

# Tracking Welfare Reform

## The Impact of Housing Benefit (LHA) Reform in London

*an Extended London Councils Briefing - June 2013*



## Summary

This report is concerned with the impact of reforms to housing benefit in the private rented sector (PRS) that came into force between April 2011 and January 2012, known as Local Housing Allowance.

Given the long period over which the reforms were implemented, and the range of temporary protection periods and discretionary payments that have applied, it may be some time before it is possible to gain a full understanding of the impacts. However, indications so far show that:

- more than two-thirds of the growth in housing benefit receipt in London over the past two years has been in the private sector
- rents are not falling in London despite reforms to Local Housing Allowance (LHA); indeed some boroughs have seen rent rises of more than 20 per cent in the last year
- LHA numbers in inner London are falling for the first time, but grew in outer London by 9 per cent between Jan 2012 and Jan 2013
- working households account for 90 per cent of the growth in LHA receipt in outer London between Jan 2012 and Jan 2013
- the biggest decline in LHA receipt has been among 25-34 year-olds; falling by more than 11 per cent in inner London between Jan 2012 and Jan 2013
- LHA households with dependent children are fastest growing family type in outer London.

London Councils is calling for:

- 1. A welfare system that is tailored to London's higher costs of living; particularly higher rents.**
- 2. London exemption from below inflation rises of Local Housing Allowance.**
- 3. A full assessment of the additional financial burdens on local authorities arising from welfare reform.**



## Introduction

Local Housing Allowance (LHA) is the method by which eligibility for housing benefit is calculated for most recipients in the deregulated private rented sector.

A range of reforms to LHA were implemented between April 2011 and January 2012 that limit the amount most private tenants are able to claim in housing benefit.

The Department for Work and Pensions (DWP) has commissioned a research consortium, between the Centre for Regional Economic and Social Research, the Institute for Fiscal Studies, the University of Oxford and Ipsos MORI, to produce an evaluation of the changes to LHA. Interim findings were released in May 2013.

In addition, this briefing takes account of the latest figures relating to housing benefit released by DWP, and private rental statistics released by the Valuation Office Agency (VOA).

Around 850,000 London households are in receipt of housing benefit<sup>1</sup>; higher than any other Great Britain region. The mean weekly receipt of housing benefit for London households is £134<sup>2</sup>; one-third higher than the next highest regional mean (South-east England - £98 p/w).

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1 DWP Stat X-plore

2 DWP Stat X-plore

### **The LHA reforms**

- Maximum LHA rates set at the 30th percentile of rents, rather than the 50th, meaning that, theoretically, the cheapest 30 per cent of private rental properties in an area should be available to tenants in receipt of housing benefit.
- £15 excess payment, which allowed tenants to keep excess housing benefit payments, abolished. This was planned by the previous government.
- Non-dependant deductions increased for three years, meaning any adults in a household (e.g. a son or daughter over 18) will be assumed to be contributing more to the rent.
- Maximum levels of housing benefit for each household size were introduced, with a maximum qualification of 4 bedrooms. New maximums are:
  - £250 for a one bedroom property
  - £290 for a two bedroom property
  - £340 for a three bedroom property
  - £400 for a four bedroom property.
- Shared room rate increased to 35, meaning that single adults under 35, now qualify for a payment equal to the cost of a room in a shared house, rather than self-contained accommodation. The previous age limit was 25 and under.
- £10 million was added to councils' Discretionary Housing Payment pot in 2011/12 and a further £30 million in 2012/13 to mitigate the impacts of the above changes.

Of the 850,000 London households in receipt of housing benefit, 570,000 are tenants of social rented properties. Around 282,000 are tenants living in private rented accommodation; a large majority of whom have their housing benefit entitlement calculated via the Local Housing Allowance.

