



# Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: final reports

By Christina Beatty, Ian Cole, Ryan Powell (CRESR); Peter Kemp (University of Oxford), Mike Brewer, Carl Emmerson, Andrew Hood and Robert Joyce (IFS)

## Background

This is a summary of final reporting outputs from the independent review, commissioned by the Department for Work and Pensions (DWP), of the changes to the Local Housing Allowance (LHA) system of Housing Benefit (HB), covering the private rented sector (PRS) in Great Britain.<sup>1</sup>

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 was funded by DWP, the Department for Communities and Local Government (CLG), the Scottish Government and the Welsh Government. In parallel, the researchers have carried out a review of the changes in Northern Ireland, funded by the Northern Ireland Executive through the Department for Social Development (DSD).

## Research 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 Spending Review of 2010. These measures include: 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 per 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 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.

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<sup>1</sup> An early findings report was published in June 2012, and an interim report was published in May 2013.

## The research reports

The package of reports consists of a thematic summary report, which is supplemented by four technical reports, containing findings from: two waves of surveys, conducted in autumn 2011 and 2012, and follow-up interviews with a sample of affected claimants<sup>2</sup>; two waves of surveys and follow-up interviews with a sample of landlords in late 2011 and again in late 2012 and early 2013; interviews and focus groups discussions with housing and benefits advisers<sup>3</sup>; econometric analysis of administrative data on HB claims assessed under the LHA rules in order to estimate the impact of the changes; and spatial analysis of the impact of reforms at sub-regional and local authority district level between January 2010 and August 2013.

## HB caseloads, expenditure and entitlements

After the reforms were introduced, the average award for all LHA tenants fell from £114.46 (March 2011) to £106.07 (November 2013), in line with the policy objective of constraining the growth in HB expenditure. By this point, it was below its level when statistics were first collected in November 2008 (when it was £107.12). The PRS HB caseload increased by an average of 23,300 a month in 2009, but the rate of increase fell to an average of 11,400 a month in 2010 and 4,200 a month in 2012. The PRS HB caseload reached a plateau in the middle of 2013 and then began to fall for the first time since 2008.

Eleven months after being rolled on to 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 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.

## How has the HB caseload changed in different areas since the LHA reforms?

There was a nine per cent growth in the overall 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. The caseload increased by half this rate in the subsequent year (2012/13) and was static in the period after January/March 2013.

Average on-flows of LHA 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 2012, when existing LHA claimants were moved on to the new system. However, there were again marked variations by area type.

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.

Between January/March 2011 and June/August 2013, the overall HB caseload increased by 11 per cent in areas with dominant LHA sub-markets, compared to an average increase of eight per cent in other markets. In the sub-set of Southern Seaside Towns, the increase in the caseload was six per cent, suggesting there was little displacement to these areas.

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<sup>2</sup> The survey was conducted in autumn 2012 and the interviews were held in early 2013.

<sup>3</sup> The survey was conducted in autumn 2012 and interviews were held in early 2013. The focus groups took place in autumn 2013.

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

There is little change in mobility at the regional level between January/March 2010 and January/March 2013, suggesting there was no significant 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 is more marked change within London, especially central London. Here the proportion of those claimants who moved to elsewhere within central London fell from 64 per cent in January/March 2011 (just prior to the reforms) to 50 per cent one year later.

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. But 11 months later the probability that claimants would move house had increased by an estimated average of 0.5ppts per month. The reforms have also reduced the number of bedrooms that claimants chose to rent on average.

By the second wave of the survey, 15 per cent of claimant respondents had moved since wave one. Claimants living in Inner London were significantly less likely to have moved than those living elsewhere. Most claimants who had moved, however, 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. Only a minority of moves among wave two respondents appeared to be due to the LHA changes.

## How have claimants responded to the LHA changes?

Reductions in day-to-day spending to make up shortfalls<sup>4</sup> on rent were more common than housing-related responses. Forty-six per cent of claimants said they had spent less on self-defined 'household essentials'; 38 per cent said they had spent less on 'non-essentials'; 31 per cent said they had borrowed money from family or friends.

