| | |
|---|---|
| **Title:**<br>The Rent Officers (Housing Benefit and Universal Credit Functions) (Local Housing Allowance Amendments) Order 2013.<br>(Housing Benefit - Uprating Local Housing Allowance rates by 1% for 2 years from April 2014). | **Impact Assessment (IA)** |
| | **Date:** 15/01/2014 |
| **IA No:** | **Stage:** Final |
| **Lead department or agency:**<br>Department for Work and Pensions | **Source of intervention:** Domestic |
| **Other departments or agencies:**<br>Valuation Office Agency and Rent Services in Scotland and Wales | **Type of measure:** Secondary legislation |
| | **Contact for enquiries:**<br>housingbenefitenquiries@dwp.gsi.gov.uk |

## Summary: Intervention and Options

**RPC Opinion:** Not Applicable

| Cost of Preferred (or more likely) Option | | | | |
|---|---|---|---|---|
| **Total Net Present Value** | **Business Net Present Value** | **Net cost to business per year** (EANCB on 2009 prices) | **In scope of One-In, Two-Out?** | **Measure qualifies as** |
| £m | £m | £m | No | NA |

**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 covered here is to build on the earlier measures introduced in 2011 and 2013 to continue to bring the cost of Housing Benefit under control and exert a downward pressure on rents. Alongside this, is an objective to help prevent more areas becoming unaffordable 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, including any alternatives to regulation? 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 and is in line with the uprating plans for some other benefits, 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.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 09/2014

| | | | | | |
|---|---|---|---|---|---|
| Does implementation go beyond minimum EU requirements? | | | Yes / No / N/A | | |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | **Micro**<br>No | **< 20**<br>No | **Small**<br>No | **Medium**<br>No | **Large**<br>No |
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | | | **Traded:** | **Non-traded:** | |

***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) that the benefits justify the costs.***

Signed by the responsible Minister: Freud Date: 20/01/14

# Summary: Analysis & Evidence

Policy Option 1

**Description:** Uprating Local Housing Allowance rates by 1%

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 1314 | PV Base Year 1314 | Time Period Years 4 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** - | **High:** - | **Best Estimate:** - |

| **COSTS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Cost** (Present Value) |
|---|---|---|---|---|
| **Low** | - | | - | **-** |
| **High** | - | | - | **-** |
| **Best Estimate** | - | | £100m | **£350m** |

**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 as the policy to uprate LHA rates by 1% for two years will leave LHA rates at lower levels beyond the period of the policy.

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

In the longer term, some landlords may not be able to increase the rents that they charge to LHA claimants by as much they would have done in the absence of this measure.

| **BENEFITS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Benefit** (Present Value) |
|---|---|---|---|---|
| **Low** | - | | - | **-** |
| **High** | - | | - | **-** |
| **Best Estimate** | - | | £100m | **£350m** |

**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 four-year period from 2014-15 to 2017-18. Impacts are based on notional losses calculated on current awards of Housing Benefit, and projected in line with Departmental forecasts, and the migration profile as set out in the Autumn Statement 2013 estimates for Universal Credit expenditure. Savings are subject to asssumptions of CPI inflation reflecting OBR forecasts. The extent of notional losses will depend on movements in local rental markets.

**BUSINESS ASSESSMENT (Option 1)**

| **Direct impact on business (Equivalent Annual) £m:** | | | **In scope of OITO?** | **Measure qualifies as** |
|---|---|---|---|---|
| **Costs:** | **Benefits:** | **Net:** | No | NA |

# 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. Between 2000 and 2010, expenditure on Housing Benefit had almost in doubled in cash terms, reaching £21 billion. If left unreformed, by 2014/15 Housing Benefit would cost over £26 billion (cash terms).

2. 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. The changes are designed to address affordability, unfairness and poor work incentives in the existing system.

3. Originally LHA rates were set at the median of data on local rents collected by Rent Officers and updated monthly. From April 2011, changes were introduced to restrict LHA rates to the 30$^{th}$ percentile of local rents instead of the median, as well as the introduction of weekly maximum caps for each rate up to four bedrooms. From January 2012, the Shared Accommodation Rate was extended to include single people up to the age of 35 rather than 25.

4. From April 2013, annual uprating for LHA was introduced, with rates being reviewed on an annual basis and increases set at CPI inflation or the 30$^{th}$ percentile of rents, whichever is the lower of the two. The new LHA rates which came into effect from April 2013, showed there was little divergence from market rents, with over half of the LHA rates staying the same or falling with the CPI limit applying to only a quarter of them.[1]

5. In the Autumn Statement 2012, the Government announced that in 2014/15 and 2015/16, LHA rates would be uprated by 1 per cent rather than by CPI. Alongside this, the Government announced that some of the savings realised from this measure (based on Autumn Statement 2012 forecasts) would be used to increase LHA rates by more than 1 per cent in areas where accommodation was at risk of becoming unaffordable. This funding is referred to as the Targeted Affordability Fund. There is a total of £140 million available over the two years; £45 million in 2014/15 and £95 million in 2015/16. [2]

6. 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 0.9%[3]. 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.

7. The new 1 per cent uprating limit will apply for 2 years from 2014/15, after which the Government will take a view as to how LHA will be uprated in the future. The Targeted Affordability Funding covers the two years that the 1 per cent uprating policy applies. Those rates which were targeted in 2014/15 to be increased by up to 4 per cent (rather than 1 per cent) will be maintained at that level in 2015/16, unless the 30$^{th}$ percentile of market rents drop. Any additional increases beyond that will depend on which rates have the greatest divergences from market rents subject to the maximum LHA limits.

