

# The path to success?

## Shelter's research on Housing Benefit reform

Three years ago, reforms to the way that Housing Benefit (HB) is paid and administered began in nine Pathfinder areas.<sup>1</sup> After a degree of success with these, the Government is taking HB reform forward with the Welfare Reform Bill. Shelter has been monitoring the reforms and we have now published our final findings.

The reforms feature two key changes. First, a published flat-rate Local Housing Allowance (LHA),<sup>2</sup> based on household size, replaces allocations of HB based on individual rents. When an individual's rent exceeds their LHA, HB claimants must pay the shortfall from their own pocket – as under the existing HB system. However, when their rent is less than the LHA, claimants in Pathfinder areas are allowed to keep the difference.

The second key feature of the reforms is that HB is paid directly to the claimant. The choice of having the payment made to the landlord is removed, although it is possible for vulnerable tenants in Pathfinder areas to make an application to the local authority for their LHA to be paid to the landlord.

Shelter started researching the reforms to HB at the end of 2003. Our main aim was to assess the impact on:

- the adequacy of LHA levels
- rent inflation

- access to the private rented sector for claimants
- housing problems and the risk of homelessness.

### Key findings

#### Claimants have little real choice

Overall, HB claimants trying to find homes in the private rented sector had as little as one-tenth of the mainstream market to choose from. Affordability also varied greatly between geographical areas, and types of claimant.

#### Affordability is decreasing

On average, only about one-third of properties were advertised at rents that would be affordable to claimants receiving the maximum possible amount of HB. This proportion has also decreased over the last two years because the LHA increased less than rents.

#### Landlord refusal is on the rise

By the end of the study one-third of advertisements for private rented properties

1 Blackpool, Brighton & Hove, Conwy, Coventry, Edinburgh, Leeds, Lewisham, north east Lincolnshire, Teignbridge; these Pathfinders were started in late 2003, early 2004 and a second wave was added in 2005.  
2 The flat-rate LHA is based on local rent averages and is banded according to household size and location.

This summary document has been produced by Shelter and is based on the full-length final evaluation report. This is available from Shelter's online bookshop at [www.shelter.org.uk/bookshop](http://www.shelter.org.uk/bookshop) or by calling 020 7505 2036. Shelter's bookshop offers a wide range of other materials, both free and for purchase.

barred HB claimants. This proportion increased over the last two years in Pathfinder and control areas alike.

## Young single people are suffering

Young single people continue to face particular difficulties, due to the restrictions placed on them by the Single Room Rent (SRR).<sup>3</sup> Advertisements for shared accommodation were twice as likely as others to exclude claimants. Rooms in shared houses were less likely than average to be advertised at a rent affordable within the maximum amount of HB.

## Shelter's caseload has not significantly increased

Aside from a few isolated though serious problems, the reforms have not had any significant effect on Shelter's caseload of clients who are renting privately and experiencing problems with Housing Benefit. The main concern of Caseworkers from Shelter and other organisations is that the changes do not seem to have improved any of the problems with the existing system.

## Policy context

The Government's intention to reform HB can be traced back to a commitment in its 1997<sup>4</sup> manifesto, and its formal plans were announced in 2002.<sup>5</sup> The reforms' main aims<sup>6</sup> were to:

- promote greater tenant responsibility through awareness of what is paid on their behalf
- enable tenants to shop around for the best deal from local landlords
- provide a 'back-to-work' incentive to discourage worklessness<sup>7</sup>
- streamline the administration of HB.

## Shelter's methodology

The following data formed the basis of our research:

- a database of 12,871 privately rented property advertisements, inputted at seven regular stages over the two-year reform period; these came from local newspapers, magazines and

websites in four HB Pathfinder areas and four control areas

- telephone research among almost 200 landlords
- analysis of Shelter's client records database
- analysis of feedback from the Pathfinder areas – including Shelter staff, landlords, claimants and welfare advice professionals.

## Not spoilt for choice

Local newspapers and magazines are packed with advertisements for rented rooms and houses, but only a small proportion are accessible for people claiming HB. Our research showed that out of almost 13,000 such advertisements, covering eight areas including four Pathfinder areas, less than 10 per cent were actually accessible for HB recipients.

On average, about one-third of properties had rents at or below the maximum amount of LHA paid for that size of property across the eight areas of the study. Levels of affordability were, on average, similar in the Pathfinder and the control areas. However, in both areas rental properties were becoming less affordable – particularly over the last year of the study. This is mainly because rents have risen more quickly than HB.

## Variations in affordability

There was a striking variation between geographical areas. Barely 10 per cent of properties were affordable in Conwy, north Wales, over the two-year period of the study – significantly lower than elsewhere. The data used by Rent Officers in their calculations is not open to public scrutiny, so it is not possible to examine the reasons for this in detail.

## Larger families

Families claiming HB who needed a four-bedroom property<sup>8</sup> were particularly prone to affordability problems. In our study, the maximum amount of benefit paid to a family qualifying for a four-bedroom property was significantly less than that given to four single adults or couples. Landlords

3 The SRR is a regulation restricting the HB paid to single people under 25 to the rate for shared accommodation, regardless of the type of property they actually live in.

4 Ref: <http://www.pixunlimited.co.uk/pdf/news/election/labourmanifesto2.pdf>

5 *Building choice and responsibility: a radical agenda for Housing Benefit*, DWP 2002

6 Ibid

7 Ibid – taking control of your finances and being given more responsibility will encourage people to work, the Government believes.

