This trend was also identified in wave 2 interviews with landlords and housing advisers based in London (LR Chapter 6).

The impact of the Shared Accommodation Rate (SAR) reforms has been particularly strong in the higher rent areas of London which can be evidenced by benchmarking the 25 to 34 year old Group²⁰ affected against the under 25 year old Group, who were already affected by the Shared Room Rate before the reforms (see Chapter 10). However, the reduction in caseload in London Centre was not solely a consequence of the changes to SAR. If the 25-34 Group is excluded from the analysis of trends, the remaining LHA caseload in London Centre still fell by one per cent in 2011-2012, seven per cent in 2012-2013 and a further one per cent in the first half of 2013, leading to a nine per cent reduction overall. This contrasted with a growth in the HB caseload (excluding the 25-34 Group) of between eight

²⁰ Single, with no child dependants.

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and 14 per cent elsewhere over the full period. The contraction of the HB caseload in London Centre seems to be partly attributable to the reforms rather than wider labour market conditions, as the decline in out-of-work benefit claimants over the period were of a similar magnitude across all area types (decreases of between eight and 13 per cent)²¹.

At local authority (LA) district level, the largest decreases in the PRS HB caseload in London Centre from the start of the reforms until June/August 2013 occurred in the very high rent areas of Westminster (a reduction of 27 per cent, equating to 2,300 claimants) and Kensington/Chelsea (a reduction of 26 per cent, equating to 1,100 claimants). The decrease was lower than the London Centre average in Hammersmith and Fulham (11 per cent), Islington (ten per cent) and Tower Hamlets (seven per cent). In Wandsworth, the number of HB claimants remained the same during this period.

9.3 Impact on entitlements in London

Existing LHA claimants (at January 2011) in London had a greater average reduction in their LHA entitlement in given property types than in GB as a whole – a weekly reduction of £13.39 compared to £6.84 for GB. This reduction was also relatively large in proportionate terms, at 6.6 per cent of January 2011 entitlements, as opposed to 5.4 per cent for all claimants. This is not surprising given that the national LHA caps bind only in parts of inner London. Seventy-four per cent of this reduction in London as a whole was incident on tenants (compared to 89 per cent for Great Britain) and 26 per cent was on landlords. This masked sharp differences between different area types in London. The average weekly reduction in London Centre was £27.52 for existing claimants²², of which 59 per cent was due to landlords reducing rents for LHA claimants; this compared to £11.88 in London Suburbs, where two thirds of the reduction fell on landlords and one third on tenants (ER Chapter 5).

The econometric analysis also examined the impact of the national LHA caps on those individuals who lived in one of the Broad Rental Market Areas (BRMAs) (all in Inner London) where the caps were binding and whose LHA entitlement in January 2011 exceeded the level of the impending caps. Controlling for property type, this showed that, 11 months after they had moved on to the new LHA regime, average maximum LHA entitlements had fallen by £41.93 per week²³. This compared to a reduction of £6.84 per week for the sample as whole. Eighty-six per cent (about £36 per week) of this reduction was therefore being felt by tenants and the other 14 per cent by landlords (through reduced contractual rents). As stated earlier, these claimants were also more likely to move house (by 1.1 percentage points (ppts) per month) and to move out of any of the areas affected by the caps (by 0.4ppts per month) as a result of the reforms.

²¹ Working age, out-of-work benefit claimants fell by 10 per cent in GB from February 2011 and August 2013; by 13 per cent in Coastal and Countryside; 11 per cent in London Centre and Prospering UK; by 10 per cent in Mining and Manufacturing; by nine per cent in London Cosmopolitan and London Suburbs; and by eight per cent in Cities and Services and Southern Seaside Towns.

²² Figures are for claimants eleven months after they had moved on to the new regime.

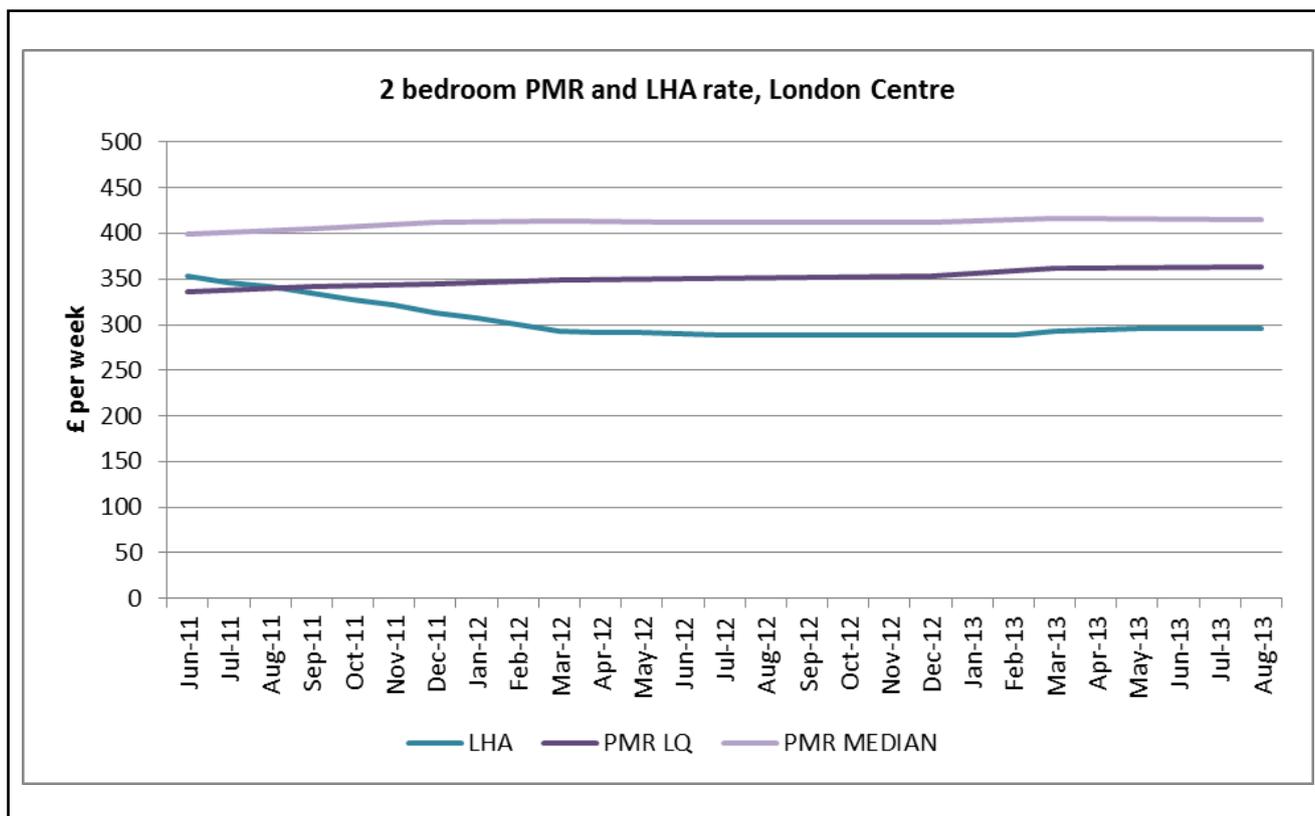
²³ Ibid.

