

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

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Summary

In its first budget of June 2010, the new UK government announced changes to Local Housing Allowance (LHA), which are welfare payments that help tenants with low incomes pay their rent. This CCHPR working paper examines the effects of the changes on around one million tenants in private rented housing in Britain whose housing is supported by LHA. The government has already published its own impact assessment of the measures. Its report shows that the measures will reduce payments to virtually all private tenants who claim LHA, with an average cut of £12 a week per claimant. In this paper we argue that the existing study provides an incomplete basis for assessing the policy changes proposed, and offer new evidence to remedy the deficiencies.

The changes to LHA will immediately reduce the incomes of households claiming a means-tested benefit and who are thus by definition already at or near minimum income standards. We conduct a simulation of the measures using detailed household survey data, and find that the average reduction of claimants' incomes after rents are paid will be approximately 7%. We show that between 42,000 and 84,000 additional households will be left with less than £100 a week, the lowest income level guaranteed by current welfare arrangements. Those so affected include low-paid workers and retired people as well as the disabled and unemployed. The households who will be moved into severe poverty contain between 27,000 and 54,000 dependent children.

The impact assessment has also not addressed how tenants will absorb reductions in their means. Using the simulation and data from past studies of landlord tenant behaviour, we estimate that between 136,000 and 269,000 households will find their rent payments unmanageable as a result of the measures, and project that half of those will be unable to sustain their tenancy and so will be evicted or will move involuntarily. These include up to 21,000 elderly households and 72,000 families with children. We show that the increased sums available for discretionary payments are unlikely to be sufficient to meet the needs of all those whose housing is at risk. We estimate numbers who may resort to statutory homelessness assistance, and the costs of this to the public.

The second part of the paper argues that the changes will diminish the amount of housing available to LHA claimants. A majority of 500 landlords surveyed for the study believes the changes will increase arrears, and a large proportion of those who currently let to LHA claimants intends to reduce the number of such tenancies they offer. There is some scope for landlords to reduce rents, as the government hopes, but this depends on numerous conditions which have not been evaluated. In the longer-term, the changes to the way maximum allowances are updated over time will anyway progressively take larger sections of the rental market beyond claimants' reach.

Introduction

Local Housing Allowance (LHA) is a state benefit that assists tenants who cannot afford their rent payments. It is the new form of the better-known Housing Benefit (HB) system, which was introduced in the early 1980s. LHA is means-tested and is available to private tenants in work as well as to those who are disabled, retired, carers or unemployed. The growth in LHA claimant numbers and the associated cost of benefit payments cannot be understood without looking at trends in social housing. Private renting aided by LHA serves as a substitute for social rented housing where, as in much of Britain, the need for it exceeds its supply. This function is explicitly recognised in recent policy¹ and research².

LHA is administered by local authorities, to whom a tenant must apply for support. Central to the system are “LHA rates” which are the maximum amount of benefit that will be paid in different local areas. These rates are published, so that those seeking rented accommodation know in advance what they will be able to afford based on where they live and what size of dwelling they are entitled to. These LHA rates are currently the median average (middle value) of a sample of rents in a local area. The rents data are gathered by the Valuation Office Agency (VOA), who also publicise the current rates for each size of dwelling in each area³.

The actual benefit amount in a given case is worked out from detailed information that applicants provide about their rent, the property, whom they live with, and their own income and savings and that of others in the household. The number of bedrooms for which a household is entitled to claim benefit is based on the number and age of its members. LHA is normally paid direct to the claimant, not the landlord, unless the claimant is proved to be a 'vulnerable' person.

The June 2010 changes

The June 2010 budget announced a suite of measures that will change how rates and payments are calculated. The whole package will affect both private tenants claiming Local Housing Allowance, and social tenants who claim Housing Benefit, but this paper looks only at measures affecting the former. Virtually all current and future claimants will receive less money under the new measures than at present, and some will find their assistance very substantially reduced. The measures are overtly being introduced to curtail government expenditure on the scheme; DWP projects a £2.1bn (9%) saving in expenditure by the end of 2015/16. They also seek to remedy the

1 For example, local authority Housing Options Services are intended to direct some of those in need to suitable private rented accommodation.

2 Rugg, J & Rhodes, D (2008) **The private rented sector: its contribution and potential**. University of York, Centre for Housing Policy.

3 See <https://lha-direct.voa.gov.uk/>

argued unfairness of LHA claimants being able to afford to live in expensive areas beyond the means of those on average wages⁴.

Those aided by LHA are by definition already on low incomes – the amounts normatively accepted as needed to provide a basic standard of living. The introduction of these measures poses questions about who will be most affected, and what the implications are for their means and their housing situation. This paper seeks to provide some answers to those questions.

The measures that will affect private tenants are summarised in Table 1. Some changes to LHA were announced in the last budget of the previous administration in March 2010. The June 2010 budget incorporated some of these earlier measures, reversed others, and added further limits on the amounts that may be paid. In this paper we focus on the effects of final package proposed in June, as shown below, and do not examine how they might be different were the March changes to have gone ahead. Note that this paper does not look at the increase in deductions for non-dependants and for long-term unemployment, as these changes will affect a smaller number of claimants and involve particular difficulties in forecasting.

Table 1: Summary of measures affecting private tenants' allowances in the June 2010 Budget

What is changing	Effective from	Current claimants affected
Using the 30 th percentile of the range of local rents as the maximum payable instead of the median	October 2011	Claimants whose rent is above the 30 th percentile of rents for that size in their area
Stopping claimants being entitled to keep up to a £15 'excess' above their actual rent if that rent was below the median	April 2011	Claimants whose rent is below the current median rent for their property size
Ending of the 5-bedroom rate, LHA restricted to 4-bedroom rate	April 2011	All households eligible for the 5 bedroom rate
Introducing absolute caps on the maximum rates that can be paid for each size of property	April 2011	Claimants in very high-cost areas, initially mainly inner London
Increasing deductions for non-dependants living with HB claimants	April 2011	Households with other related adults in them, such as grown-up children, elderly parents or siblings
Increasing LHA rates over time by the Consumer Prices Index (CPI) rather than by reference to actual market rents	April 2013	In the future, all
Reducing LHA by 10% for those claiming Job Seeker's Allowance for over a year	April 2013	Long-term JSA claimants

The government will also increase the funds from which local authority can make discretionary payments in cases of severe hardship, although the increase is very small compared to the size of

⁴ The rationale for the changes is given in full at <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml#rc>

the cuts in the package. The Chartered Institute of Housing calculates that reductions outweigh the increases by a factor of 33 to 1⁵.

The government's impact assessment

The Department of Work and Pensions (DWP) has published its own impact assessment of the changes⁶. Its findings are wholly based on research on the national database used to administer HB/LHA claims. The authors work out the entitlement of each private renter claimant under the present and the incoming system. This generates tables showing the number and proportion of LHA claimants who will be entitled to less support, and the weekly amount they will lose as a result. The tables are broken down in great detail by local authority and region, and by selected personal characteristics of claimants. The effects of specific measures within the two budgets are also shown. All this makes for one hundred solid pages of tables, which are provided with minimal commentary to assist non-specialists in interpreting them and drawing out the most important figures. We will therefore first summarise the impact assessment's findings.

These estimated effects given in DWP's work should have a very high degree of precision, given that the database contains largely complete records of all claimants and the basis on which their benefit is calculated. These data are very rarely made available to researchers outside the civil service so cannot be replicated. The results are therefore unique and invaluable evidence for estimating the measures' effects. However, we will also argue that the impact assessment is an incomplete basis for assessing the measures as a whole, and report findings from new analysis undertaken to make up for its deficiencies.

Main findings of the impact assessment

The impact assessment describes the combined effects of the first four changes given in Table 1, above. It finds that virtually all private tenants claiming LHA will receive less benefit, with an average loss per claimant of £12 per week (Table 2). This makes it plain that the bulk of savings come from the wide extent of cuts to payments, rather than the intensity of cuts to the very large payments that have been highlighted in the political defence of the measures⁷. It should also be noted that the total number losing out – 937,000 – shown in this and most other tables from the impact assessment is based on the total LHA caseload for which adequate information was

5 Chartered Institute for Housing (2010) **Briefing Paper on the impact of changes to Housing Benefit and Local Housing Allowance in the budget**. <http://housing.cih.co.uk/memberbriefing/housingbenefit-July-2010.htm>

6 Department for Work and Pensions (2010) **Impacts of Housing Benefit proposals: Changes to the Local Housing Allowance to be introduced in 2011-12**. London: DWP.

7 The Chancellor noted in the budget statement of 22 June 2010 that "Today there are some families receiving £104,000 a year in housing benefit."

recorded in the DWP database. It thus understates the number who will potentially be affected by up to 60,000⁸.

