

<b>Title:</b> Housing Benefit – uprating local housing allowance rates by 1% for 2 years from April 2014  <b>Lead department or agency:</b> Department for Work and Pensions  <b>Other departments or agencies:</b> Valuation Office Agency and Rent Services in Scotland and Wales	<b>Impact Assessment (IA)</b>
	<b>IA No:</b>
	<b>Date:</b> June 2013
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary
<b>Contact for enquiries:</b> Marie.savage@dwpgsi.gov.uk	

## Summary: Intervention and Options

### What is the problem under consideration? Why is government intervention necessary?

Between 2000 and 2010 expenditure on Housing Benefit had almost doubled in cash terms, reaching £21 billion. Unreformed, by 2014-15 Housing Benefit would cost over £26 billion (cash terms). In particular, under the Local Housing Allowance (LHA) arrangements which were introduced in April 2008, the average Housing Benefit award was over £9 per week more than for claimants on previous schemes. The changes introduced in 2011 to the LHA arrangements will contain the levels of rents met by Housing Benefit in expensive areas and apply downward pressure on expenditure more generally. This pressure must be maintained to contribute to the Government's fiscal reduction strategy.

### What are the policy objectives and the intended effects?

Measures were introduced in 2011 to lower LHA rates and in April 2013, to introduce annual uprating of LHA limited by the CPI. The purpose of this policy change is to build on the earlier measures being introduced in 2011 and 2013 to continue to bring the cost of Housing Benefit under control and exert a downward pressure on rents. Another key objective is to maintain affordability in areas where rents are rising rapidly.

This policy change will also bring LHA in line with other benefits that are being uprated by 1% in 2014-15 and 2015-16 and typically restrict annual increases in LHA to a maximum of 1%.

### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

- A. The 'do nothing' option is to keep the current system of annual uprating limited by CPI inflation. However this will not exert the required downward pressure on rents and Housing Benefit costs.
- B. We have considered limiting the uprating of all LHA rates to 1%. This would achieve the necessary downward pressure, but would leave little flexibility should some areas see increases in rents that significantly reduce the affordability of accommodation.
- C. The preferred option is to set LHA rates annually and to limit typical increases by 1% for two years, with a substantial targeted affordability fund to increase some LHA rates by more than 1%. This will continue to bear down on expenditure but will allow us to react flexibly to increases in rents.

**When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?**

It will be reviewed 2015/16

**Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?**

See Annex 1

**Sign-off :** For final proposal stage Impact Assessments:

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.*

**Signed by the responsible Minister:** Freud    **Date:** 24<sup>th</sup> June 2013

## Summary: Analysis and Evidence

Price Base Year 13/14	PV Base Year 13/14	Time Period Years 4	<b>Net Benefit (Present Value (PV)) (£m)</b>		
			<b>Low: –</b>	<b>High: –</b>	<b>Best Estimate: 0</b>

<b>COSTS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Cost (Present Value)</b>
<b>Low</b>	–	<b>0</b>	–	–
<b>High</b>	–		–	–
<b>Best Estimate</b>	–		<b>£265m</b>	<b>£970m</b>

### Description and scale of key monetised costs by 'main affected groups'

Costs relate to the notional reduction in benefit income received by these households. It is estimated that there will be around 1.5 million HB recipients assessed under the LHA arrangements in 2014-15. They may experience a notional loss in their benefit due to it being uprated by 1% rather than the Consumer Price Index. Costs have been considered over a four-year period.

### Other key non-monetised costs by 'main affected groups'

In the longer term, there may be an indirect impact as some landlords could choose not to continue renting to tenants on benefits if the rate of return is not sufficient.

<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Benefit (Present Value)</b>
<b>Low</b>	–	<b>0</b>	–	–
<b>High</b>	–		–	–
<b>Best Estimate</b>	–		<b>£265m</b>	<b>£970m</b>

### Description and scale of key monetised benefits by 'main affected groups'

Monetised benefits relate to Exchequer savings due to reduced benefit expenditure.

### Other key non-monetised benefits by 'main affected groups'

Together with the earlier LHA reforms in April 2011, in the longer term rents for housing benefit tenants may increase less steeply, especially in areas where Housing Benefit tenants comprise a large proportion of the private rented sector.

### Key assumptions/sensitivities/risks

**Discount rate**

3.5%

Present values were considered over the 4-year period from 2014-15 to 2017-18. Impacts are based on notional losses calculated on current awards of Housing Benefit, and projected forward in line with Departmental forecasts. Savings or costs are subject to the assumptions of CPI inflation in line with Office for Budget Responsibility forecasts. The extent of notional losses will in practice depend on movements in local rental markets, and the actual impact on claimants will also depend on how landlords respond to lower LHA rates.

