

Monitoring the impact of changes to the Local Housing Allowance system of housing benefit: Summary of early findings

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Background

This is a summary of the early findings report from the independent review commissioned by the Government of the recent changes to the Local Housing Allowance (LHA) system of Housing Benefit (HB) covering the private rented sector (PRS) in the United Kingdom. This report concerns the findings from two elements - a face-to-face survey of claimants and a postal survey of landlords. The surveys are based in the 19 case study areas selected in England, Scotland and Wales. One cannot generalise from the survey findings to assume this represents an accurate national picture of the impact of the LHA measures. The surveys were undertaken in autumn 2011, 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 existing claimants. This report therefore concerns emerging trends and early signs of impact only.

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: changing the basis for setting LHA rates from the median to the 30th percentile of local market rents; capping LHA rates by property size and scrapping the five-bedroom rate; increasing financial support for Discretionary Housing Payments (DHPs); temporarily widening the discretion of local authorities to make direct rent

payments to landlords; and raising the age at which the Shared Accommodation Rate (SAR) applies from 25 to 35.

The research programme

The surveys were undertaken in 19 case study areas across Great Britain. The areas have been selected to ensure that a wide range of local housing and labour market circumstances are covered. Four London Boroughs, nine other local authorities across the English regions, three Welsh and three Scottish local authorities have been selected. In some of the analysis, a further distinction is made between the three higher rent London areas where an 'out-flow' of LHA claimants might be expected in the future and four other potential 'in-flow' areas in the South East.

Findings from the survey of HB Claimants receiving LHA

Awareness of the LHA Measures

When asked how much they knew about HB, nearly half of all claimants said 'not very much'. A higher proportion of claimants in London than in the rest of Britain reported that they knew a fair amount or a great deal about the scheme and a correspondingly smaller proportion said they knew nothing at all. Claimants in the London case study areas appeared to be more aware than those living in the rest of Britain. Meanwhile, new claimants were less knowledgeable than existing claimants about the changes being made to the LHA.

Moving home

The most commonly cited reason why claimants had left their previous accommodation was **personal or family reasons** (e.g. the birth of a child). Relatively few claimants gave **finance-related reasons** for a move and hardly any mentioned cuts in benefit.

Nearly a quarter of claimants had tried to negotiate with the landlord over the rent. Two out of five claimants who had tried negotiating were successful in getting the rent reduced, though those living in London were less successful at this than those living elsewhere in Britain.

Over a third of respondents who had moved while claiming HB under LHA rules had faced difficulties finding accommodation. Landlords being unwilling to let to HB claimants and rents being generally unaffordable were the main problems given.

Living with shortfalls

Just over two-thirds of claimants had a 'shortfall' in the sense that their LHA was less than their rent. New claimants were more likely to have a shortfall than existing claimants and shortfalls were **less** prevalent in London. Respondents whose LHA was less than their rent had taken a range of actions in the previous year to make up the shortfall. These included economising on essential or non-essential items in their household budget, and drawing on other benefits, borrowing money from family or friends. A number of claimants with a shortfall said they had looked for a job or looked for a better paid job to help make up a shortfall. Few claimants said they had moved home in order to make up a shortfall.

Affordability and arrears

More than two-fifths of claimants reported that they found it difficult to afford the rent charged for their current accommodation. Those in London were more likely than those in other parts of the country to say this. Nine out of ten claimants were up to date with the rent. The most important reasons given for being behind with the rent were income shocks such as job loss and a change in income. Few claimants

reported that the most important reason was a cut in their HB. The most common response to arrears by landlords (or their agents) was to ask for the money to be paid back gradually over time.

Looking ahead

Respondents were asked what they would do to make up the (increased) shortfall if their HB were reduced. These **hypothetical** actions may not be the actions that claimants **actually** take if and when their HB is cut. The most common likely response to a possible cut in HB was cutting back on spending on essential and non-essential items, a third said they would look for work.

A quarter of respondents thought they would speak to their landlord about lowering the rent if they could no longer afford their current accommodation. A third said they would look at lower rent properties but only within the local area, and one in five said they would look at lower rent properties but not just within their local area. Claimants' reluctance to consider moving to other areas appears to reflect a considerable attachment to their local area as a place to live. Attachment to the locality also reflected the proximity it offered respondents to: family and friends, schools and their job or place of work. Over half of the respondents in London, compared with three out of ten living elsewhere, said they were reluctant to move because they liked where they were currently living.

