

# The spatial implications of Housing Benefit reform in London

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Alex Fenton ([aff28@cam.ac.uk](mailto:aff28@cam.ac.uk))  
Centre for Housing & Planning Research  
Department of Land Economy

# Housing Benefit

- Around in current form since early 1980s
- Available to all tenants (public, private and social landlords)
- Means-tested subsidy
  - Claimants include economically inactive, low-paid workers, unemployed and pensioners
  - Rates depend on size of household, property rent and local rents
  - In principle will meet all of rent
  - Can be most valuable single cash transfer to poor households
- Claims assessed & administered by local authorities
  - Low take-up among private tenants

# Background to the 2010 reforms

- 2008: Introduction of **Local Housing Allowance** for new claimants in private rented sector
  - Explicit rates linked to range of local rents
  - More market-oriented system: “shopping around”
- Use of PRS to meet homelessness obligations
  - Falling homelessness acceptances in London
  - Profile of HB claimants more like social tenants
- $\approx$  1.5 million private tenants claiming HB in 2010
  - $\approx$  35% of private rented sector – varies widely between areas
  - $\approx$  250,000 private tenants on HB in London

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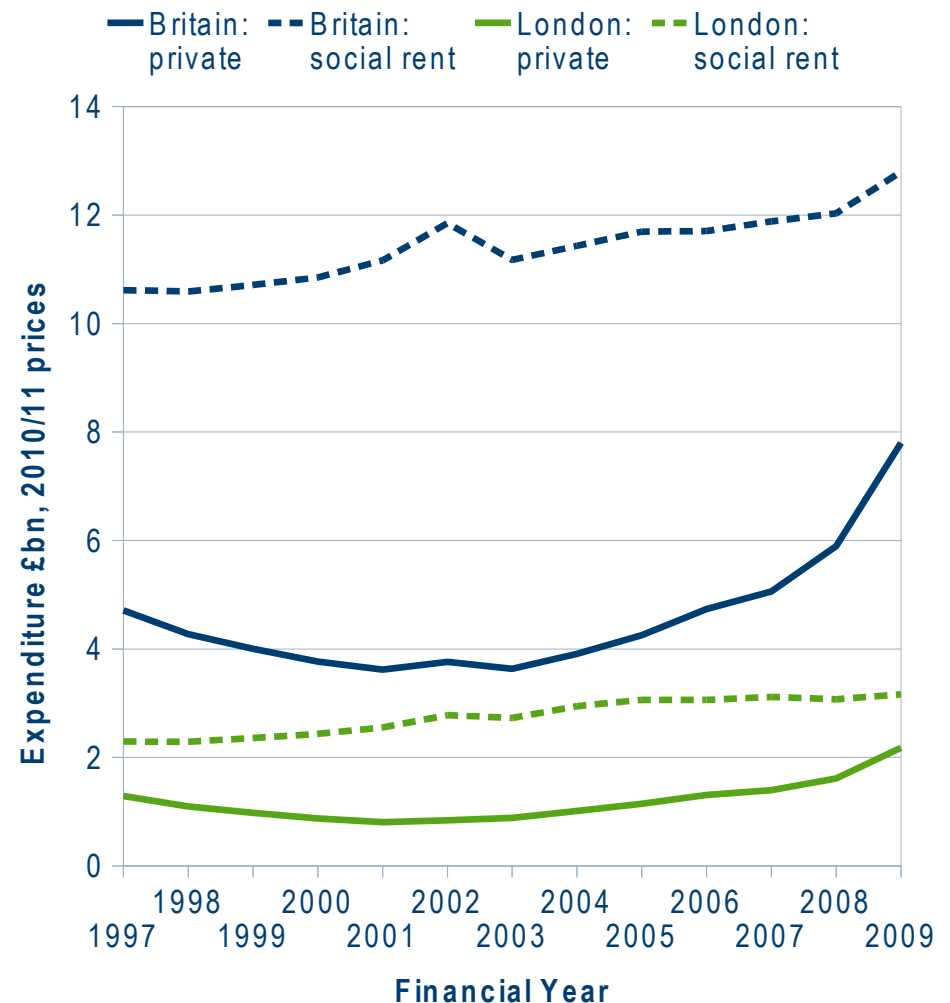
# Expenditure on Housing Benefit 1997/98 - 2009/10

## ■ 2009/10 expenditure on HB in PRS $\approx$ £8bn

- $\approx$ 12% of welfare budget
- London  $\approx$  27% of PRS HB

## ■ Reasons for increase

- More private tenants & more claimants
- Higher rents & housing costs generally
- Recession
- Landlords adjusting rents to LHA rates