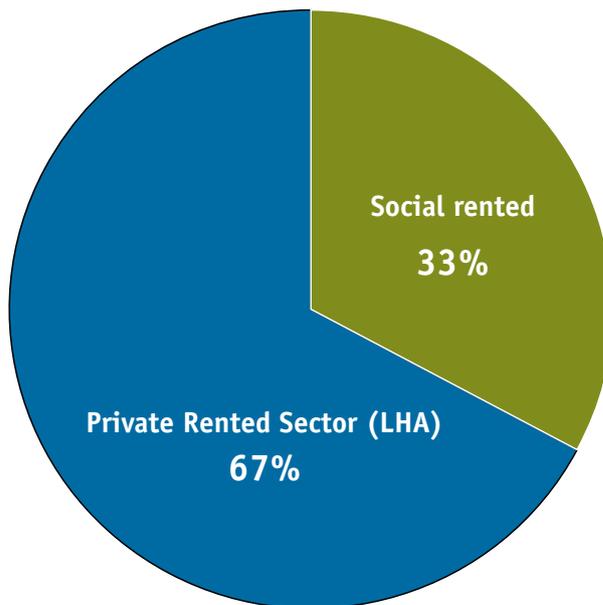
In order to reduce expenditure on housing benefit (estimated at £20 billion per annum in 2009/10<sup>3</sup>), the government introduced measures to limit the amount these private tenants are able to receive in housing benefit.

In addition, the government announced in late 2012 that most working age benefits would be increased by only 1 per cent (as opposed to by the rate of inflation) for three years. The Chancellor announced however that Local Housing Allowance would be increased by the rate of the Consumer Prices Index in April 2013 and by 1 per cent in each of the following two years. Furthermore, he announced plans to set aside a proportion of the savings that accrue from this measure to exempt areas of the country with higher private rents; no announcement on exemptions has yet been made.

### Housing benefit growth in London

The trend in recent housing benefit growth in London is heavily skewed towards private sector landlords. Over the two years between January 2011 and January 2013, more than two-thirds of London's housing benefit growth was in the private sector. The average London local authority social rent is £89.17<sup>4</sup> whereas even the lower quartile weekly rent across London's private sector is £219.43<sup>5</sup>.

**Fig. 1 Growth in London Housing Benefit January 2011 – January 2013**



Overall, there has been an increase of around 58,000 households in receipt of housing benefit in London over the period January 2011 to January 2013. Of these, around 40,000 are households in receipt of LHA.

The predominance of the private rented sector in the context of rising housing benefit receipt is indicative of:

- a lack of supply of social rented sector accommodation
- growing misalignment of rent costs and ability to pay.

<sup>4</sup> Department for Communities and Local Government - Statistics

<sup>5</sup> Valuation Office Agency – Private Rental Market Statistics

### Non-uniform growth in LHA

Most of the reforms to Local Housing Allowance were implemented in April 2011. New claimants after this date would have their entitlement calculated under the reformed system. Existing LHA claimants, with no changes of circumstance, were affected on the anniversary of their claim, although some were eligible for a nine month transitional protection. For most existing claimants not exhibiting changes in circumstance, the changes will have taken place at some point between January 2012 and January 2013.

The age at which a claimant becomes eligible for an LHA payment equivalent to the costs of a one bedroom property, as opposed to a room in a shared house, rose from 25 to 35 in January 2012.

The overall number of LHA households in London grew by 5 per cent<sup>6</sup> in the year between January 2012 and January 2013. This growth figure masks a reduction in LHA receipt in inner London for the first time since the creation of the LHA system. The overall inner London numbers fell by just over 1,500 households, or 2 per cent.

Meanwhile, in outer London, there was an increase in LHA receipt of 9 per cent over the year; more than 11,000 additional households.

<b>Rise/fall LHA households Jan 2012 – Jan 2013</b>		
<b>Inner London</b>	Total Jan 12	85493
	Total Jan 13	83922
	Change	-1571
	% +/-	-2%
<b>Outer London</b>	Total Jan 12	136841
	Total Jan 13	148504
	Change	11663
	% +/-	+9%
<b>London</b>	Total Jan 12	222334
	Total Jan 13	232426
	Change	10092
	% +/-	+5%

The inner London figures mask a wide range of change:

- Westminster (-26 per cent) and Kensington and Chelsea (-20 per cent) saw the biggest falls.
- Camden (-5 per cent), Islington (-8 per cent) and Tower Hamlets (-7 per cent) also experienced significant reductions.
- Lewisham (0 per cent), Hackney (+1 per cent), Hammersmith and Fulham (-1 per cent), Southwark (+2 per cent), Lambeth (+2 per cent) and Wandsworth (-1 per cent) experienced virtually no change in numbers over the Jan 12 – Feb 13 period despite an overall London increase of 5 per cent.

<sup>6</sup> DWP Stat X-plore

- Haringey (+5 per cent) and Newham (+6 per cent), the boroughs with two of the three lowest lower quartile private rents in inner London, were the only inner London boroughs to see significant increases.
- All outer London boroughs, with the exception of Waltham Forest (+1 per cent), experienced increases in LHA/HB numbers of between 6 per cent and 13 per cent.
- The boroughs experiencing the largest increases were Barnet (an extra 1,484 households, +13 per cent), Enfield (+ 1,349 households, +9 per cent), Croydon (+1,157 households, +9 per cent) and Brent (+1,126 households, +8 per cent).

