

Research: briefing

A postcode lottery?

Part 1 of a study monitoring the implementation of Local Housing Allowance

Summary

Shelter is undertaking a study throughout 2009 to monitor the implementation of the local housing allowance (LHA) scheme. This briefing – the first in a series documenting the findings of the study – reveals wide variations in the affordability of private rented housing for LHA claimants. Using a sample of more than 1,500 advertisements for private rented homes in four Broad Rental Market Areas (BRMAs) in England, the study indicates that LHA claimants are subject to a ‘postcode lottery’. The use of larger BRMAs to set the level of LHA in different areas has resulted in less equitable outcomes for claimants. The median rent in these larger areas does not offer a fair reflection of the extremes of the range of rents within those areas.

Significant variations in the affordability of homes for private rent with LHA were clearly evident in all four of the BRMAs studied, but the form these took differed. In Cambridge BRMA, the level at which LHA is set effectively excludes claimants from living in the city of Cambridge and its suburbs. By contrast, the more rural areas around the city, where there are far fewer employment opportunities and transport links, are more affordable to LHA claimants. The analysis of two other BRMAs – Outer North East London and North East Greater Manchester – revealed a clear geographic divide across the areas, with significant discrepancies in affordability from east to west or north to south. This potentially leads to

greater concentrations of LHA claimants in the more deprived parts of the BRMAs. The final BRMA in the study, Inner North and West London, displayed a slightly different, more patchwork-like picture of affordability, with significant pockets of the area likely to be out of reach for claimants.

Shelter also spoke to 110 landlords with properties available to let within the BRMAs under study. This research revealed that overall only 28 per cent of properties that appeared to be available and affordable to claimants actually were when enquiries were made to the landlord. Taken alongside the findings on affordability, this shows that LHA claimants often have very little choice about their housing and are effectively excluded from many neighbourhoods.

These findings show that the BRMA boundaries used for setting LHA are working contrary both to the aims of housing benefit reform and to wider government initiatives, such as creating mixed communities and maximising employment and training incentives for benefit claimants.

Although legislation to allow larger BRMAs came into force on 5 January 2009, the system still provides the flexibility for smaller, more localised BRMAs to be drawn. Shelter urges the Government to examine ways of using this flexibility to mitigate the inequities of the LHA system highlighted in this briefing.

This Research: briefing is one of a series published by Shelter. Research briefings dealing with other housing and homelessness issues can be downloaded from www.shelter.org.uk/researchbriefings

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Introduction

Reforms to the housing benefit (HB) system were rolled out nationally in April 2008 in the form of a new system known as local housing allowance (LHA). The aim of the reforms was to empower claimants and allow them a greater degree of choice when looking for a rental home. The reforms, which only relate to the private rented sector, primarily comprise:

- a flat rate of benefit (after means-testing) according to household size and location, and
- a presumption of direct payment of the benefit to the tenant (previously the tenant was offered a choice between this and payment direct to the landlord).

Currently the old and new systems operate alongside each other, with claimants moving to the new system when there is a break in their claim or a change in their circumstances. Anecdotally, the point at which the majority of private rented sector claimants have switched to LHA is approaching.

The reforms were piloted, largely successfully, in 18 local authorities.¹ However, between the end of the pathfinder period and the start of the national rollout, DWP and The Rent Service reviewed the boundaries of the geographic areas used to set the level of benefit paid to claimants – known as Broad Rental Market Areas (BRMAs). The result of this review was that the number of BRMAs was significantly reduced, which in turn meant that most of the areas became larger. The impact of these new boundaries has not been studied in detail by any published research until now.

The new BRMA boundaries have attracted criticism from organisations such as Citizens Advice and the British Property Federation.² They have also drawn a large amount of media coverage from *The Sun* to *Inside Housing*.³

The boundaries for the purpose of determining the maximum benefit payable were challenged in the House of Lords (*R (Heffernan) v The Rent Service*, 30 July 2008).⁴ The judgment fundamentally

contested the size of the locality determined by the Rent Officer, which is used to determine housing benefit entitlements (known as local reference rents (LRR)) under the old system. The Law Lords noted that a locality is similar to the BRMAs used for determining LHA. The ruling should, therefore, have led to smaller areas, comprising fewer neighbourhoods, being used under both systems. Many commentators hoped this would prompt a full review of the use of larger BRMA boundaries for all claimants.

