

Tracking Welfare Reform in London a London Councils update

October 2013



Headlines

- The number of housing benefit recipients in private rented housing in London has risen by 17 per cent in the past two years.
- 96 per cent of this growth can be accounted for by households in work.
- Numbers of LHA recipients are falling in inner London and rising in outer London following the 2011 reforms.
- 97 per cent of households affected by the benefit cap have children.
- Numbers of London households in temporary accommodation have risen in every quarter since the 2011 reforms.

London Councils is calling for:

- 1) London exemption from below inflation uprating of LHA.**
- 2) A full and comprehensive assessment of the new financial burdens to local authorities resulting from the implementation of welfare reform.**
- 3) Recognition of the potential impact of welfare reform on local authority services in London.**



Introduction

Local Housing Allowance (LHA), the method by which housing benefit rates for most private rented tenants are calculated, was reformed in 2011/12 to reduce eligibility. The key reforms were:

- Eligibility limited to the 30th percentile of local rents meaning the lowest 30 per cent of rents in an area should theoretically be affordable to a household in receipt of housing benefit. This limit was previously set at the 50th percentile.
- Overall national caps were introduced that do not take account of prevailing rents in an area.
- The age at which an individual or couple becomes eligible for benefit equivalent to the cost of a one bedroom property, as opposed to a room in a shared house, rose from 25 to 35.

The introduction of national caps in addition to the 30th percentile rule means that in areas of high rent, particularly London, the actual maximum housing benefit is set far below the 30th percentile. Of 80 LHA rates in London, 51 are now set below the 30th percentile; that's 64 per cent.

London Councils has argued that the government should take London's higher housing costs into account in the reform of housing benefit. Concern has been expressed that failure to do so has the potential of increasing homelessness in the capital as well as further concentrating housing benefit recipients in some lower cost boroughs.

In December 2012, the Chancellor announced that LHA would be restrained further by limiting the rate at which cash eligibility grows to 1 per cent for two years. However he also indicated that 30 per cent of the savings that accrue to the Treasury from this measure would be set aside to exempt some parts of the country with the highest rents from below inflation uprating.

An overall cap on the amount of benefit a workless household is able to receive has been applied since the end of September 2013. As London's rents are higher than anywhere else in the country, housing benefit payments are also higher and consequently half of all households affected by the benefit cap are London households.

Reforms to welfare present significant problems for local authorities in London, not least in dealing with increases in homelessness and requirements for temporary accommodation that arise from welfare reform induced tenancy failure.

London Councils is calling for:

- London exemption from below inflation uprating of LHA.
- A full and comprehensive assessment of the new financial burdens to local authorities resulting from the implementation of welfare reform, particularly in relation to homelessness and temporary accommodation.
- Recognition of the potential impact on local authority services that could result from failure to take into account London's high and rising rents in the reform of housing benefit, including the benefit cap.

The figures

In the two years since the reforms to LHA were implemented in April 2011, the numbers of London households in receipt of housing benefit has risen from **816,931** to **850,212**.

Within those figures, the number in receipt of LHA has risen from just over **201,000** in April 2011 to **235,000** in May 2013; a **17 per cent** rise that accounts for the entire rise in housing benefit receipt in London over the period.

This is indicative of a growing reliance on the subsidy of private sector housing in London in order to provide housing to low income households, both working and non-working.

However, since the 2011 limitations were introduced, the growth in LHA receipt has been uneven across the capital. While the number of households in receipt of LHA grew by **5 per cent** in inner London over the period, numbers grew by **21 per cent** in outer London.

Over the most recent year of available data (May 2012 – May 2013), the number of households in receipt of LHA fell in inner London for the first time, yet grew in outer London by just under **10,000** households; a **7 per cent** rise year on year rise.