The losses are greater for tenants entitled to larger dwellings as shown in Table 2. Claimants entitled to the 5-bedroom rate, which is to be abolished, will lose on average £57 a week. Reflecting this, the impact assessment shows that families with dependent children lose on average more - £14 per week - than those without⁹.

Table 2: Average reductions in weekly LHA payments by dwelling size entitlement, Britain

Room size	Average maximum HB , £/week	Estimated number of losers (thousands)	Average loss per loser, £/week
National, all sizes	126	937	-12
Shared Room	69	74	-7
1-bedroom	107	387	-11
2-bedroom	139	328	-12
3-bedroom	164	113	-15
4-bedroom	201	28	-22
5-bedroom	260	8	-57

Source: DWP impact assessment, Table B1, p16f

LHA is claimed by those in work, the retired as well as those who rely on state unemployment or disability benefits. The measures will cut LHA to all those groups, as shown in Table 3, with the largest number affected those on 'other or no benefits' – many of them low-income employees – followed by those on long-term sick benefits. It is worth noting that many working households are entitled to LHA because their earnings are low relative to their rent, but do not make a claim. The most recent government estimates put their numbers at between 340,000 and 590,000 in 2008/09, meaning that, at most, half of working households who could claim do¹⁰, with many being private tenants¹¹.

8 *ibid.* Table 35, p90ff.

9 *ibid.* Table B1, p16f.

10 Department for Work and Pensions (2010) **Income Related Benefits Estimates of Take-Up in 2008-09**, Table 4.3.7, p87. For comparison, an estimated 100,000 to 240,000 non-working households are entitled but do not claim, with take-up rates of around 90%.

11 *ibid.*, Table 4.3.4, p85. LHA/HB take-up rates by private tenants are around 50%, compared to around 90% for tenants of social landlords.

Table 3: Average reductions in weekly LHA payments, by other benefits claimed, Britain

Other benefits claimed	Average maximum HB , £/week	Estimated number of losers (thousands)	Average loss per loser, £/week
Pension Credit Guarantee	110	52	-11
Incapacity Benefit / ESA	132	308	-13
Job Seekers (IB)	109	206	-11
Others / none	133	372	-12

Source: DWP impact assessment, Table B1, p16f.

Differences by region and local authority

The measures do not affect all parts of Britain to the same degree. This is partly because there are more LHA claimants in some regions than others, and especially in London, where housing costs are highest relative to incomes. The absolute amount that claimants stand to lose is also greatest in regions and local authorities where rents are highest, as Table 4 shows. The high average in London are partly because there are a relatively small number of claimants in large properties who will see their payments greatly reduced. However, the effects of capping and the wide spread of rents in London boroughs mean that smaller households will also experience large reductions in LHA in the capital. In London, 23% of private tenants stand to lose over £20 per week in LHA¹².

Table 4: Average reductions in weekly LHA per loser, by government office region and country

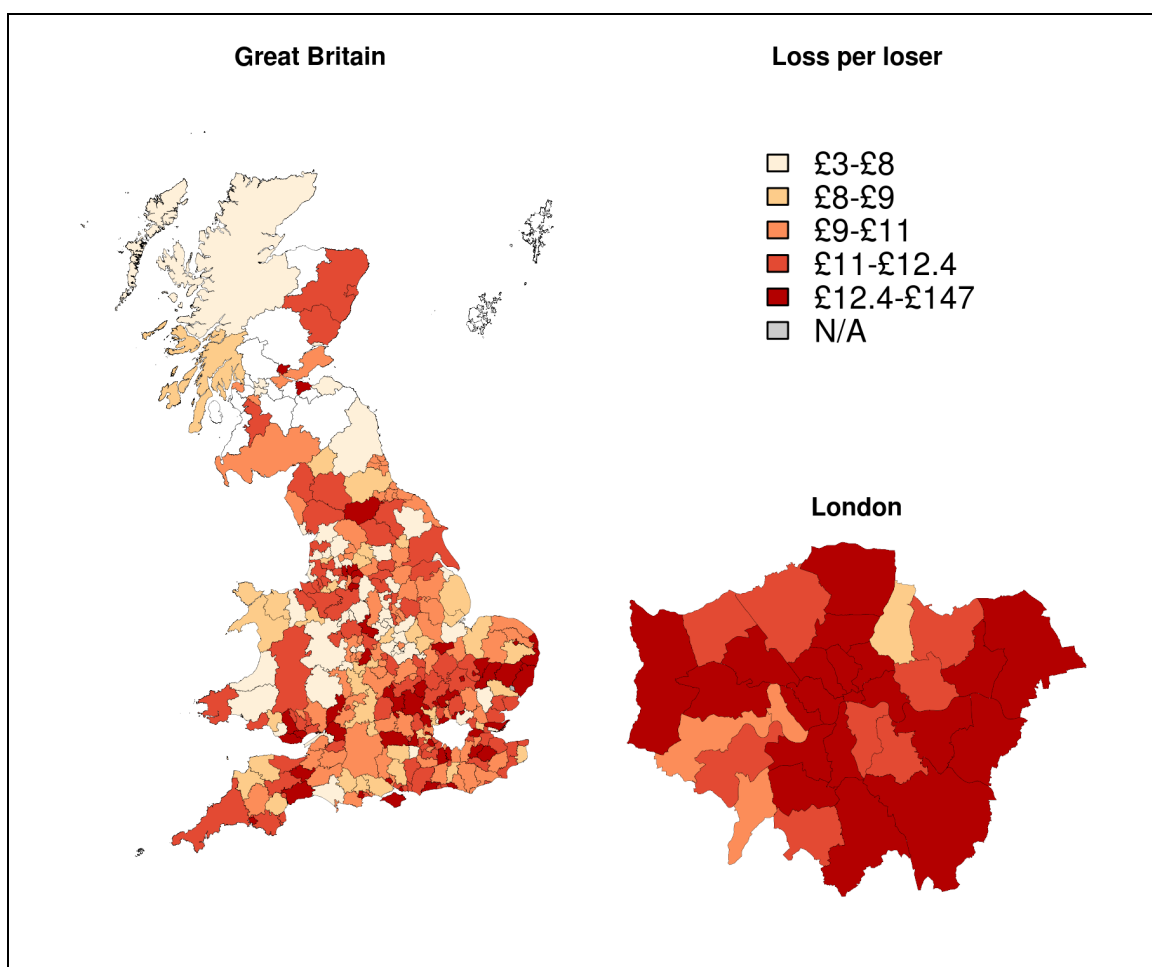
Region	Average maximum HB , £/week	Estimated number of losers (thousands)	Average loss per loser, £/week
East Midlands	99	59	-10
East of England	124	71	-10
London	204	159	-22
North East	96	45	-9
North West	102	131	-10
Scotland	106	50	-10
South East	138	123	-12
South West	117	83	-10
Wales	95	49	-9
West Midlands	107	80	-10
Yorkshire & Humber	93	87	-9

Source: DWP impact assessment, Table B1, p16f

¹² *ibid*, Table 6, p17

Mapping of the effects on losers at local authority level shows a very varied picture. Figure 1 shows the effects for those entitled to the 2-bedroom rate. The greatest reductions in LHA payments are forecast in parts of London, in some rural areas, in metropolitan districts in Lancashire and in some coastal areas. In many places, a district where many tenants will face large reductions directly neighbours a district much less affected. This may stimulate migration of LHA claimants into the cheapest districts of cities and cheapest settlements in rural areas, since the broad rental market areas (BRMAs) used to administer LHA do not correspond with local authority district boundaries.