<b>Impact on admin burden (AB) (£m):</b>			<b>Impact on policy cost savings</b>		<b>In</b>
<b>New AB:</b>	<b>AB savings:</b>	<b>Net:</b>	<b>Policy cost savings:</b>		

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Great Britain				
From what date will the policy be implemented?	April 2014				
Which organisation(s) will enforce the policy?	DWP				
What is the annual change in enforcement cost (£m)?	N/A				
Does enforcement comply with Hampton principles?	YES				
Does implementation go beyond minimum EU requirements?	NO				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	Traded:		Non-traded:		
Does the proposal have an impact on competition?					
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?					

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties <sup>1</sup>	YES	Separate Publication
<b>Economic impacts</b>		
Competition	NO	
Small firms	NO	
<b>Environmental impacts</b>		
Greenhouse gas assessment	NO	
Wider environmental issues	NO	
<b>Social impacts</b>		
Health and well-being	NO	
Human rights	NO	
Justice system	NO	
Rural proofing	NO	
<b>Sustainable development</b>	NO	

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base –

### Annual profile of monetised costs and benefits\* - (£m) constant 2013/14 prices

	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Transition costs</b>					
<b>Annual recurring cost</b>		135	270	315	350
<b>Total annual costs</b>		135	270	315	350
<b>Transition benefits</b>					
<b>Annual recurring</b>		135	270	315	350
<b>Total annual benefits</b>		135	270	315	350

\* For non-monetised benefits please see summary pages and main evidence base section

# Evidence Base

## Policy Rationale

1. The background to the reform of LHA arrangements is the budget deficit and the reduction in public expenditure that the Government is making to tackle it. A key part of the Government's strategy is a programme of welfare reforms that shifts the focus of state support from cash transfers to the services that deliver opportunities for social mobility in the longer term. The reforms introduced since April 2011 reduce Housing Benefit expenditure, and encourage people on benefits to face the same choices about their accommodation as people not claiming benefits. In doing this they free up resources to be spent on services and ensure that the poorest families are not trapped in a cycle of dependency.
2. Originally LHA rates were set at the median of data on local rents collected by Rent Officers. This was reduced to the 30th percentile from April 2011. Rates are currently reviewed on an annual basis with increases capped by the September CPI index. In April 2013 LHA rates were set in this way for the first time. There was little divergence from market rents; over half of the LHA rates stayed the same or fell and the CPI limit applies to only a quarter of them.<sup>2</sup>
3. Limiting growth in LHA rates by 1% for a limited period of time will build on the reforms introduced since 2011 and ensure that rates cannot continue to rise without restraint at a time when annual earnings growth is only 1.2%<sup>3</sup>. Under this system all LHA rates in Great Britain will continue to be set annually on a common date and will apply for the whole of the following year.
4. Alongside this, the Government announced that some of the savings from this measure would be set aside. This funding will be known as the Targeted Affordability Fund and will be used to increase some LHA rates by more than 1% where increases in rents may be reducing the availability of affordable accommodation.
5. Housing Benefit will be replaced by Universal Credit for working age people. Universal Credit was introduced on 29 April in Ashton and will roll out to other pathfinder areas in July. It is assumed further roll out will begin in October, consistent with the migration profile as set out in the Budget 2013 estimates for Universal Credit expenditure. Provisions within Universal Credit legislation for uprating Local Housing Allowance will mirror the provision within Housing Benefit legislation.

## Estimating Costs and Benefits

### Fiscal impacts

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<sup>2</sup> LHA rates and comparison with market rents published at <http://www.voa.gov.uk/corporate/RentOfficers/LHARates/april2013lha.html>  
<http://www.scotland.gov.uk/Topics/Built-Environment/Housing/privaterent/tenants/money/localhousingallowance/Figures-1/2013>  
<http://wales.gov.uk/topics/housingandcommunity/housing/private/renting/rentofficers/publications/lha13/?lang=en>

<sup>3</sup> Weekly earnings including bonuses but excluding arrears of pay, three months to January 2013 compared to the same period a year earlier. Table 15 <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/june-2013/table-a01.xls>