# Major changes proposed in the June 2010 “emergency” Budget

- Use the **30<sup>th</sup> percentile** of local rents as the maximum LHA rate, instead of the median
  - Affects everywhere, biggest immediate savings
- **Absolute caps** on the maximum LHA payable (e.g. £290/week for 2-bedroom)
  - Initially affects Central and Inner West London
  - Affects c15,000 existing claimants
- From 2013, unlink LHA rates from actual rents, and instead **uprate by CPI inflation**
  - Cumulative CPI 1997/98 - 2007/08  $\approx$  **20%**
  - Cumulative rent inflation 1997/98 – 2007/08  $\approx$  **70%**

# Effects of the reforms

## ■ Short-term:

- Current LHA claimants lose an average £12/week
- Increased income poverty
  - ▶ **CCHPR**: 84,000 households moved below minimum income line
  - ▶ **IFS**: 100,000 children placed in income poverty
- Moves, evictions, homelessness
- Negotiated rent reductions?

## ■ Long term:

- Diminishing range of properties available to claimants
- Landlord exit from sector?
- Decreased rent inflation?

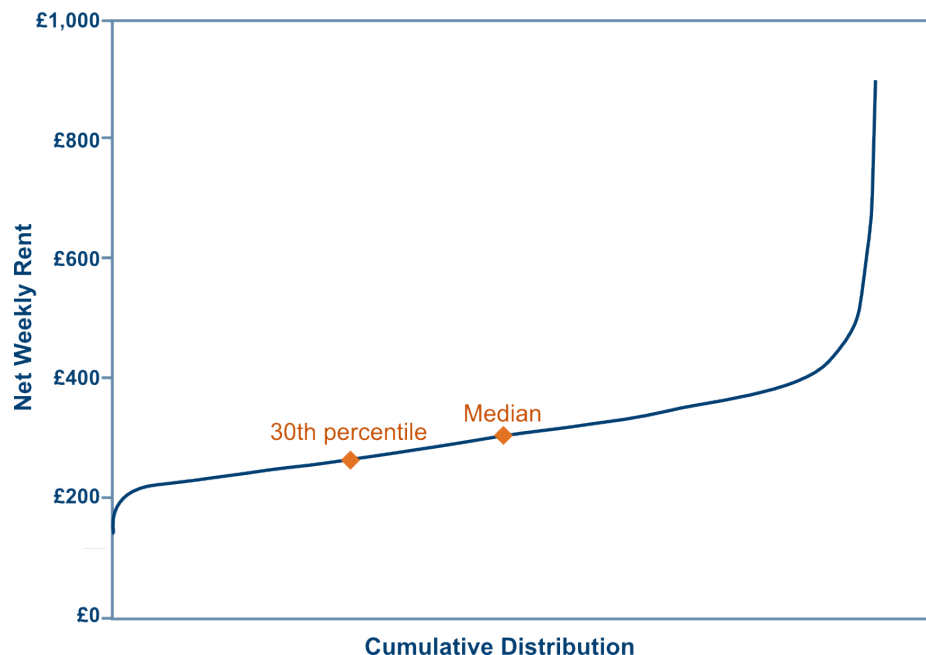
# The spatial implications – overview

- Market price of housing jointly determined by property characteristics and location
  - Welfare levels that are set relative to market are implicitly statements about where claimants **ought to** live
- London
  - Buoyant demand for rented housing
  - Would-be owner-occupiers unable to secure finance
  - Large, integrated housing and labour market
  - Income polarisation, wide range of rents
  - Complex administrative boundaries (BRMAs/LAs)



# Methods 1: Estimating neighbourhood rents

VOA rents for 2-bed dwellings  
Inner East London, November 2010



- Estimate average and lower quartile rents for many small neighbourhoods
- Sources:
  - VOA data – large sample of private rents, by dwelling size
  - Land Registry House prices
  - GLA London Rents

