



Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit

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Background

This is a summary of the interim report from the independent review, commissioned by the DWP, on the recent changes to the Local Housing Allowance (LHA) system of Housing Benefit (HB), covering the private rented sector (PRS) in Great Britain (GB).¹ This report covers findings from five elements – face-to-face interviews with claimants, landlords and front-line housing and benefits advisors, in addition to spatial and econometric analyses of the impact of the changes. The spatial and econometric analyses are based primarily on national-level administrative data. The interviews are based in 19 case study areas in GB – it is not possible therefore to generalise from the **interview** findings to assume they represent an accurate **national** picture of the impact of the LHA measures.

Policy context

LHA is a way of calculating HB for tenants in the deregulated PRS. Changes to the LHA system were announced in the June 2010 Budget and the Comprehensive Spending Review announcement of 2010. These measures include:

¹ An Early Findings report, containing the findings of a face-to-face survey with claimants and postal survey with landlords was published in June 2012. A further round of reporting with the results of 2012 surveys with claimants and landlords, in addition to a second round of interviews with claimants, landlords and advisors, and an update on the spatial and econometric analysis is due to be published at the end of 2013.

changing the basis for setting LHA rates from the median (50th) to the 30th percentile of local market rents; capping LHA rates by property size and scrapping the five-bedroom rate; removing the £15 a week excess that claimants could keep if their maximum LHA entitlement exceeded their rent; increasing financial support for Discretionary Housing Payments (DHPs); temporarily widening the discretion of local authorities (LAs) to make direct rent payments to landlords in return for rent reductions; and raising the age at which the Shared Accommodation Rate (SAR) applies from 25 to 35.

The research programme

Interviews were undertaken in 19 case study areas across GB, selected to ensure a wide range of local housing and labour market circumstances are covered. Four London Boroughs, nine other LAs across the English regions, three Welsh and three Scottish LAs have been selected. Interviews with landlords were undertaken between November 2011 and January 2012; claimant interviews were undertaken in early 2012; and interviews with advisors between May and June 2012. Therefore, the majority of interviews were conducted several months after the measures had been introduced for 'new' claimants (from 1 April 2011), but before they had an impact on the rents and housing circumstances of most 'existing' claimants.

The **spatial analysis** component of the evaluation involved mapping trends over time for different types of housing and labour markets across Britain, using national data from the Single Housing Benefit Extract (SHBE) on HB caseloads, on-flows and off-flows. At this stage it has examined trends in LHA rates between January 2010 and May 2012.

The **econometric analysis** component of the evaluation, undertaken by the Institute for Fiscal Studies, uses SHBE data from June 2010 to December 2011 to provide estimates of the impacts of the reforms on outcomes. It examines the incidence of shortfalls between the new LHA rates and contractual rents between new and repeat claimants, on one hand, and landlords, on the other.

Summary of spatial impacts

The spatial **distribution** of LHA claimants is not evenly spread. LHA claimants tend to be more prevalent in areas with a larger PRS, higher rates of worklessness and/or high private market rents. Following the changes, the LHA rates at which individual claims were assessed were on average lower than before by £5 or less a week in 122 districts; by between £5 and £10 in 229 districts; and over £10 a week lower in 28 LAs. The greatest decreases have been in London, in and around Cambridge, and York. The highest reductions, more than £140 a week, took place in three London boroughs: Westminster, Kensington and Chelsea, and the City of London.

Over the past two years (pre- and post-reform) **LHA on-flows** have remained relatively stable, but this trend differs by area type. On-flows reduced to the greatest extent in London Centre (by 31 per cent between March/May 2010 and March/May 2012). However, on-flow rates were falling in the London centre and London cosmopolitan areas before the reforms and followed a similar trajectory both before and after the reforms. Trends for large seaside towns were also examined in order to assess the prediction that there would be an increased on-flow of

claimants into areas which had a ready supply of PRS and a strong HB sub-market; there was no marked increase in LHA on-flows in these areas during the two-year period.

