

What could be the impact of freezing local housing allowance for four years - and who might be left out in the cold?

Method Note

October 2015

Introduction

One and a half million households in the private rented sector (PRS) in England claim housing benefit to meet their housing costs. Rents are rising in the majority of the country - in some areas by as much as 8% each year. Many families are priced out of homeownership and there is a shortage of social rented housing. More and more working private renters now claim housing benefit to bridge the gap between wages and high rents.

The maximum amount of housing benefit support that private renters can claim is calculated by 'local housing allowance' (LHA). LHA rates are calculated for every local area based on local rents for different property sizes. The amount of support a family can claim will depend on where they live, how many bedrooms they need and their income.

The emergency budget announced that working age benefits - including Local Housing Allowance (LHA) rates - will be frozen at 2015/16 levels for four years from April 2016¹. This means maximum LHA rates will stay the same until April 2020 even if rents in an area increase. We are worried that freezing support for families increases the risk of homelessness and does little to tackle the housing shortage that is ultimately driving benefit claims. In order to estimate the impact of this we compared the amount of support that a small family would be eligible for and our projections of the cost of renting a two bedroom home in the cheapest part of the market in each area by 2019/2020.

¹ <https://www.gov.uk/government/topical-events/budget-july-2015>

Method

Our analysis looks at the possible impacts of freezing LHA. We carried out two areas of analysis:

- If LHA was frozen, would there be a gap between the cost of renting one of the cheapest private rented homes in an area and the maximum amount of housing benefit a small family could claim?
- How many families might be affected?

Would there be a gap between rents at the bottom of the market and the maximum amount of housing benefit a small family could claim?

We looked at whether there would be gap between rents at the lower end of the market, and the maximum amount of housing benefit a family could claim. To do this, we made two calculations. We estimated the amount of LHA a small family would be eligible for. We estimated the cost of renting a two bedroom home in 2019/20².

We estimated the amount of LHA a small family would be eligible to receive in 2019/20 if LHA was frozen, by looking at maximum LHA levels for a two bedroom home in 2015/16. LHA is calculated based on rent levels in broad market rental areas (BRMAs)³. We aligned these as closely as possible with local authority boundaries.

We cautiously estimated how much rents could rise by 2019/20 – the last year of the freeze. We calculated a rent inflation indicator for each local authority using data on rents for two bedroom homes collected from 2011/12 to 2014/15 in each local authority⁴. It is expected that people receiving housing benefit will live in properties at the bottom of the rental market. Therefore we looked at how rents at the bottom 25th percentile of the market changed over this period. In order to smooth out uncharacteristic annual rent increases or decreases, we calculated an average annual rent increase across this period.

We then reduced this by 15% in order to take a cautious approach and reflect the possibility that rents may not rise as quickly as in the past in all areas. Continued restrictions in supply mean that it is likely that the cost of renting will continue to rise nationally, despite the current slowdown in inflation, meaning that at least for some areas our model will be conservative⁵. We used these rent inflation indicators to project the rent of a two bed home at the bottom 25th percentile of the housing market in each local authority.

How many working families might be affected?

We estimated the number of working families who may be affected by this change by looking at the number of households currently claiming housing benefit, living in the private rented

² A family with one child, two young children or two older children of the same gender would be entitled to LHA for a two bedroom home.

³ A broad market rental area (BRMA) is the area used to determine housing benefit eligibility. It is the local area that the government determines that a family could reasonably be expected to live within, taking into account access to facilities and services. There are 152 BRMAs in England.

⁴ This data is from the Valuation Office Agency (VOA). Data for 2014/15 is available here: <https://www.gov.uk/government/statistics/private-rental-market-statistics-may-2015> Data from previous releases is available here:

<http://webarchive.nationalarchives.gov.uk/20141002130923/http://www.voa.gov.uk/corporate/statisticalReleases/PrivateRentalMarketStatistics.html>

⁵ These assumptions do not account for longer-term socioeconomic changes that may create uplift in specific local markets. This may mean that unusual long-term growth in some areas slows down over the coming years, while other gentrifying areas may grow faster than they have in the past.

sector, in employment and with dependent children in each area where the model projects that there will be a shortfall between rents and support⁶.

Working families who do not receive full housing benefit still experience the same shortfall in support as working families who do receive full housing benefit. Housing benefit is designed to cover the rent of a home. It is means-tested, and families that are working on a low income may be expected to contribute something towards the cost of their rent. The means-test looks at a family's income and their rent costs. However, when rents are higher than LHA, a family's 'rent' is based on the LHA level. This means that the shortfall between support needed and support received affects families who do not receive full housing benefit.

⁶ This data is from the Department for Work and Pensions StatXplore: <https://stat-xplore.dwp.gov.uk/> All analysis is Shelter's.

Results

There is already a gap between the amount of housing benefit a family can receive, and rents at the bottom of the market, in some areas. The link between LHA and actual rents was removed by the last government. In recent years LHA has either been frozen, increased by 1% or increased by CPI. The government also introduced a maximum amount of LHA for each size of home.

However, freezing LHA will create a gap between support and rent in many more areas, and widen the existing gap in others.

In total, by 2020, there will be a gap between the cost of renting a home at the bottom of the market and the amount of support that families can receive in four-fifths of the country.

The analysis suggests that

- In 169 areas (52%) there will be a gap of more than £50 a month between LHA and private rents at the bottom quarter of the market.
- In 98 areas (30%) there will be a gap of more than a £100 a month
- In 49 areas (15%) there will be a gap of more than a £200 a month
- In 11 areas (3%) there will be a gap of more than £500 a month between LHA and private rents at the bottom quarter of the market.

What kind of places may be affected?

Our analysis gives some suggestion of where people may be affected by a freeze. It suggests that the freeze will particularly affect families living in expensive areas where rents are rising. For example, our analysis suggests that by 2019/20 monthly rents for a two bed home at the bottom quarter of the market in Hackney will be £783 higher than the maximum amount of housing benefit a family can receive.

However it's not just London post codes where families may face unmanageable gaps between their income and their rent. As table 1 sets out, our model suggests that families will be affected in key job creating cities. For example, in Cambridge, our analysis suggests that LHA will lag behind rents so much that families may have to make up over £500 a month in order to afford their rent. In Manchester, families renting at the bottom quarter may have to make up a gap of £240 a month by the end of the freeze.

Table 1: Projected shortfall in growing cities

Local authority	Projected gap between maximum LHA and rents at the bottom quarter of the market by 2019/2020 (monthly)
Manchester	-£ 239.51
Cambridge	-£ 528.97
Bristol, City of UA	-£ 236.22
Luton UA	-£ 154.74
Birmingham	-£ 107.26
Oxford	-£ 201.45

How many people may be affected by the freeze?

At the moment, 1.4 million private renters claim housing benefit in England. Over one million of these households live in areas where our analysis suggests that there will be a gap between LHA and rents at the bottom quarter by 2020.

At the moment, 670,000 families with children claim LHA. Our analysis suggests that over half a million families live in areas where our analysis suggests that there will be a gap between LHA and rents at the bottom quarter by 2019/20.

At the moment, 390,000 families with children claim LHA and work. Our analysis suggests that four fifths are likely to be affected by the four year housing benefit freeze. This is over 320,000 working families⁷

⁷ All data as of May 2015. Data downloaded from DWP Statxplore: <https://stat-xplore.dwp.gov.uk/>
Accessed September 2nd 2015. All analysis is Shelter's.