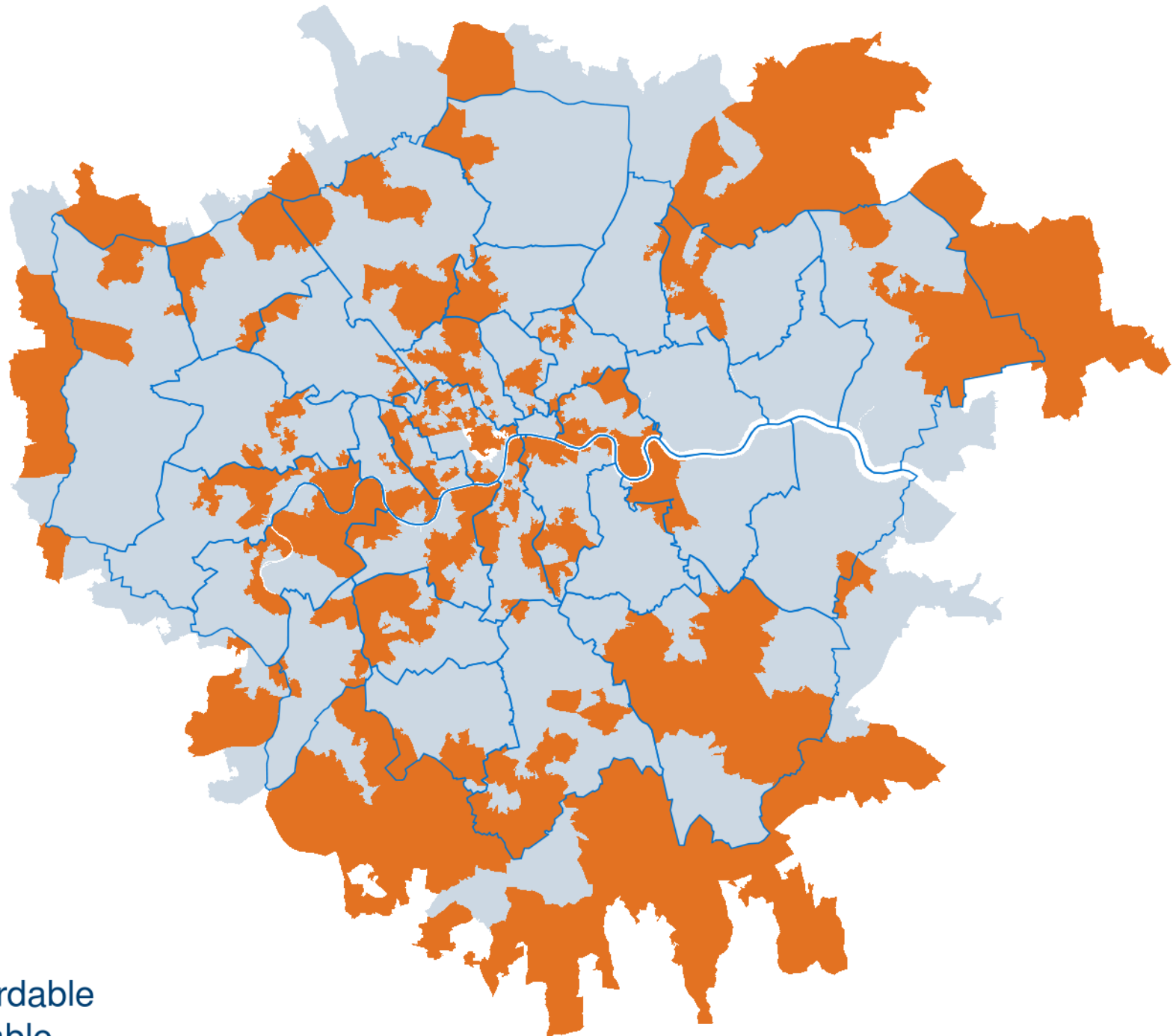
## Methods 2: Estimate future neighbourhood affordability to LHA claimants

- Compare neighbourhood rents to the applicable LHA rates in 2010, 2011 and 2016
  - Future CPI rates from HMT's collation of forecasts
  - Conservative assumption about rent growth (3.5%)
- Neighbourhoods deemed '**largely unaffordable**' when LHA rate is less than lower quartile (cheapest 25%) of local rents
  - Only some properties are on the market at a given time
  - Some of the cheapest will be inadequate / unfit
  - Some landlords will not let to LHA claimants

