

How will changes to Local Housing Allowance affect low-income tenants in private rented housing?

A Shelter summary of research carried out by Cambridge Centre for Housing and Planning Research (CCHPR)

The emergency budget in June 2010 announced proposals for a range of changes to Housing Benefit (HB) and Local Housing Allowance (LHA)¹. Shelter commissioned Cambridge Centre for Housing and Planning Research (CCHPR) to carry out an independent analysis to assess the impact of the most immediate changes, which will mean cuts to LHA for virtually all claimants living in private rented sector (PRS) housing. These are:

- Setting caps on the maximum amount of LHA that can be paid according to bedroom size², including the removal of a five-bedroom entitlement³
- Moving from the median (50th percentile) rental value to the 30th percentile when calculating LHA rates for local areas

The study also examines the impact that a longer-term proposal – to use the Consumer Price Index (CPI) instead of local rents to uprate benefit levels – is likely to have on the availability of affordable homes for lower income households in the private rented sector.

Summary of findings

The main part of the report provides the findings from CCHPRs new analysis on the likely impact of the cuts. This analysis was carried out by using a wide range of existing data on household finances, and surveys of LHA claimants and landlords. The model includes a number of conservative assumptions, not least that as many as half of landlords will take no further action if a tenant is not able to pay their full rent⁴. The main findings of this analysis are:

Poverty

- The cuts are likely to have the effect of shifting many claimant households from around or just below the 60% median income poverty line into severe poverty – the cuts will push an additional 84,000 households below £100 per week per couple⁵ to live on for all expenses after housing costs. These households include 54,000 children.

¹ LHA is the Housing Benefit system introduced for private renters in 2008, at time of press just over three-quarters of private renter claimants are on this system.

² In the near future this should only affect claimants in central and Inner London.

³ Meaning four-bedrooms will be the maximum entitlement – larger families may live in larger homes, but will only get a rate based on four-bedroom homes.

⁴ This is based on the best available comparator, from 2003, but the scale and amount of these cuts are likely to mean a lower proportion will reduce their rent this time.

⁵ This is less than half the amount a similar household would have if they were on the 60% median income line.

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Serious difficulties and moving

- The cuts are likely to place up to 269,000 households into serious difficulty⁶, leaving them with just three options – hope their landlord will forego a proportion of the rent; move to a cheaper home, which is more likely to be in poor condition or overcrowded; or become homeless.
- Half of those households placed in serious difficulty – up to 134,000, will have to move or become homeless. 72,000 of these are families, equating to 129,000 children.

Homelessness

- Of these, 35,000 households are likely to approach their local authority for homelessness advice and assistance, and Local Authorities will be under a duty to provide temporary accommodation to 19,000⁷.

Cost implications

- The cost of meeting the additional requirement for legal aid funded advice on welfare benefits for this group is estimated at £5m.
- The cost of meeting the additional requirement for temporary accommodation is estimated at £120m.
- There are a wide range of further likely additional costs, for example court proceedings for possessions, deposit schemes, Local Authority administrative time and advice outside of legal aid, but it was not possible to accurately cost these out in time for our consultation responses.

Landlord response

- Four in ten (42%) of landlords currently letting to LHA claimants plan to scale back and Shelter estimate this to equate to over 100,000 landlords.
- Whilst it is not possible to predict the precise reaction of landlords, rents in areas with high proportions of LHA claimants in local PRS markets are more likely to move with any changes to benefit levels. The research report includes maps showing the degree to which LHA rents are likely to influence rental markets at a local level. This shows that the inner and central London areas where claimants are likely to lose the most in LHA tend to have low proportions of claimant tenancies, thus are unlikely to see reductions in rent levels, potentially leading to significant outward migration of claimants.

⁶ These are households experiencing a significant reduction to their income, leaving them with a low residual income and are unable to negotiate a reduction in rent with their landlord.

⁷ This is the estimated number of families with children, a priority need group, who will approach their Local Authority for homelessness assistance.

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Proposal to use Consumer Price Index (CPI) to calculate benefit rates

- CPI has increased at a far slower rate than rental inflation over the last decade (20%, compared to 70%). The research report quotes analysis by the Chartered Institute of Housing which shows that a move to CPI could move the entire PRS market out of the reach of LHA claimants in over a quarter of areas fifteen years from implementation.

Distribution of losses

A further part of the research report provides additional insight into the distribution of losses likely to be experienced by claimants, and uses the data already published by DWP. The main finding is:

- Although claimants in London and the South-East are the most likely to experience the largest losses, claimants across the country, in urban and rural settings alike, stand to lose significant sums.

Recommendations

Shelter's responses to the DWP inquiry and select committee consultation contain detailed policy recommendations on how to minimize the impact of the cuts and these will be available to download from this website in October.

The research report also makes a number of recommendations on how the changes, if implemented, should be monitored including:

- Creating a new category in homelessness applications to record cases where the cuts to LHA are the primary reason for the loss of last settled accommodation.
- Using landlord surveys to track their response to the cuts.
- Monitoring of rent levels & rental inflation at a local level.
- Monitoring the impact on the movement of claimants, to ensure segregation between communities with high and low levels of employment does not increase.

The full research report '*How will changes to Local Housing Allowance affect low-income tenants in private rented housing?*' is also downloadable from england.shelter.org.uk.

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Table of key numbers

This table sets out some of the key estimated numbers from the DWP impact assessment and CCHPRs research.

DWP Impact assessment	Number
Total number of LHA claimants with enough data for DWP impact analysis	939,000
.....of which total losing	937,000
.....of which families with children	451,000
.....of which losing more than £10 per week	523,000
CCHPR research	
Poverty lines	
Additional households the cuts push below £100 pw per couple after housing costs (less than half of the 60% median poverty line amount)	84,000
.....of which children	54,000
Below 60% median poverty line before cuts	682,000
Below 60% median poverty line after cuts	716,000
Serious difficulty, moving and homelessness	
Put into serious difficulty by cuts ⁸	269,000
.....of which children	258,000
Forced to move by cuts ⁹	134,000
.....of which children	129,000
Approach Local Authority for assistance	35,000
.....of which families with children ¹⁰	19,000
Cost of providing temporary accommodation to above	£120m
Rental inflation and CPI	
Increase in average rent 1997/8 – 2007/8	70%
Increase in CPI ¹¹ 1997/8 – 2007/8	20%
Figures relate to numbers of households unless otherwise stated.	

⁸ Defined as households experiencing a significant reduction in income leaving them with a low residual income, following the cuts to LHA. These households will have to: increase their incomes, negotiate a lower rent, move, or present as homeless

⁹ These are households who are put into serious difficulty by the cuts and are not able to negotiate a reduction in their rent.

¹⁰ This is the group of claimants the Local Authority is most likely to owe a duty to re-house or find temporary accommodation for.

¹¹ CPI is the inflation measure proposed for LHA from 2013, LHA currently moves in line with inflation to private rents.

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