Between May 2011 and May 2013:

- **86 per cent** of the London growth in the number of LHA recipients was in outer London.
 - There was more growth in LB Newham than the rest of inner London combined.
- The biggest falls in the numbers in receipt of LHA were in Westminster (**-1,932 households; a 30 per cent drop**), Kensington and Chelsea (**-671 households; a 24 per cent drop**) and Islington (**-247 households; a 7 per cent drop**).
- The largest rises were in Newham (**+3,897 households; a 48 per cent rise**), Enfield (**+2,970 households; a 23 per cent rise**) and Barnet (**+2,837 households; a 29 per cent rise**).
- In inner London, only Newham (**+48 per cent**) and Haringey (**+13 per cent**) experienced a double digit percentage rise.
- In outer London, only Waltham Forest (**+7 per cent**) experienced a rise of less than **15 per cent**. All other outer London boroughs experienced a rise of between **15 per cent** and **28 per cent**.

Employment

One of the key drivers behind government reforms to LHA was to ensure that benefit recipients were expected to make the same decisions over where they can afford to live as working households.

96 per cent of the growth in London's LHA receipt between May 2011 and May 2013 can be accounted for by households in work.

Over the past four years, the number of households receiving LHA in London where at least one member is in work has almost **doubled** whereas the number not in work has risen by only around **10 per cent**. **47 per cent** of all LHA recipients in London now contain at least one member who is in work; a higher proportion than any other part of the country.

Figure 1: Number of LHA recipients in London by employment status.