# Caveats

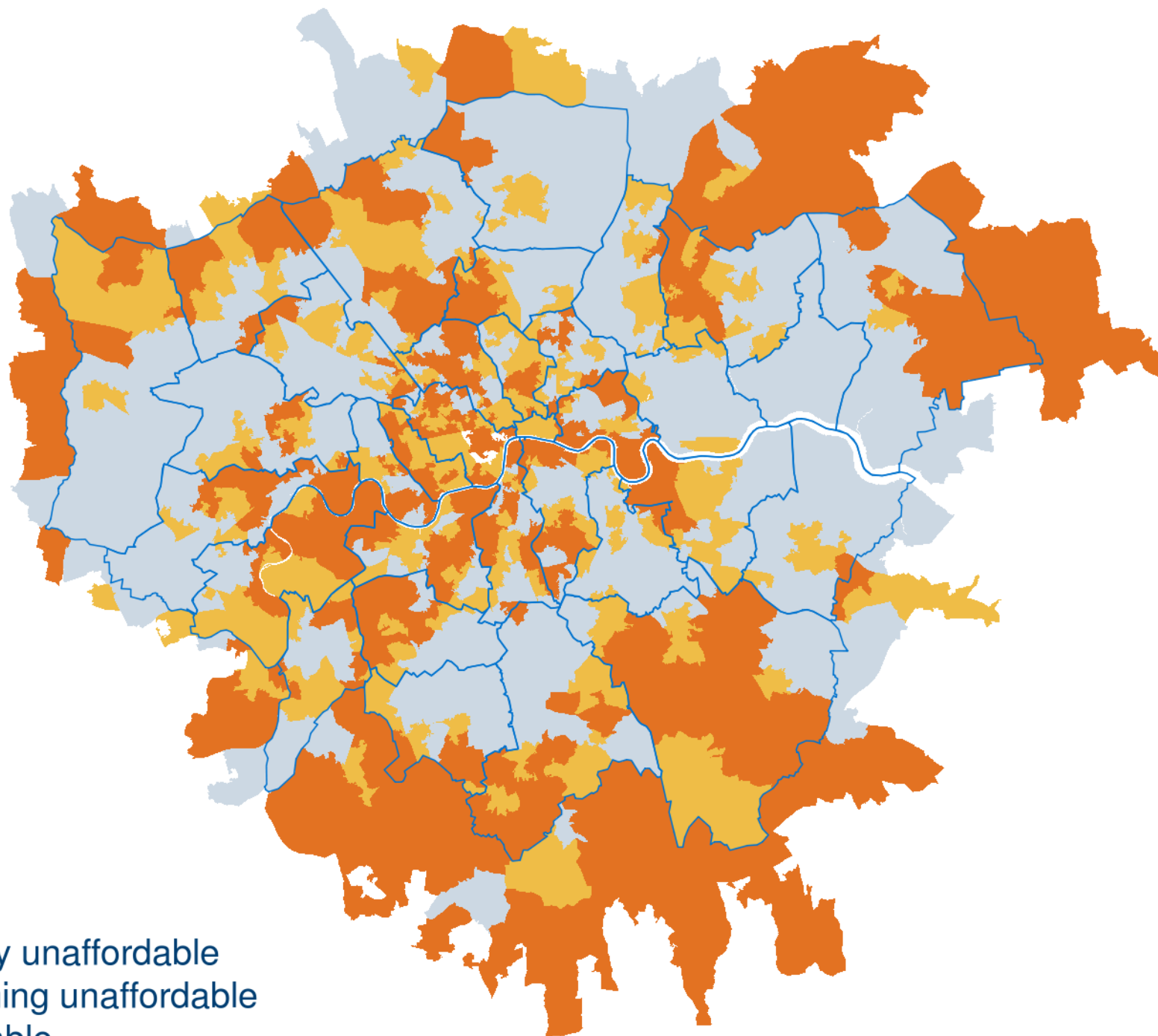
- Not an estimate of the location or number of current claimants who will have to move
  - Don't know details of tenants' location & circumstances
  - Uncertainty about tenant and landlord response
  - (but many will be in immediate difficulty in London: 20,000?)
- Not an estimate of the total amount of rented **stock** affordable to LHA claimants in the future