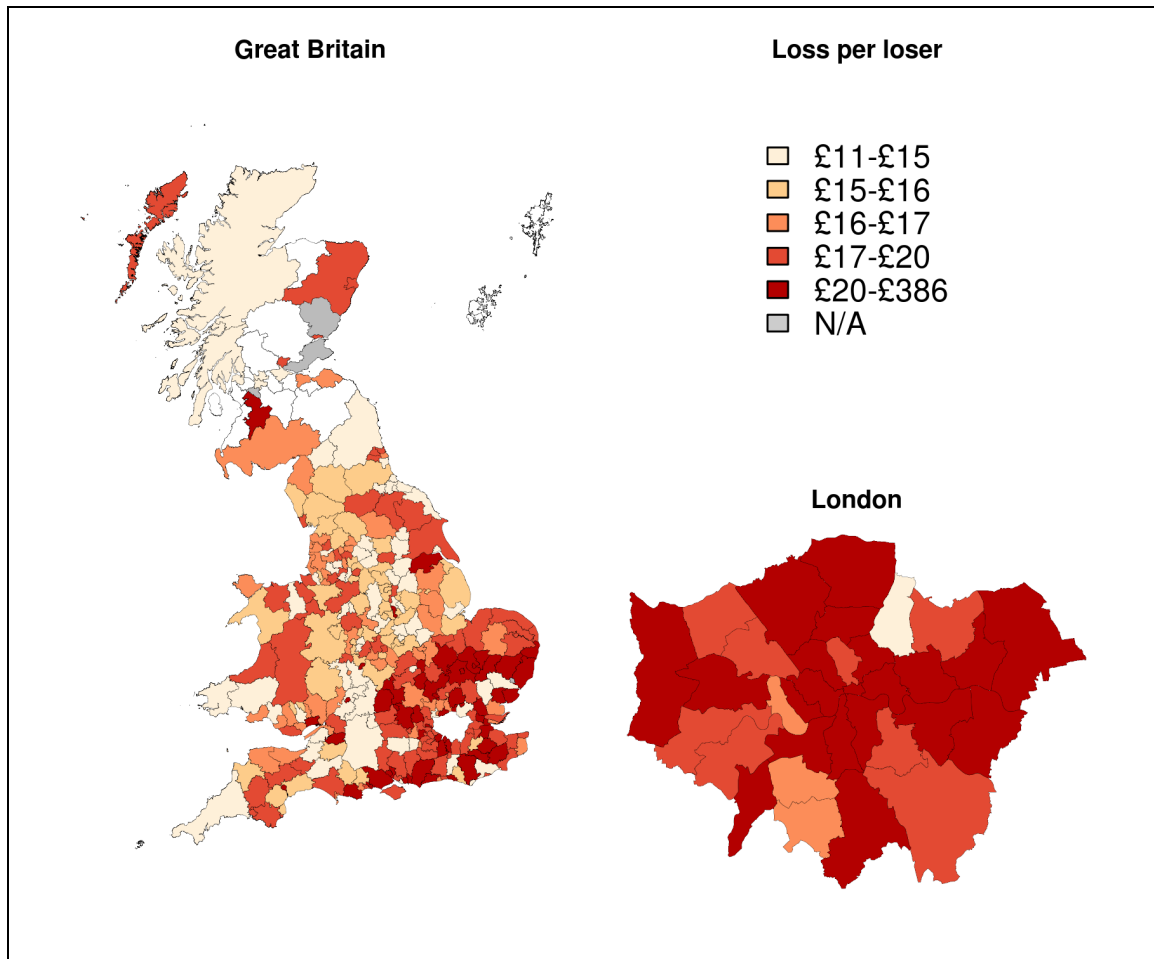
Figure 1: Map of average losses per loser on two-bedroom LHA rate, by post-2009 local authority district



Source: author's calculations of quintiles from DWP impact assessment, Table 8 (p23ff)

A more distinctive pattern of losses emerges when losses for those in larger dwellings are mapped (Figure 2). These losses are concentrated in the rural areas of the South and East of England, and in most parts of the capital.

Figure 2: Map of average losses per loser on four-bedroom LHA rate, by post-2009 local authority district



Source: author's calculations of quintiles from DWP impact assessment, Table 8 (p23ff)

The deficiencies of the impact assessment and CCHPR's new analysis

The impact assessment only addresses the immediate cuts in LHA benefit amounts. That is only the first in a series of implications for private tenants, landlords, rental markets and public authorities. Some wider effects are acknowledged by the government and are actively sought as an outcome of the measures. For example, one of the reasons given for setting the maximum at the 30th percentile of local rents is that it “should help bear down generally on the rental values being met through Housing Benefit”¹³. This may well be a plausible assumption, but there is no

¹³ <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml#rc>

published evaluation of this claim, nor any assessment of the costs to tenants, landlords and public bodies.

The new analysis which follows scrutinises what reduced LHA payments will mean for the overall household budgets of tenants who claim the benefit. It then considers how they may respond to the shock to their income. Claimants have other sources of income, including, for many, earnings from employment. Their commitments vary widely. Some will be able to absorb reductions in LHA within their overall budget by trimming other spending. Others will confront financial hardship because the cut in their benefit is more severe, or because their means are already stretched. Our analysis combines information about the cuts and household's other sources of income to identify those whose incomes will be severely pressed.

Those faced with a wide gap between their rent and what they can afford may follow several routes. They may try to negotiate with the landlord, look for a cheaper property, seek advice from statutory or voluntary agencies, or seek to increase their income. Some will not react immediately and will gradually slip into arrears; a proportion will end up evicted or asked to leave. We draw on past studies to estimate how many tenants will be able to negotiate a lower rent, and how many will have to move. Some of those moving will meet the criteria for statutory homelessness and must be provided with advice or accommodation by local authorities. We estimate the numbers who will be eligible to have their needs met, and the financial costs attached to doing this.

Implicit in the changes is the assumption that the private rental market is exactly that – a market, which will adjust to the new measures. Tenants are not only welfare claimants but consumers of a market good just as landlords are suppliers. The last section of our analysis therefore addresses future trends in supply and availability. Unlike most common classes of good, consumers of housing, including tenants, can only to a very limited degree substitute one purchase for another when their means are reduced. Adjustment therefore in practice will mean accepting cheaper – and possibly inadequate – housing. On the supply side, landlord's willingness to reduce prices in response to falling demand from LHA claimants will depend on alternate sources of demand, and we analyse how this varies across the country. It also depends on their own financial situation, and the relative attractiveness and yields of other sectors, and the paper reports from a recent survey of landlord's attitudes to the changes. The last part of the analysis looks at the longer-term implications of the change in the way LHA rates will be updated over time, and we conclude with some observations on the measures.

The Effects of the Changes Upon Tenants

To understand the cuts in LHA payments in the context of real household budgets, the measures were simulated using detailed household survey data. The source used for the analysis is the Survey of English Housing (SEH)¹⁴. The two most recent years, 2006/07 and 2007/08, were combined to give a larger sample of private tenants in receipt of housing benefit. The final sample is 592 cases which are nationally representative of such tenants in England¹⁵. The sample size however means that results for small sub-groups such as large households and renters in inner London are not valid, and the analysis focuses on the broad effects of the changes.

Each case in SEH has a weight by which population estimates can be derived. The sample used corresponds to approximately 460,000 private tenants claiming housing benefit in England. This figure is much lower than the total number of LHA and HB claimants reported by DWP statistics based on the benefits administration database: the DWP impact assessment reports a total LHA caseload of around 1,000,000 in England. Such discrepancies between survey reports of welfare receipt and counts from administrative data are well known to the literature¹⁶, but they create difficulties for estimating total numbers affected by policy measures. There are strong reasons for believing the SEH figures are an underestimate. Tenants may forget, not recognise or not wish to disclose that source of income, and the fieldwork was carried out when there were fewer claims overall. Error and fraud slightly inflate the DWP caseload of private tenants¹⁷. For this reason, we use the two estimates of total claimants to give high and low points of ranges of population effects, and provide both separately in key tables. Figures from the SEH weighting must be taken as absolute minima.

Estimating LHA losses

The first part of the simulation calculated the difference between LHA payable at present and after the proposed measures take effect. The rents and incomes of the sample of private tenants from the survey were updated to 2010 values. The local authority in which the tenant lives provides a fairly precise estimate of the maximum local rates for LHA. Since most claimants in the sample

14 Full details of the sources and technical procedures of the simulation are given in the Appendix.

15 Although the measures also apply to Scotland and Wales, the time and data available unfortunately restricted analysis to England

16 See Lynn, P, et al (2004) 'The impact of interviewing method on measurement error in panel survey measures of benefit receipt: evidence from a validation study', Working Papers of the Institute for Social and Economic Research, paper 2004-28. Colchester: University of Essex; B D Meyer et al (2009) 'The Under-Reporting of Transfers in Household Surveys: Its Nature and Consequences'. NBER Working Paper No. 15181. National Bureau of Economic Research.

17 The most recent official estimate of fraud and error rates for Housing Benefit in Britain is 4.4% or £360m. The fraud rate alone is estimated at 1%. Figures from DWP (2010) **Fraud and Error in the Benefit System: October 2008 to September 2009**, Table 2.1, p9.

would have been assessed under the old HB regime, the baseline benefit amount is that a tenant would receive if they were an LHA claimant under the present system. This baseline is compared in Table 5 to the amount they would receive after the four changes taking effect in 2011/12 and modelled by DWP. These are: limiting to the 30th percentiles of local rents; the ending of the £15 excess; abolishing the 5-bedroom rate; and absolute capping of the highest rates. Some private tenants will also be affected by the increase in deductions for non-dependent adults living in the household, but this change was not simulated.

Table 5: Proportions of claimant tenant households by weekly amount lost, comparison of SEH simulation and DWP impact assessment

Loss / week	SEH simulation % losing this amount	DWP impact assessment % losing this amount
£0-5	6.1	9.1
£5-10	36.4	35.1
£10-20	54.5	51.1
£20-30	2.2	2.5
Over £30	0.8	2.2
Total	100.0	100.0

Source: author's calculations from SEH; comparison figures from Table B.1 of DWP's impact assessment. Given the sample size in SEH, estimates of numbers losing over £30 are not reliable

The mean average reduction in LHA payments in the simulation was £11.38 a week. This is close to the impact assessment's average of £12 week, and as Table 5 demonstrates, the distribution of losses is also similar. This confirms that the simulation is a valid model of the effects of the policy changes.