9.4 LHA rates and the wider PRS market in London

We explored further the relationship between the sharp changes in LHA rates in London, especially Central London, and trends in private market rents over the same period. Any comparisons need to be made according to property size. The example of two bedroomed properties is used here²⁴.

Figure 9.1 shows that the average LHA rate for tenants entitled to two bedroom properties in London Centre fell during 2011, then stabilised from spring 2012 onwards and by August 2013 was 16 per cent lower than in June 2011. The gap between the average LHA rate and the lower quartile private market rents²⁵ (PMRs) in London Centre increased and then stabilised, and the average LHA rate was £68 a week lower for LHA tenants than the average lower quartile rent for non-HB tenants in the private rented sector (PRS). Conversely, the gap between the median PMRs in London Centre and lower quartile rents narrowed over the period by £11 a week as a consequence of median rents increasing at half the rate of lower quartile PMRs over the period. This trend was not replicated across England as a whole, where the gap remained constant over the same period.

Figure 9.1 Trends in median and lower quartile private market rents and LHA rates: London Centre



²⁴ Comparisons are shown for all property sizes in the SR. Two bedroom properties are used by a higher proportion of LHA claimants in London than any other property size.

²⁵ The Valuation Office Agency data do not allow for comparisons with rents at the 30th percentile, so the lower quartile (25th percentile) is used as the nearest proxy.

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The LHA rate diverged from the distribution of private market rents at the lower end of the market over time as a result of the annual uprating limits and the LHA rate was **below** lower quartile market rents by August 2013, for both area types (£19 a week lower in London Cosmopolitan areas and £9 a week in London Suburbs). Due to the relatively higher recent increases in lower quartile rents, the gap between lower quartile and median weekly rents in London Cosmopolitan narrowed over the period by £7. The comparable figure in London Centre was £11. This suggests that rents in the LHA sub-market in London may be in the process of becoming increasingly segmented from the wider PRS market.

An analysis of moves made by LHA claimants at LA level showed a distinct ripple effect out from central London borough to neighbouring districts, rather than a leap-frogging to more distant LAs (SR Chapter 6). This was also observed for London Cosmopolitan areas. The most popular destination for those PRS HB claimants moving out of London Cosmopolitan areas was Enfield; but the biggest increase over time was to Barnet (SR, Appendix C). The largest proportionate increases in caseload in London Suburbs between January/March 2011 and June/August 2013 were in Ealing, Enfield, Sutton and Barking and Dagenham. Overall, the HB caseload increased by ten per cent in London Suburbs between January/March 2011 and June/August 2013. London Suburbs, rather than Southern Seaside Towns, have tended to absorb much of the out-flow of LHA claimants from central London since the reforms were introduced.

9.5 The responses of landlords in London

Given the distinctive nature of the London PRS, it is not surprising to find that the responses of landlords with properties in the three Inner London case studies²⁶ differed from the more general sample on some key points. A significantly greater proportion of these landlords were seeking to reduce lets to LHA tenants and were planning to get out of the LHA sub-market altogether in the future, although for many this intention may not be realised in practice. Over a quarter (compared to a fifth of respondents overall) said they had taken actions (non-renewal or cessation of a tenancy, or eviction) against tenants specifically because of the effects of the LHA reforms.²⁷

One countervailing factor in these trends was the apparent process of enhanced market segmentation in the PRS in London. There was not a consistent picture whereby LHA tenants were being evicted for rent arrears or where landlords were moving directly to alternative sources for applicants when letting properties. For example, there had been a ten percentage point increase between waves 1 and 2 in the proportion of Inner London landlords who had negotiated a lower rent with their tenants. (LR Chapter 8) Seventeen per cent of landlords in the high demand Inner London PRS also said that voids had increased because of the LHA measures. This may seem surprising in the context of extremely high housing demand, but some respondents suggested a more segmented rental market was appearing, with a 'core' LHA sub-sector remaining, where it was difficult to let to non-LHA applicants because of the wider neighbourhood environment. (LR Chapter 7) There was therefore less mobility of LHA claimants out of the lower value segment of the PRS in London, which was in turn marked by an increasing concentration of LHA claimants. (LR Chapter 10) This interpretation is reinforced by the complementary study of trends in rent levels in London. A significant degree of segmentation between the markets for LHA and non-LHA claimants is also a potential reason why the econometric analysis found no clear relationship between the effects of the LHA reforms on claimants' rents and the density of LHA households in the local PRS.