### Rise and fall of LHA receipt Jan 2012 – Jan 2013



Source: Department for Work and Pensions

These figures show a broad reduction in the number of LHA households in inner London over the period in question. In addition, the most significant reductions have been in the boroughs with the highest private sector rents. Table 1 (page 9) shows the change in lower quartile rents in each London borough over a comparable period (March 2012 – March 2013)<sup>7</sup>.

Lower quartile rents are the 25 per cent cheapest private rents in a local authority area, which is broadly comparable to the 30 per cent of private rents that are theoretically available to households in receipt of LHA.

<sup>7</sup> Valuation Office Agency

The drop-off of LHA households in boroughs with the highest rents indicates that the overall maximum rates of LHA introduced in 2011 are becoming misaligned with the 30th percentile rate; particularly in inner London.

The only inner London boroughs experiencing significant growth in LHA households are Haringey (+5 per cent) and Newham (+6 per cent); boroughs with two of the three lowest lower quartile rents in inner London.

Lewisham, with the lowest lower quartile rents in inner London, has not seen a similar significant rise to Newham and Haringey. It is possible that this is because the private rented sector in Lewisham is significantly lower as a proportion of total housing stock at 23 per cent<sup>8</sup> than either Haringey (30.3 per cent) or Newham (32.6 per cent).

In outer London, only Waltham Forest has experienced a small increase in LHA households; all other outer London boroughs have experienced increases of between 6 per cent and 12 per cent.

Barnet (+1,316), Brent (+1,065), Croydon (+1,032) and Enfield (+1,225) have experienced the largest rises in London. These four boroughs have some of the largest existing LHA cohorts in London and, despite relatively large private rented sectors, these rises in LHA households have been accompanied by significant rent rises.

For example, lower quartile rents in Brent rose by £127 per month over the 12 months between Jan 2012 and Jan 2013; a 15 per cent rise. In Barnet, lower quartile rents rose by 11 per cent. Lower quartile rents in Croydon and Enfield rose by a less remarkable 4 per cent and 3 per cent respectively which, while still above the rate of inflation, might indicate greater capacity and landlord willingness in these boroughs' private rented sectors to absorb additional LHA households.

These figures suggest that in some boroughs there is a correlation between increases in the number of LHA recipients and private rents (paid by all privately renting households, regardless of whether they receive housing benefit or not).

However, it appears clear that in other boroughs, rises and falls of LHA households have no real impact on rents. Rents in inner London have uniformly risen well above the rate of inflation, regardless of the rise or fall of LHA recipient numbers. This suggests that there is significant demand for private rental accommodation from non-LHA households in inner London that is driving up private rents that, in turn, mean that a larger proportion of rents are unobtainable to households in receipt of housing benefit. Unaffordability of accommodation for existing or new LHA recipients explains the reduction in LHA receipt in inner London and may explain at least some of the rise in outer London.