However, The Rent Service and DWP responded by seeking legal advice as to whether the judgment would also apply to BRMAs, rather than specifically to the localities used to determine LRRs. They concluded that this would not be appropriate. After a one-week consultation period in November 2008, the Government amended the regulations to ensure a new and largely unified definition of both localities and BRMAs, which will apply in respect of both LHA and LRR cases. This means that it will be easier to interpret the boundaries to produce larger BRMAs, thus avoiding similar legal challenges in the future. The revised regulations came into force on 5 January 2009.⁵

Analysis of BRMA affordability

This study analysed the affordability of properties for LHA claimants in four BRMAs: Cambridge, Outer North East London, North East Greater Manchester and Inner North and West London. Private rental properties being advertised on a number of popular websites in November 2008 were examined to determine the proportions of the properties that would be affordable with LHA in different parts of each BRMA.

1 See <http://tinyurl.com/9fpupg> for an evaluation of the pathfinders.

2 British Property Federation, Press release: 'Housing benefit change by backdoor makes mockery of consultation process', 26 November 2008: <http://tinyurl.com/5oq35g>

3 Lloyd, T, 'Purnell 'shocked' by LHA claims', *Inside Housing*, 13 October 2008.

4 *R (Heffernan) v The Rent Service* [2008] UKHL 58: see <http://tinyurl.com/6c6um3>

5 The Rent Officers (Housing Benefit Functions) Amendment (No. 2) Order 2008 (SI 2008/3156).

Cambridge

Analysis of 234 private rental advertisements for two-bedroom homes in the Cambridge BRMA revealed the most extreme inequities found in this study. Private rented homes in the City of Cambridge and its suburbs are extremely difficult to find for the amount of LHA paid in this area: only four properties out of 90 analysed were at or below the LHA rate. By contrast, the surrounding rural areas each had more than half of their rental market at or below the LHA rate, with the Newmarket and Ely area seeming particularly affordable.

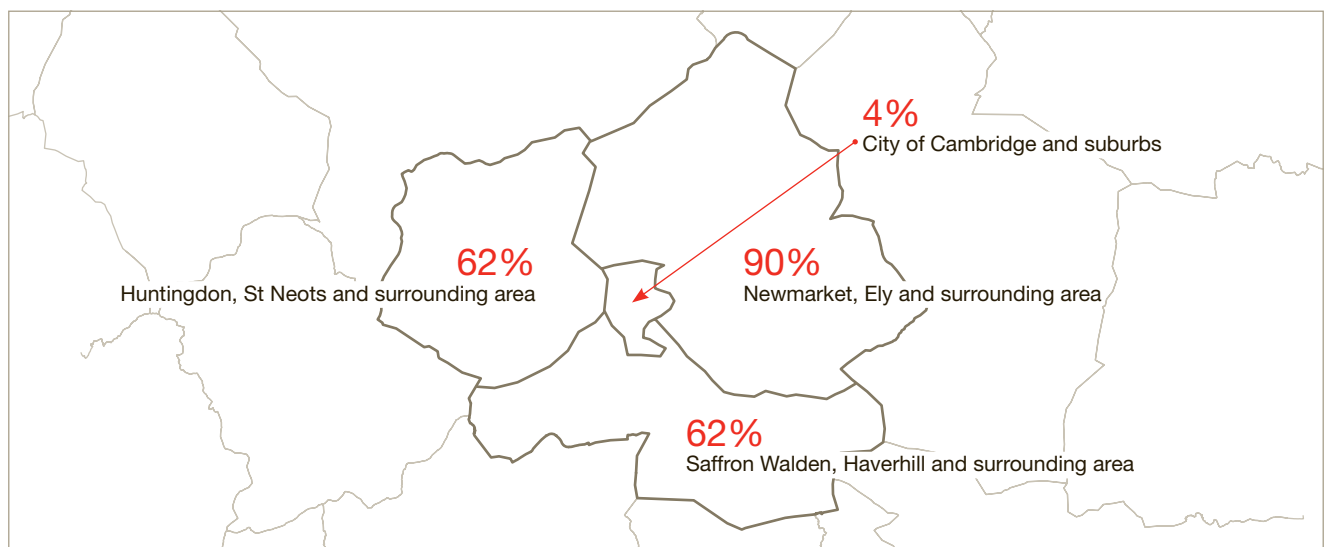
This suggests that BRMAs featuring one major town or city and a large surrounding rural area produce particularly unfair outcomes for LHA claimants. In the Cambridge BRMA, the City of Cambridge is the centre for employment and education opportunities, so it is of great concern that claimants appear to be priced out of this area.

