The effects of housing benefit changes on London

“How will the coalition's social policies affect London?”
London School of Economics
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Housing Benefit

- Around in current form since early 1980s
- Means-tested personal subsidy for rents
  - Social (council and RSL) and private landlords
  - Rates for private rents linked to local rents
- Available to all tenants
  - Employed, unemployed and economically inactive
- 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 the private rented sector
  - Explicit maximum levels set relative to local market rents in BRMAs
  - 13 Broad Rental Market Areas (BRMAs) in London
- **Use of PRS to meet homelessness obligations**
  - Falling homelessness acceptances in London
- **250,000** private tenants on HB in London (July 2010)
  - Nationally ≈ 35% of private rented sector – varies widely between areas
- **550,000** social tenants on HB in London
2009/10 expenditure on HB in private rented sector ≈ £8bn
- London ≈ £1.5bn
- But also much bigger rental market

Reasons for increases are disputed
- More tenants
- More claimants
- Higher housing costs
- Landlord behaviour?

![Bar chart showing expenditure on Housing Benefit in different regions.](chart.png)
Incoming changes from the June 2010 “Emergency” Budget

- Use the 30th 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 ≈ 20%
  - Cumulative rent inflation 1997/98 – 2007/08 ≈ 70%
Market price of housing is jointly determined by property characteristics and location

- SO: Welfare levels set relative to market rents are implicitly statements about where people should 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 admin boundaries (BRMAs/LAs)
Research Method

- Estimate median average and lower quartile rents for many small neighbourhoods
- Compare neighbourhood rents to the applicable LHA rates in 2010, 2011 and 2016
- Neighbourhoods deemed 'largely unaffordable' when LHA rate is less than lower quartile (cheapest 25%) of neighbourhood rents
Boroughs facing major change 2011 - 2016 in percent of neighbourhoods 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%+ more 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%)
Comments and caveats on the results

- Not an estimate of the location or number of **current claimants** who will have to move
  - But areas becoming unaffordable in 2011 likely to have some severely affected current claimants

- Not an estimate of the total amount of rented **stock** affordable to LHA claimants in the future

- Assumptions about future CPI inflation and rent growth make a big difference to 2016
  - Implies uncertainty about policy effect
  - Policy may influence rent trends in different areas
The 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
The Benefits Cap, from 2013

- Total all benefits capped at £26,000 per year per household
  - Cap is linked to average earnings, but,
  - **Not** adjusted for household size or regional differences in housing and other living costs
- Will affect larger households in private rented sector in expensive areas
- CIH/Shelter estimates
  - Families with two children affected in all inner London LAs
  - Families with three children likely to be above cap in all London LAs
From 2013, HB penalties for social tenants 'under-occupying'
- Working-age households only
- Esp affects those nearer retirement age
- Percentage-based penalties, difference between actual and 'correct' dwelling size

70,000 claimants affected in London, average £21/week loss of HB

London: scope to adapt by moving?
- Under-occupied = 29% (England = 40%)
- Overcrowded = 13.5% (England = 7%)
- A lot of under-occupation is in flats
London policy implications

- Considerable dislocation & movement within subsidised renting
  - And/or increased income poverty

- Questions about capacity of outer boroughs
  - Supply of rental property – overspill to hinterland?
  - Public sector services: education, early years, child protection

- Larger households lose more
  - From 2013, very hard to house larger families in inner London in PRS

- Changing function of social sector?
  - Some moves towards 'intermediate rent'?
  - Shorter-term needs-based allocation?
Some observations

- Speeding-up of class reconfiguration of inner London, increased segregation
  - “Mixed communities” - last season's style?

- How much are we willing to pay for (other) people to live in a particular place
  - Valuation of 'community' and 'identity' as sources of legitimate claims on the state

- Re-distribution of costs / risks of housing market dysfunction
  - Risks – having to move, flexibility in housing
'Housing Benefit reform and the spatial segregation of low-income households in London'
- [Link](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?'
- [Link](http://www.cchpr.landecon.cam.ac.uk/outputs/detail.asp?OutputID=234)