**In 2010**



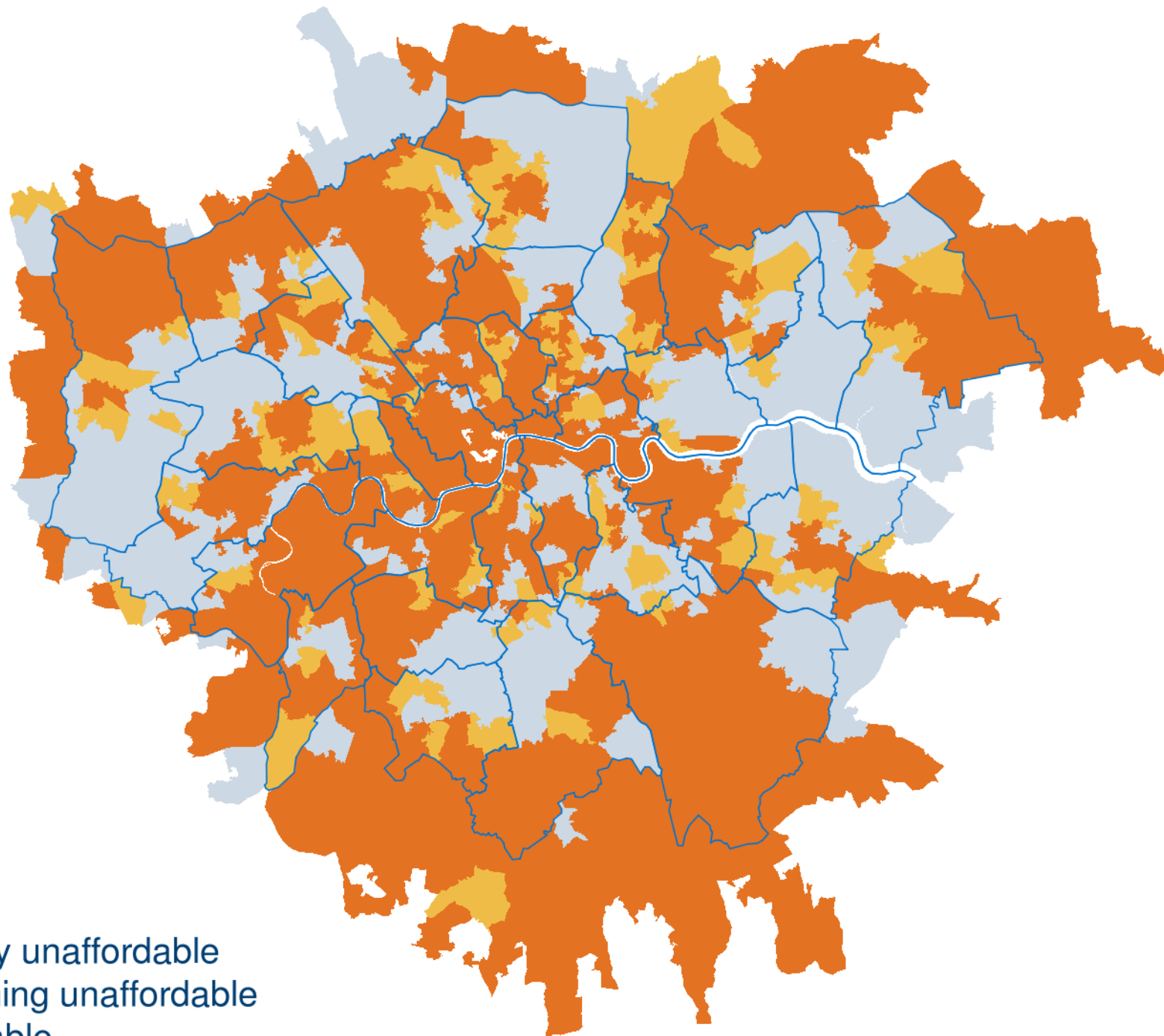
Unaffordable  
Affordable

**From 2011**



- Already unaffordable
- Becoming unaffordable
- Affordable

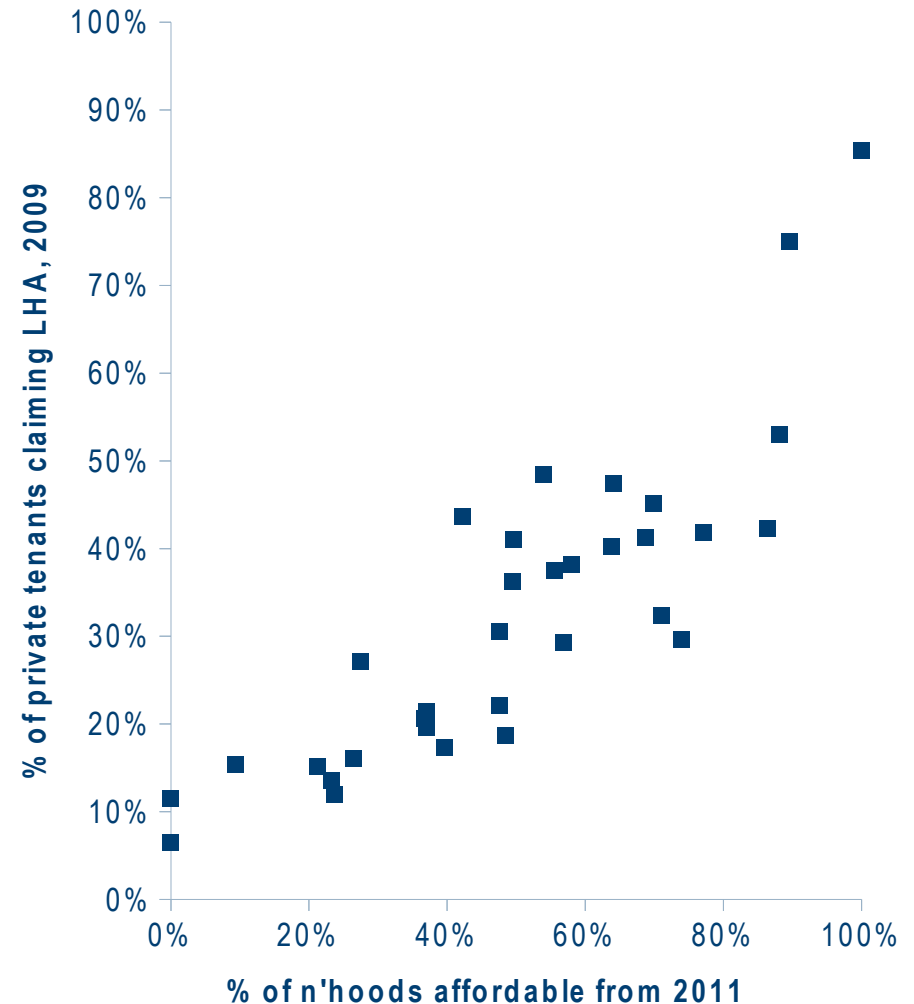
By 2016



- Already unaffordable
- Becoming unaffordable
- Affordable

# Do affordability estimates predict where claimants live?

- Good correlation between:
  - % of neighbourhoods affordable to LHA claimants within boroughs
  - % of private tenants that are LHA claimants in boroughs



# Combined and separate effects of the measures

	All		30 <sup>th</sup> pcile		caps	
	n	%	n	%	n	%
All n'hoods	5,159	100	5,159	100	5,159	100
Affordable in 2010	3,863	75	3,863	75	3,863	75
Affordable in 2011	2,656	51	2,765	54	3,549	69
Affordable in 2016	1,866	36	2,146	42	2,740	53

- Move to 30<sup>th</sup> percentile most important single change
- Caps affects inner London in particular
  - 2010: 67% of inner London neighbourhoods affordable
  - 2016: 20% of inner London neighbourhoods affordable



# Uncertain effects of CPI indexation of LHA rates from 2013

- Assuming CPI is median of independent forecasters (2.1% p/a 2013-2016)
- If rent inflation = **3.5%** per annum
  - **36%** of n'hoods affordable in 2016
- If rent inflation = **2.5%** per annum
  - **46%** of n'hoods affordable in 2016
- If rent inflation = **5.0%** per annum
  - **24%** of n'hoods affordable in 2016
- Rent inflation in past decade 5-7% per annum, annualised

# Boroughs facing major change in % of neighbourhoods that affordable

## ■ With <20% affordable by 2016

- **Camden** (61% → 11%)
- **Hammersmith** (61 → 11%)
- **Islington** (79% → 3%)
- **Hackney** (79% → 19%)
- **Kensington** (49% → 0%)
- **Tower Hamlets** (51% → 17%)
- **Westminster** (43% → 3%)
- **Richmond** (48% → 18%)

## ■ Major decreases

- **Brent** (90% → 38%)
- **Kingston** (97% → 29%)
- **Sutton** (95% → 42%)