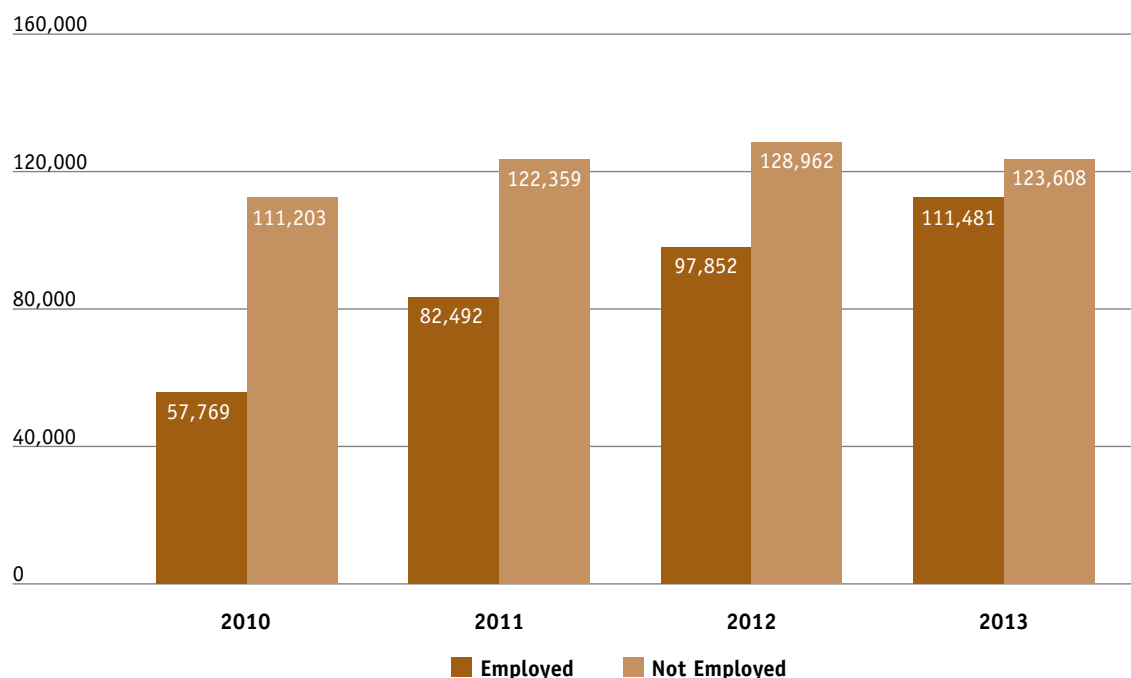
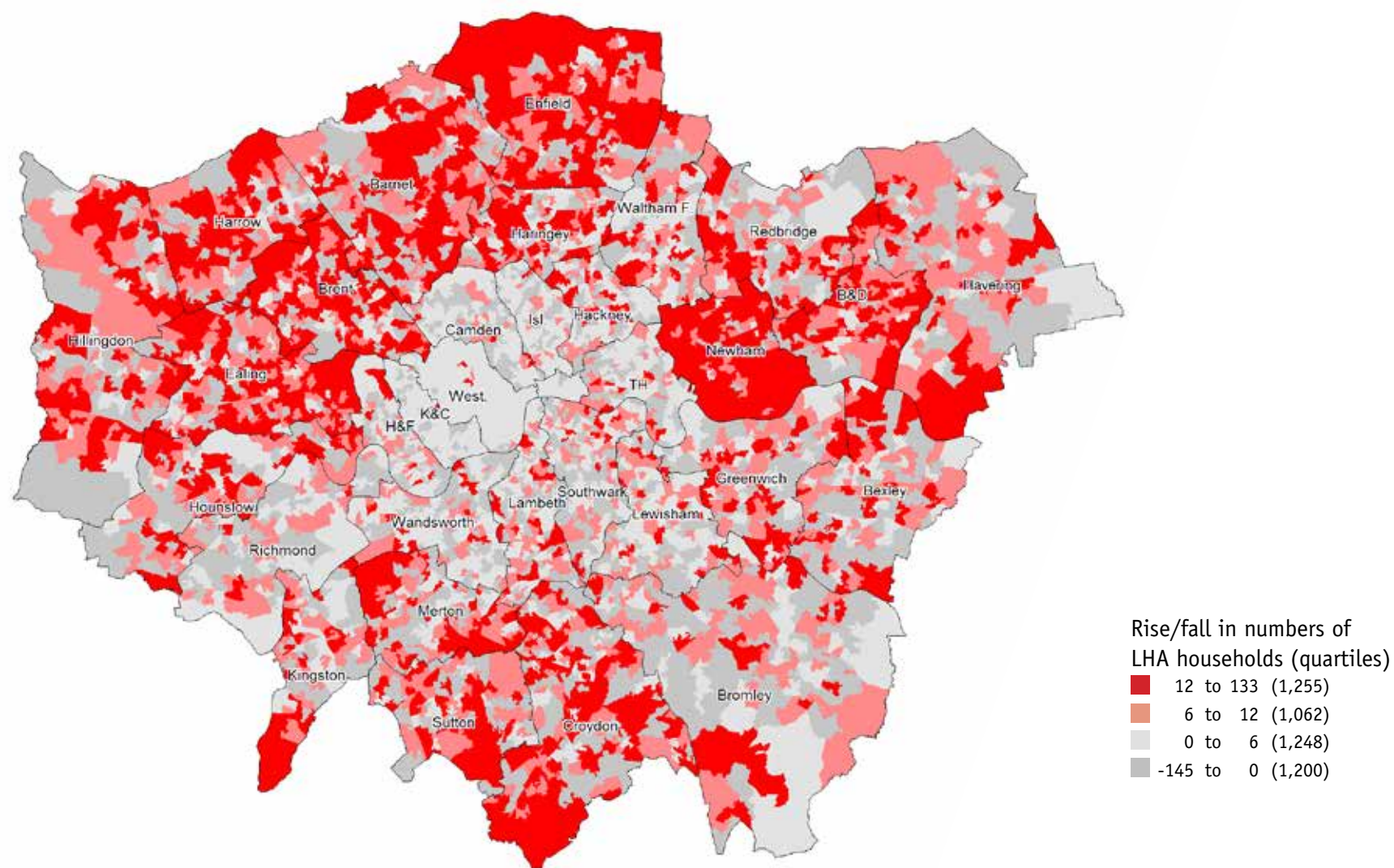


Figure 2: Change in households in receipt of LHA May 2011 – May 2013 by quartile.



Under-35s

A change to the Shared Accommodation Rate (SAR) that came into force in January 2012 raised the age at which an individual is able to qualify for LHA equivalent to the cost of a one-bedroom property from 25 to 35. Those aged 34 or under are now able to claim a maximum housing benefit payment equivalent to the cost of a room in a shared house.

The number of 25-34 year-old LHA recipients in London declined by around **4,000** between the new SAR rule coming into force in January 2012 and May 2013, the most recent month for which data is available.