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

Nineteen per cent of tenants who were living in workless households at wave one were in working households at wave two. Meanwhile, 13 per cent of tenants in working households at wave one were living in workless households by wave two. About a quarter of claimants in wave

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<sup>4</sup> 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-dependants living with them. The size of shortfalls varies depending upon the precise circumstances of the claimant and the LHA rate in their area.

two said they had attempted to make up the shortfall by looking for a job, similar to wave one; 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 vast majority of tenants remained up to date with their rent (88 per cent at wave two; 90 per cent at wave one). Two per cent of tenants in arrears at wave one said that the reduction in HB was the single most important reason why they were behind with their rent. By wave two, one in five tenants ascribed their arrears to reductions in HB.

## **How have landlords responded to the LHA reforms?**

In wave two the proportion of landlords letting to out-of-work benefit claimants was lower (73 per cent) than in wave one (79 per cent). 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 two (the same as in wave one) and 64 per cent in the Inner London sub-sample (62 per cent in wave one) 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 two (compared to 31 per cent in wave one) said they were. Given the proportion of landlords who continued to rent to LHA claimants, despite saying that they were planning to exit the market in the wave one survey, it is likely that a much smaller proportion than this will actually exit the market in the next 12 months.

In some areas outside London, especially where the gap between contractual rent and the LHA rate was relatively small, landlords said they had adapted quickly to the reforms. In LHA dominant case study areas, more landlords 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.

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 direct HB payment increased from 29 per cent in wave one to 37 per cent in wave two.

Forty-seven per cent of landlords said they had experienced an increase in rent arrears since the reforms were introduced, an increase of seven percentage points from wave one. 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.

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

## **What has been the impact of the LHA reforms in London?**

The pattern of change in the overall PRS HB caseload in London varied. In central London 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 10 per cent in London Suburbs. On-flows of LHA claimants in London Centre fell by 16 per cent the quarter before the reforms began to be introduced (January/March 2011) to June/August 2013, by eight per cent in London Cosmopolitan areas and remained static in London Suburbs. 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 as a whole – a weekly reduction of £13.39 compared to £6.84 for Great Britain. In London as a whole, the incidence of the reduction was 74 per cent on tenants (compared to 89 per cent for Great Britain) and 26 per cent on landlords (compared to 11 per cent for Great Britain).

An analysis of moves made by LHA claimants at local authority level shows a ripple effect out from central London boroughs to neighbouring districts, rather than a leap-frogging to more distant local authorities. This effect 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.

A significantly greater proportion of landlords with property in London were seeking to reduce lets to LHA tenants and were planning to exit the LHA sub-market altogether in the future. By wave two, over a quarter (compared to a fifth of respondents in Great Britain 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 one and two 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 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 occurred in London, where an additional 3,880 households gave the end of a tenancy as the main reason, although this could be because of a range of factors, not necessarily linked to the LHA reforms.

## **What has been the impact of the LHA reforms on those affected by the SAR changes?**

The caseload for single 25 to 34 year olds with no dependent children 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 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. The number of claimants in the 25–34 group in the overall 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.

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 the incidence of the reduction in LHA was 63 per cent (£8.25 per week) on tenants and 37 per cent on landlords.

In wave two, 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 in wave two who planned to expand the shared accommodation they let increased from five per cent in wave one to 13 per cent by wave two; in Inner London it increased from one per cent to 22 per cent.

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The full report of these research findings is published by the Department for Work and Pensions (ISBNs 978 1 910219 26 3, 978 1 910219 28 7, 978 1 910219 29 4, 978 1 910219 30 0 and 978 1 910219 31 7. Research Reports 870–874. July 2014).

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# Sheffield Hallam University

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BEATTY, Christina <<http://orcid.org/0000-0003-0943-9979>>, COLE, Ian <<http://orcid.org/0000-0002-9207-7528>>, POWELL, Ryan, KEMP, Peter, BREWER, Mike, BROWNE, James, EMMERSON, Carl, HOOD, Andrew and JOYCE, Robert

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