

The effects of housing benefit changes on London

“How will the coalition's social policies affect London?”

London School of Economics

16 March 2011

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Housing Benefit

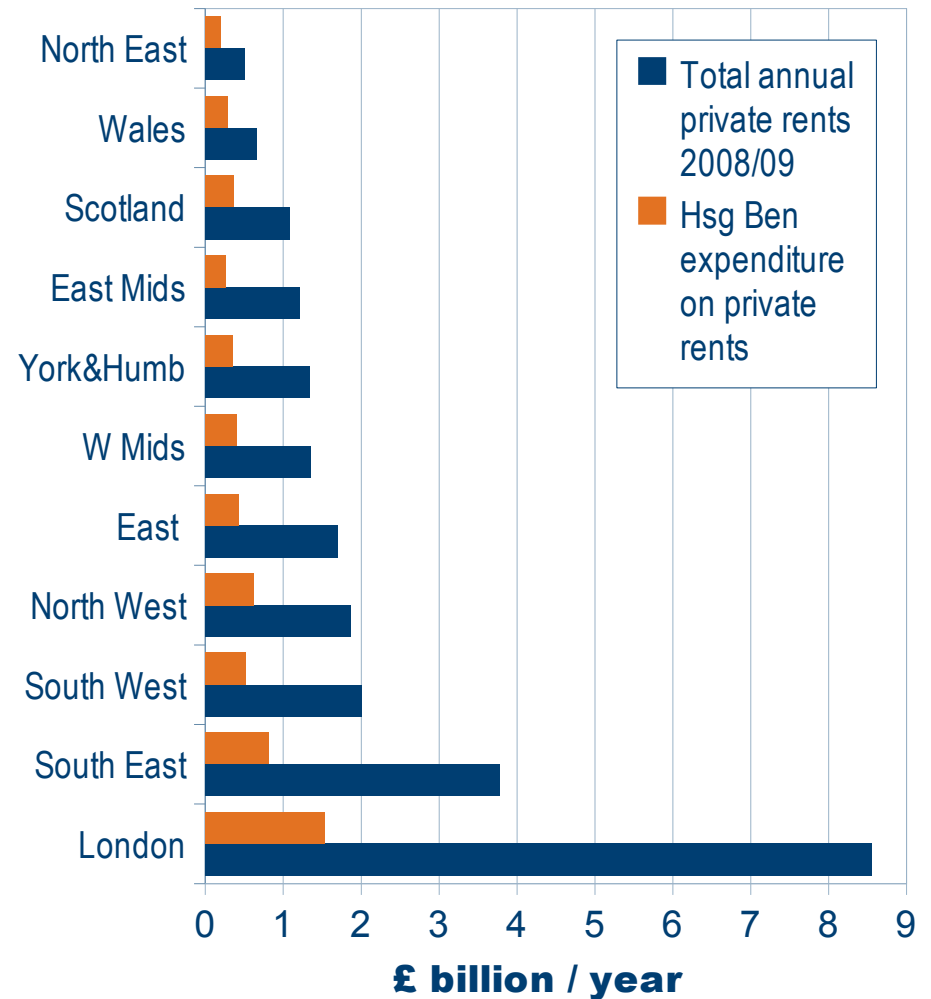
- Around in current form since early 1980s
- Means-tested personal subsidy for rents
 - Social (council and RSL) and private landlords
 - Rates for private rents linked to local rents
- Available to all tenants
 - Employed, unemployed and economically inactive
- Claims assessed & administered by local 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 \approx 35% of private rented sector – varies widely between areas
- **550,000** social tenants on HB in London

Expenditure on Housing Benefit

- 2009/10 expenditure on HB in private rented sector \approx £8bn
 - London \approx £1.5bn
 - But also much bigger rental market
- Reasons for increases are disputed
 - More tenants
 - More claimants
 - Higher housing costs
 - Landlord behaviour?