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<sup>8</sup> Census 2011

**Table 1: Change in LHA receipt (Jan 12 – Jan 13) and lower quartile rents (Mar 12 – Mar 13) by borough.**

	Year to Mar 2012 LQ rent	Year to Mar 2013 LQ rent	Change LQ rent Mar 12 - Mar 13	% change LQ rent Mar 12 - Mar 13	LHA Jan 2012	LHA Jan 2013	Change LHA Jan 12- Jan 13	% change LHA Feb 12 - Feb 13	PRS as % total stock -29%
<b>Inner London</b>									
<b>Camden</b>	£1,257	£1,365	£108	9%	3530	3365	-165	-5%	30.5%
<b>City</b>	£1,430	£1,430	£0	0%	31	22	-9	-29%	33.1%
<b>Hackney</b>	£845	£997	£152	18%	8883	9009	126	1%	27.6%
<b>H &amp; F</b>	£1,083	£1,235	£152	14%	3151	3134	-17	-1%	30.0%
<b>Haringey</b>	£693	£800	£107	15%	11582	12204	622	5%	30.3%
<b>Islington</b>	£1,105	£1,278	£173	16%	3334	3072	-262	-8%	25.6%
<b>K &amp; C</b>	£1,473	£1,733	£260	18%	2641	2117	-524	-20%	34.0%
<b>Lambeth</b>	£900	£1,040	£140	16%	6997	7113	116	2%	27.7%
<b>Lewisham</b>	£675	£750	£75	11%	10761	10808	47	0%	23.0%
<b>Newham</b>	£725	£800	£75	10%	11139	11803	664	6%	32.6%
<b>Southwark</b>	£875	£1,000	£125	14%	4313	4386	73	2%	22.2%
<b>Tower Hamlets</b>	£1,018	£1,235	£217	21%	4985	4613	-372	-7%	30.8%
<b>Wandsworth</b>	£1,001	£1,235	£234	23%	7487	7381	-106	-1%	30.0%
<b>Westminster</b>	£1,430	£1,517	£87	6%	6659	4895	-1764	-26%	37.6%
<b>Outer London</b>									
<b>B &amp; D</b>	£700	£750	£50	7%	5821	6352	531	9%	16.6%
<b>Barnet</b>	£862	£953	£91	11%	11231	12547	1316	12%	24.4%
<b>Bexley</b>	£675	£650	-£25	-4%	4239	4555	316	7%	10.5%
<b>Brent</b>	£823	£950	£127	15%	14042	15107	1065	8%	28.8%
<b>Bromley</b>	£775	£775	£0	0%	4409	4830	421	10%	12.4%
<b>Croydon</b>	£675	£700	£25	4%	13014	14046	1032	8%	19.8%
<b>Ealing</b>	£758	£875	£117	15%	11299	12034	735	7%	26.4%
<b>Enfield</b>	£778	£800	£22	3%	14764	15989	1225	8%	21.2%
<b>Greenwich</b>	£725	£750	£25	3%	4708	5291	583	12%	18.5%
<b>Harrow</b>	£850	£875	£25	3%	7389	8083	694	9%	20.4%
<b>Havering</b>	£700	£725	£25	4%	3947	4333	386	10%	9.9%
<b>Hillingdon</b>	£725	£600	-£125	-17%	6642	7402	760	11%	16.7%
<b>Hounslow</b>	£850	£880	£30	4%	5863	6417	554	9%	22.2%
<b>Kingston</b>	£412	£390	-£22	-5%	3029	3317	288	10%	21.0%
<b>Merton</b>	£900	£995	£95	11%	4269	4676	407	10%	23.5%
<b>Redbridge</b>	£698	£725	£27	4%	7495	8070	575	8%	21.6%
<b>Richmond</b>	£825	£1,080	£255	31%	2083	2205	122	6%	20.6%
<b>Sutton</b>	£675	£710	£35	5%	3878	4331	453	12%	14.9%
<b>Waltham Forest</b>	£750	£780	£30	4%	8719	8919	200	2%	24.7%

Sources: LHA figures – DWP, rental statistics – VOA, PRS density – UK census 2011.

### **Extracts from: Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit, Department for Work and Pensions**

*“Advisers from all case study areas noted that demand in the PRS had increased in recent years. Affordability concerns dominated in the London PRS markets – not just in the expensive inner-London boroughs but also in traditionally more affordable markets such as Barking and Dagenham, where **indigenous residents were often competing with inner-London boroughs seeking to lease PRS properties to discharge their homelessness responsibilities.** There was also a strong sense among London advisers that more affordable housing options were not available in neighbouring districts in any case; a move out of London altogether might be necessary to secure a much cheaper rent.”*

*“**Housing advisers in the four London case study areas noted an increase in the number of landlords exiting the HB sub-market altogether, primarily due to the reduction in LHA rates and, therefore, rental yields.** Advisers also suggested that the practice of making direct HB payments to the tenant was a contributory factor behind landlords’ decisions to exit. When asked whether the offer of paying HB directly to landlords had acted as an incentive to reduce rents, advisers agreed with landlords that the effect had been negligible. Advisers suggested that the incentive was not seen as sufficiently strong compared to the perceived advantages of letting to non-LHA tenants at existing rent levels.”*

*“The interviews with landlords showed that demand for PRS accommodation from non-LHA tenants was seen as particularly strong, and unlikely to change in the short to medium term. Respondents felt that there were, therefore, few market pressures to stabilise or reduce rent levels in the market. The majority of respondents outside London claimed that rents in their area had been fairly steady over the preceding year. The majority of London landlords, however, thought that rents had risen over the previous year, as a direct result of increased demand. **The majority of landlords interviewed said they had no intention of reducing rents in the wake of the LHA reforms.**”*

## **Cohorts**

### **Shared Accommodation Rate**

The age threshold for the Shared Accommodation Rate (SAR) rose from 25 to 35 in January 2012 meaning that single adults younger than 35 years-old are only able to get help with housing costs in the private sector equivalent to the costs of a room in a shared house, regardless of whether they currently live in larger accommodation.