²⁶ Brent, Hackney, Westminster.

²⁷ This question was not asked in the wave 1 survey.

9.6 Homelessness and recent trends in London

Clearly homelessness is not an issue that is unique to London, but it was likely that any potential impact of the LHA reforms on homelessness would be felt most acutely in London. Across the 19 case study areas in Great Britain, the tenants survey found that 13 per cent of movers – two per cent of all tenants – had been homeless at some point in the year between wave 1 and wave 2.²⁸ The case study approach to this element of the research meant that it was possible to provide only a very approximate estimate of the numbers of households at the national level. Bearing that caveat in mind, two per cent of the LHA caseload of 1.2 million (the figure when the sampling for the wave 1 survey was carried out) is equivalent to about 24,000 households nationally. It is likely that claimants who had been homeless were under-represented in the wave 2 survey, despite the expert efforts of the Ipsos MORI research team to keep track of them. If that was indeed the case, then two per cent or 24,000 households is an under-estimate. It is not possible to say how this would differ from that amongst LHA tenants in the period before the reforms were introduced.

By way of context, national statistics show that after several years of a downward trend, the number of households accepted as statutorily homeless in England began to increase from 2010²⁹. The number of households increased year on year from 9,590 in 2010³⁰ to 13,230 in 2013. The latest available figures at the time of the analysis are for the third quarter of 2013 (13,330 households), and in the full year from Q3 2012 53,590 households were accepted as homeless in England. Much of this increase was concentrated in London. Between the year up to Q1 2011 (just before the LHA reforms were introduced) and the year up to Q3 2013, the number of households accepted as statutory homeless in the rest of England increased by eight per cent (to 36,630.) However, the number of acceptances increased by 94 per cent (to 7,870) in London Suburbs, by 46 per cent (to 5,270) in London Cosmopolitan areas and by 38 per cent (to 3,490) in London Centre. The most relevant point here for the subsequent analysis is the extent to which recorded homeless acceptances in all London area types have been increasing more rapidly than in England as a whole, and this was echoed in the housing adviser interviews undertaken in the three inner London case study areas. That said, the analysis does not establish any direct causation between the greater increases in homelessness in London and the introduction of the LHA reforms, and it is likely that other factors will have had an impact as well.

The number of households housed in temporary accommodation also increased between the year up to the start of April 2011 and the year up to the start of April 2013, although the London effect is less marked. The number increased by 15 per cent (to 55,300) in the rest of England in this period, by 16 per cent in London Centre (to 17,400), and by 24 per cent in London Suburbs (to 9,400) but it fell slightly (by one per cent) in London Cosmopolitan areas (to 13,140).³¹

The reasons for the increases in the number of homeless acceptances and the number of households housed in temporary accommodation are manifold. However, for every quarter between Q4 1996 and Q1 2011 (England only) the proportion of households who gave the end of an assured shorthold tenancy as the main reason for becoming homeless was consistently between 11 per cent and 16 per cent. In Q2 2011, just when the LHA reforms began to be introduced, this proportion rose to 18 per cent for the first time. It continued to

²⁸ 'Homeless' included sleeping rough, staying in temporary accommodation (e.g. a B&B or hostel) and staying with friends or relatives temporarily.

²⁹ England only figures are used in this part of the analysis.

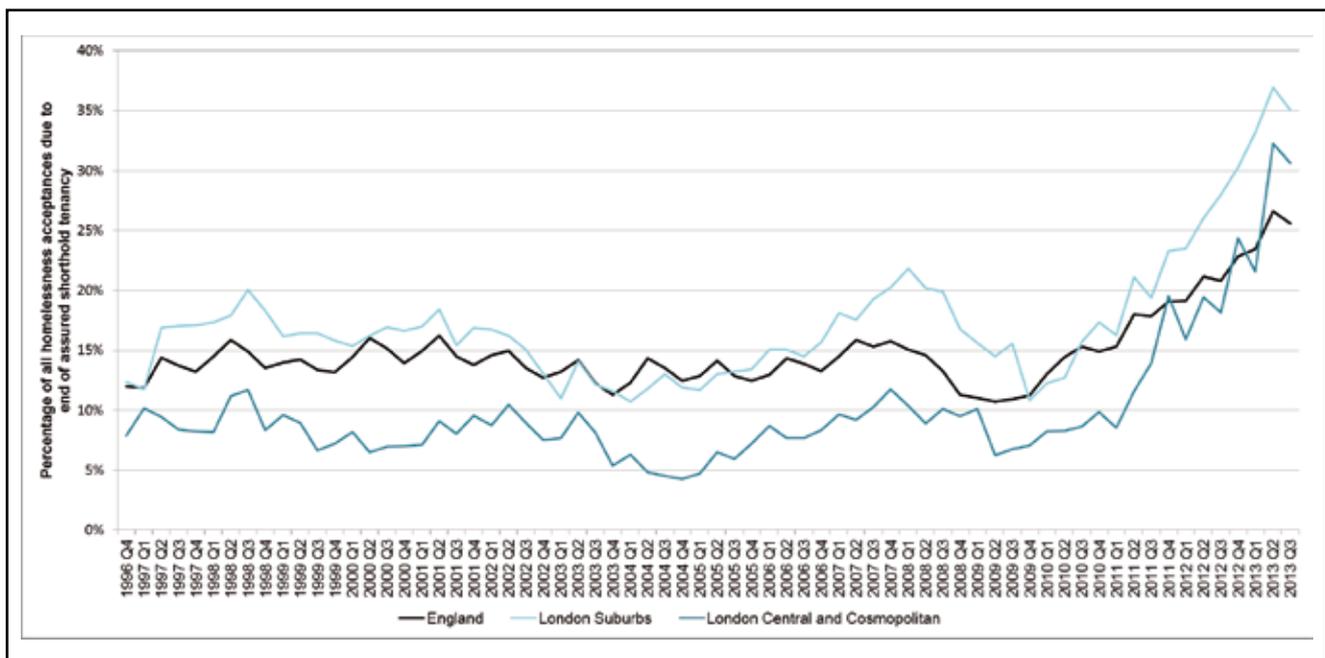
³⁰ Q1 figures in each case.