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 \approx **20%**
 - Cumulative rent inflation 1997/98 – 2007/08 \approx **70%**

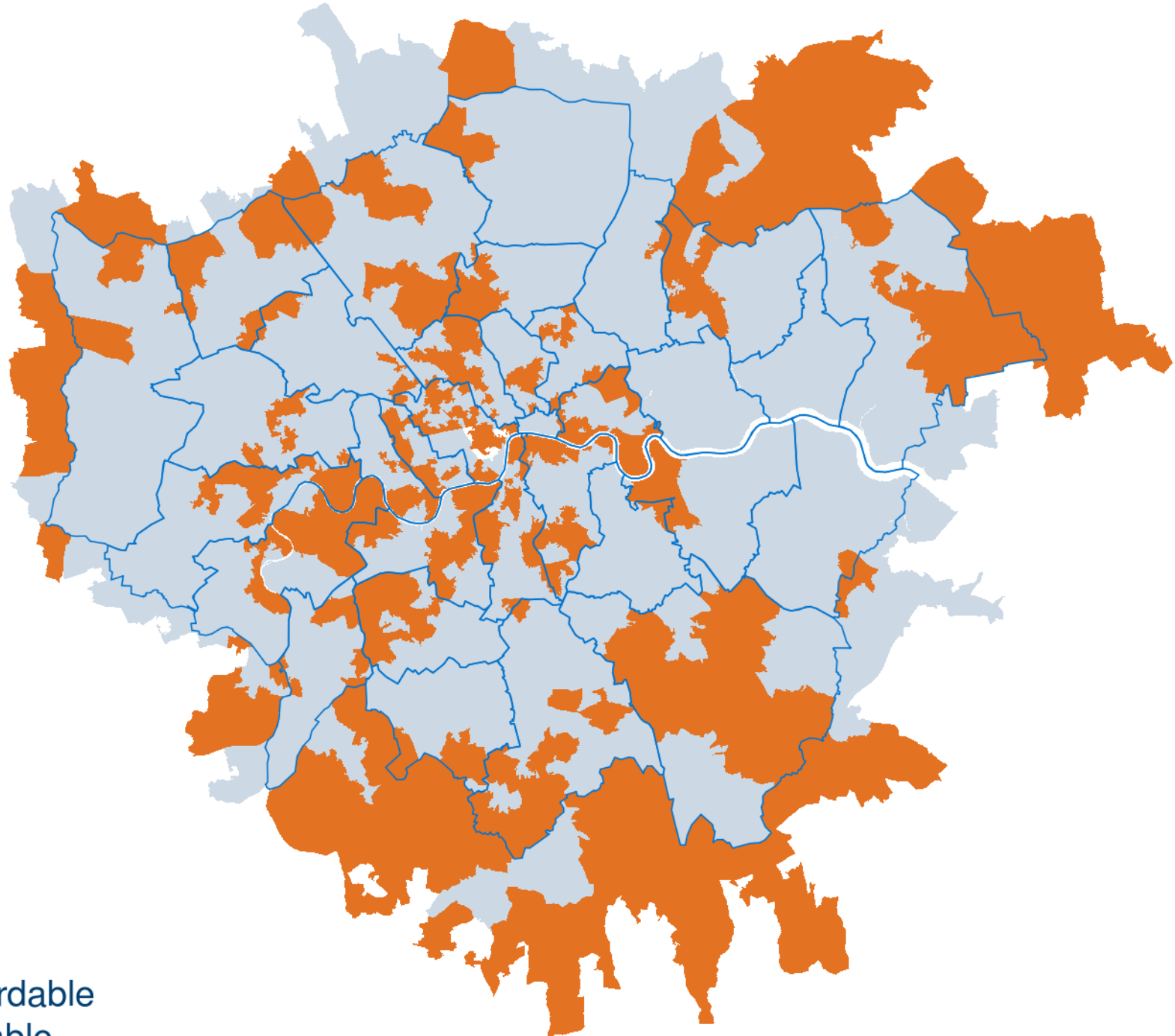
The spatial implications - overview

- 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

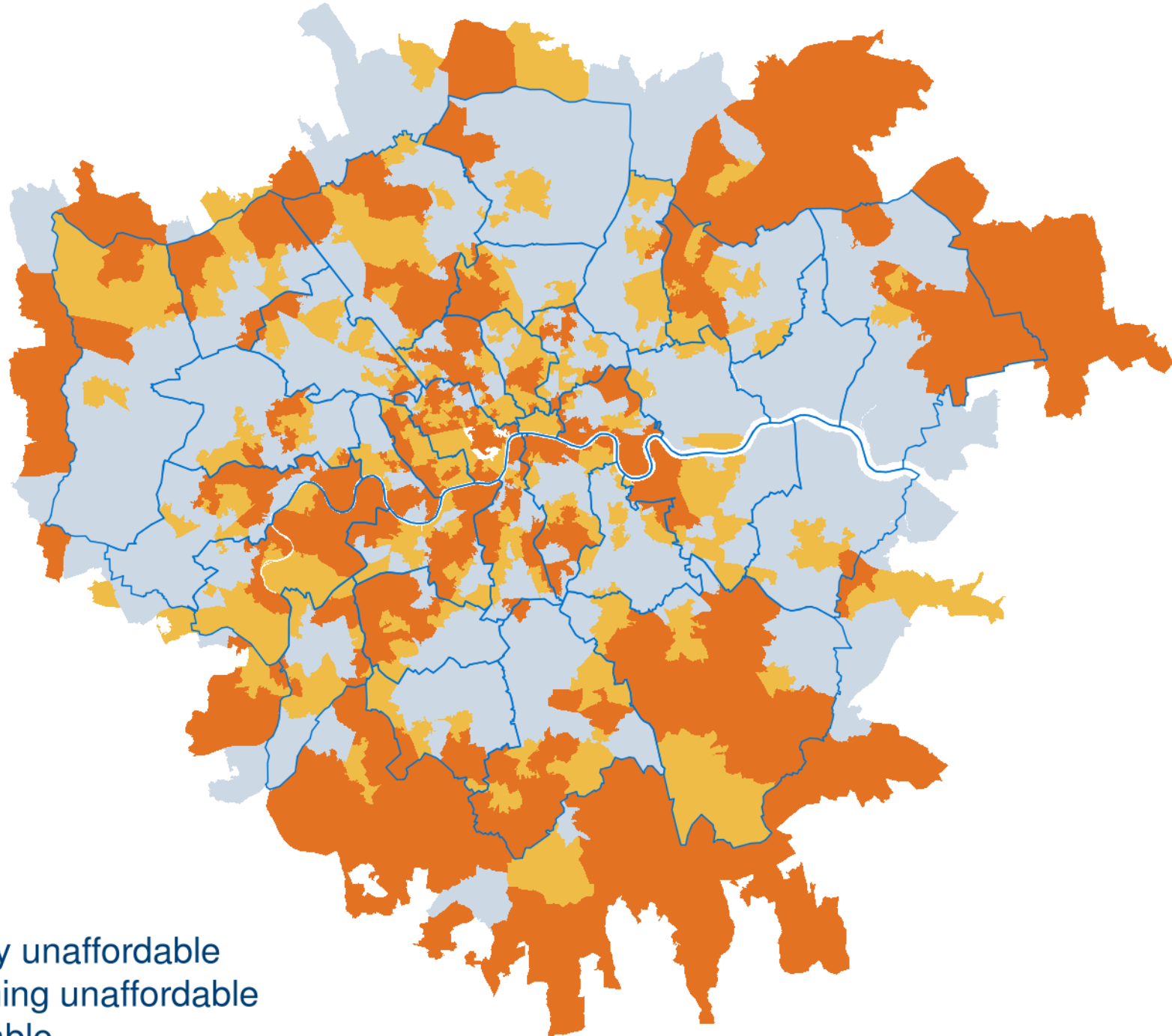
- Estimate median average and lower quartile rents for many small neighbourhoods
- Compare neighbourhood rents to the applicable LHA rates in 2010, 2011 and 2016
- Neighbourhoods deemed '**largely unaffordable**' when LHA rate is less than lower quartile (cheapest 25%) of neighbourhood rents