Working households are the fastest growing subgroup of all claimants since 2010. This cannot be attributed to the LHA reforms, however, as the rate of growth slows down after the measures were introduced. This growth has been most marked (both pre- and post-reform) in the London suburbs, which have also witnessed the largest increase in couples with children. The LHA claimant profile in central London has changed more than any other area type between March/May 2010 and March/May 2012: the number of 25-34 year olds has dropped markedly since the SAR changes in January 2012; it is the only area type where the proportion of lone parents has decreased; while the proportion of working households and of couples with children has increased in these districts in the two-year period.

Overall, the spatial effects of changes in the LHA claimant population are most evident in London, especially in central London. This is likely to reflect the relatively high rents in these areas and the large differentials between pre- and post-LHA rates in some areas since the introduction of LHA maximum rate caps. The various time lags through measures such as transitional protection and DHPs may well have blunted the spatial impacts (as they were intended to) outside central London.

Summary of impacts on entitlement, rents and property types

It is estimated that the reform reduced maximum LHA entitlements in given property types by an average of £8.21 a week, while resulting in rent reductions in given property types by an average of £0.46 a week. This implies that, in terms of reductions in LHA entitlements in given property types, 94 per cent of the incidence of the reforms was on tenants, with the other six per cent on landlords.

There is variation in these results by sub-group. Single claimants and younger claimants seem to have been able to pass a greater share of the incidence of the reforms onto landlords via reduced rents. Additionally, the incidence on landlords was greater in urban areas outside of London, and in the suburbs of London. There is no evidence of people renting different smaller (fewer bedrooms) properties as a consequence of the reforms.

The low incidence on landlords may be attributed partly to the fact that the removal of the £15 weekly excess is different to a typical cut to rent subsidies; there is no reason to expect rents to fall as a result of it. However, there may well be other reasons for the low incidence of the reforms on landlords estimated here, and consequently there are various reasons to be cautious about the results at this stage:

- First, these results are based on new and repeat LHA claimants only right at the start of their claims and only in short periods before and after the reforms were implemented. It may take time for market rents to adjust in response to the changes. In the short term, tenants may be less able to move to cheaper accommodation which may also make them less able to negotiate a lower rent for their current home. In the longer term they may be more able to move and this could strengthen their hand when negotiating rent. Accordingly, the LHA changes might lead to a larger reduction in rents in the longer run, and therefore the data examined here may not represent the ultimate post-reform equilibrium in the rental market.
- Second, with the administrative data used it is only possible to examine the impact of the reform on **contractual** rents. There is no guarantee that this is what tenants are actually paying in all cases. Interviews with landlords and housing advisers indicated that one response to the reform has been for some landlords to accept lower rents informally from LHA tenants without changing their contractual

rents. If this response is widespread, these estimates may be understating the real incidence of the reform on landlords. Future work will use additional data from after the introduction of the reform to investigate its longer-term impact on landlords and tenants.

Summary of interviews with claimants

The qualitative interviews with LHA claimants have been largely consistent with the evidence from the survey of claimants, discussed in the Early Findings Report, and the observations of both landlords and housing advisers. Most obviously, they confirmed that awareness of LHA, and of the changes to the scheme, was relatively poor. A substantial minority of participants were ‘new’ claimants – and therefore already on the new rules – and seemed generally unaware that the scheme had recently changed. However, most of the participants interviewed were still under the transitional protection for ‘existing’ claimants (those whose LHA claim had begun before April 2011) and had not yet experienced a cut in their LHA. The interviews with the latter participants necessarily focused on how they **might** respond to a cut that had not yet been implemented. Most of the participants who did know by how much their LHA was likely to be reduced had not yet taken any action to deal with the pending reduction.

Although the early findings survey had indicated that a substantial minority of claimants might look for work, or try to increase their hours of work in response to the changes, in practice very few believed these efforts would be successful. Participants’ ability to cope with the reduction in their LHA appeared likely to depend on the size of the shortfall and their financial resilience. In general, participants were hanging on to their current accommodation for as long as possible because they did not want to move, even if they would probably have to do so eventually. A minority of participants had begun to look for new accommodation and several had moved already.