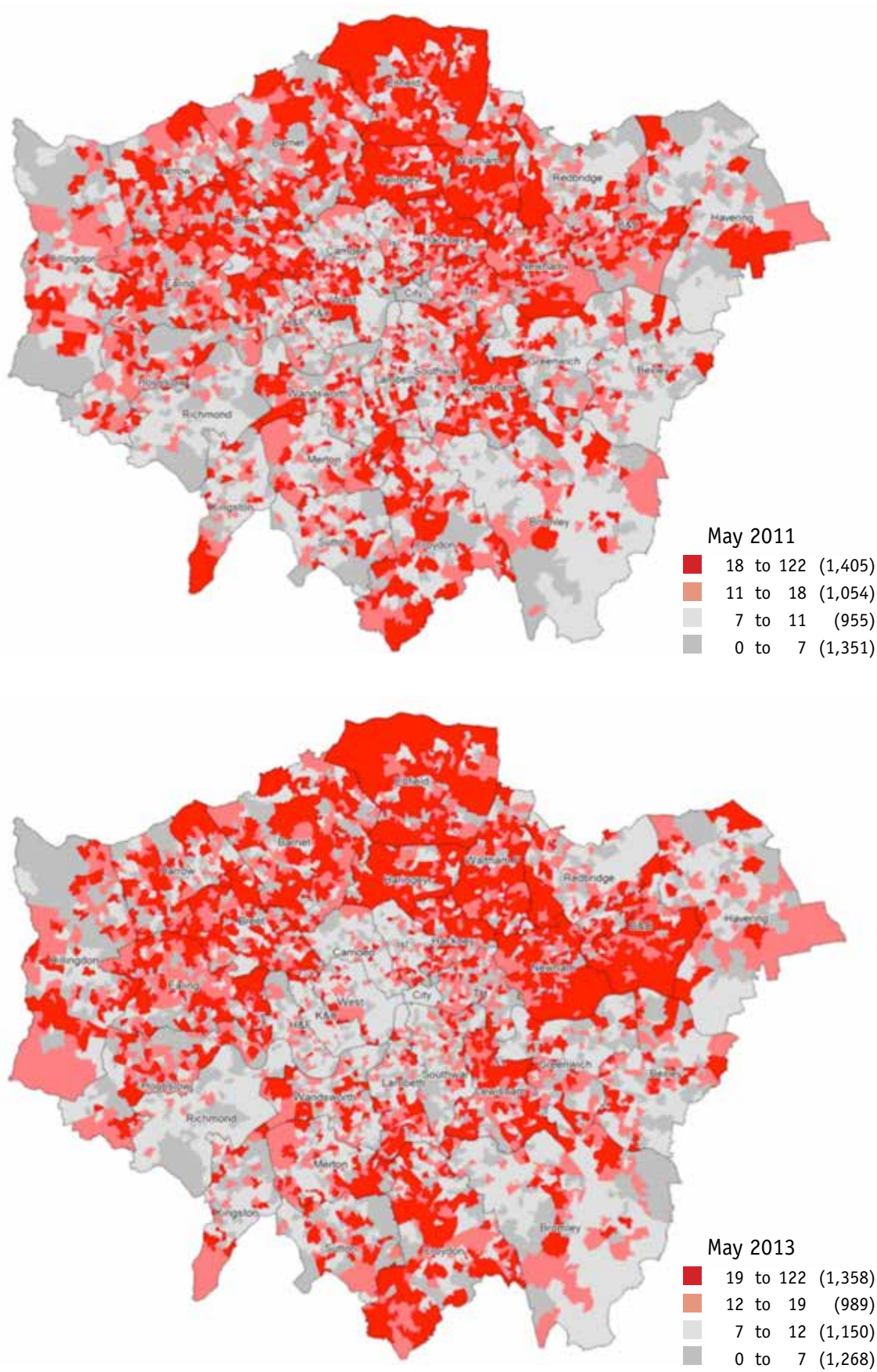
The number of under-25s receiving LHA also declined by around **3,300** over the same period. All other age bands saw a rise in the number of LHA recipients. The most prevalent age group to be in receipt of LHA in London is 35 to 44 year-olds (or households headed by people between these ages) with **75,387** households in receipt of LHA.