In 2010



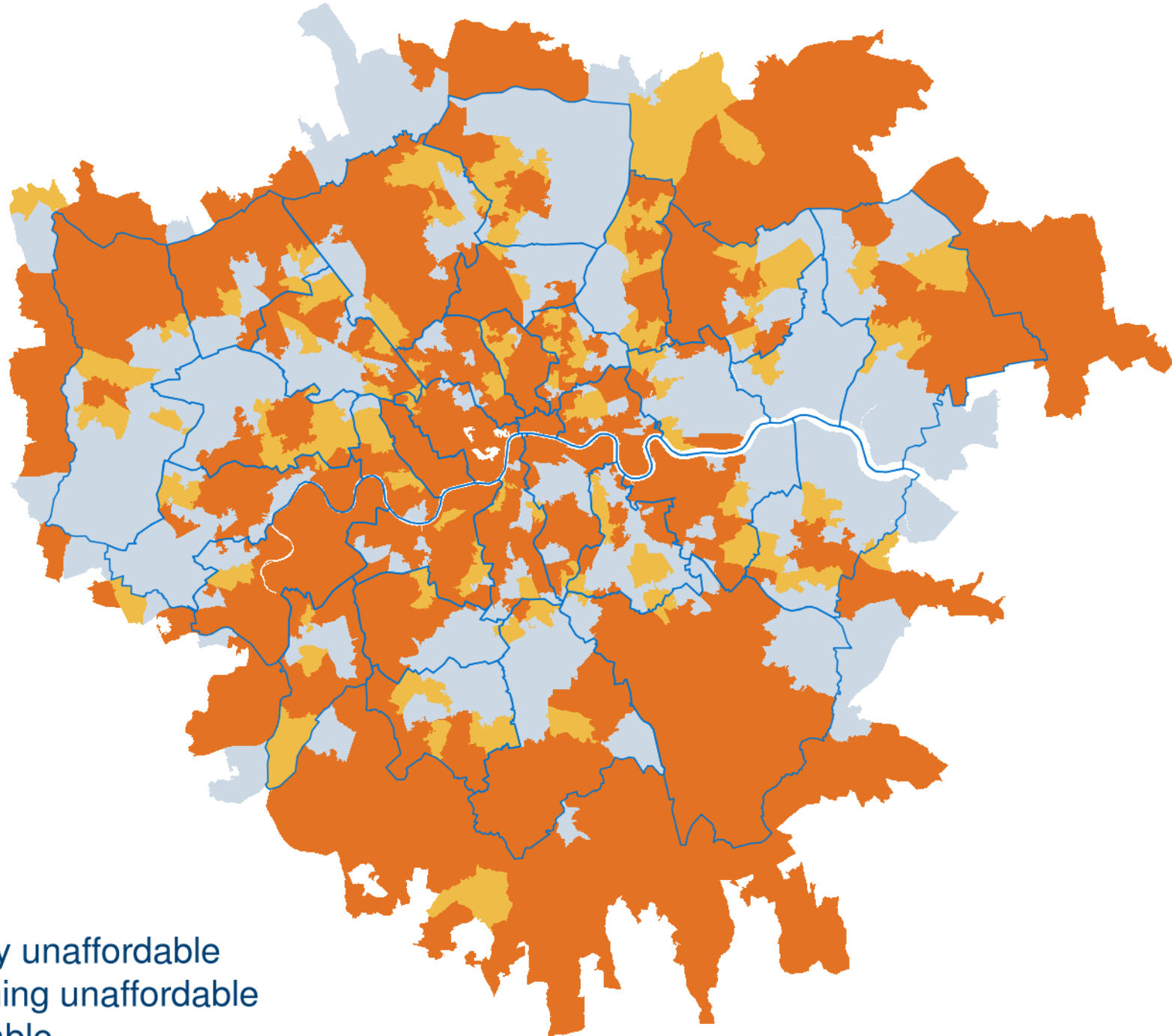
-  Unaffordable
-  Affordable

From 2011



-  Already unaffordable
-  Becoming unaffordable
-  Affordable

By 2016



- Already unaffordable
- Becoming unaffordable
- Affordable

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%)