Table 1: Cambridge BRMA, two-bedroom homes, November 2008 – LHA: £155.77 per week

Area	Number of properties advertised	Number (and %) of properties at or below maximum LHA	Number (and %) of properties at or below maximum LHA not explicitly barring benefit claimants in advert	Median weekly rent (£)
City of Cambridge and suburbs	90	4 (4%)	4 (4%)	196
Newmarket, Ely and surrounding area	78	74 (95%)	70 (90%)	137
Saffron Walden, Haverhill and surrounding area	29	18 (62%)	18 (62%)	150
Huntingdon, St Neots and surrounding area	37	23 (62%)	23 (62%)	153
Total in BRMA	234	119 (51%)	115 (49%)	156

Sources: www.gumtree.com, www.propertyfinder.com, local estate agent websites.

Map 1: Percentage of two-bedroom properties affordable at LHA rates and not explicitly barring benefit claimants in the Cambridge BRMA, November 2008



Outer North East London

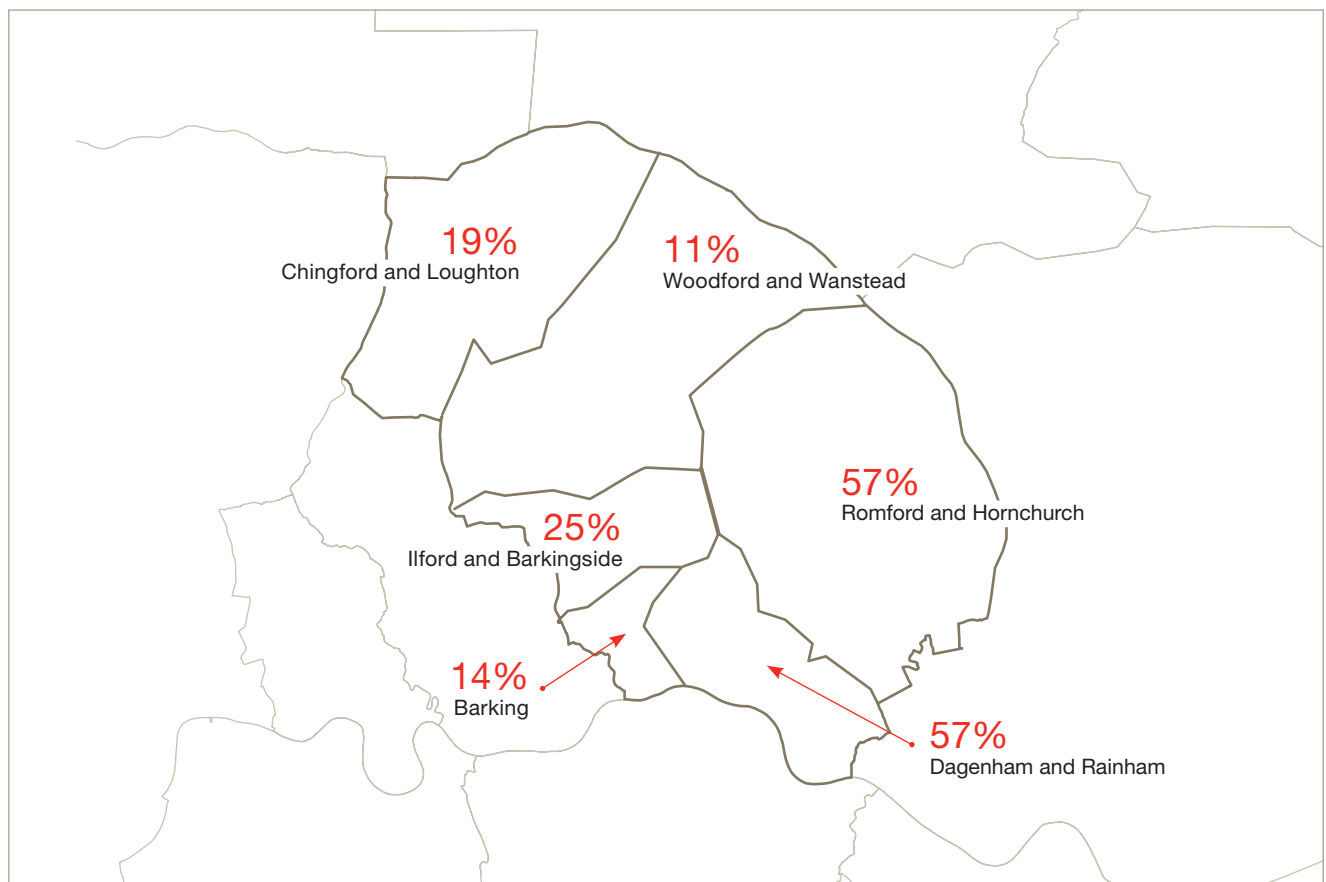
Analysis of nearly 500 private rental advertisements for one-bedroom homes in the Outer North East London BRMA showed a significant east to west differential in affordability for LHA claimants. More than half of the properties in the more deprived eastern parts of the BRMA were advertised at rates affordable to claimants; by comparison no more than a quarter were in the more affluent north-western neighbourhoods.

Table 2: Outer North East London BRMA, one-bedroom homes, November 2008 – LHA: £154.62 per week

Area	Number of properties advertised	Number (and %) of properties at or below maximum LHA	Number (and %) of properties at or below maximum LHA not explicitly barring benefit claimants in advert	Median weekly rent (£)
Chingford and Loughton	53	11 (21%)	10 (19%)	162
Woodford and Wanstead	105	16 (15%)	12 (11%)	180
Ilford and Barkingside	173	55 (32%)	43 (25%)	162
Barking	56	13 (23%)	8 (14%)	175
Romford and Hornchurch	42	28 (67%)	28 (57%)	150
Dagenham and Rainham	54	35 (65%)	31 (57%)	150
Total in BRMA	483	158 (33%)	128 (27%)	162

Sources: www.gumtree.com, www.propertyfinder.com, local estate agent websites.

Map 2: Percentage of one-bedroom properties affordable at LHA rates and not explicitly barring benefit claimants in the Outer North East London BRMA, November 2008