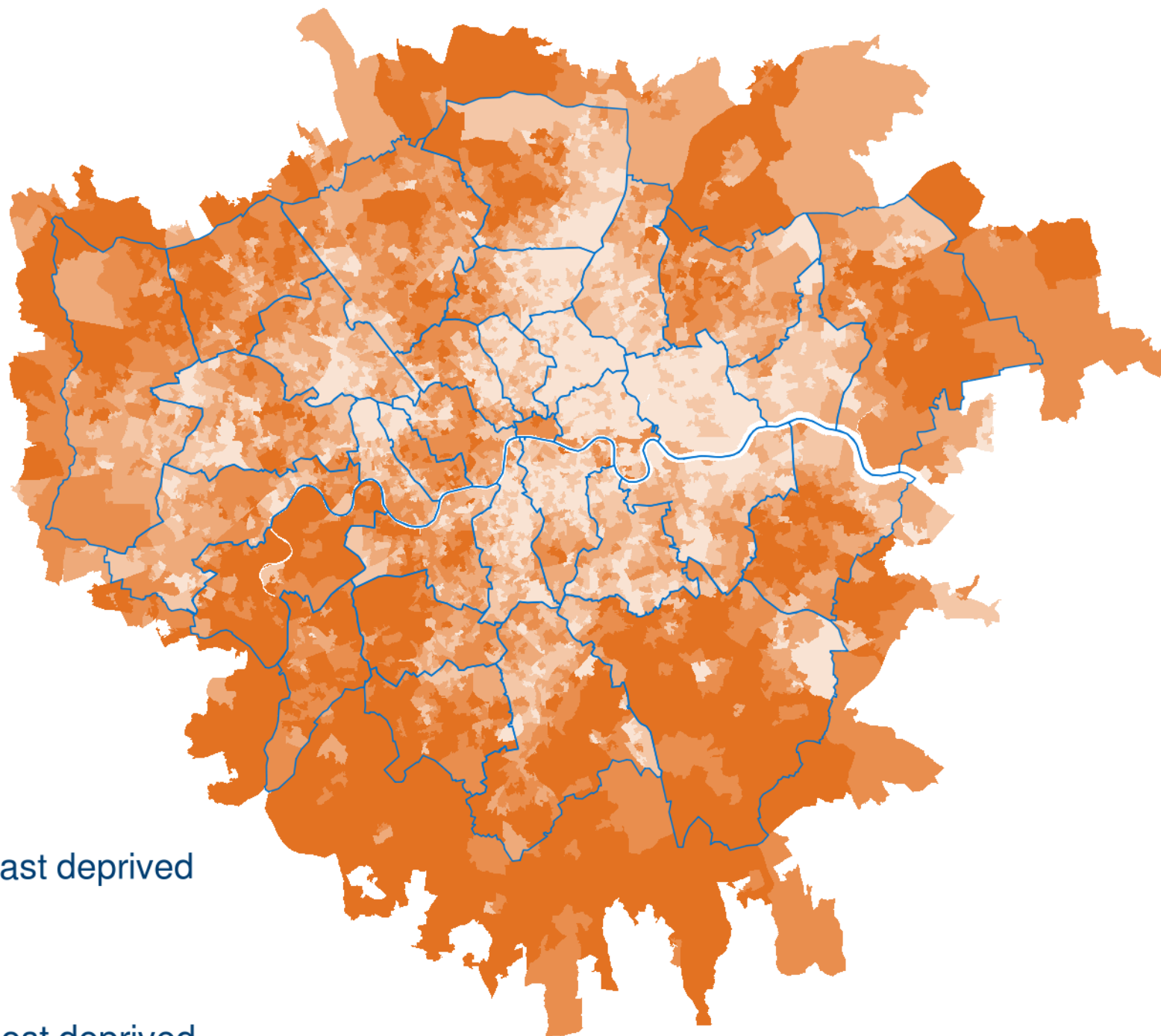
## ■ With >45% affordable in 2016

- **Barking** (100% → 91%)
- **Bexley** (99% → 64%)
- **Croydon** (82% → 55%)
- **Ealing** (89% → 47%)
- **Enfield** (98% → 73%)
- **Haringey** (81% → 49%)
- **Hillingdon** (91% → 48%)
- **Hounslow** (91% → 50%)
- **Lewisham** (98% → 49%)
- **Newham** (100% → 76%)