³¹ Lewisham in Cosmopolitan London did not submit figures for 2013, so the same figure as submitted for 2011 has been used in this calculation.

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rise throughout 2012 and 2013. Twenty-seven per cent of all homelessness acceptances were due to non-renewal of assured shorthold tenancies by Q2 2013, reducing slightly to 26 per cent in Q3 2013. The wave 2 interviews with landlords suggested that many preferred non-renewal of tenancies over eviction as a means of responding to situations where the tenants were in arrears, because of the time and costs involved in undertaking eviction proceedings (LR Chapter 8). The increasing use of tenancy terminations for LHA claimants struggling to pay the rent was also mentioned as an important change during 2012 and 2013 in the housing adviser interviews in the Inner London case studies (LR Chapter 8).

Figure 9.2 End of assured shorthold tenancy given as a reason for homelessness: Q4 1996 – Q3 2013



The number of households giving the end of an assured shorthold tenancy as the main reason for homelessness almost doubled between 2011 and 2013 – an additional 6,560 people were accepted as homeless due to the loss of an assured short-hold tenancy in the year to Q3 2013, compared to the year to Q1 2011. Fifty-nine per cent of this increase could be attributed to London, where an additional 3,880 households gave the end of a tenancy as the main reason. Proportionately, this represented a more than threefold increase in London Centre, Cosmopolitan and London Suburbs. Put another way, just over half the increase in all homelessness acceptances in London Suburbs over the period between 2011 and 2013 was accounted for by the increase in assured tenancy non-renewals³². This proportion rose to 70 per cent of the increase in London Cosmopolitan areas and 72 per cent of the increase in London Centre (SR Chapter 6).

³² In the Local Authority Insight Survey 2013 conducted by DWP, when asked about the four main reasons for homelessness in their LA, 12 per cent of the 231 respondents mentioned the end of assured shorthold tenancy as a reason, compared to 59 per cent who mentioned relationship breakdown, the most frequently mentioned reason. These figures are not directly comparable to the official CLG recorded statistics on Homelessness Acceptances due to differences in methodology which includes categories in the Insight survey being more extensive (including other reasons related to PRS tenancies) and which were also not mutually exclusive categories compared to those given for recorded statistics which also only allowed one reason to be recorded.

10 What has been the impact of the LHA reforms on those affected by the Shared Accommodation Rate changes?

Summary findings

The Housing Benefit (HB) caseload for single 25 to 34 year olds with no dependent children increased in the two years leading up to the change in the Shared Accommodation Rate (SAR) age threshold (January 2012) but once the SAR age threshold was raised, the caseload for the 25-34 Group began to fall steadily, both in 2012 and 2013.

The number of claimants in the 25-34 Group in the private rented sector (PRS) HB caseload fell by 13 per cent between the end of 2011 and June/August 2013, compared to nine per cent for single people under 25.

The largest decreases were in the higher rent areas of London. The 25-34 Group caseload fell by 39 per cent in London Centre, by 26 per cent in London Cosmopolitan areas and 25 per cent in London Suburbs during this period.

For those single people in the 25-34 Group who were not already in shared accommodation in January 2011, contractual rents for a given property have been reduced on average by £4.80 per week, suggesting that 63 per cent (£8.25 per week) of the reduction in Local Housing Allowance (LHA) was being felt by the tenants and 37 per cent by their landlords.

In wave 2, a significantly higher proportion of landlords in Inner London (29 per cent) compared to the sample as a whole (17 per cent) said they no longer let to the under 35s.

The proportion of landlords planning to expand the shared accommodation they let increased from five per cent in wave 1 to 13 per cent by wave 2; in Inner London it increased from one per cent to 22 per cent.

10.1 Impacts on single people between 25 and 34 years old

One of the aims of the research programme was to identify the effects of the LHA reforms on specific sub-groups. Due to the decision to extend the upper age limit for the Shared Accommodation Rate (SAR) for single people without dependent children from 25 to 35 years old from January 2012, this group of LHA claimants merited particular attention. For

brevity we will refer throughout this chapter to those potentially affected by the SAR measure (single people with no dependent children) as the '25-34 Group'. This category does include those single people in this age band who were **already** living in shared accommodation, and therefore not affected by the SAR changes.³³ It does not, however, include those tenants in this age band who cohabit or who have dependent children.

10.2 Impacts on the caseload of the 25-34 Group

The HB caseload for the 25-34 Group increased in the two years leading up to the change in the SAR age threshold (January 2012), but once the SAR age threshold was raised, the caseload for the 25-34 Group began to fall steadily, both in 2012 and 2013. The proportion of the 25-34 Group in the total HB caseload in the two years prior to the SAR changes had been between eight and nine per cent, but in the year after the change it fell to seven per cent and remained at this level up to June/August 2013.

The largest decreases were in the higher rent areas of London. The 25-34 Group caseload fell by 39 per cent in London Centre, by 26 per cent in London Cosmopolitan areas and 25 per cent in London Suburbs during this period. London was therefore disproportionately affected by the decrease in this group in the PRS HB caseload. In London Centre, the 25-34 Group accounted for 15 per cent of all the caseload throughout 2010, but only ten per cent by June/August 2013.