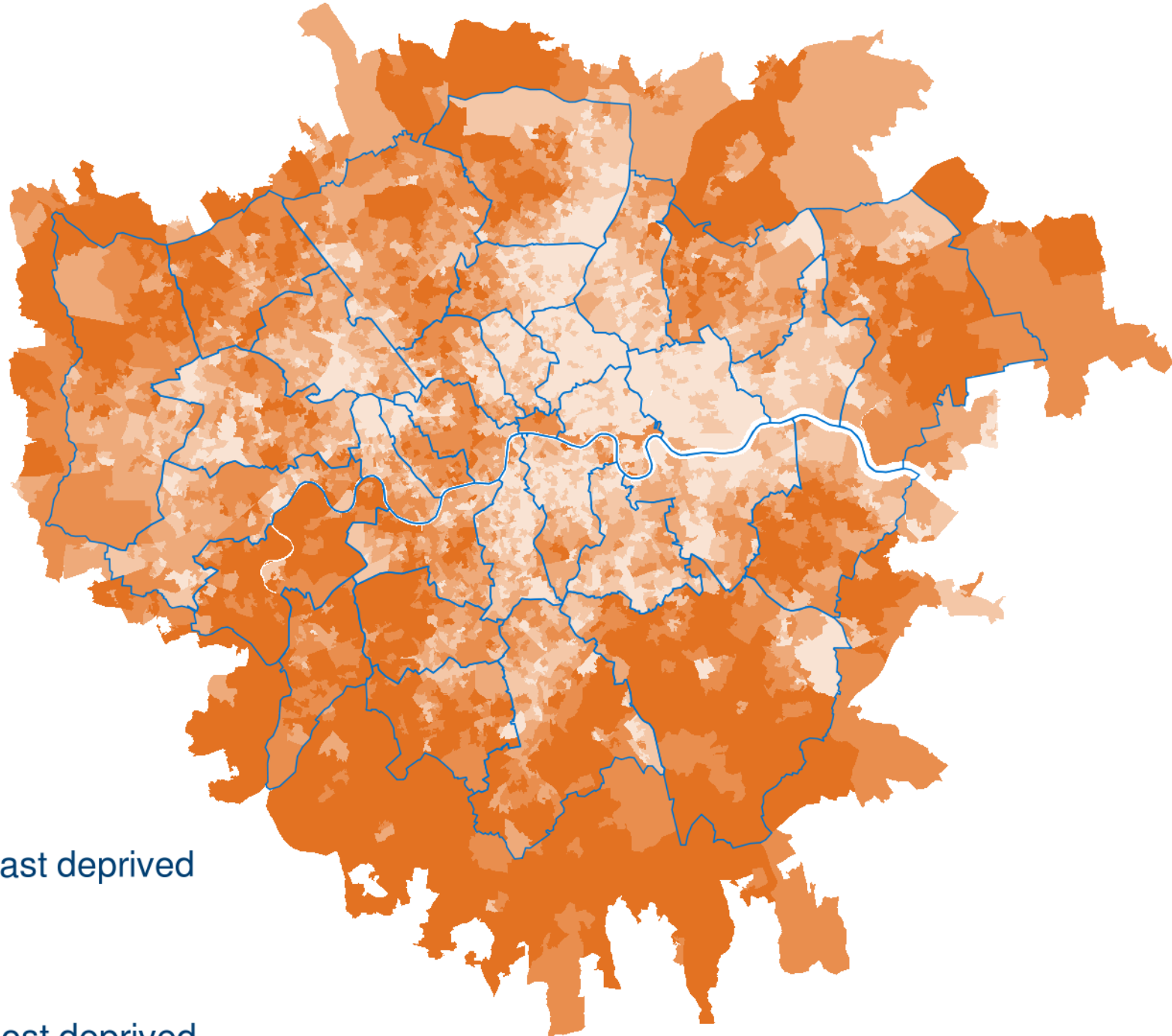
Comments and caveats on the results

- 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

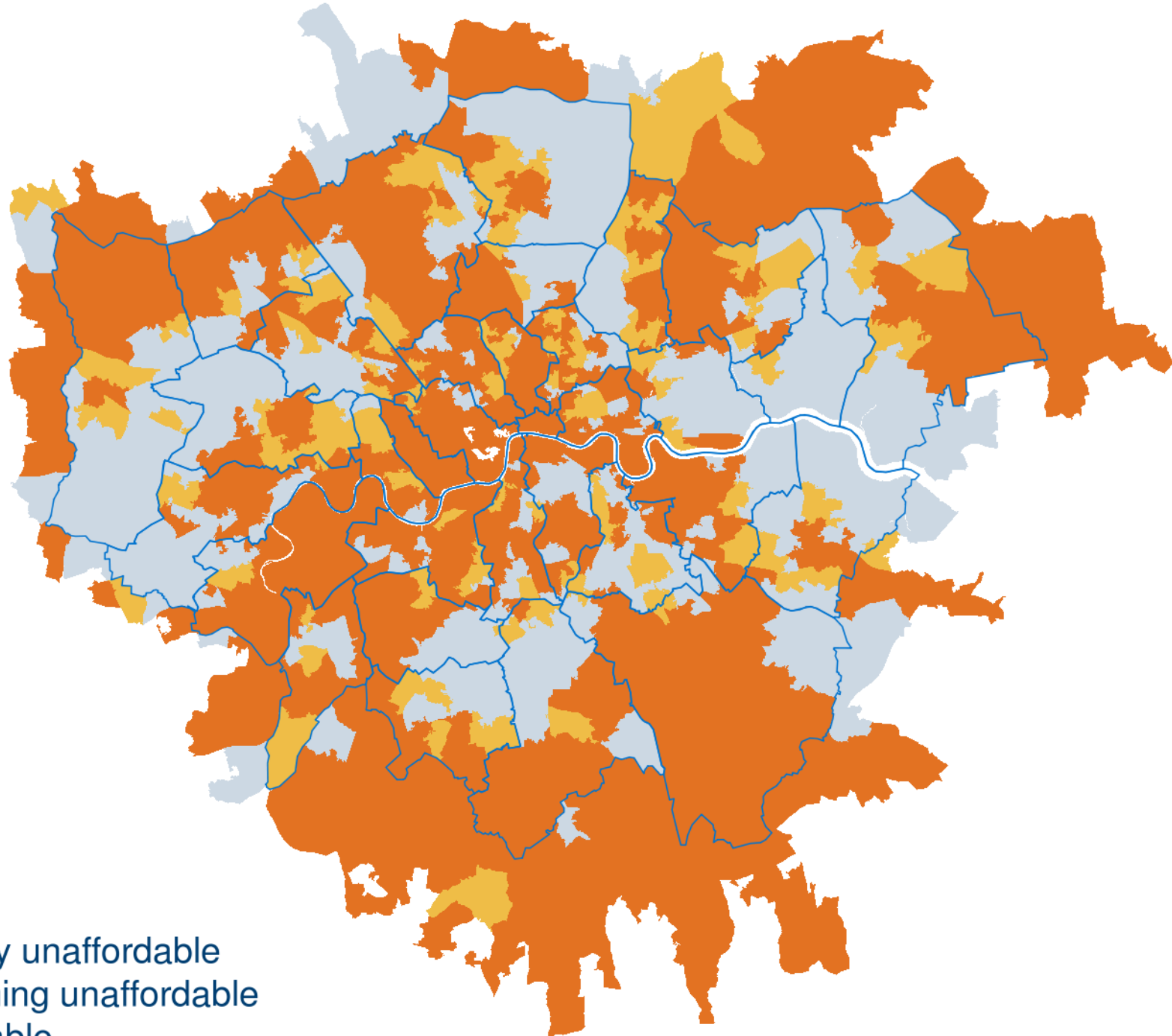
- Higher rates of multiple deprivation
- Higher rates of claimant unemployment
- Some areas that will become largely unaffordable are politically marginal

London deprivation quintiles (IMD 2007)



- 20% least deprived
-
-
-
- 20% most deprived

By 2016



- Already unaffordable
- Becoming unaffordable
- Affordable

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

Housing Benefit in the social sector : “Under-occupation”

- 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'
 - ▶ <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>