Breaking down the LHA receipt figures into age category shows that in all categories, the growth in LHA receipt in inner London has slowed down over the year Jan 12 – Jan 13 compared with the previous year.

**Table 2: Rise/fall LHA recipients by age group: inner London**

Inner London	Jan-11	Jan-12	Jan-13	Change	Change
				Jan 11 - 12	Jan 12 - 13
<b>Under 25</b>	7572	7051	5685	-521	-1366
<b>25 to 34</b>	26277	28212	25003	1935	-3209
<b>35 to 44</b>	22681	25905	26628	3224	723
<b>45 to 49</b>	7423	8897	9584	1474	687
<b>50 to 54</b>	4848	5799	6477	951	678
<b>55 to 59</b>	2691	3471	3829	780	358
<b>60 to 64</b>	2071	2413	2611	342	198
<b>65 to 69</b>	1315	1612	1803	297	191
<b>70 plus</b>	1660	2100	2281	440	181

In two categories, under 25 and 25 -34, the numbers have fallen between January 2012 and January 2013 by a total of 4,575. The numbers of under-25s in receipt of LHA had already fallen between January 2011 and January 2012, although the fall was significantly higher between 2012-13. However, the starkest change is in the 25-34 category, which rose by just under 2,000 between 2011-12. **By January 2013, the number of 25-34 year-olds receiving LHA in inner London had fallen year on year by 3,000.** This fall coincides with change to the Shared Accommodation Rate outlined above. The fall could indicate a lack of supply of affordable shared accommodation in central London and a consequent failure of existing tenants aged 25-34 to maintain their current accommodation or source new accommodation.

In outer London, there has been a similar reduction in under-25 LHA receipt that became more pronounced between January 2012 and January 2013. In addition, although the numbers of LHA recipients between 25-34 rose slightly between 2012-13, the rise is around 50 times lower than the rise over the previous year. This suggests that the SAR is also having an impact in outer London. However, this masks a non-uniform growth and fall in 25-34 LHA receipt in outer London.

**Table 3: Rise/fall LHA recipients by age group: outer London**

Outer London	Jan-11	Jan-12	Jan-13	Change	Change
				Jan 11 - 12	Jan 12 - 13
<b>Under 25</b>	12050	11616	10207	-405	-1409
<b>25 to 34</b>	39282	42904	43016	5028	112
<b>35 to 44</b>	36738	41763	47356	6894	5593
<b>45 to 49</b>	12361	14416	16568	2896	2152
<b>50 to 54</b>	7941	9292	11220	1821	1928
<b>55 to 59</b>	4800	5703	6726	1251	1023
<b>60 to 64</b>	3705	4324	4960	855	636
<b>65 to 69</b>	2300	2865	3740	771	875
<b>70 plus</b>	3230	3909	4743	1024	834