8 This would typically be a family with 4–6 children, depending on the ages and genders of the children. If adults other than the parents live in the household, fewer children would be required to reach this threshold.

therefore had little incentive to rent to larger families, forcing some to live in overcrowded conditions to afford their rent.

## Young, single and excluded

The SRR limits the HB for most single claimants under 25 to the Local Reference Rent<sup>9</sup> for rooms in shared houses. Only 27 per cent of shared properties in our study were affordable to recipients of the highest possible amount of HB, compared with 46 per cent of studio and one-bedroom homes. This was the case despite the slightly more generous version of the SRR (the 'Shared Room Rate'), which was introduced with the reforms. This new rate is calculated using the average rents of bedsits, as well as rooms in shared houses. Our research indicated that this change had a slightly positive effect on the affordability of shared properties in the Pathfinder areas, but that young single people continue to be relatively disadvantaged in this market.

## Rent inflation

Publishing the rates of HB in the Pathfinder areas has brought improved transparency. However, there was always a worry that this would encourage landlords to increase rents in response to the levels of HB. There was an upward trend in advertised rents in each of the Pathfinder areas studied. The average increase was also larger in the Pathfinder areas (+11 per cent), compared with the control areas (+7 per cent).

The amounts paid in HB did increase for some sizes of property in some of the Pathfinder areas. However, these rises were less than the increases in rents. This explains the overall decrease in affordability for HB claimants across the two years of Shelter's study.

## Exclusion of HB claimants – 'No DSS'

The lack of willingness among landlords to rent to HB claimants is a major reason why many people on benefit have difficulties accessing the private rental market. In theory, the Pathfinder reforms mean claimants need not disclose their HB status.

In practice, references and credit checks make this impossible for most.<sup>10</sup>

Landlords say concerns about delays in processing HB, and the shortfalls that often exist between rent levels and HB, deter them from accepting HB claimants as tenants.<sup>11</sup> The Pathfinder reforms should have eased worries about payment delays as flat-rate LHA ought to be easier to administer than the existing HB system, and HB processing times have improved more quickly in the private rented sectors of the Pathfinder areas<sup>12</sup> than in other locations. However, it was always possible that removing the option for HB to be paid directly to landlords in most cases would increase refusals to let to HB claimants.

Our results showed a rise in the proportion of advertisements refusing to let to HB claimants in both the Pathfinder and control areas. Overall, the increase is from about one-fifth of advertisements in the first phase of the research, to almost one-third in the last two phases. This finding does not allow us to conclude that the reforms themselves are influencing landlords to exclude HB recipients, although this remains possible. What is clear is that refusal is on the increase.

## Real levels of refusal

Telephone research among landlords showed that levels of refusal are far higher than indicated in advertisements. Of landlords who appeared to offer a suitable property,<sup>13</sup> no more than one in six (16 per cent) said they would accept HB claimants when asked over the phone. Almost one-third said they were unsure, and half refused outright. There was little difference in reactions between the Pathfinder and the control areas.

Out of 100 landlords we contacted in April 2006, 70 supplied a reason for their refusal of HB claimants. The reasons most frequently cited were delays in processing HB, and problems experienced with receiving payment in the past. Those landlords who were unsure suggested they might be more likely to agree if HB tenants had guarantors or could provide deposits/rent in

9 This is a mid-point average of rents in a local area as set by the Rent Officer and used to calculate maximum HB.

10 DWP evaluation shows no significant change (87 per cent–86 per cent) in the proportion of claimants disclosing HB status to landlords in Pathfinder areas.

11 For example: *Landlords and agents in the private rented sector: the baseline experience in the LHA Pathfinders*, Evaluation 4, DWP.

12 DWP figures show a decrease in average processing times of about one-third in the Pathfinder areas, compared with a national average improvement of about a quarter.

13 These were properties taken from the private rental database and other local newspapers and magazines that did not refuse to let to HB claimants and were advertised at rents within a £20 a week shortfall of the HB rate paid on the type of property.

advance. A significant factor overall in Pathfinder areas was that landlords preferred HB to be paid directly to them rather than to the tenant.

## Homelessness and housing problems

Since before the reforms began, the number of problems raised by clients of Shelter about HB has been on a downward trend. This is probably the result of widespread improvements in processing times, which continued during the Pathfinder reforms. All potential indicators of the reforms' impact on housing problems that Shelter encounter, such as rent arrears and homelessness, have not experienced any significant change throughout the trial period.

## Recommendations

### **Age-related restrictions on HB must be repealed.**

Despite various reforms to the SRR over the years, young single people claiming HB continue to be severely disadvantaged in private rental markets.

### **An initiative is needed to encourage private landlords to accept HB recipients.**

The DWP should commission a review of landlords' concerns about HB and implement changes to encourage them to let to HB claimants.

### **We must have more detail about the national reforms.**

The model proposed for the nationwide roll-out of the reforms differs from that trialled in the Pathfinder areas.<sup>16</sup> The DWP has not revealed any data on the likely impact of these changes. Shelter is concerned that this will have a negative impact on affordability for claimants.

### **The Rent Service should be more transparent.**

The work of the Rent Service in relation to HB must be made open to scrutiny, including publicising the data used to set LHA rates. Without this, the wide regional variations in affordability and the inadequacy of LHA to meet the rents of anything but a small proportion of claimants in some areas will not be tackled.

14 *Working with the LHA: landlord and agents' early experiences of the LHA in the nine Pathfinder areas*, DWP Evaluation 7, 2005.

15 *CAB Evidence briefing: early days, CAB evidence on the Local Housing Allowance*, Citizens Advice, November 2005.

16 The Welfare Reform Bill is currently going through Parliament.

## **Bad housing wrecks lives**

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