North East Greater Manchester

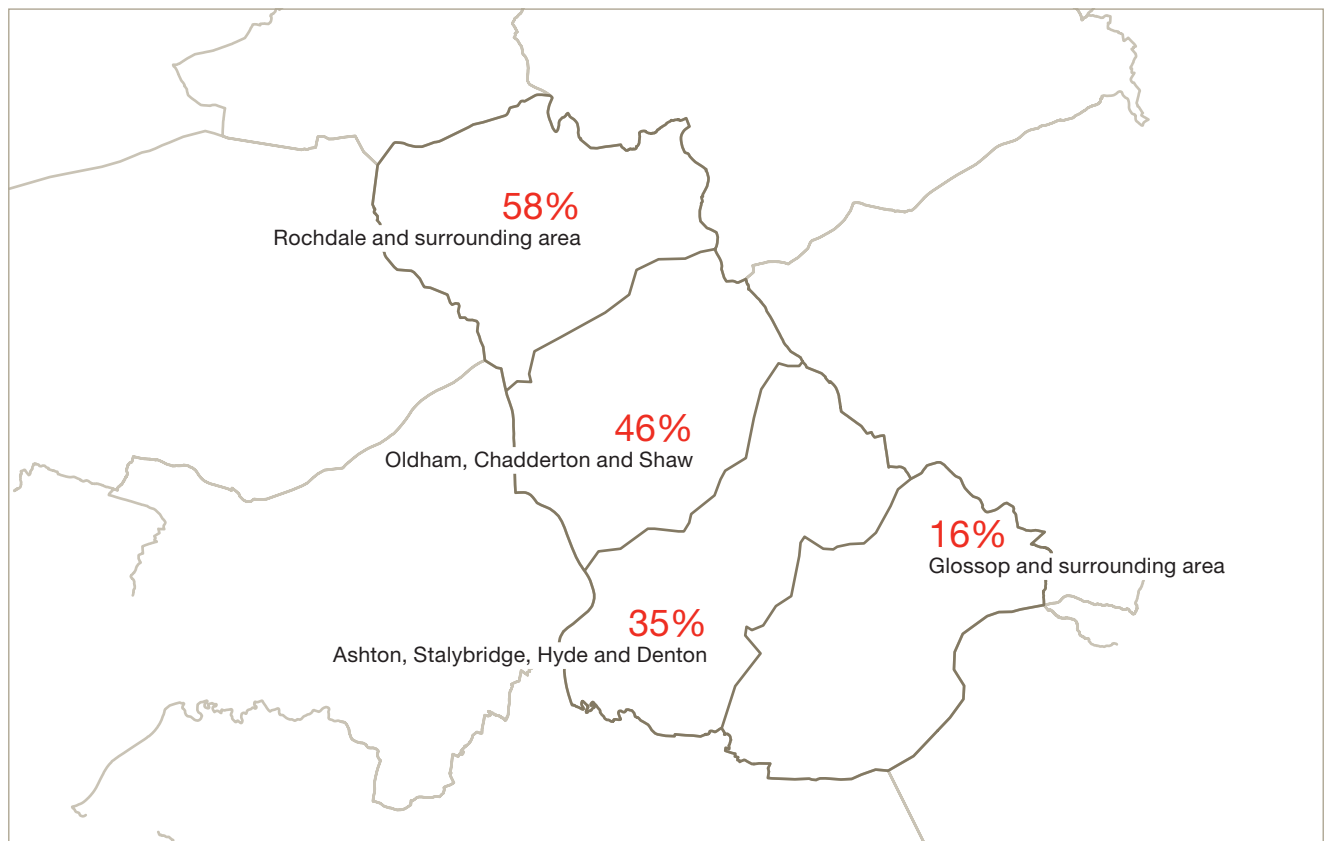
Analysis of around 300 private rental advertisements for two-bedroom homes in the North East Greater Manchester BRMA revealed a picture broadly similar to that of Outer North East London, but here affordability worsened from north to south. In the most northerly and affordable neighbourhoods, around Rochdale, more than half of the properties advertised were found to be affordable to LHA claimants, but at the southern end, in Glossop and surrounding villages, only 16 per cent were.

Table 3: North East Greater Manchester, two-bedroom homes, November 2008 – LHA: £103.85 per week

Area	Number of properties advertised	Number (and %) of properties at or below maximum LHA	Number (and %) of properties at or below maximum LHA not explicitly barring benefit claimants in advert	Median weekly rent (£)
Rochdale and surrounding area	107	65 (61%)	62 (58%)	104
Oldham, Chadderton and Shaw	46	25 (54%)	21 (46%)	104
Ashton, Stalybridge, Hyde and Denton	111	39 (35%)	39 (35%)	110
Glossop and surrounding area	45	7 (16%)	7 (16%)	115
Total in BRMA	309	136 (44%)	129 (42%)	110

Sources: www.gumtree.com, www.propertyfinder.com, local estate agent websites.