In the next stage of the qualitative research, the interviews will be able to explore how participants **had responded** to the actual reduction in their LHA entitlement.

Summary of interviews with landlords²

Local housing market conditions and, specifically, alternative sources of demand, were central to many landlords' calculations about whether to negotiate over rents with tenants and about whether they would be willing to let to HB claimants. However, respondents were often unable to attribute changes in their priorities and decisions solely to LHA changes

The gap between the contracted rent and the LHA rate in higher demand areas encouraged landlords to reduce their lettings to LHA tenants. Landlords were reluctant to use eviction proceedings against their tenants who were building up arrears, for a mixture of business and practical reasons; they were more prepared to terminate or not to renew tenancies, so this could be a lagged effect. There were also suggestions, however, that rents may have been inflated in some areas immediately prior to April 2011, which would give landlords some leeway if they retained their HB tenants by reducing rents. Nearly all landlords interviewed, however, did not see the move to direct rent payments as sufficient incentive to negotiate over rents. Most respondents said that they would avoid letting to single under-35 year olds if at all possible.³ The vast majority of landlords said that they were also very reluctant to move into

the Housing in Multiple Occupation (HMO) market because of a range of 'hassle' factors. However, this kind of supply-side market adaptation would only unfold over a longer period of time, so it remains to be seen whether this initial wariness will diminish over time, or whether other providers will step in to increase HMO supply.

In terms of future priorities for lettings, rent setting and property acquisition or disposal, the predominant response was to 'wait and see'. This was not true, however, of landlords in the three high value London areas, (Brent, Hackney and Westminster) where landlords were already acting to reduce the proportion of lets to LHA tenants and where some larger properties were being converted into smaller units. It is important to note that the issues on the horizon that shape future landlord behaviour most may not stem directly from the ripple effects of LHA measures but from one or more of three other factors: even a slight increase in interest rates would, according to many respondents, place intolerable pressure on margins and force some out of the market if increasing rent levels was not an option; the perceived shift towards HB being paid direct to the tenant rather than the landlord was seen as introducing further uncertainty into the reliability of future income streams; and many landlords were very nervous about the introduction of Universal Credit from autumn 2013 onwards, and what they saw as the end of a discrete benefit to pay for the rent.

Summary of interviews with front-line housing and benefits advisers

There was a general consensus that the full effects of the reforms would not begin to be experienced until spring 2013 and many housing advisers mentioned it was very difficult to disentangle the effects of the LHA measures from the impact of other policy measures, in welfare reform and beyond, as well as wider housing market dynamics, and economic trends. It's also important to note that advisers will inevitably

² Due to transitional protection measures, when these interviews were undertaken, landlords had only been dealing with new registrations and tenants who had experienced a change of circumstance since April 2011. Furthermore, although the interviewers were at pains to differentiate the **actual** effects from the **potential** effects of the measures, landlords often blurred this distinction in their responses, so it is sometimes difficult to separate direct impacts from assumed future impacts.

³ As a consequence of changes to the SAR.

spend their time with more vulnerable households than with a more representative cross-section of LHA claimants.

Advisers from all case study areas noted that demand in the PRS had increased in recent years. Affordability concerns dominated in the London PRS markets – not just in the expensive inner-London boroughs but also in traditionally more affordable markets such as Barking and Dagenham, where indigenous residents were often competing with inner-London boroughs seeking to lease PRS properties to discharge their homelessness responsibilities. Advisers in the four London case study areas noted an increase in the number of landlords exiting the HB market, primarily due to the reduction in rental yields. There was also a strong sense among London advisers that more affordable housing options were not available in neighbouring districts in any case; a move out of London altogether might be necessary to secure a much cheaper rent. In lower value PRS markets, advisers expressed concern about poor management standards in some LHA-dominated markets, and the deteriorating quality of the properties on offer. Advisers thought there had been relatively little mobility of tenants out of the district due to the LHA measures, but there was anecdotal evidence of some sifting within neighbourhoods in more mixed PRS areas, with higher concentrations of LHA households in particular neighbourhoods.