The postal survey of landlords

Landlords' awareness of the LHA measures

Just over a third of landlords with stock in the case study areas outside London, and a similar proportion with ten or fewer properties, stated that they were **not** aware of the changes to LHA. In terms of the more specific measures, a majority of all LHA landlords were aware of the caps on LHA rates by bedroom size, and over a third were aware of the removal of the five-bedroom rate. Forty-six per cent of LHA landlords were aware of the proposed

introduction of the overall benefit cap equivalent to median household income. A considerably higher proportion of landlords with tenancies in the London case study areas were aware of the specific measures than landlords elsewhere.

Perceived impact of LHA measures on landlords

The survey asked landlords if, and how, the LHA measures had made an impact on their role, their business and their tenants. However, it is worth noting it may be difficult for landlords to disentangle these effects from other factors such as overall housing market conditions, more specific trends in demand for private renting or the dynamics of the local labour market. Just under a third of LHA landlords stated that the LHA reforms had affected them ‘a lot’ or ‘a fair amount’ so far, while the same proportion stated that they had not had any impact yet. The most frequently mentioned measures were the overall LHA rate caps by property size and setting rents on the 30th percentile of local market rents.

A quarter of all LHA landlords stated that they had taken some form of action because of the effect of the LHA measures on tenants’ ability to afford the rent. When asked more generally about changes in the local housing market, just over a third of LHA landlords reported that the number of evictions had increased. The proportion of landlords who had not renewed tenancies because of the changes to LHA is very similar to the proportion in a previous survey who said they had decided not to renew an existing tenancy after the introduction of the LHA pilot programme in 2006.

Some LHA landlords said they had negotiated a lower rent with either current or prospective tenants. Just under a third of LHA landlords reported an increase in tenants asking for lower rent in the past year.

Landlords’ plans for the future

Landlords were asked about their intentions over the next 12 months. Seventy per cent of all LHA landlords said they intend to continue letting to LHA tenants in the next 12 months. Around a third of all LHA landlords stated that they would either ‘consider’ or ‘planned’ ceasing to let to HB/LHA tenants in the next 12 months. The most common reason (from a prescribed list) offered as the reason for not continuing to let to HB/LHA tenants in the next year was the changes to LHA rules. This response was highest in the three potential London out-flow areas.

About a third of all LHA landlords stated that they had either already reduced rents for tenants in exchange for direct payments or would consider doing so. Half of all LHA landlords say they would not consider doing this and these landlords own an estimated two-thirds of the total LHA stock covered by the survey. Landlords in less pressurised housing markets said they would be more prepared to negotiate on the rent, as one might expect.

It remains to be seen whether any of these hypothetical outcomes will be realised in practice, and what landlords say they plan to do and what they actually end up doing may be quite different, for a whole host of reasons.

Conclusion

- The results of the two surveys do not lend themselves to a concise or straightforward summary of the main effects so far.
- Local housing market differences emerge clearly from the responses, especially between the three London areas, characterised by high demand and relatively high rent levels, and local authority areas elsewhere. While only a small minority of claimants mentioned that they had already reacted to the LHA changes by seeking lower rented property in their locality or further afield, around one in five thought they might do so in the next year in order to meet any gap between their LHA and the rent charged.

- However, a sizeable minority of all claimants, and over half of those living in the London case study areas, said they were reluctant to move because they liked where they were currently living.
- Among landlords, when asked whether they intended to continue letting to tenants who claim HB, the clear majority (70 per cent) said they would do so. Of the remainder, 15 per cent said they would not let to HB tenants in the next year and 15 per cent either did not know or were not sure.
- In terms of considering future behaviour, it is not of course possible to insulate LHA landlords or claimants from wider factors affecting local housing and labour markets.
- In order to isolate the impact of the LHA measures from other influences on the PRS in the next stage of the research, it will be important to bring into play the different strands of the evaluation, including robust national data analysis, to see if they all suggest a consistent pattern of cause and effect in local housing markets across Great Britain.

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

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