Map 3: Percentage of two-bedroom properties affordable at LHA rates and not explicitly barring benefit claimants in the North East Greater Manchester BRMA, November 2008



Inner North and West London

Analysis of more than 500 private rental advertisements for rooms in shared houses and bedsits (shared room rate) in the Inner North and West London BRMA indicated pockets in which LHA claimants would find it extremely difficult to afford

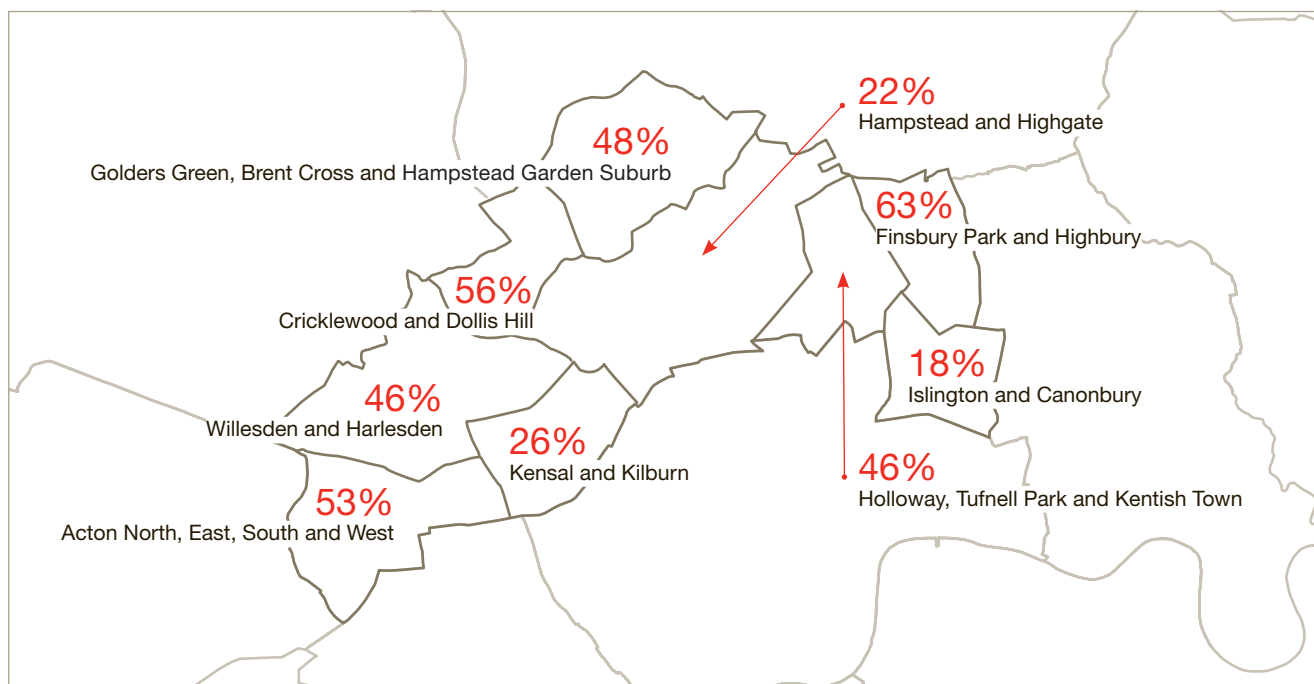
to live. Whereas the Outer North East London and North East Greater Manchester BRMAs revealed an east-west and north-south divide, here there appears to be more of a patchwork of affordability. This BRMA covers a particularly varied stretch of London containing many different types of neighbourhood.