It is not possible to attribute any of this change to the SAR measure without further investigation of the interaction between changes in caseload and other factors, such as an improving economy or wider changes to the benefits system. By benchmarking the changes observed in the 25 to 34 Group against a similar Group aged under 25 who were not affected by the reform, these factors could be considered. The number of claimants in the 25-34 Group in the PRS HB caseload fell by 13 per cent between the end of 2011 and June/August 2013, compared to a nine per cent reduction for single people under 25. In contrast, the difference in labour market conditions for out-of-work benefit claimants with no dependent children in the two age groups was minimal³⁴. The difference in the scale of reduction in PRS HB caseload for the 25-34 Group affected by the SAR could not therefore be fully explained by any labour market or area effects. The changes to the age threshold for SAR therefore seem to have had a specific impact on the number of HB claimants in the 25-34 Group and this effect was more notable in London than elsewhere (SR Chapter 6)³⁵.

The dynamics of change in the HB caseload also reflected these general trends. **On-flows** for the 25-34 Group, in the last quarter before the SAR changes were introduced, were 13,050 for Great Britain as a whole. They had fallen to 10,910 by June/August 2013, a reduction of over 16 per cent. In the first year after the SAR changes, the most notable

³³ Where the analysis only covers those in the 25-34 who were affected by the SAR changes, this is made clear in the text.

³⁴ Between November 2011 and August 2013 the number of out-of-work benefit claimants with no dependent children aged under 25 fell by 29 per cent compared to a 30 per cent reduction for those aged 25-34.

³⁵ Between November 2011 and August 2013 the number of out-of-work benefit claimants with no dependent children aged under 25 in London Centre fell by 34 per cent compared to a 33 per cent reduction for those aged 25-34; this contrasts with a fall in PRS HB caseload for the under 25 Group of 31 per cent compared to a fall of 39 per cent for the 25-34 Group.

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reductions in on-flows were in London Centre (a reduction of 18 per cent) and London Suburbs (down by 14 per cent). In the following six month period, the most notable reduction in on-flows was in London Cosmopolitan areas (down by 23 per cent). The reduction was also more marked in this six month period in Coastal and Countryside areas and Prospering UK areas. Following the introduction of the SAR reforms, the rate of **off-flow** from the PRS HB among the 25-34 group as a whole increased slightly (from ten per cent to 11 per cent by June/August 2013). This was seen across all area types but was most marked in London Centre and Southern Seaside Towns.

10.3 The Impact of SAR on entitlements, rents and property choices

The econometric analysis was applied to those in the 25-34 Group who were not in shared accommodation in January 2011 (and hence were entitled to the one-bedroom rate rather than the SAR at that point). They accounted for 6.9 per cent of LHA claimants in January 2011. Controlling for property type, by 11 months after the reforms came in individuals in this group saw their maximum LHA entitlements fall on average by £13.06 per week. This was larger than the estimated impact of the reforms on the whole sample of claimants (£6.84 per week) and the impact measured across all 25 to 34 year olds (£7.23 per week). On average, contractual rents for a given property had been reduced by £4.80 per week, suggesting that 63 per cent (£8.25 per week) of the reduction in LHA for those single people in the 25-34 Group who were not already in shared accommodation was being felt by the tenants, and 37 per cent by their landlords (ER Chapter 6).

If one does not control for any changes in property type, maximum LHA entitlements for the group fell by considerably less – £7.58 per week – suggesting that some individuals responded to the reform by changing where, or with whom, they lived. Taking into account the estimated fall in contractual rents when one does not adjust for changes in property type (£2.49 per week), individuals in this group saw their maximum LHA entitlements fall by just over £5 per week more than their contractual rents (ER Chapter 6).

The impact of the changes was not just seen in rent and entitlements but also on residential mobility. Eleven months after the point of impact of the reforms, individuals likely to be affected by the increased scope of the SAR were more likely than the sample as a whole to move house (by 1.4 percentage points (ppts) per month) and more likely (by 12.9ppts) to live in shared accommodation as a result. However, as for existing claimants as a whole, they were less likely to move house (by 0.6ppts per month) – and potentially forfeit their transitional protection – at the start of their transitional protection period (ER Chapter 6).

10.4 Landlord response to SAR changes

The reduction in the proportion of HB claimants in the 25-34 Group in central London after the SAR changes was borne out by the survey responses of landlords. In wave 2, a significantly higher proportion of landlords in Inner London (29 per cent) compared to the sample as a whole (17 per cent) said they no longer let to the under 35s. (LR Chapter 6) A quarter of landlords overall in the wave 2 survey said they were affected by the SAR changes, compared to 12 per cent in wave 1. The change was again more marked among landlords with properties in Inner London case studies, where the proportion increased from 18 per cent in wave 1 to 37 per cent in wave 2 (LR Chapter 5).

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A fifth of the overall sample (and 31 per cent in the Inner London sub-sample) said that demand for shared accommodation had increased in the previous year. Some landlords said they had encouraged people to rent together and move out of self-contained rented accommodation. In interview, many landlords said they were reluctant to move into the Houses in Multiple Occupation (HMO) market, due to the perceived financial burden of additional management and maintenance costs. (LR Chapter 7) Nevertheless, the proportion of landlords planning to expand the shared accommodation they let increased from five per cent in wave 1 to 13 per cent by wave 2; in Inner London it increased from one per cent to 22 per cent (LR Chapter 9).

In the qualitative interviews with landlords, those taking action to evict or not renew tenancies for tenants affected by the SAR changes were asked about where tenants had moved to. Landlords generally had no idea about the housing circumstances or mobility patterns of those affected. A significant number of advisers however, reported that those affected had 'dropped off the radar' and there was a widespread perception that 'hidden homelessness' (e.g. 'sofa surfing') had increased among this group (LR Chapter 6). This was reported in the majority of case study areas but was perceived to be more acute in Inner London case study areas (LR Chapter 6; DWP, 2013d). There will inevitably be a lag between the changing profile of demand in the PRS, some of which will be influenced by the LHA reforms, and any supply response. The results would suggest that some market adjustment was starting to emerge by the end of 2012.

