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| Title: Housing Benefit – uprating local housing allowance rates by CPI from April 2013 Lead department or agency: Department for Work and Pensions Other departments or agencies: Valuation Office Agency and Rent Services in Scotland and Wales | Impact Assessment (IA) |
| | IA No: |
| | Date: 26 March 2012 |
| | Stage: Final |
| | Source of intervention: Domestic |
| | Type of measure: Secondary |
| | Contact for enquiries: Marie.savage@dwp.gsi.gov.uk |

Summary: Intervention and Options

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

Expenditure on Housing Benefit in cash terms has increased significantly from £11 billion in 2000/01 (£15bn in 2010/11 prices) to £21bn billion in 2010/11. In particular, under the Local Housing Allowance arrangements which were introduced in April 2008, the average Housing Benefit award was over £9 per week more than for customers on previous schemes. The changes introduced in 2011 to the Local Housing Allowance (LHA) arrangements will both 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 essential deficit reduction plans.

What are the policy objectives and the intended effects?

The objective is to build on the measures being introduced in 2011 to bring the cost of Housing Benefit under control and exert downward pressure on rents. The system also needs to be brought into line with the other benefits which will become part of Universal Credit from October 2013. The intended effects are to restrict increases in LHA rates to CPI inflation and to set LHA rates annually in a similar way to other benefits.

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

The 'do nothing' option is to keep the current system of monthly LHA calculations. However this will not exert the required downward pressure on rents charged to Housing Benefit recipients and costs will continue to increase. It would also retain the monthly uprating of LHA rates which would reduce the clarity that claimants will have about their award under Universal Credit.

The preferred option is to set Local Housing Allowance rates annually and to limit increases in line with CPI inflation. This will gradually bear down on expenditure and provide greater clarity for claimants and landlords. Amendments to the Rent Officers Order will change the way the rent officer sets rates. Further amendments to the Housing Benefit Regulations will make the necessary changes to the procedures followed by Local Authorities.

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
2014/15

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:..... **Date:**

Summary: Analysis and Evidence

| | | | | | |
|--------------------------|-----------------------|------------------------|--|----------------|-------------------------|
| Price Base Year 12/13 | PV Base Year 12/13 | Time Period Years 3 | Net Benefit (Present Value (PV)) (£m) | | |
| | | | Low: – | High: – | Best Estimate: 0 |

| COSTS (£m) | Total Transition (Constant Price) Years | | Average Annual (excl. Transition) (Constant Price) | | Total Cost (Present Value) |
|----------------------|---|----------|--|--------------|--------------------------------------|
| Low | – | 0 | – | – | – |
| High | – | | – | – | – |
| Best Estimate | – | | £255m | £685m | |

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 1.4 million HB recipients assessed under the Local Housing Allowance arrangements in 2013. They may experience a notional loss in their benefit due to it being uprated by the Consumer Prices Index rather than market rents. This is based on historical trends in rent growth, and forecasts of the Consumer Price Index.

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 Local Housing Allowance 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 | – | 0 | – | – | – |
| High | – | | – | – | – |
| Best Estimate | – | | £255m | £685m | |

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'

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. Some administration costs may be reduced, as Local Housing Allowance rates will not have to be set every month.

Key assumptions/sensitivities/risks

Discount rate

3.5%

Present values were considered over the 4-year Spending Review period. 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 future increases in rents of 4% per year; and 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. There are savings in 2012/13 as LHA rates will be fixed from April 2012 to provide a baseline for the April 2013 uprating.

| | | | | | |
|--|--------------------|-------------|--------------------------------------|--|-----------|
| Impact on admin burden (AB) (£m): | | | Impact on policy cost savings | | In |
| New AB: | AB savings: | Net: | Policy cost savings: | | |

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 2012 | | |
| 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 ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ 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 ¹ | YES | Separate Publication |
| Economic impacts | | |
| Competition | NO | |
| Small firms | NO | |
| Environmental impacts | | |
| Greenhouse gas assessment | NO | |
| Wider environmental issues | NO | |
| Social impacts | | |
| Health and well-being | NO | |
| Human rights | NO | |
| Justice system | NO | |
| Rural proofing | NO | |
| Sustainable development | NO | |

¹ 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 2012/13 prices

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|------------------------------|---------|---------|---------|---------|
| Transition costs | | | | |
| Annual recurring cost | | 115 | 245 | 405 |
| Total annual costs | | 115 | 245 | 405 |
| Transition benefits | | | | |
| Annual recurring | | 115 | 245 | 405 |
| Total annual benefits | | 115 | 245 | 405 |

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

Evidence Base

Policy Rationale

1. The background to the reform of Local Housing Allowance 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 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 welfare reforms announced in the June 2010 Budget and the 2010 Spending review will enable a greater proportion of expenditure to be spent on services and ensure that the poorest families are not trapped in a cycle of dependency.
2. Originally Local Housing Allowance 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 a monthly basis. Basing growth in Local Housing Allowance rates on CPI inflation will build on the reforms introduced in 2011 to ensure that rates cannot continue to rise without restraint. Under the proposed changes all Local Housing Allowance rates in Great Britain will be set annually on a common date and will apply for the whole of the following year.
3. The proposed changes will move toward providing a fairer and more sustainable Housing Benefit scheme which will help address the disincentives to work inherent in the current system.