Table 4: Inner North and West London BRMA, rooms in shared houses and bedsits, November 2008 – LHA: £118 per week

Area	Number of properties advertised	Number (and %) of properties at or below maximum LHA	Number (and %) of properties at or below maximum LHA not explicitly barring benefit claimants in advert	Median weekly rent (£)
Acton North, East, South and West	85	54 (64%)	45 (53%)	103
Kensal and Kilburn	54	19 (35%)	14 (26%)	122
Willesden and Harlesden	46	26 (57%)	21 (46%)	114
Cricklewood and Dollis Hill	48	35 (73%)	27 (56%)	100
Golders Green, Brent Cross and Hampstead Garden Suburb	46	24 (52%)	22 (48%)	115
Hampstead and Highgate	76	25 (33%)	17 (22%)	135
Holloway, Tufnell Park and Kentish Town	99	56 (57%)	46 (46%)	115
Islington and Canonbury	34	9 (26%)	6 (18%)	130
Finsbury Park and Highbury	30	20 (67%)	19 (63%)	105
Total in BRMA	518	268 (52%)	216 (42%)	115

Sources: www.gumtree.com, www.propertyfinder.com, local estate agent websites.

Map 4: Percentage of rooms in shared houses and bedsit properties affordable at LHA rates and not explicitly barring benefit claimants in the Inner North and West London BRMA, November 2008



Landlord reactions to claimants

Finding a property that is affordable within the levels set under the LHA scheme is not the only hurdle that claimants must overcome to obtain a home: the next is whether the landlord of that property is willing to let it to an LHA claimant. Previous studies have shown more than half of private rental properties that appear to be affordable and open to claimants are not once an enquiry about the property is made to the landlord.⁶

In December 2008, Shelter researchers contacted 145 people advertising properties to let, mainly private landlords but also letting agents and tenants, and assumed the role of an LHA claimant seeking a home to rent. These enquiries were made on properties in the same BRMAs and of the same size as in the affordability study above; 110 of the properties were still available when enquiries were made.

The responses, recorded in Table 5 below, showed that 60 per cent of the landlords contacted would not accept LHA claimants. The highest rate of non-acceptance was in Inner North West London (71 per cent). Landlords in Manchester were less likely to refuse LHA claimants, with 38 per cent not accepting claimants. Overall, fewer than one-third (28 per cent) of the landlords contacted who had a property still available would accept LHA claimants. Half of these stipulated conditions over and above those requested for working tenants. The most common condition was the need for a guarantor, as well as references and credit checks (seven mentions). In one case the landlord demanded that the claimant pay their LHA into the account of an employed guarantor, who would then pay the landlord. Other conditions and concerns mentioned included: LHA payment to the landlord preferred or required; claimant only acceptable if in work; concerns over the property being inspected by the local authority (although routine inspections are only required for houses in multiple occupation); and a higher deposit and advance required than from a working tenant.

Table 5: Landlord responses to enquiries from LHA claimants, December 2008

BRMA	Total contacts made, property still on market	LHA claimants not accepted	LHA claimants considered or accepted	Of those considered or accepted, special conditions apply	Don't know
Cambridge	24	15	6	3	3
Outer North East London	28	18	7	2	3
North East Greater Manchester	24	9	13	8	2
Inner North West London	34	24	5	3	5
Total	110	66 (60%)	31 (28%)	16 (15%)	13 (12%)

6 Shelter, *The path to success*, 2006.

7 DWP, *Building choice and responsibility: a radical agenda for housing benefit*, 2002.

Conclusion

This study of affordability for LHA claimants in four BRMAs highlights serious inequities caused by the large boundaries now used to set LHA rates. While our findings in London and Manchester may not be considered overly problematic given the better transport links in these areas, the scenario in Cambridge requires urgent attention. There are reports that other BRMAs configured in the same way to Cambridge – an expensive city surrounded by a larger, cheaper rural area – produce similar results.