The effects of LHA cuts on residual incomes

We next look at these losses against each household's overall income, which can include wages, other welfare payments and pensions as well as LHA. A residual income from all sources, after the rent has been paid, was worked out for each household. This residual income was then adjusted using the McClements scale to take account of the number and age of people in the household who have to subsist on that income. The income figures below are thus always equivalent to the amount a couple would have to live on per week, regardless of the actual composition of the household. This income has to meet all other expenses after rent, including utilities, service charges, food, travel and clothing.

The average reduction in residual income from the measures is almost 7%. The number in different income groups under the current and incoming systems are shown in Table 6. This gives the high and low estimates for the number of tenants falling into different income groups before and after the measures take effect.

Table 6: Equivalised income for a couple, after rents, of private tenant LHA claimants, before and after 2011 measures

Equivalised income, AHC	Low estimate numbers (thousands)		High estimate numbers (thousands)		%	
	Before	After	Before	After	Before	After
Below £50	65	82	128	162	14	18
£50-100	95	120	187	236	21	26
£100-175	152	131	299	257	33	28
£175-210	35	31	68	60	8	7
Above £210	112	95	221	187	24	21
Total	458	458	903	903	100	100

Source: author's calculations from SEH, grossed to population figures using SEH weightings (low estimate) and DWP caseload weightings (high estimate).

The bandings of incomes are derived from definitions of income poverty and hardship that are used in academic analysis and policy making. These are explained in Table 7, and are based on the income distribution of Britain and current rates for income-based welfare benefits. It should be clear that at these very low income levels, even relatively small absolute reductions in income have a large proportional effect and so imply considerable hardship and strain on budgets. This is the reason that commentators argue that when the budget is analysed as a complete package of changes to tax and transfers like LHA, it is distributionally regressive in its effect¹⁸.

18 Browne, J & Levell, P (2010) **The distributional effect of tax and benefit reforms to be introduced between June 2010 and April 2014: a revised assessment**. London: Institute for Fiscal Studies.
<http://www.ifs.org.uk/publications/5246>

Table 7: Derivation of low-income bandings, equivalised for a couple, after housing costs

Income Band	Derivation
Below £50	Less than half minimum guaranteed by income-based benefits like JSA and ESA
£50-100	Less than minimum income guaranteed by income-based benefits like JSA and ESA
£100-175	Less than 50% of national median income (stringent poverty line)
£175-210	Less than 60% of national median income (standard poverty line)
Above £210	Not "poor"

Source: Median income taken from HBA 2008/09 and approximated to 2010; current benefit rates for a couple of £102.75 from <http://www.direct.gov.uk/>.

The detail of the findings in Table 6 indicate that even before the measures take effect, there are claimants who are making up a shortfall between their LHA rate and a higher rent. Secondly, the table provides estimates of the numbers who will be pushed into more severe income poverty by the measures. It shows that between 42,000 and 84,000 additional households will be moved below the minimum income standard as long as their housing situation remains unchanged. Of the households moved below that most basic poverty line, up to 27,000 include dependent children, up to 15,000 include people over 60, and up to 10,000 are working households.

Numbers pushed into severe housing difficulty

The next evidence required to assess the changes to LHA is some estimate of how tenants will react, and what the outcomes might be. It is tricky to forecast how tenants will respond to the fall in their incomes; there are few or no comparable precedents of such large income shocks affecting such a large proportion of households within a housing sector simultaneously. Some may respond promptly, either negotiating with their landlord or deciding to seek cheaper accommodation. Others may find themselves in increasing financial difficulty and arrears. The response is likely to vary by tenant characteristics, such as age, and by the range of properties and prices available in different local housing markets.

Whether claimants feel able and in fact manage to absorb the increased payments will depend on both the absolute residual income they are left with, and the scale of the cut relative to their prior income. Sources like the Family Resources Survey collect measures of financial distress relative to income. Some measures are objective indicators, such as arrears in household bills, and others are perceived indicators, such as inability to afford basic necessities. The incidence of both types

increases sharply as incomes enter the most constrained bands into which the measures are moving many tenants.

For the purposes of the paper, we now divide all LHA claimants who experience a reduction into those who manage to deal with it in some way, and those for whom it triggers severe difficulties with money and housing. The best available evidence we have comes from the evaluation of the LHA pathfinders, which looked at the behaviour of tenants and landlords when a shortfall arose between the LHA paid and the rent¹⁹. The survey of nearly 2,000 landlords found that in 16% of cases where a shortfall arose, they explicitly agreed a reduced rent with the tenant. For the remaining 84% of cases, 65% of tenants made up an average shortfall of £18 themselves, and 35% did not. The present situation is not wholly comparable, as the current financial settlement is harsher, and making up a shortfall at one point does not show whether that can be sustained without later falling into debt. However, in the absence of other data, we estimate that overall 29% (35% of 84%) of tenants will not negotiate a rent reduction and will not make up the difference. We term these as being 'in severe difficulty'. The probability that a given household will end up in 'severe difficulty' is based on the residual income it is left with and the proportionate loss of income caused by the LHA cuts; details are given in the technical appendix.

From this we forecast that between 136,000 and 269,000 tenant households will find themselves in severe difficulty, and finding it very hard or impossible to keep out of rent arrears or other debt. Their characteristics are summarised in Table 8 below. The table shows that the measures will place all kinds of tenants in severe difficulty. Between 75,000 and 147,000 families with children are among them.

19 Rhodes, D & Rugg, J (2004) **Landlords and Agents in the private rented sector: the baseline experience in the LHA Pathfinders**. London: DWP.

Table 8: Number of tenant households in severe difficulty after 2011 measures, by household characteristics and economic activity of representative person

	Number (thousands) Low estimate	Number (thousands) High estimate
Total	136	269
of which, with 1+ children	75	147
of which, with 2+ children	39	77
of which, with person over 60	23	46
Employed	23	46
Unemployed	29	57
Retired	20	40
Sick or disabled	29	57
Other, not working	35	69

Source: author's calculations from SEH. Low estimate based on SEH weightings, high estimate based on DWP total LHA caseload.

Between 311,000 and 621,000 people live in the households who will be in severe difficulty, including up to 258,000 children (Table 9).

Table 9: Number of people and number of dependent children in households in severe difficulty after 2011 measures

	Number (thousands) Low estimate	Number (thousands) High estimate
Affected people	311	612
Of which, dependent children	131	258

Source: author's calculations from SEH. Low estimate based on SEH weightings, high estimate based on DWP total LHA caseload.

The regions with the largest number of households placed in serious difficulty in part reflect those where there are large numbers of LHA claimants in the private rented sector. However, this is modified by the fact that some regions have a higher proportion of claimants already on highly marginal incomes. Despite having fewer claimants than London, the South East and the North West have almost as many households in severe difficulty, because they have many of those on the lowest existing incomes: the retired, the sick and the unemployed. Numbers for London are lower than might be expected partly because there are more working LHA claimants with somewhat less marginal incomes there, and partly because the sample size means the simulation is not sensitive to the special effects of the cap and abolition of the 5-bedroom rate in the capital.

Table 10: Number of tenant households in severe difficulty after 2011 measures, by region

	Number (thousands) Low estimate	Number (thousands) High estimate
Total	136	269
London	22	44
South East	22	43
North West	21	41
Yorks & The Humber	19	37
South West	16	31
West Midlands	14	28
East of England	11	22
North East	6	12
East Midlands	6	11

Source: author's calculations from SEH.

The possibility of changing economic behaviour

The final part of the simulation forecast what will ultimately happen to tenants in severe difficulty: whether they seek to increase their income, have to move, or are evicted.

We start with the probabilities of the first of these: that tenants placed in financial difficulty will be spurred to increase their incomes by seeking work. This assumption, that reduced benefits rates will stimulate legitimate employment amongst those not presently working, is a distinctive feature of current political discourse. According to this view, cuts such as those discussed here will serve as an incentive (or rather, a threat) to work and away from an habituated dependency on welfare. However, looking at the specific case of LHA we conclude that these measures are likely to have nil net effect on economic activity among current claimants.

The first reason for this is that as shown above, fewer than a quarter of those who will be in severe difficulty are currently unemployed; most are already employed, or retired or sick. Secondly, the prospects of finding work will be greatest in regions and cities with strong demand for labour relative to supply: broadly, London, the South and East. However, in these regions, those in severe difficulty are much more likely to be already in work or retired, as shown in Table 11. The unemployed are more likely to be affected in the North and Midlands, where rates of unemployment and inactivity reflect long-term structural weakness of regional economies more than individual unwillingness to take up paid work.

Table 11: Numbers and percentages seriously affected, by broad region and economic activity.