Although advisers thought rent arrears were increasing, especially in London, LHA measures were seen as a contributory (but not necessarily the primary) factor along with myriad other pressures on household budgets. Advisers felt that only a minority of landlords were reducing their rents as a result of negotiations. This was more possible where the reduction was small, where it enabled landlords to retain a 'good' tenant and where there were few alternative (non-LHA) sources of demand. Advisers felt that the incentive to landlords of receiving HB direct in exchange for reducing rent had a negligible impact – whether because landlords

thought they could receive direct payments from the LA without much difficulty in any case, or because they would let to a non LHA tenant to 'avoid hassle'. There had been relatively few evictions of tenants due to non-payment of rent; landlords preferred to informally accept payment at less than the contracted rate, or wait and then not renew the tenancy, if letting to non-LHA households next time was a feasible proposition. Advisers noted recent increases in homelessness had placed strain on temporary accommodation, especially in London, but felt that LHA measures were only a secondary factor here.

Of all the measures, the changes to SAR were thought to have had the most impact, and many respondents thought that the problems facing single claimants under 35 would become more prominent when they moved out of the transitional protection period. Advisers were especially concerned about the problems facing separated parents currently living in one-bedroom properties. In a wide range of local housing markets advisers observed a growing mismatch between the demand for shared accommodation and the sluggish (or non-existent) supply response. The advisers in London felt that SAR changes had caused many of those under 35 years old to change their housing situation, whether through 'forcible' or voluntary sharing, moving back in with parents, or moving further afield.

The vast majority of advisers welcomed the value of DHPs to help with the transition to the new regulations. While some expressed concerns about the different approaches taken by LAs in prioritising expenditure, given the diversity of tenant needs, landlord behaviour and housing market dynamics, advisers generally welcomed the degree of local flexibility. While London boroughs adopted a very proactive approach to the use of DHPs, there were widespread concerns that this was simply prolonging what might ultimately prove to be an unsustainable tenancy. All expressed concern about the consequences for some vulnerable households once the temporary payments were terminated.

Conclusion

Overall, the research into the early impacts of the LHA reforms shows that the main effects have been geographically limited. The impact is far more marked in the London housing market than elsewhere. The on-flows of LHA claimants at LA level since the reforms have reduced most sharply in the London central areas, reflecting the wider gap between average rents and LHA rates in these boroughs. The anticipated displacement of existing LHA households in these areas has not yet taken place. The transitional measures, such as DHPs, appear to have temporarily blunted the impacts in London and tighter PRS markets elsewhere (such as York and Cambridge), as they were partly intended to do.

At the time of the research, the early effects of LHA reforms had also been fairly limited in terms of displacement, additional evictions or more cases of homelessness. Underlying housing market pressures in the PRS were more significant drivers of landlord and claimant behaviour. Analysis of the incidence of the reductions in LHA rates indicates that 94 per cent of the gap falls to tenants to meet through increased shortfalls, while six per cent of the

gap is met by landlords (through reducing rents). There may, however, be informal arrangements whereby landlords 'turn a blind eye' to tenants who fail to meet the full rent payment, at least for the remainder of their current tenancy, and it may take time for market rents to adjust to the changes.

Many of the research findings at this early stage have inevitably been provisional; many tenants were still in the transitional protection period at the time of the interviews, and housing advisers felt that the impacts of the measures would not become evident until 2013. The next phase of this research project will involve reporting on the findings of the follow-up large-scale surveys with claimants and landlords being undertaken in late 2012; the further in-depth qualitative interviews claimants and landlords undertaken in early 2013; housing adviser focus groups; and further spatial and econometric analysis of data running through to early 2013. Through these combined methods it will be possible to ascertain whether many of these interim research findings continue to hold in the longer term, or whether the impacts will change, if landlords and claimants adapt in a different way once the LHA reforms become more embedded.

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The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 909532 37 3. Research Report 838. May 2013).

You can download the full report free from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

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