In terms of the actual amount of housing benefit 25-34 year-olds are receiving in London, there were **1,361** fewer households receiving more than £250 per week in May 2013 than there were in January 2012. There are also around **5,500** fewer households receiving between £100 and £200 per week. There were around **4,500** more households receiving between £50 and £100 per week.

The maps at figure 3 show the change in geography of LHA receipt before and after the SAR changes. This shows a clear concentration of recipients. While the 2011 map showed a wider distribution of LHA recipients, the most recent figures show a higher concentration of recipients in Outer South, North and North East London, with large parts of Inner London exhibiting a reduction in numbers.



Figure 3: Distribution of LHA recipients (aged 25-34) over time



Benefit Cap

From the end of September 2013, an overall benefit cap has been in place across the whole of Great Britain limiting the total amount a workless household is able to receive in benefits to £500 per week (or £350 per week for single adults without children). As prevailing rents (and consequently housing benefit rates) are not taken into account in the level of the benefit cap, half of all affected households are in London. Of households capped in four London boroughs that were subject to the government's pilot of the benefit cap:

- **97 per cent** were households with children
 - At least **8,110** children were members of capped households in just four boroughs.
- **74 per cent** were single parent households
- **73 per cent** were households with three or more children
- **58 per cent** lose at least £50 per week in benefit.
- Of households identified across the country by DWP in May 2012 as potentially liable to be impacted by the benefit cap, **27 per cent** had moved into employment at some point between May 2012 and August 2013. **48 per cent** were taking part in employment support.

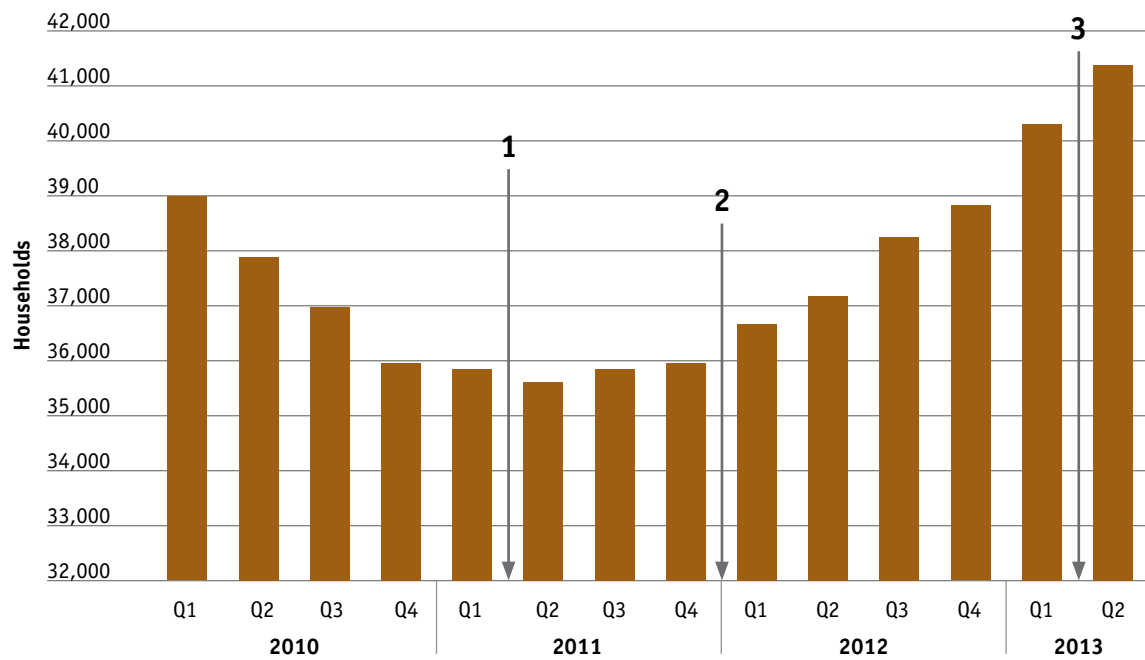
Homelessness

London continues to experience more instances of statutory homelessness than any other region and, because of the high and rising cost of rent in the capital combined with the caps on LHA and the overall benefit cap, growing difficulty in sourcing permanent accommodation solutions for households presenting and it faces being accepted as homeless and in priority need.