		Employed	Unemp- loyed	Retired	Other inactive	Total
North & Midlands	Number (thousands)	5	16	7	37	66
	% within region	8	25	10	57	100
South, East & London	Number (thousands)	18	13	13	27	71
	% within region	26	18	19	38	100

Source: author's calculations from SEH. Numbers provided are low estimates based on SEH weightings. Broad regions are used as single-region estimates by working status may be based on small cell counts.

The final reason for our view is that the changes are being implemented in isolation. Overall demand for labour is weak and likely to continue to be so for several years²⁰. Thus the likelihood that a tenant in difficulties would be spurred to seek employment and also able to secure it at sufficient pay in time to save their present tenancy seems very slim.

The possibility of landlord forbearance

The next possibility for tenants in difficulty is that their landlord may not take action on the arrears. Landlords who have not negotiated an explicit reduction in the rent may not pursue the matter. Landlords may do so for several reasons. They may believe that the property would be hard to let at the same rent to a tenant who is not dependent on LHA. They may reckon that the transaction costs of eviction, re-letting and the void period involved outweigh the losses from accepting the reduced LHA. The evaluation of the LHA pathfinders found that 50% of landlords whose tenant did not pay the difference between the old rate and the new took no further action²¹. This outcome may well be commoner in districts where much of the demand for private renting is from LHA claimants, but there is no systematic evidence on this. Therefore we assume globally that for half those in serious difficulty, the landlord takes no action, and the outcome is a *de facto* reduction in rent for the time being at least. Though those tenants can then stay in their present housing, they remain liable to future action, and in a weaker negotiating position.

Estimates of households who have to move

This leaves between 68,000 and 134,000 households in severe difficulty whose landlords take further action, and so who have to move or are evicted. Some of these will have recourse to

²⁰ The average recent long-term projections of independent forecasters published by the Treasury in May predict negligible falls in claimant unemployment before 2013; the Office of Budget Responsibility's forecasts do not see unemployment rates returning to pre-recession levels until 2015. HM Treasury (2010) **Forecast for the UK economy: a comparison of independent forecasts**, Table M5; Office of Budget Responsibility (2010) **Budget forecast June 2010**, Table C2.

²¹ Rhodes, D & Rugg, J (2004) **Landlords and Agents in the private rented sector: the baseline experience in the LHA Pathfinders**. London: DWP.

assistance from local authorities as 'priority need' homeless. Much the largest group of those who will be in priority need are households with children, as Table 12 sets out.

Table 12: Households who are evicted or have to move, by household type, with average losses and total loss per year in benefit

	Average loss per household (£/week)	Low estimate		High estimate	
		Number (thousands)	Total loss (£m/year)	Number (thousands)	Total loss (£m/year)
Total	11.73	68	41.5	134	81.9
Single under 60	10.48	16	8.8	32	17.3
Couple under 60	11.44	3	1.9	6	3.7
Family with children	12.56	37	23.9	72	47.1
Single or couple over 60	10.91	11	6.0	21	11.8
Other	11.18	2	1.0	3	2.0

Source: author's calculations from SEH

The table also shows the average amount of LHA lost by each household. This can be multiplied by the number of households, and the number of weeks in the year to give an estimate of the annual cost of making good the losses of those in severe difficulties. The total across all the groups is between £42m and £82m. This suggests that even if the additional discretionary payments of £40m were allocated only to LHA claimants, and with perfect efficiency – a heroic assumption – they would be inadequate to prevent involuntary homelessness and forced moves among LHA tenants. It is a heroic assumption because it requires that the funds be available where need will arise, that tenants approach authorities for help and do so before difficulties become overwhelming, and that local authorities allocate solely to those households who would otherwise be evicted, rather than on the basis of first-come, first-served. Furthermore, LHA tenants do not have sole call on the discretionary funds, which must also meet the needs of HB and Council Tax Benefit claimants in exceptional hardship.

Estimates of costs of homelessness

The plausible outcome is that a large proportion of LHA tenants in difficulty will not be aided by discretionary payments. Therefore, as a final stage in the simulation, we estimate some of the costs this may incur. The potential public sector costs are taken to come from an increase in the number of households approaching local authorities' housing services for advice, or presenting as homeless. The costs to local authorities include the provision of advice, expenditure on rent deposit schemes, formal investigations and assessments, and of temporary accommodation

pending investigation and possibly rehousing. Unfortunately, evidence on many of these costs is hard to come by, so we look at possible costs for a subset of these for which data are available.

We use a YouGov survey from August 2010 as the basis for the proportions of those having to move involuntarily who will seek different forms of assistance. Respondents were asked “Thinking about if you were unable to keep up with your housing costs and lost your home, which, if any, of the following would you do?” and presented with a randomised list of options. Private tenants' responses to this question are given in Table 13.

Table 13: Private tenants' responses to the question "If you were unable to keep up with your housing costs and lost your home, what would you do?"

	No	Yes	% Yes
Move to a cheaper property	189	123	39
Move in with family or friends	157	154	49
Look for emergency accommodation	292	19	6
Apply to council for homelessness assistance	230	81	26
Get independent advice	243	68	22
Other	289	22	7

Source: Responses of private tenants in YouGov survey, with population weights applied. More than one response could be made.

The first cost we estimate is of legal aid allocated to tenants with rented housing problems, given in Table 14. This gives a central estimate of between £3m and £5m a year for the costs of legal aid to those with serious unresolved housing difficulties in England only.

Table 14: Potential costs of providing legal aid to those with housing problems

	Low estimate		High estimate	
	Number (thousands)	Cost (£m) @ £167 per case	Number (thousands)	Cost (£m) @ £167 per case
<i>Base: all households who have to move</i>	68		134	
Take up 11%	7	1	15	2
Take up 22%	15	3	30	5
Take up 33%	22	4	44	7

Source: Numbers in severe unresolved difficulties from SEH simulation as above; cost from LSC fixed-fee amount for welfare benefits; estimate of take-up from YouGov poll, % of private tenants saying they would “seek independent advice if you could not keep up with your housing costs and lost your home”, with +/- 50% bounds.

Much larger costs are incurred where local authorities are obliged to provide temporary accommodation to households presenting as homeless. Where a household is deemed to be priority need, it is required to be provided with at least temporary accommodation by a local authority. Much the largest group that can be identified as being in priority need is households with dependent children; the cost implications of proportions of those with children taking up this assistance are given in Table 15. The central estimate here is a one-off cost of between £61m and £120m for temporary accommodation. Again, as the numbers are based on the simulation, they are for England only.

Table 15: Potential costs of providing longer-term temporary accommodation to priority need households

	Low estimate		High estimate	
	Number (thousands)	Cost £m @ £6413 per case	Number (thousands)	Cost £m @ £6413 per case
<i>Base: households with children having to move</i>	37		72	
13%	5	30	9	60
26%	10	61	19	120
39%	14	91	28	180

*Sources: Base numbers from SEH simulation as above; cost of an average 38-week stay in temporary accommodation from Legal Services Research Centre (2006) **Mounting Problems: Further Evidence of the Social, Economic and Health Consequences of Civil Justice Problems**, updated to current prices. Estimate of take-up from YouGov poll, % of private tenants saying they would “seek advice or assistance from the council”, with +/- 50% bounds.*

This table only accounts for the direct financial cost of accommodation, not the administrative resources required to deal with homelessness assistance. Nor have we attempted to provide financial costs incurred by tenants who have to move, such as removals and bridging loans when a deposit must be put down before another is repaid. And there are, of course, other costs to tenants who have to move, such as school disruption, distress and the loss of a settled abode that cannot have a price attached to them.

Market effects and accessibility

Beyond the immediate effects of the impending cuts on existing LHA claimants, there will also be longer-term adjustments in markets for private rented housing. This is because the immediate measures change the volume of demand for renting and supply will adapt gradually to this, and because the effects of other measures, in particular the indexation of LHA rates to the Consumer Prices Index will be magnified as time passes. The following section addresses the processes of market adjustment, and draws on new survey evidence and projections to indicate possible outcomes.

Adjustment and substitution

Tenants assisted by LHA are not only welfare recipients but consumers in a private market, albeit one which is partly shaped by the government's provision of subsidy to some buyers. Underlying the proposed measures are assumptions about how consumers react when their ability to buy a market good decreases either because their incomes fall or its price increases. An economic model of behaviour includes the notion of substitution – that consumers will seek to buy similar goods at lower cost, or else change the mix of goods they buy to achieve similar ends. Several features of housing make it unlike other goods and limit the applicability of this model. Housing is fixed and can only be consumed where it is located. Changing housing entails personal and financial costs that are of a different order from switching brands of bread or where one goes for groceries. It is a good *sui generis* – that is, there is no other comparable good to which one can switch consumption to compensate for a reduced consumption of housing. Lastly, the main way a tenant could switch supplier to consume the same value of goods at a lower price is by moving from private renting to a social landlord. Given that social housing is in short supply, with little apparent prospect of this easing, this will be the resolution for only a few.