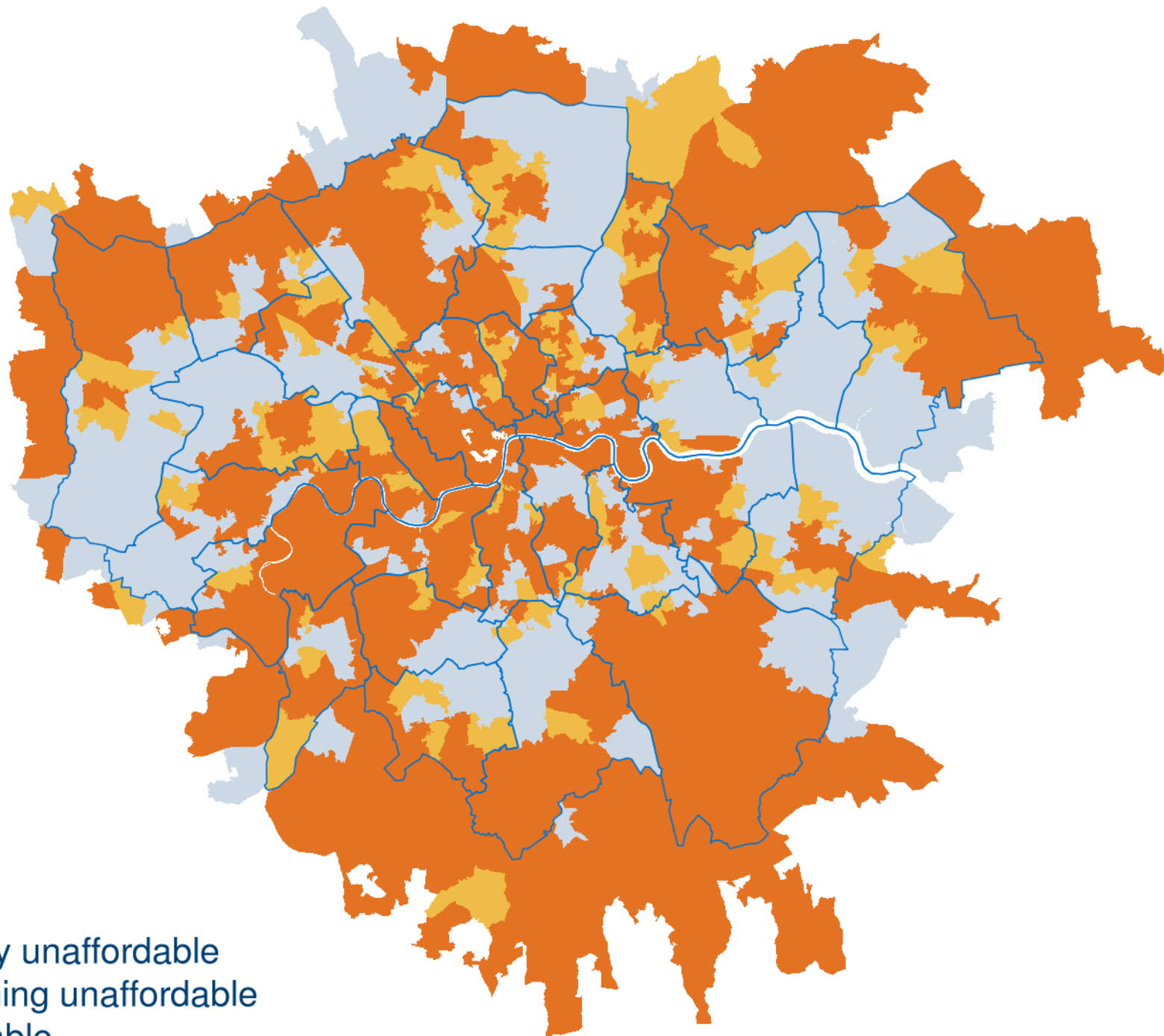
# Characteristics of London neighbourhoods that will still be affordable

- Higher rates of multiple deprivation
- Higher rates of claimant unemployment
- Some areas that will become largely unaffordable are politically marginal

# London deprivation quintiles (IMD 2007)



By 2016



- Already unaffordable
- Becoming unaffordable
- Affordable

# Policy implications

- Capacity of outer boroughs
  - Public sector services: education, welfare services
  - Supply of rental property – overspill to hinterland?
- Co-ordination with employment initiatives
  - Location of labour demand and supply
- Mechanisms for monitoring & review
  - Uncertainty about CPI indexation
- Cumulative effects of other changes
  - Rent levels in social sector
  - Universal Credit & Total benefit cap - £26,000 a year?

# Some observations

- Likely to accelerate ongoing transformation of class composition of inner London
  - And increased concentration of poverty and disadvantage in outer London
  - Implied valuation of 'community' and 'identity' as bases of legitimate claims on state
- Re-distribution of costs / risks of housing market dysfunction
  - Some of financial costs previously socialised shifted to low-income private households
  - Risks – having to move, flexibility

# CCHPR Working Papers on Housing Benefit Reform

- 'Housing Benefit reform and the spatial segregation of low-income households in London'
  - ▶ <http://www.cchpr.landecon.cam.ac.uk/outputs/detail.asp?OutputID=240>
- 'How will changes to Local Housing Allowance affect low-income tenants in private rented housing?'
  - ▶ <http://www.cchpr.landecon.cam.ac.uk/outputs/detail.asp?OutputID=234>