For the most recent quarter for which data is available (Mar-Jun 2013), **4,224** households in London were accepted as homeless and in priority need. This number has been increasing year on year. The average quarterly acceptance figure was **2,541** in 2010/11, 3,177 in 2011/12 and **3,699** in 2012/13.

As Figure 4 shows, the number of London households in Temporary Accommodation (TA) was over **41,000** at the end of the March-June 2013 quarter, having risen in every quarter since the implementation of reforms to Local Housing Allowance in April 2011. When temporary protection from these reforms began to end in early 2012, at the same time as the SAR changes were implemented, the numbers in TA began to rise more quickly, from under **36,000** at the end of 2011 to over **40,000** at the beginning of 2013.

Figure 4: The number of London households housed in temporary accommodation over time.



1 = Changes to Local Housing Allowance effective for new recipients

2 = Shared Room Rate age limit rose from 25 to 35, temporary protection from LHA changes begin to expire.

3 = Overall benefit cap implemented.



Commentary

UK government expenditure on housing benefit is expected to be just under **£24 billion** in 2013/14; around **12 per cent** of total welfare expenditure (including pensions and tax credits). The imperative to reduce this expenditure is clear but the methodology is less so.

A key policy driver behind housing benefit reform was to reduce private rents. Rents in inner London have risen by 14 per cent over the most recent year for which data is available.

It is of concern furthermore, to see that in London at least, **96 per cent** of the growth in housing benefit receipt is in the private rented sector where rents are far higher than rents in council or housing association owned accommodation.

This move from government subsidy of rents in the social sector to rents in the private sector leads not only to higher costs but to greater competition between households receiving housing benefit and those who are not for the same stock of private rented accommodation.

As there is stiff competition in most of London for private rented accommodation, it is no surprise that the lowest quartile of rents rose by **14 per cent** in inner London in the last year alone. It is also perhaps not surprising that the majority of growth in Local Housing Allowance in London over the past two years has been from households where at least one member is in work; **47 per cent** of all claims for LHA in London now come from working households. This number has almost doubled in four years indicating a growing reliance on housing benefit from working households in the capital.

The LHA caps do not take account of prevailing rents in an area and as a result **64 per cent** of LHA rates in London are now set below the 30th percentile. This means that growing parts of London's housing market are not accessible to households in receipt of housing benefit, regardless of whether or not they are in work.

It also means that households that are in receipt of housing benefit, whether because they are not in work or because their wages are not sufficient to cover their rental costs, will tend to migrate and/or concentrate in areas of London where private rents are lowest and there is more private rented accommodation.

For example, the number of households in receipt of LHA in Newham has risen by almost **50 per cent** between May 2011 and May 2013. Most of outer London has also seen numbers rise by up to **30 per cent** with boroughs in North and North West London seeing particularly high rises. There are genuine concerns about the impact these changes will have on the delivery of council services as there is not yet a full understanding of the impact of demographic change. E.g. How many children will 'new' households have? What impact will this have on planning for school places?

Figures also suggest that the number of homeless acceptances and the number of households in temporary accommodation in London are rising following the LHA reforms. This is expected to increase as the overall cap on benefits takes effect. Almost all households affected by the benefit cap in London pilot boroughs have been households with children. If this is replicated across the capital, there would be further concerns about how the migration of these families into increasingly small areas of London would impact on services.

London Councils has argued that failure to take into account London's higher rents has the potential to adversely affect the delivery of local authority services in the capital in ways that increase

significantly public sector expenditure and that government has failed to acknowledge the impact of welfare reform on local government services.

There is a major housing challenge in London that is borne out of a mismatch between demand and supply. If we are to tackle the causes of high and rising housing benefit expenditure, it must be as part of a partnership between central and local government that tackles the drivers of rising expenditure including the lack of supply of affordable housing in London.

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