6. The benefits relate to the estimated savings to the Exchequer arising from reduced Housing Benefit and Universal Credit spending.
7. The estimates are based on the forecast Housing Benefit LHA caseload for 2014-15 and 2015-16 of around 1.5 million, and the difference between the assumed growth in LHA rates and 1% for 2014-15 and 2015-16. It is assumed that without this measure CPI inflation would drive annual growth in LHA rates at 2.6% on average; CPI inflation is assumed to be as forecast by the Office for Budget Responsibility at the 2013 Budget.
8. The scale of realised savings will be sensitive to any variations in CPI. In local areas, the extent of notional losses will in practice depend on movements in local rental markets.
9. No behavioural impact (such as people moving to cheaper accommodation) is assumed over the forecast period as differences in rents will be small in the early years compared to the transaction costs of moving. The current estimate of the anticipated reduction in benefit expenditure is in the order of £270m in 2015/16 (real terms, 2013/14 prices).
10. We have assumed targeted affordability funding (as calculated at Autumn Statement 2012) of £45 million in 2014-15 and £95 million in 2015/16. Final decisions on the use of the funding will be taken in Autumn 2013 following a call for evidence taking place over the summer.

### **Impacts on individuals**

11. As a result of this measure individuals would notionally lose out as they would see increases in their LHA awards that are likely to be lower than under the current scheme. Claimants whose rent is below the applicable LHA rate will not be affected.
12. The precise impact depends on the behavioural response on the choice of accommodation made by LHA recipients and on whether landlords decide to restrict their rent increases. If landlords restrict rent increases, they will share the notional losses.
13. For claimants whose rent is at or above the LHA rate, by 2015-16 their award will be on average around £4 per week lower than would have been the case without this further measure. This static impact is sensitive to trends in the CPI and local changes to rents. For this reason it is not possible to provide estimates of the distribution of losses.
14. In financial terms the cost to individuals (including landlords) is equivalent to the benefit to the taxpayer set out in paragraph 7 above.

### **Illustrative examples of the effect on individual claims**

15. The following examples illustrate how this might affect LHA claimants in the first year. In each case, for simplicity, a LHA rate of £100<sup>4</sup> is assumed, with growth in local rents at 4%

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<sup>4</sup> The figure of £100 is assumed for clarity, and is roughly the average one-bedroom LHA rate in Great Britain.

16. *Example 1: Weekly rent is equal to the LHA rate, and landlord moves in line with local rents.*

If both rent and LHA rate are £100 per week and local rents rise by 4%, then the landlord would increase rent to £104. The LHA rate would rise by 1% to only £101, and the claimant would face a weekly shortfall of £3pw.

17. *Example 2: Weekly rent is equal to LHA and landlord tracks the LHA rate.*

In this example the LHA rate increases to £101 per week, the landlord accepts this as the going rate and the claimant does not face any shortfall. Benefit expenditure is controlled, with the landlord bearing the cost rather than the claimant.

18. *Example 3: Weekly rent is above the LHA and landlord moves in line with market rents*

The claimant starts with a rent of £120pw, so faces a £20 weekly shortfall. In line with the market, the rent increases by 4% to £125. Under 1% uprating, the LHA rate is only £101, meaning that the weekly shortfall increases to £24.

19. *Example 4: Weekly rent is below the LHA and landlord moves in line with market rents*

The claimant starts with a weekly rent of £90. If the landlord increases the rent in line with the market, it rises to £93.60, which is still below the new LHA rate of £101, so the full rent is still eligible for Housing Benefit, and neither claimant nor landlord see any difference.

### **Indirect Impact on landlords**

20. Uprating the LHA rates by 1% for two years, and by CPI thereafter, places no direct burdens on landlords. Indirectly, by restricting rent rises it would result in a lower income from their property than they would have otherwise achieved under the existing Housing Benefit scheme. They could also experience greater numbers of tenants with arrears if they continue to increase rents above these limits and therefore incur additional costs in rent collection and managing tenancies. In the longer term, some landlords could choose not to continue renting to tenants on benefits if the rate of return is not sufficient. In particular, in those areas where landlords let predominantly to tenants on benefits and other demand is not high, landlords may accept lower rent increases in line with LHA rates.
21. It is not possible to reliably predict landlord behaviour. Since the 2011 reforms, which have reduced LHA rates by around £8/week<sup>5</sup>, the number of people on Housing Benefit living in the private rented sector has increased by around 8%<sup>6</sup> and in many areas is a crucial section of the market. But some landlords report they are likely to reconsider renting to housing benefit claimants in the future<sup>7</sup>.