This means that some tenants will therefore have to accept housing of lower value and qualitatively inferior to their present situation. In some cases, this qualitative inferiority may be taken to be acceptable. The price of supporting tenancies in exclusively expensive districts of London is taken to outweigh the value that tenants might attach to living in their current location. However, as we show, the measures will progressively narrow the limits of what is acceptable, pricing LHA tenants out of an increasing number of districts and concentrating them in the remainder. This applies not only to urban neighbourhoods, but to distinct settlements within rural districts, where the total stock available can be an additional obstacle to tenants needing cheaper accommodation. There is an intangible value in supporting people in staying in the local area to which they have ties, as well as slightly more concrete benefits of supporting participation in community and family life. Other

qualitative aspects of housing in which inferior goods may be accepted include size and decency. The substitution then involves moving to overcrowded accommodation, or to a dwelling that is otherwise unfit. We consider the question of whether a decreasing proportion of adequate housing will be accessible to LHA claimants in the future below.

The supply side: landlords

The other side of an economic model is that the landlords may adjust their prices downwards to meet the reduced ability of tenants to pay. There are landlords who specialise in letting to LHA claimants²² who are alert to the LHA rates. Some of these may be induced to reduce their rents to reflect reductions in the allowable rates. Landlords who understand the LHA system sometimes see benefits in operating in this part of the private rented sector, seeing it as a source of stable tenancies with guaranteed income. The fall in rent may be offset by avoiding the costs of void periods and reletting to a new tenant.

There are several limits to this market adjustment. The first is the ability of landlords to reduce rents while still meeting their costs and making a net profit. Landlords' costs vary widely. Those with heavily mortgaged portfolios will have higher finance costs than those with less leveraged properties. Their scope to reduce rents in response to the decreased LHA allowances will hence be limited, and so they will consider letting to other tenants, or disinvesting and changing the structure of their portfolio.

To shed some light on how landlords might respond, we used results from BDRC's regular landlord panel of 517 private sector landlords from August, after the measures had been announced and discussed in the general and specialist press. The landlords are drawn from a much larger online consumer panel. Previous research has shown that there are varied attitudes to letting to LHA tenants among landlords, and variations in portfolio size and mix. The results below are thus for the subset of landlords (n=127) who are already let to LHA tenants and so can be taken to have some understanding of and openness to the scheme. The landlords were first asked if they would be less likely to let to LHA-supported tenants as a result of the measures being brought in. As Table 16 indicates, nearly half (43%) of all landlords who now let to LHA tenants intended to scale back the lettings they made to that category. This significantly outweighs the number who definitely did not foresee reducing rentals to LHA tenants (32%).

22 Rugg, J & Rhodes, D (2008) **The private rented sector: its contribution and potential**. University of York, Centre for Housing Policy. P19.

Table 16: Landlords agreeing with the statement "I will scale back the number of LHA tenants I will accommodate"

	n	%
Agree strongly	21	20
Agree	24	23
Neither agree nor disagree	26	25
Disagree	21	20
Disagree strongly	13	12
Total responding	105	100

Source: BDRC landlord panel, Q2 2010; totals are only for landlords who currently let to LHA tenants; BDRC's survey weightings have been applied

This intention is partly explained by the very widespread perception that rent arrears among LHA tenants will increase as a result of the measures. 60% of landlords of LHA tenants expect to see greater arrears (Table 17). Landlords may be willing to accept falls in rents – as some did in 2008 to 2010, at least according to VOA data, if the loss in immediate rental yield is compensated for by strong expectation of capital yield. However, many independent forecasters expect weak growth in house prices in near future²³, so landlords may prefer to exit the LHA market altogether by either switching their portfolio or letting to other types of tenants.

Table 17: Landlords agreeing with the statement "These measures will result in higher arrears levels amongst LHA tenants"

	n	%
Agree strongly	29	28
Agree	33	31
Neither agree nor disagree	22	21
Disagree	16	15
Disagree strongly	5	5
Total responding	105	100

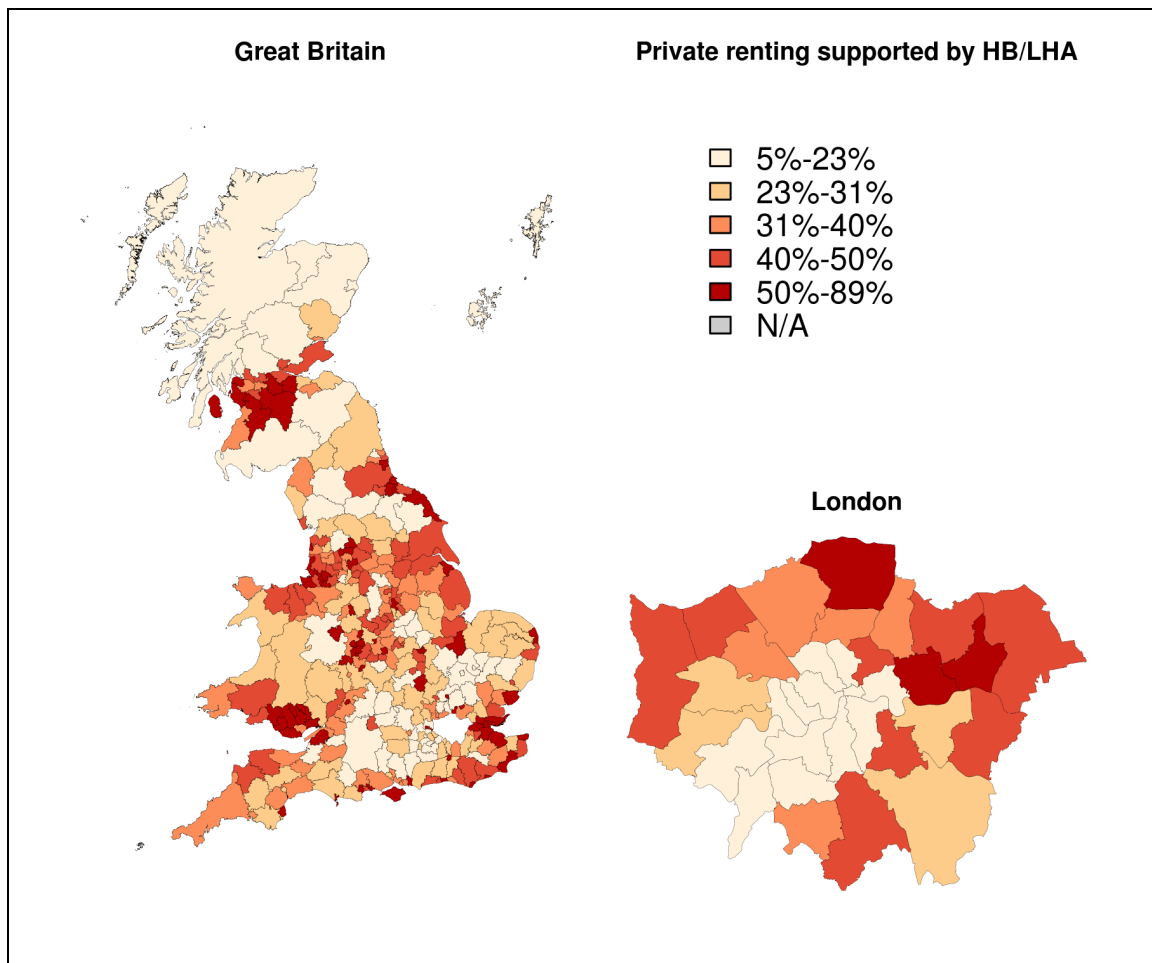
Source: BDRC landlord panel, Q2 2010; totals are only for landlords who currently let to LHA tenants; BDRC's survey weightings have been applied

Landlord's intentions and behaviour will also depend on the extent to which there is local demand for rented property from households that do not rely on LHA to meet the rent. The expansion of the private rented sector in England in the past decade has met demand from a diverse range of sectors, including newly forming younger households, students, higher income professionals, those

²³ HM Treasury (2010) **May 2010 forecast for the UK economy: a comparison of independent forecasts** . Tables 3, 6.

who might wish to buy but unable to afford home ownership, as well as specialist sectors not openly available such as tied and temporary accommodation of various sorts²⁴. In some parts of the country some of this demand that is not reliant on LHA is competing with claimants for the same dwellings, and is an alternate source of tenants for landlords to let to. In some areas, this will particularly be students, who are often seeking larger dwellings to share at the lower end of local price ranges.

Figure 3: Estimated proportion of private tenancies supported by LHA/HB by local authority:



Sources: author's calculations from UK Census 2001; Labour Force Survey (households) 2001/02 and 2008/09; Single Housing Benefit Extract September 2009. See Appendix for further information. Data and boundaries are Crown Copyright.