8. Housing Benefit will be replaced by Universal Credit for working age people. Provisions within Universal Credit legislation for uprating Local Housing Allowance will mirror the provision within Housing Benefit legislation.

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[1] 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

2 The Autumn Statement 2012 announcement about uprating by 1% and the Targeted Affordability Funding can be found at (col 1031):

http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121206/debtext/121206-0002.htm#12120640000005

[3] Weekly earnings including bonuses but excluding arrears of pay, three months to October 2013 compared to the same period a year earlier. December 2013 Labour Market Statistics.

## Estimating Costs and Benefits

### Fiscal impacts

9. The benefits relate to the estimated savings to the Exchequer arising from reduced Housing Benefit and Universal Credit spending.

10. The estimates are based on the forecast Housing Benefit LHA caseload for 2014-15 and 2015-16 of around 1.5 million and the migration profile set out in the Autumn Statement 2013 estimates for Universal Credit expenditure, and the difference between the assumed growth in LHA rates under 1% and CPI uprating for 2014-15 and 2015-16. For 2014-15 the assumed growth is derived from actual rent officer data used to set the April 2014 LHA rates. For 2015-16 it is assumed that without this measure CPI inflation would drive annual growth in LHA rates at 2.2% on average; CPI inflation is assumed to be as forecast by the Office for Budget Responsibility at the 2013 Autumn Statement.

11. 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.

12. 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 £90m in 2015/16 (real terms, 2013/14 prices).

### Impacts on individuals

13. As a result of this measure some 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. There will be exceptions too for those tenants who are renting a particular sized property in certain areas which will see an increase in the LHA rate of up to 4% - this is covered in the 'Mitigation' section.

14. 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.

15. For claimants whose rent is at or above the LHA rate, by 2015-16 their award will be on average around £2-3 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. It should also be noted that this estimate does not take account of the Targeted Affordability Funding which will apply to certain LHA rates in some areas and is covered in the Mitigation section of this document.

16. In financial terms the cost to individuals (including landlords) is equivalent to the benefit to the taxpayer set out in paragraph 7 above.

### Equalities Analysis

17. Wider analysis of how the impacts of this policy may differ for people with protected characteristics under the Equality Act 2010 can be found in the equality analysis for this policy change[4]. The analysis was published on 2 December 2013 when the amending legislation was laid before Parliament.

[4] https://www.gov.uk/government/publications/local-housing-allowance-uprating-equality-analysis

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

18. The following examples illustrate how this might affect LHA claimants in the first year. In each case, for simplicity, a LHA rate of £100[5] is assumed, with growth in local rents at 4%

19. *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.

20. *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.

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

The claimant starts with a rent of £125pw, so faces a £25 weekly shortfall. In line with the market, the rent increases by 4% to £130. Under 1% uprating, the LHA rate is only £101, meaning that the weekly shortfall increases to £29.

22. *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**

23. Uprating the LHA rates by 1% for two years, places no direct burdens on landlords. Indirectly, by restricting the levels of LHA which can be paid, it may result in a lower income from their property than they would have otherwise achieved if LHA rates were to continue to be uprated by CPI. They could also experience a greater numbers of tenants with arrears if they continue to increase rents above the LHA limits and therefore incur additional costs in rent collection and managing tenancies. 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.

24. In those areas where some LHA rates will be increased by up to 4% in line with the Targeted Affordability Funding, this may have a more positive indirect impact on landlords and may mitigate some of the impacts covered in paragraph 23.

25. It is not possible to reliably predict how landlords may react to the changes to LHA rates which are only one of a number of factors which might affect their behaviour. Since the 2011 reforms, which have reduced LHA rates by around £8/week[6], the number of people on Housing Benefit living in the private rented sector has increased by around 8%[7] 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[8].

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[5] The figure of £100 is assumed for clarity, and is roughly the average one-bedroom LHA rate in Great Britain.

[6] 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); See Section 3 for more detail - http://statistics.dwp.gov.uk/asd/asd5/rports2013-2014/rrep838_pt3.pdf

[7] http://stat-xplore.dwp.gov.uk

[8] 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

**Mitigation**

For any potential impact on landlords

26. Separate changes to LHA made in 2011 allow landlords in certain circumstances to receive payments of housing benefit direct to them, if they are willing to reduce their rents to levels affordable to housing benefit recipients. This change does 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.[9]

For impact on claimants

27. 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.

28. Secondly, Government has announced that a total of £140 million of the savings realised from the 1 % policy change to LHA, (£45m in 2014/15 and £95m in 2015/16), will be recycled into a targeted affordability fund. This fund is included within the arithmetic presented in the Full Economic Assessment on page 2. In 2014/15, this funding will be used to increase some LHA rates by up to 4% in areas where rent increases may be reducing the availability of affordable accommodation. The funding will be targeted at those LHA rates which have diverged the most from the level of market rents (uprated by 1%) with the 30$^{th}$ percentile of local rents. The LHA rates with the greatest percentage gap will be increased by 4% instead of 1% up to the limit of the total funding available. However, those LHA rates which are currently capped in the most expensive areas will only increase by 1% as all rates are still subject to maximum limits. This is to continue to meet the policy intention that Housing Benefit should not support people to live in accommodation that would be out of reach to most people in work and not claiming benefits. This funding will help to mitigate some of the impacts of the introduction of the 1% uprating limit and help prevent **more** areas becoming unaffordable.

29. The new LHA rates which will be effective from April 2014, will be published in January 2014.

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