11 Conclusion

This research programme was designed as a multi-method inter-disciplinary analysis of the impact of the changes to Housing Benefit (HB) and Local Housing Allowances (LHAs), conducted through four discrete strands of work. In the conclusion we concentrate on some of the major findings that cut across different elements of the research analysis, reviewing in turn some of the financial impacts of the measures, impacts on landlord and tenant behaviour, regional and area impacts and the effects of specific measures within the overall package of LHA reforms.

11.1 Financial impacts

In November 2008, the average LHA award was nearly £10 higher than the average HB award for tenants in the deregulated (pre-LHA) private rented sector (PRS). After the reforms were introduced, the average LHA award decreased and by November 2013 the average weekly LHA award was £106.07, compared to £104.67 in the deregulated PRS. Overall government expenditure on HB also decelerated and then the level started to fall during the last six months of analysis.³⁶

The analysis of new and repeat LHA claimants shortly before and after the reforms took effect in April 2011 estimated that the reforms had acted to reduce maximum entitlements in given property types by an average of £8.21 per week. It was found that 94 per cent of this fell on tenants in terms of reduced LHA relative to contractual rents, and six per cent fell on landlords in terms of contractual rent reductions. The subsequent analysis of existing claimants estimated that maximum LHA entitlements in given property types had been reduced³⁷ by an average of £6.84 per week; 89 per cent of this reduction falling on tenants in terms of reduced LHA relative to contractual rents and eleven per cent on landlords in terms of contractual rent reductions. Groups whose LHA entitlement was reduced by more than the average included families with dependent children (£8.43 per week for lone parents and £7.96 for couples with children), for whom the reductions were roughly in proportion with their higher initial entitlements; and claimants in London (£13.39 per week), for whom the reductions were relatively high in proportion to their initial entitlements as well as in cash terms.

To make up for the reduced LHA relative to their rents, tenants in the case study areas said they were most likely to spend less on household essentials and non-essentials³⁸ or to borrow money from family or friends. Only a minority of claimants took specifically housing-related actions in response, with about a quarter trying to negotiate the new rent when they moved to new accommodation and one in five attempting to renegotiate their rent with their existing landlord. The proportion of tenants who said that it was difficult to afford to pay the rent increased slightly from 42 per cent in the wave 1 survey to 46 per cent in wave 2. The proportion of tenants who reported that they were in arrears on their rent increased from 10 to 12 per cent during the year between the two surveys. By wave 2, one in five tenants

³⁶ June to November 2013.

³⁷ Eleven months after any transitional protection from the measures was due to expire. This was scheduled to occur between January 2012 and December 2012, depending on when claimants' annual claim anniversary was due.

³⁸ As defined by the respondents themselves.

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ascribed their arrears to reductions in HB. Forty-seven per cent of landlords in wave 2 said they had witnessed an increase in rent arrears since the reforms started, an increase of seven percentage points from wave 1. Twenty-eight per cent of all landlords thought the arrears had increased specifically due to the LHA reforms.

According to tenants, the most common response by their landlord to any arrears was to ask them to pay the money back gradually over time. Among landlords, in wave 2³⁹, 37 per cent of respondents had taken action to evict, not renew or end tenancies of LHA tenants since April 2011, compared to 27 per cent who had taken action against non-LHA tenants. Housing advisers in some areas suggested that landlords were now more robust in evicting LHA tenants who were in arrears; advisers in other areas suggested landlords were mainly seeking not to renew tenancies, due to the cost and time involved in evictions. Advisers in most case study areas thought there would be a time lag before the impact of the LHA measures on tenancy terminations became fully evident.

Across the 19 case study areas, the tenants survey found that 13 per cent of movers – two per cent of all tenants – had been homeless at some point in the year between wave 1 and wave 2. The number of households in England giving the end of an assured shorthold tenancy as the main reason for homelessness almost doubled between 2011 and 2013. Fifty-nine per cent of this increase could be attributed to London, where an additional 3,880 households gave the end of a tenancy as the main reason. This will be the result of several factors, as well as the LHA reforms. Nevertheless, the trend in the past two years is marked. Just over half the increase in all homelessness acceptances in London Suburbs over the period between 2011 and 2013 was accounted for by assured tenancy non-renewals. This proportion increased to 70 per cent of the increase in London Cosmopolitan areas and 72 per cent of the increase in London Centre.

11.2 Impacts on landlord and tenant behaviour

Any potential impacts on behaviour are inevitably complex to assess and one needs to be duly cautious when attributing any reported changes to the LHA reforms. Furthermore, some effects (for example on residential mobility) are likely to be more lagged than other impacts. Nevertheless, some overall patterns can be discerned.

There had been **an increase over time in negotiations over rent** at the start of a tenancy and in renegotiations during a tenancy. One in four tenants had tried to negotiate a lower rent when they originally took on the accommodation where they were living at the time in both the wave 1 and the wave 2 surveys. Tenants who had moved and had a shortfall between the rent and their LHA were significantly more likely to have tried to negotiate a lower rent than those who did not have a shortfall. One in five tenants who had not moved by wave 2 had tried to renegotiate the rent of their existing home. LHA claimants who had a shortfall between the rent and their LHA payment were no more likely to have attempted to renegotiate the rent of their existing home than others.

³⁹ The question was not asked in wave 1.

The impact of recent reforms to Local Housing Allowances: Summary of key findings

The proportion of landlords who said they would be prepared to negotiate over rents in order to receive direct HB payment increased from 29 to 37 per cent by wave 2. Twenty-seven per cent of landlords said there had been an increase in negotiations with current tenants since April 2011, rising to 48 per cent of landlords in Inner London. The proportion of landlords who expected to be negotiating lower rents with current and prospective tenants in the year ahead also increased, and this increase was more marked in the Inner London case study areas.⁴⁰

In terms of **employment-related responses**, tenants who were living in working households were significantly more likely than other types of tenant to have ceased claiming LHA since wave 1 (as were tenants who had moved home). About a quarter of claimants who were out of work said they had attempted to make up the shortfall by looking for a job; and smaller proportions had taken other work-related actions such as increasing their hours of work, looking for a better paid job or looking for an additional job. Younger claimants were twice as likely as older claimants to have looked for a job during the previous year. Lone parents and couples with dependent children were more likely than other household types to have increased the hours they worked in their current job. The proportion of tenants who had taken work-related actions in the 12 months prior to the wave 2 survey was very similar to the actions that tenants at wave 1 said that they **would** take if they were to face a reduction in their benefit resulting in a shortfall, or a larger shortfall.