The map in Figure 3 shows the extent to which private renting is taken up by LHA claimants in different parts of the country. The proportion for each district is the number of LHA claimants in the private rented sector, divided by the estimated total of private renting households in the area in

²⁴ Rugg, J & Rhodes, D (2008) op cit.

2009. The details of the calculation are given in the Appendix. The map demonstrates very clearly that there are districts where a majority of the demand for private letting comes from LHA-supported tenants, and others where very little does so. The markets with the highest proportion of tenants claiming LHA are in red, and are in towns and cities in formerly industrial regions, in coastal areas, and in East London and its Kent and Essex hinterland.

Practically, the downward pressure on rents is likely to be stronger in the areas shaded darker in the map; in the light-shaded areas landlords are more likely to feel they can let to alternate tenants. The Chartered Institute for Housing's briefing raises particular questions about the movement and concentration of poorer tenants in particular districts where high-rent districts border lower-cost areas where more downward pressure will apply to rents. CIH argue that in London, for example, the measures will lead to further concentration of poorer tenants in the south and east of the city.

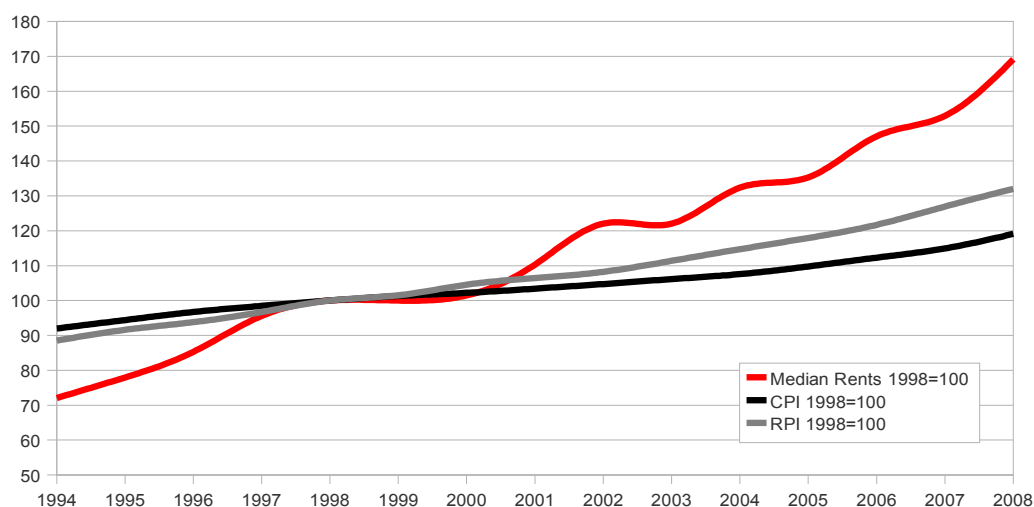
The accessibility of private rentals to LHA claimants

The measures discussed so far, particularly the change to using the 30th percentile rather than the median as the maximum allowable rent, will obviously reduce the proportion of private lettings which are affordable to LHA claimants in each area. We have not looked so far at one of the measures which over the long term is expected to bring very large savings in expenditure on HB/LHA: the switch to using the Consumer Prices Index (CPI) as the basis for increasing allowable rents over time. At present, the rates permitted for different bedroom sizes in different rental markets are set by reference to actual rents, which are collected by the Valuation Office Agency (VOA). In the future, the current rates will simply be uprated by CPI as one measure of general price inflation in the economy – one that specifically excludes housing costs from the basket of goods whose market prices tracked to produce the index.

If rents increase faster than general prices, then the proportion of rental properties in each market that can be afforded using LHA will diminish as time passes. Such an effect will be progressive and cumulative. A good starting point for evaluating this is to look back at the recent growth of rents compared to the CPI measure of inflation, shown in Figure 4 from 1993/4 to 2007/08. The rents measured here are actual median private rents paid, not asking prices. An alternative measure of inflation, the Retail Prices Index (RPI) is also shown for comparison. The values are indexed to 1997/8, by which time a majority of tenancies no longer had regulated rents with price controls²⁵.

25 By 1997/8 there were 1.48m assured (deregulated) tenancies, and 0.2m regulated tenancies in England (CLG Live Table 731)

Figure 4: Trends 1993/4 to 2007/08 in rents, consumer prices index (CPI) and retail prices index (RPI), 1997/8 = 100.



Sources: Median rents, CLG Live Table 547 from Survey of English Housing; RPI/CPI from Office of National Statistics.

The chart shows that whilst the cumulative increase in CPI from 1997/98 to 2007/08 amounted to less than 20% over the period, median rents increased by almost 70%. Others have shown that rents have followed growth earnings much more closely than either of the inflation measures. Had LHA tenants' allowed rents been pegged to CPI in 1997/8, it is clear that by 2007/08 a greatly reduced fraction of the private rented market would have been remotely affordable to such tenants. It might be argued that the state's meeting of open-market rent prices by HB and later LHA has itself had an inflationary effect. However, only around 20% of all private tenants now claim LHA so it does not seem plausible that it has a determinative effect on prices at national level.

Looking to the future, the extent to which landlords will reduce rents is unknown, and there is considerable uncertainty about broader economic trends. CIH has produced a spreadsheet which explores how long it might be until LHA tenants' purchasing power, inflated by CPI, can no longer meet the cost of the cheapest properties in different areas²⁶. With their default assumptions of annual CPI of 3.4% and growth in rents of 6%, CIH projects that within 15 years, all two- bedroom properties in 42 of 154 rental market areas will be at rents above LHA rates.

The very bottom section of the private rental market might well be excluded from this kind of analysis on the basis that the properties in this segment are inadequate to basic common standards of decent housing. They may be physically unfit (by basic standards, rather than simply

²⁶ <http://housing.cih.co.uk/memberbriefing/documents/hb-jul10-doc2.xls>

failing the more stringent Decent Homes requirements) or may be in circumstances that are otherwise unsafe for the majority of potential tenants.

To explore these cumulative effects further, we take inner Greater Manchester as an example rental market. It is chosen because the VOA has made a large number of observations of rents for the area, and because it has a full range of rental demand sectors, include LHA claimants, students, and middle and higher-income households. Although VOA have declined to supply percentile values beyond those required by legislation, they can be closely approximated from the graphs VOA publish on their website. We use these, together with independent analysts' forecasts of CPI and a relatively conservative assumption about rents (5% growth per year) to show the proportion of two-bedroom dwellings that will remain affordable to those claiming LHA in Manchester, to 2020 (Figure 5).

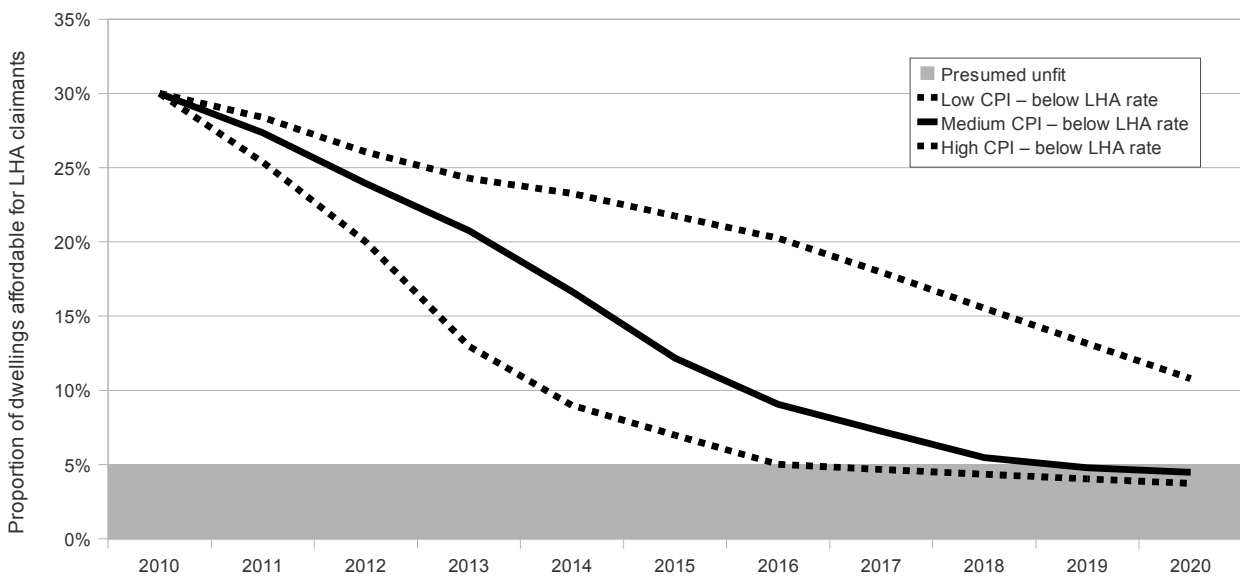


Figure 5: Projection of percent of two-bedroom dwellings with rents at or below LHA rate to 2020 in inner Greater Manchester, with low, medium and high CPI assumptions

Source: Percentiles of market rents by visual inspection of VOA charts of June 2010; assumed per-annum growth in rents of 5%. Low, medium and high CPI estimates to 2014 from HMT summary of independent forecasts, straight-line projection of same from 2014 to 2020

The chart makes the central estimate (the thick black line) that by 2018, only the bottom 5% of two-bedroom properties might be available at or below the LHA rate. We assume that in a market like inner Manchester, there are sufficient alternate sources of demand for rental properties that landlords do not have to reduce prices in response to the LHA cuts, as they can let to other tenants or if necessary alter their portfolio to a more lucrative mix of assets. This holds true for many other areas, and thus the pool of adequate properties affordable to LHA claimants will inevitably shrink.