Estimating Costs and Benefits

Fiscal impacts

4. The benefits relate to the estimated savings to the Exchequer arising from reduced Housing Benefit spending.
5. The estimates are based on the forecast HB LHA caseload for 2013 of around 1.4 million, and the difference between the forecast growth in LHA rates and the CPI from 2013/14. It is assumed that without this measure rent growth would drive annual growth in Local Housing Allowance rates at 4% on average; CPI inflation is assumed to be as forecast by the Office for Budget Responsibility at the 2012 Budget.
6. Over the last couple of years the relevant CPI inflation figure has been relatively high, but over the preceding decade it averaged around 2%, and the Office for Budget Responsibility expect it to return to around the 2% target level over the next two years.
7. The counterfactual assumption of 4% growth is consistent with the underlying forecasts of Housing Benefit expenditure. The Department for Communities and Local Government private rents index grew by around 4% a year, averaged over 2000 to 2007,² and over the medium term rents would be expected to grow faster than prices.

²<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/rentslettings/livetables/>

8. The scale of realised savings will be sensitive to any variations in the actual growth in LHA rates and the CPI. In local areas, the extent of notional losses will in practice depend on movements in local rental markets.
9. No behavioural impact 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 £400m in 2014/15 (real terms, 2012/13 prices).

Impacts on individuals

10. 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.
11. 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.
12. For claimants whose rent is at or above the LHA rate, by 2014/15 their award will be on average around £6 per week lower than would have been the case without this measure. This static impact is sensitive to trends in rent levels and the Consumer Price Index. For this reason it is not possible to provide estimates on the distribution of losses.
13. In financial terms the cost to individuals is equivalent to the benefit to the taxpayer set out in paragraph 7 above.
14. The move to annual rates will give claimants greater certainty over their Benefit entitlement. Annual rates will be set well in advance of each April when they will take effect, whereas monthly rates regularly fluctuate and are only known a few weeks before they take effect.

Illustrative examples of the effect on individual claims

15. The following examples illustrate how this will affect Local Housing Allowance claimants in the first year. In each case, for simplicity, a Local Housing Allowance rate of £100³ is assumed, with growth in local rents at 4% and CPI inflation at the Bank of England target of 2%.
16. *Example 1: Weekly rent is equal to the Local Housing Allowance 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 with CPI inflation to only £102, and the claimant would face a weekly shortfall of £2pw
17. *Example 2: Weekly rent is equal to Local Housing Allowance and landlord tracks the LHA rate.*
In this example the LHA rate increases to £102 per week, and the landlord accepts this as the going rate. Both the rent and the LHA rate are lower than in the counterfactual and the claimant does not face any shortfall. Benefit

³ The figure of £100 is assumed for clarity, and is roughly the average one-bedroom LHA rate in Great Britain.

expenditure is controlled, with the landlord bearing the cost rather than the claimant.

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

The claimant starts with a rent of £120pw, so faces a £20 weekly shortfall. In the counterfactual, both rent and Local Housing Allowance increase by 4%, to £125 and £104, and the shortfall rises to £21.

Under CPI uprating, the LHA rate is only £102, meaning that the weekly shortfall, is £2 larger at £23.

19. *Example 4: Weekly rent is below the Local Housing Allowance 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 £94, which is still below the new LHA rate of £102, so the full rent is still eligible for Housing Benefit, and neither claimant nor landlord see any difference.

Impact on landlords

20. Uprating the Local Housing Allowance rates by CPI 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 the rate of inflation and therefore incur additional costs in rent collection and managing tenancies. In the longer term some landlords could choose not to continue renting to Housing Benefit tenants if the rate of return is not sufficient. In particular, in those areas where landlords let predominantly to Housing Benefit tenants and other demand is not high, landlords may accept lower rent increases in line with CPI.
21. However, landlords will also have more clarity over LHA rates and can plan accordingly.

Mitigation

22. Separate changes to the Local Housing Allowance will allow landlords to receive payment of housing benefit directly to them 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 Local Housing Allowance rate to Housing Benefit tenants.

Wave 20 of the Local Authority Omnibus⁴ survey found that Housing Benefit managers say that some landlords use the transparency of the arrangements to raise rents to the Local Housing Allowance level. Awards of Housing Benefit for tenants assessed under the Local Housing Allowance 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.

⁴ <http://statistics.dwp.gov.uk/asd/asd5/rports2009-2010/rrep671.pdf>

Annex 1: Post Implementation Review (PIR) Plan

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| <p>Basis of the review:</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>Review objective:</p> <p>To assess whether the CPI measure achieves the broad objectives set out in the Impact Assessment and the scale of the knock-on impacts.</p> |
| <p>Review approach and rationale:</p> <p>A mixture of approaches will be used including a range of internal data analysis and work with external organisations.</p> |
| <p>Baseline :</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>Success criteria :</p> <p>Criteria will include indicators such as Housing Benefit expenditure, rent and caseload trends, work incentives, homelessness as well as wider economic impacts outlined in this document.</p> |
| <p>Monitoring information arrangements:</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, expenditure and rents. The review will assess impacts on work incentives from survey data such as the Family Resources Survey, 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>Reasons for not planning a PIR:</p> <p>n/a</p> |