**Table 4: LHA recipients aged 25-34 by borough**

	Jan 2011	Jan 2012	Jan 2013	Change Jan 2011 - Jan 2012	Change Jan 2012 - Jan 2013	Lower quartile shared room rent Q1 2012	Lower quartile shared room rent Q1 2013	Change £+/-
<b>Camden</b>	1160	1155	883	-5	-272	£495	£433	+£68
<b>City</b>	13	12	7	-1	-5	-	-	-
<b>Hackney</b>	3490	3702	3416	212	-286	£411	£433	+£22
<b>H &amp; F</b>	1021	1009	863	-12	-146	£425	£563	+£138
<b>Haringey</b>	3498	3976	3803	478	-173	£412	£425	+£13
<b>Islington</b>	1151	1205	941	54	-264	£433	£515	+£82
<b>K &amp; C</b>	757	690	419	-67	-271	£542	£563	+£21
<b>Lambeth</b>	2241	2353	2205	112	-148	£390	£433	+£43
<b>Lewisham</b>	3254	3320	3134	66	-186	£380	£400	+£20
<b>Newham</b>	2576	3368	3306	792	-62	£350	£350	£0
<b>Southwark</b>	1375	1488	1429	113	-59	£400	£433	+£33
<b>T. Hamlets</b>	1730	1888	1527	158	-361	£433	£485	+£52
<b>Wandsworth</b>	2144	2145	2000	1	-145	£390	£400	+£10
<b>Westminster</b>	1867	1901	1070	34	-831	£547	£643	+£96
<b>B &amp; D</b>	3476	4036	4122	560	86	£325	£347	+£22
<b>Barnet</b>	3050	3472	3355	422	-117	£377	£472	+£95
<b>Bexley</b>	4306	5097	5061	791	-36	£347	£360	+£13
<b>Brent</b>	1405	1523	1599	118	76	£400	£498	+£98
<b>Bromley</b>	1795	1954	1975	159	21	£390	£400	+£10
<b>Croydon</b>	1143	1288	1414	145	126	£350	£350	£0
<b>Ealing</b>	1767	2074	2185	307	111	£390	£425	+£35
<b>Enfield</b>	1686	1788	1826	102	38	£399	£406	+£7
<b>Greenwich</b>	783	908	882	125	-26	£347	£400	+£53
<b>Harrow</b>	1256	1328	1352	72	24	£410	£433	+£23
<b>Havering</b>	1988	2206	2093	218	-113	£365	£390	+£25
<b>Hillingdon</b>	539	562	494	23	-68	£368	£350	£0
<b>Hounslow</b>	1025	1217	1283	192	66	£380	£388	+£8
<b>Kingston</b>	3011	3039	2857	28	-182	£368	£364	-£4
<b>Merton</b>	1712	2041	2203	329	162	£380	£400	+£20
<b>Redbridge</b>	2991	3645	3661	654	16	£373	£407	+£34
<b>Richmond</b>	1137	1374	1478	237	104	£350	£350	£0
<b>Sutton</b>	3621	3981	3727	360	-254	£368	£427	+£59
<b>Waltham Forest</b>	1185	1371	1449	186	78	£347	£390	+£43

Sources: LHA receipt – DWP, Private rental data - VOA

- all 13 inner London boroughs saw a fall in 25-34 year-old LHA recipients in the year following the shared room rate change in January 2012
- 12 out of 19 outer London boroughs experienced a rise in 25-34 year-old LHA recipients (Croydon, Greenwich, Harrow, Havering, Hillingdon, Hounslow, Merton, Sutton, Barking and Dagenham, Bexley and Bromley).
- the average maximum inner London shared room rate of LHA is just over £400<sup>9</sup> per month, meaning that the lowest quartile of rents in only Lewisham, Newham and Wandsworth would be in the affordable range.
- the average maximum outer London shared room rate of LHA is just over £335 per month, meaning that significantly fewer than 25 per cent of rented rooms in outer London are in the affordable range.
- there appears to be some correlation between rising rents for shared rooms and falls in 25-34 years-olds in receipt of LHA; particularly in higher rent boroughs.
- the most significant outer London rent rises are not accompanied by significant rises in 25-34 year-old LHA households; suggesting a possible reduction in supply of this type of accommodation in these boroughs through landlords leaving the market.

*“Of all the measures, the changes to SAR were thought to have had the most impact, and many respondents thought that the problems facing single claimants under 35 would become more prominent when they moved out of the transitional protection period. Advisers were especially concerned about the problems facing separated parents currently living in one-bedroom properties. In a wide range of local housing markets advisers observed a growing mismatch between the demand for shared accommodation and the sluggish (or non-existent) supply response. The advisers in London felt that SAR changes had caused many of those under 35 years old to change their housing situation, whether through ‘forcible’ or voluntary sharing, moving back in with parents, or moving further afield.”*

**Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit, Department for Work and Pensions**

Furthermore, there have been significant rises in the numbers of LHA recipients in outer London with dependent children. **Between January 2012 and January 2013, there were an additional 8,846 households with dependent children in receipt of LHA in outer London.** There was not a corresponding fall in inner London, although there was an overall rise of only 681 households with dependent children. It may not be possible to definitively conclude that these households are necessarily migrating from inner to outer London, although it may suggest that some households are breaking a claim in central London before relocating to outer London boroughs and making a new claim for LHA.

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9 VOA

**Table 5: Rise/fall LHA claimants by family type**

<b>Inner London</b>	<b>Change</b>
	<b>Jan 2012 – Jan 2013</b>
Single, no child dependant	-2353
Single with child dependant(s)	-551
Couple, no child dependant	141
Couple with child dependant(s)	1232
<b>Outer London</b>	
Single, no child dependant	1811
Single with child dependant(s)	3419
Couple, no child dependant	1022
Couple with child dependant(s)	5427

Furthermore, it might suggest that households in outer London are becoming less able to meet their rental costs at a faster rate than households in inner London, although this would not make sense in the context of higher rents and faster rising rents in inner London when compared with outer London.