Discussion

We have argued that the official study of the effects of the proposed changes to LHA is inadequate to assessing the outcomes, costs and benefits of the measures. Its deficiency is in scope, rather than accuracy or validity. It shows the cuts in payments to those who are by definition on minimal incomes; our simulation demonstrates that this means increased poverty rates among working-age adults, children and retired people. This confirms the position taken by other analysts that this is a distributionally regressive measure in directly reducing the value of transfers to those near the bottom of the income distribution.

Private renters who are supported by LHA are certainly not all younger single people who may be able to adapt by moving to cheaper property or trimming expenditure. This part of the private rented sector includes many who would in past times have had recourse to social rented housing: those retired on low incomes, the disabled, and workers supporting families on low wages in high-cost regions. The decision between living on an income below the most basic standards and moving with difficulty and cost will be faced by retired people and employed families with children as much or more than by singles and couples of working-age. We have shown that this will inevitably place large numbers in severe difficulty with their housing as they find it very hard to avoid going into arrears. For a considerable proportion of these, the eventual result will be involuntary loss of housing, with the attendant private hardship and public costs of that.

The cost of LHA to public finances is undeniably large, and it is not hard to see some of its outcomes as inequitable in certain places. However the measures proposed are broadly targeted, and do not address the main underlying causes of the size of the budget: that housing costs in many areas have increasingly outstripped basic incomes, and that the need for supply-subsidised housing exceeds the amount available. Merely curtailing treatment does not wish away a disease. The government clearly hopes that the changes will bear down on rental prices, but we have shown that there are limits to this happening. In most circumstances, landlords do not have to let to LHA tenants at whatever price. The combined and progressive effects of the measures will be to diminish the amount of fit and adequate accommodation available to LHA tenants. Low-income private tenants will correspondingly become more concentrated in the districts and neighbourhoods which do still offer dwellings they can afford.

Recommendations

The purpose of the research reported in this paper was to provide a rapid response to the proposals and carry out a more complete assessment of their likely effects than has so far been made. We have not sought to cost and evaluate alternatives, although we suggest this should be

done and should address the kind of questions considered in this paper. However, there is sufficient evidence that the measures as they stand will cause financial and housing hardship to a large number of households, and will damage the supply of private rented housing to LHA claimants. At the very least, there should be further exploration of how the this hardship can be avoided or mitigated. Ideally, rather than dealing with LHA in isolation, changes should be introduced alongside broader measures to improve the private rented sector, increase housing affordability, and reduce poverty. The current proposals seem unlikely to achieve much for any of these wider goals.

If the measures are implemented as proposed, it is essential that there is adequate monitoring of their effects. This includes landlord and tenant behaviour, trends in rental markets, and the adequacy of low-income private tenants' housing situation. The prime source for high-quality timely data on housing in England, the English Housing Survey, is currently consulting on major cuts to its sample size to make some savings within a total budget of £6m. The kind of cuts proposed will severely reduce or nullify the validity of information about this specific segments of the private rented sector. At the same time, more detailed summaries of local rental prices could be published from VOA data at negligible cost using data that has already been collected at the public's expense, but the agency continues to decline to do this. There are a set of vital questions that will only be answered using administrative data, such as the extent of claimant migration to cheaper districts, and the extent and size of LHA shortfalls being absorbed. We hope that there can be a commitment to evaluate these and other effects of the changes if they are implemented.

Appendix: Sources and Methods

Simulation population base

The data in the simulation were taken from the Survey of English Housing 2006/07 and 2007/08²⁷. The tenancy group file and grossing weights were used, meaning that multiple claimants within shared households are treated separately. We have, however, used the more familiar term 'households' in reporting the results.

The base population for the analysis is all tenancy groups who have completed an interview, who are renting furnished or unfurnished accommodation from a private landlord, who are not living rent-free, and who say they receive Housing Benefit. This gives 722 cases across the two years, of which 592 contain sufficient information about incomes and benefits to be used in the analysis. Those with missing data were excluded, and the weights of those remaining increased to give the same totals when weighting factors are applied.

Uprating of incomes and rents

Incomes, rents and housing benefits were updated to 2010 prices using several sources. Real income growth to 2008/09 values was taken from the values for the lower two income quintiles from the Households Below Average Income (HBAI) survey, Table 2.1ts, and to 2009/10 values by an estimate from ONS's Average Weekly Earnings series of 2%. ONS's published CPI timeseries were then used to give Q2 2010 money prices.

Private rents were uprated first to 2007/08 prices by regional increases in median prices from Dataspring's local rents database, which is derived from the former Rents Service adjudications. The Valuation Office Agency has consistently declined to make the data it collects available to researchers, but tables were extracted from the website to provide regional growth factors from June 2008 to Q2 2010. This leaves an unaccounted period of between three and fifteen months between the SEH fieldwork and the start of the VOA data. Private sector sources such as the FindAProperty.com Rental Index show previous rental price growth weakening from early-mid 2008. An adjustment of 10% was made, in line with annual rental growth in the pre-recession period, which brings the medians of the two time series closer.

²⁷ The Family Resources Survey would be a better source for the microsimulation as it covers all of Great Britain, has a larger sample base, more detail on income, and more up-to-date editions. The special version of FRS including extra geographic detail was not available in time for this paper.

Calculation of LHA and residual incomes

Since almost all cases in SEH would have been assessed for Housing Benefit rather than Local Housing Allowance, the effects of the measures were compared to what the tenancy group would receive under the current LHA arrangements, rather than the actual amount of HB it was recorded as receiving at the time. Each case's base income is its total weekly income less housing benefit. Although the survey instructs households to include HB in reporting their incomes, a small number of cases clearly do not do so. Where base income showed a large deficit, it was replaced with their simple recorded weekly income.

Each tenancy group's entitlement under LHA rules to a dwelling with a certain number of bedrooms, or a single room rate, was worked out from the number of the adults, the number, age and sex of children, and, for single people, whether under 25 or currently in a single room. The local authority flag in each case was used to match in the BRMA rates that apply under the current and proposed systems – the median and 30th percentile of all local rents respectively. Where multiple BRMAs cover a case's local authority, the median of applicable values was used. The difference between the recorded eligible rent and the amount of housing benefit actually paid was taken as the fixed deductions for earned income and any non-dependants; median rents from VOA were used as a proxy for the eligible rent where missing.

The residual income of each household under the current arrangements is thus their base income, plus LHA of the lower of their rent plus £15 excess or the LHA median, less fixed deductions, less their rent. Under the proposed measures it is their base income, plus LHA of the lower of their rent or local LHA 30th percentile, less fixed deductions, less rent. Incomes were equivalised using the McClements' scale.

Estimation of 'severe difficulties'

Table 18 gives the probabilities used to derive the number of tenants who will find themselves 'in severe difficulties'. They were designed to produce an overall proportion of 29% of tenants in severe difficulty, for the reasons described in the text. The probabilities are greater for those who experience a greater loss of income, and for those left in more severe poverty.

Table 18: Estimated proportion of tenants who cannot or do not meet the shortfall, by post-2011 income and scale of income shock.

Equivalised AHC weekly income, after changes	Income shock 10% or less	Income shock more than 10%
Less than £0	80	100
£0-£50	40	75
£50-£100	20	50
£100-£175	10	25
More than £175	0	10

As an example of how this table was used, a tenant who experiences a loss of more than 10% in residual income, and is left with between £50 and £100 equivalised income is taken to be 50% likely to end up in serious difficulty. The proportions were applied as multipliers to the weight of each case to give final numbers, rather than as binary per-case chances. Therefore a case with a proportion of 50% from the table and a starting grossing weight of 800 results in 400 population in 'in severe difficulties' in the results.

Proportion of private tenancies supported by HB by local authority

The estimates are the number of HB claimant households in the PRS, divided by the estimated number of privately renting households. These come from the Census figures for districts, multiplied by the growth in the private rented sector for that region, with metropolitan areas treated separately, found in the Labour Force Survey 2001 to 2009. The Single Housing Benefit Extract is benefit-unit based, so may overstate the actual proportions against the household-based measure from the Census.