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<sup>5</sup> DWP RR838 (May, 2013): 'Monitoring the Impact of Changes to the Local Housing Allowance System of Housing Benefit', Section 1, p.22 ([http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838\\_pt1.pdf](http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838_pt1.pdf)); See Section 3 for more detail - [http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838\\_pt3.pdf](http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838_pt3.pdf)

<sup>6</sup> <http://statistics.dwp.gov.uk/asd/index.php?page=hbctb>

<sup>7</sup> DWP RR838 (May, 2013): 'Monitoring the Impact of Changes to the Local Housing Allowance System of Housing Benefit' – Section 5, p.148 : [http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838\\_pt5.pdf](http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838_pt5.pdf)

22. Wave 20 of the Local Authority Omnibus<sup>8</sup> survey found that Housing Benefit managers say that some landlords raise rents to the LHA level. Awards of Housing Benefit for tenants assessed under the LHA arrangements bear this out as prior to the April 2011 reforms they were, on average, over £9 per week higher than awards made under the previous scheme for private rented sector tenants.

## **Mitigation**

### For any potential impact on landlords

23. Separate changes to LHA made in 2011 allow landlords to receive managed payments of housing benefit if they are willing to reduce their rents to levels affordable to housing benefit recipients. This change is likely to provide an incentive to landlords to provide accommodation at the level of the LHA rate to Housing Benefit tenants. Evidence from Wave 23 of the Local Authority Omnibus survey found that the vast majority of local authorities were making use of this option.<sup>9</sup>

### For impact on claimants

24. The Government has provided two further mitigations for the impact of this measure on individual claimants. First, as set out at the 2010 Spending Review, in 2014-15 Government will make an additional £40 million contribution to Discretionary Housing Payments (DHPs). This will allow local authorities to help people facing a shortfall in the rent on a discretionary basis. Local Authorities have a high degree of flexibility to award DHPs. For instance, they can be used to provide short term help whilst someone looks to move to cheaper accommodation, longer term help where there are good reasons why someone cannot move, or lump sums to help people with moving costs and deposits.
25. Secondly, Government has announced that 30%<sup>10</sup> of the savings from this change, as calculated at Autumn Statement 2012 – £45m in 2014/15 and £95m in 2015/16, will be recycled into a targeted affordability fund. It intends to use this funding to increase some LHA rates by more than 1% where rent increases may be reducing the availability of affordable accommodation. The Government is issuing a call for evidence in the summer to inform how this funding will be targeted. DWP will publish a response to the call for evidence alongside the new LHA rates for 2014/15 and the announcement about which areas will be targeted for the funding in January 2014, and further detail of the expected impact will be included in the next iteration of this impact assessment.

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<sup>8</sup> DWP RR 671 (2010): Local Authority Omnibus Survey, Wave 20, p.42: <http://statistics.dwp.gov.uk/asd/asd5/rports2009-2010/rrep671.pdf>

<sup>9</sup> DWP RR 834 (2013): Local Authority Insight Survey Wave 23, p. 38 : [http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep834\\_pt5.pdf](http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep834_pt5.pdf)

<sup>10</sup>

<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121205/debtext/121205-0001.htm#12120570000005>

## Annex 1: Post Implementation Review (PIR) Plan

<p><b>Basis of the review:</b></p> <p>The impact of the policy changes will be reviewed and monitored regularly as roll out takes place. All analysis in the review will be subject to the ongoing availability of the underlying datasets.</p>
<p><b>Review objective:</b></p> <p>To assess whether the 1% uprating measure achieves the broad objectives set out in the Impact Assessment and the scale of the knock-on impacts.</p>
<p><b>Review approach and rationale:</b></p> <p>A mixture of approaches will be used including a range of internal data analysis and work with external organisations.</p>
<p><b>Baseline :</b></p> <p>Projected trends in caseload, expenditure, rents and other key variables under the benefit and tax credit system in the absence of the change.</p>
<p><b>Success criteria :</b></p> <p>Criteria will include indicators such as Housing Benefit expenditure and average award and caseload trends, including the distribution of caseload by area.</p>
<p><b>Monitoring information arrangements:</b></p> <p>The Single Housing Benefit Extract (SHBE) is the Department's main source of real time data on Housing Benefit and is collected on a monthly basis. This will contain information on caseloads and awards. In addition, the Government will publish, via the rent officer agencies, an annual comparison of LHA rates and the 30<sup>th</sup> percentile of market rents, and will collect other information through existing stakeholder engagement arrangements. These networks will be used to gather qualitative evidence on the impact on work incentives and employment, benefit receipt, and landlords.</p>
<p><b>Reasons for not planning a PIR:</b></p> <p>n/a</p>