Recipients of LHA in London are more likely to be in work than LHA recipients in any other region - 44 per cent of London LHA recipient households have someone in work; the Great Britain average is 32 per cent. In outer London, **90 per cent of the growth in LHA receipt is accounted for by working households** indicating that low income working households in London are, in large numbers, in need of public subsidy to maintain themselves in accommodation in the city in which they work.

There has also been a drop off in inner London of households in receipt of LHA and not in employment; particularly those in receipt of 'passported' benefits (Job Seeker's Allowance, Income Support or Pension Credit Guaranteed).

**Table 6: Rise/fall LHA claimants by employment status**

<b>Inner London</b>	<b>Change</b>
	<b>Jan 2012 – Jan 2013</b>
In employment (and not on Passported Benefit)	2391
Not in employment (and not on Passported Benefit)	-325
On Passported Benefit	-3611
<b>Outer London</b>	
In employment (and not on Passported Benefit)	10454
Not in employment (and not on Passported Benefit)	19
On Passported Benefit	1199

*“The LHA claimant profile in Central London has changed more than any other area type between March/May 2010 and March/May 2012: the proportion of 25 to 34-year-olds has dropped markedly since the SAR changes in January 2012. It is also the only area type where the proportion of lone parents has decreased. The rate of increase in the number of working households has declined in the year after the reforms in central London (from an increase of 37 per cent down to 10 per cent), as has the number of couples with children (down from an annual increase of 24 per cent before the reforms to an increase of 7 per cent after).”*

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### **Landlords**

As outlined above, more than two thirds of the increase in housing benefit recipients in London between Jan 2011 and Jan 2013 has been in the private sector. Subsidy of private sector rented housing is a central component of London’s housing market and the LHA housing subsidy is paid, as has been mentioned, to working and non-working households in almost equal measure. The viability of publicly subsidising private housing is reliant on the willingness of private landlords to rent to housing benefit recipients.

*“We have slowly, slowly been booting them out, average between 150 and 200 properties. Depending on what the landlords want to do. Quite a few have decided to sell up recently. I think probably nowadays about 20 per cent is LHA, because we’ve just been turfing them out.”*

(Barking and Dagenham landlord/managing agent)

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High rents are linked with buoyant employment markets so it is perhaps no surprise that LHA subsidy is paid to a higher proportion of working households in London than in any other region of Great Britain, although LHA subsidy is also paid to over 100,000 workless households in London.

*“I haven’t taken any measures directly but when the tenancies do end I can’t see the tenants remaining in situ. So at that point I will either let privately or take a view as to whether I want to just sell up and get out of that particular property. I don’t think I’ll exit the area completely, but just to minimise the risks I might just let to private tenants and see how that goes. But I think the model of letting to council (i.e. LHA) tenants is going to disappear very quickly.”*

(Westminster landlord)

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There is also a concern that LHA households are increasingly competing for rental properties with local authorities procuring properties into which to discharge their homelessness duty; demand for which also appears to be increasing as a consequence of reforms to welfare. Shelter estimates that the cost to a local authority of administering a homelessness decision is around £375 per case, the cost of housing a homeless household in temporary private rented accommodation is an average of £162.44<sup>10</sup> per week and the cost of concluding a homelessness duty to a household is £230. Given this, it is clear that the cost to local authorities of additional homeless applications and sourcing temporary accommodation for households affected by the changes to LHA and other welfare reforms is potentially considerable. In many cases, application of a Discretionary Housing Payment and other local authority engagement is not enough to solve the long term unaffordability of the rental market. The burden of preventing and remedying homelessness and potential homelessness falls to the local authority.

The number of London households in temporary accommodation had fallen from a high of around 62,000 in 2004/05 to a low of 35,620 in the second quarter of 2011. The numbers then rose between quarters 2 and 3 2011; immediately following the implementation of most of the LHA reforms.

Following the changes to SAR in January 2012, the number jumped from 35,920 at the end of quarter 4 2011 to 37,190 at the end of quarter 2 2012. Even if it assumed that only half of this increase is due to the reforms to LHA, the cost to London local authorities of housing these households would be over £100,000 per week and that's if sufficient private rented temporary accommodation could be sourced. If these households were housed temporarily in Bed and Breakfast accommodation, the cost to local authorities would be over £212,000 per week, not including the costs of administration and determining a homelessness application.