In terms of **residential mobility**, the wave 2 survey found that 15 per cent of tenants had moved since wave 1. Tenants who were no longer on LHA were almost three times as likely to have moved home as those who were claiming it. Most tenants had not moved very far: the majority of movers were living in the same local area and the same local authority (LA) district as before. Two-fifths of the movers had moved less than a mile and four-fifths less than five miles. Many tenants also commented that they only wanted to move locally and that longer distance moves were either unacceptable or impractical; there was a strong desire among many households to stay put, especially in high demand PRS markets, due to social and support networks, the desire to avoid children moving schools, the proximity to employment and the lack of other affordable housing options elsewhere. Similar reasons were given by landlords when they noted the strong preference among most of their tenants only to move short distances. A third of LHA claimants who had moved said they had difficulties finding new accommodation. The cost of moving home – particularly the need to pay a deposit and high charges levied by lettings agents – was an important reason why many respondents had not moved.

Only a minority of moves among wave 2 respondents appeared to be due to the LHA changes, and, contrary to some expectations, only a minority of tenants had moved to cheaper accommodation. Satisfaction with their accommodation increased very substantially among movers, but fell slightly among those who had not moved. The majority of moves taken by tenants therefore seemed to be for 'positive' reasons, although the proportion of respondents who mentioned 'wanting to pay a lower rent' as a reason for moving increased from five per cent in wave 1 to fifteen per cent in wave 2. This was echoed by the wave 2 landlords survey undertaken in late 2012, where 23 per cent of respondents⁴¹ said that there had been an increase in tenants wanting to move in the past year because they could no longer afford the rent. The LHA reforms were not the most significant reason why claimants moved, but they were becoming more important over time.

⁴⁰ Increases from one to 11 per cent of respondents in terms of negotiating with current tenants and from ten to 18 per cent for prospective tenants.

⁴¹ Thirty-nine per cent in Inner London.

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In terms of **landlords' lettings priorities**, in wave 2 the proportion of landlords who were letting to out-of-work benefit claimants⁴² was lower (73 per cent) than in wave 1 (79 per cent). The proportion of landlords who said they were currently letting to lone parents fell from 53 per cent in wave 1 to 46 per cent in wave 2; and the proportion letting to childless couples fell from 45 to 38 per cent. In interview, some landlords said they were attempting to move out of the LHA sub-market, whereas others said they valued the continuity of retaining tenants, even if they had to forego some of their rental income as a result. A smaller proportion of landlords in 'LHA Dominant' areas than elsewhere said they no longer let to LHA tenants. Often this was simply because of the absence of alternative sources of demand for their properties.

In terms of **future plans**, 74 per cent of all landlords in wave 2 (the same as in wave 1) and 64 per cent in the Inner London sub-sample (62 per cent in wave 1) said they intended to continue letting to LHA tenants in the coming year. When asked in a more general way, 35 per cent of landlords said they were 'considering' or 'planning' to exit the market for LHA properties in the following twelve months. Based on the evidence from responses in wave 1, it is likely that a much smaller proportion than this will actually exit the market. In LHA Dominant case study areas, the reductions in LHA rates had placed particular pressure on landlords' margins due to the lack of other sources of demand outside the LHA market. As a result many landlords said they had little option but to reduce their rents in line with the reduced LHA rate, while others said they were reducing maintenance expenditure, raising concerns (echoed by housing advisers) in these areas about the future quality of property being offered to LHA claimants.

11.3 Regional and area impacts

The HB caseload increased in nearly all areas after the reforms were introduced, especially in the lower rent Mining and Manufacturing areas (where it increased by 13 per cent⁴³), though the rate of growth slowed over time. The 'on-flow' of new claimants on to the system also increased more (by five per cent) in Mining and Manufacturing areas than elsewhere. However, in London Centre, the caseload declined by 14 per cent⁴⁴, (and on-flows by 16 per cent) with the most marked decline occurring in 2012/13, when the new SAR rules were introduced and transitional protection came to an end.

The largest reductions in the maximum LHA entitlement⁴⁵ were in high rent areas, amounting to £13.39 per week in London, compared to an overall average reduction of £6.84. The reduction in entitlements in London was also relatively large in proportionate terms, at 6.6 per cent of January 2011 entitlements, as opposed to 5.4 per cent for all claimants. This has resulted in some narrowing of average LHA rates between different parts of the country. The overall HB caseload in London Centre declined markedly between the quarter prior to the reforms being introduced and June/August 2013. During this period, the number of lone parent households fell by 20 per cent and the number of working age households fell by 15 per cent. Not only was the LHA sub-market in London Centre shrinking during this period – but the scale of the decline was markedly different amongst some sub-groups of claimants.

⁴² Not phrased as 'LHA claimants' in this question, a third of whom receive an income from work (November 2013 figures).

⁴³ Between January/March 2011 and June/August 2013.

⁴⁴ As above.

⁴⁵ Eleven months after the 'point of impact'.

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The impact of the Shared Accommodation Rate (SAR) reforms was particularly marked in the higher rent areas of London, but the reduction in HB caseload was not solely a consequence of these changes. At local authority (LA) district level, the largest decreases in the PRS HB caseload in London Centre have taken place in the very high rent areas of Westminster (27 per cent decrease), and Kensington/Chelsea (26 per cent). The decrease was lower than average in Hammersmith and Fulham (11 per cent), Islington (ten per cent) and Tower Hamlets (seven per cent).