Further to the issue of the affordability of private rented housing with LHA, this study has shown that access to the private rental market for LHA claimants remains a significant problem. Overall, only 28 per cent of the private rental properties advertised that appeared to be available and affordable to claimants were in reality once an enquiry was made. This dramatically limits the range of properties on offer to LHA claimants. Landlords also often require additional conditions for claimants, such as requesting a guarantor or a higher deposit. A number of landlords expressed a mistrust of or lack of knowledge about LHA, indicating that there is a need for more information.

The intention of housing benefit reform was to empower claimants as consumers in the private rental market, allowing them to exercise choice over where they live and to be near centres of work and family ties, within reasonable average rents.⁷ This study shows that this is not being achieved, particularly in certain areas. The findings indicate that current policy is producing outcomes that conflict with certain key government objectives:

- Government policy has been sending a strong message encouraging benefit claimants into work, and more recently placing an obligation on some to go back into work, with those who

do not participate having their benefits cut.⁸ This study shows that it is extremely difficult for some LHA claimants to find accommodation close to centres of employment. LHA claimants are likely either to be in, or looking for, lower-paid work, where added costs such as transport and extra childcare (due to travelling longer distances and not having friends and family close by) become additional disincentives for going back into work.

- The Government has a clear aim to create mixed-income and tenure communities.⁹ The economic and social impacts of concentrations of deprivation and worklessness are well documented¹⁰, but the findings of this study show

that LHA, and specifically the move towards larger BRMAs, is having an effect contrary to these aims. The Rugg review of the private rented sector commented that the broadening of BRMAs could, under the LHA scheme, lead to a clustering of low-rental areas: the findings of this study back this up.¹¹

- Finally, affordable housing in the private rented sector is increasingly being promoted as a way for local authorities to tackle and prevent homelessness. However, this study shows that in some local authority areas finding properties that are both affordable and accessible to LHA claimants can be extremely difficult.

Recommendations

- DWP should monitor the impact of the amendments to The Rent Officers Order that came into force on 5 January 2009. The application of a new and largely unified definition of BRMAs in respect of both LRR and LHA is seen by DWP only as a short-term measure. Therefore, the BRMAs should be evaluated in relation to the wider LHA policy context to address the impact of the new definition on claimants in terms of access to suitable and affordable housing.
- The Government needs to undertake a review of the regulations that are used to set BRMAs (for LHA and LRR). The criteria used to determine the regulations have not been updated since 1995 and a review is well overdue. In line with government policy, criteria should be extended to include access to centres of employment, more emphasis on homelessness prevention, and the promotion of mixed communities.
- DWP should conduct a review of The Rent Service database to understand the full, national extent of problems highlighted in this research. Since the national rollout of LHA, The Rent Service has promoted greater transparency and openness of the housing benefit system, in line with government policy. The publication of LHA rates has supported this process. Further action should include a full evaluation of data to ascertain the level and extent of problems with affordability experienced by claimants.
- DWP should identify neighbourhoods, localities and local authorities with particularly high or low levels of affordability for LHA claimants and put into practice suitable ways of mitigating this. DWP and The Rent Service should work closely with local authorities, landlords and advice agencies as part of the formal review of BRMAs. This should help to identify problems early and involve stakeholders in decisions about BRMA reviews.
- DWP needs to examine and consult on a range of measures to increase the supply of private rented homes actually available to LHA claimants. This should promote better communication both between landlords and local authorities, and landlords and tenants, and improved support for landlords. Measures could include greater use of direct payments to landlords in the early stages of tenancies; help for local authorities and landlords in identifying vulnerable claimants; measures to identify problems with rent arrears before eight weeks of arrears have been accrued; and a direct helpline for landlords where problems do occur.

8 Welfare Reform Green Paper: DWP, *No one written off: reforming welfare to reward responsibility*, 2008.

9 Office of the Deputy Prime Minister (ODPM), *Sustainable communities: Homes for all*, 2005.

10 Office for Public Management (OPM), *ODPM new horizons: An exploration of the challenges posed by future trends in segregation and polarisation*, 2005.

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

Shelter, the housing and homelessness charity

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88 Old Street

London EC1V 9HU

www.shelter.org.uk/researchbriefings

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