*"In terms of future priorities for lettings, rent setting and property acquisition or disposal, the predominant response was to 'wait and see'. This was not true, however, of landlords in the three high value London areas, (Brent, Hackney and Westminster) where landlords were already acting to reduce the proportion of lets to LHA tenants and where some larger properties were being converted into smaller units. It is important to note that the issues on the horizon that shape future landlord behaviour most may not stem directly from the ripple effects of LHA measures but from one or more of three other factors: even a slight increase in interest rates would, according to many respondents, place intolerable pressure on margins and force some out of the market if increasing rent levels was not an option; the perceived shift towards HB being paid direct to the tenant rather than the landlord was seen as introducing further uncertainty into the reliability of future income streams; and many landlords were very nervous about the introduction of Universal Credit from autumn 2013 onwards, and what they saw as the end of a discrete benefit to pay for the rent."*

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10 Shelter – Immediate costs to government of loss of home

## Conclusion

For most recipients of LHA who have not had a change of circumstance, the reforms in question would only have become effective on the anniversary of their claim. Furthermore, some will have qualified for a nine-month grace period protecting them from the impact of the changes.

It isn't possible therefore to pinpoint a date on which one LHA system ended and another began; some LHA recipients may even now be in receipt of LHA without being affected by the reforms. Housing Advisers interviewed in the interim DWP commissioned report agree that it may be some time before the full implications of the reforms to LHA are known.

However, it is possible to say that the growth of LHA in London is outstripping the growth of social sector housing benefit receipt by a factor of two to one and that this is indicative of a growing reliance of private tenants on public subsidy.

It is also possible to say that there has been a clear reduction in LHA receipt in inner London since January 2012, despite a growth in London overall and a small number of inner London boroughs experiencing increases.

*“Overall, the research into the early impacts of the LHA reforms shows that the main effects have been geographically limited. The impact is far more marked in the London housing market than elsewhere. The on-flows of LHA claimants at LA level since the reforms have reduced most sharply in the London central areas, reflecting the wider gap between average rents and LHA rates in these boroughs.”*

*“Housing advisers in the London case studies also believed that it would be some time before a more comprehensive assessment of impacts of the LHA reforms could be made. There was a consensus among these advisers that evictions and homelessness would increase, that a significant number of households would have to relocate and that the quality of accommodation on offer would continue to decline at the lower end of the PRS.”*

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Numbers of LHA recipients in outer London appear to be increasing significantly; a 9 per cent rise between January 2012 and January 2013. It is not possible to determine categorically whether these additional households were already resident in outer London boroughs in advance of making a claim for LHA, or whether they have migrated from inner London to outer London and then claimed LHA. Given that numbers are falling in inner London, it would appear counter-intuitive to argue that outer London households were struggling with housing costs to a greater extent than inner London households, especially given the higher prevailing rents in inner London.

Most London boroughs have seen rises in their lower quartile rents well in advance of the Consumer Prices Index rate of inflation at which LHA was up-rated in April 2013. In inner London there appears to be little correlation between rents and the number of LHA households suggesting that there is significant demand from non-LHA households that is driving rents up and pricing LHA households out of the private rental market.

Closer examination of the household make up of LHA recipients shows that the number of 25-34 year-olds in receipt of LHA has fallen dramatically in London since the SAR changes in January 2012, suggesting a shortfall in the supply of shared accommodation in inner London.

Furthermore, DWP figures suggest that there is significant growth in outer London of LHA recipient households that are in work and that this increase outstrips the increase of households not in work by a factor of 10 to 1.

The DWP commissioned examination of LHA reform has highlighted a number of concerning findings including:

- rising demand for private rental properties
- falling numbers of landlords willing to rent to LHA recipients
- increased demand from non-LHA renters
- a mismatch between demand for shared accommodation and supply
- a consensus among homelessness advisers that the LHA reforms are likely to lead to increased homelessness in future.

The implications of LHA reform for the housing market in London and the changing character of London boroughs are concerning. In order to at least dampen the impacts of these nationally set limits, and to limit the pressure on London boroughs' finances and public services, London Councils is calling for:

- 1. A welfare system that is tailored to London's higher costs of living; particularly higher rents.**
- 2. London exemption from below inflation rises of Local Housing Allowance.**
- 3. A full assessment of the additional financial burdens on local authorities arising from welfare reform.**

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