On-flows of LHA claimants in London Centre fell sharply in the year immediately after the reforms began to be introduced (2011/12) and then stabilised during 2013. This perhaps suggests that a 'core' HB sub-market now remains, following the sharp reductions in the immediate wake of the reforms. On-flows continued to fall in London Cosmopolitan areas, while they have returned to their pre-reform level in London Suburbs, possibly indicating some displacement from the 'inner ring' around the central core to outer London over the past year. This trend was also identified in wave 2 interviews with landlords and housing advisers based in London.

The gap between the average LHA rate and the lower quartile private market rents⁴⁶ in London Centre had stabilised and the average LHA rate was £68 a week lower for LHA tenants than the average lower quartile rent for non-HB tenants in the PRS. A similar divergence between the LHA rate and lower quartile private market rents (from a different starting position) was evident in London Cosmopolitan areas and London Suburbs. This suggests that rents in the LHA sub-market in London may be in the process of becoming increasingly differentiated from the wider PRS market. Some landlords also suggested a more segmented rental market was appearing in London, with a 'core' LHA sub-sector remaining, where it was difficult to let to non-LHA applicants because of the wider neighbourhood environment. There was also less mobility of LHA claimants out of the lower value segment of the PRS in London, which was in turn marked by an increasing concentration of LHA claimants.

11.4 The impact of specific measures

Claimants particularly likely to be affected by the **abolition of the five bedroom rate – defined as those entitled to this rate in January 2011** – saw their maximum LHA entitlement in given property types fall by an average of £29.21 per week due to the reform package (compared to £6.84 for the sample as a whole); this led to a reduced contractual rent for landlords of £11.69 and reduced LHA relative to contractual rents (and hence income after housing costs) for tenants of £17.52 per week. However, these tenants were more likely to move into cheaper properties with fewer bedrooms as a result, and this had reduced the average fall in their income after housing costs to £12.56 per week, 11 months after they had been brought into the new LHA regime.

The econometric analysis examined the impact of the **national LHA caps** on those individuals who lived in one of the Broad Rental Market Areas (BRMAs) (all in Inner London) where the caps were binding and whose LHA entitlement in January 2011 exceeded the level of the impending caps. Controlling for property type, this showed that average maximum LHA entitlements had fallen by £41.93 per week⁴⁷. Eighty-six per cent (about £36 per week)

⁴⁶ The Valuation Office Agency data do not allow for comparisons with rents at the 30th percentile, so the lower quartile, the 25th percentile, is used as the nearest proxy.

⁴⁷ Figures are for claimants eleven months after they had moved on to the new regime.

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of this reduction was being felt by tenants, via lower LHA relative to contractual rents, with the remainder being felt by landlords in the form of lower contractual rents. These claimants were more likely than the sample as a whole to have moved house and to have moved out of any of the areas affected by the caps as a result of the reforms.

In terms of the **changes to the Shared Accommodation Rate (SAR)**, the caseload for the 25-34 Group began to fall steadily, once the age threshold was raised. The largest decreases were in the higher rent areas of London. The 25-34 Group caseload fell by 39 per cent in London Centre, by 26 per cent in London Cosmopolitan and 25 per cent in London Suburbs during this period. This difference in the scale of reduction could not be fully explained by any labour market or area effects. The reduction in the proportion of HB claimants in the 25-34 Group in central London after the SAR changes was borne out by the survey responses of landlords. In wave 2, a significantly higher proportion of landlords in Inner London (29 per cent) compared to the sample as a whole (17 per cent) said they no longer let to the under 35s. A fifth of the sample⁴⁸ said that demand for shared accommodation had increased in the previous year. The proportion of landlords planning to expand the shared accommodation they let increased from five per cent in wave 1 to 13 per cent by wave 2; in Inner London it increased from one per cent to 22 per cent.

The econometric analysis was applied to those in the 25–34 Group who were not in shared accommodation in January 2011. Controlling for property type, individuals in this group saw their maximum LHA entitlements fall on average by £13.06 per week as a result of the reform package⁴⁹. If one does not control for any changes in property type, maximum LHA entitlements for the group fell by considerably less – £7.58 per week – suggesting that some individuals responded to the reform by changing where, or with whom, they live. Mobility rates among those affected by SAR⁵⁰ were indeed higher than for the sample as whole and they were an estimated 12.9ppts more likely to be in shared accommodation as a result of the reforms 11 months after the point of impact.

The research also examined those measures that had been introduced to ease the impact of the LHA reforms. The **increased use of Discretionary Housing Payments (DHPs)** has been vital in helping to support some tenants to meet increased rental shortfalls. Landlords gave several examples where the use of DHP had sustained a tenancy, although other landlords felt that the temporary nature of the support was merely staving off the inevitable. Many of the housing advisers suggested that DHPs were rarely being used by tenants to provide breathing space to scan other more affordable housing options. It was primarily seen as ‘a short-term fix’ and the relatively small proportion of tenants (six per cent) receiving DHPs echoed this view. Some of the tenants who were in receipt of a DHP were not sure what exactly it was, and how it was to be distinguished from their LHA entitlement. Nonetheless, all tenants receiving DHPs were very relieved to have them.

One reason for landlords being prepared to retain tenants who were struggling to pay the rent, at least for the moment, was the **increased use of direct HB payments** to them, especially in lower demand markets. The survey results suggested that there has been a marked move back towards landlords seeking the security of direct payments, and not just under the criteria stated in the new LHA measures. Thirty per cent of landlords in wave 2 said they received direct payments for all their tenants and a further 17 per cent for the majority of tenants.

⁴⁸ In Inner London, 31 per cent of the sub-sample.

⁴⁹ Eleven months after they had been moved onto the new LHA regime.

⁵⁰ Ibid.

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