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REPORT BY THE
COMPTROLLER AND
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Department for Work and Pensions

Managing the impact of Housing Benefit reform

Summary

- 1** Housing Benefit helps those on a low income in Great Britain to pay all or part of their rent. It supported 5.0 million households in May 2012. Around 3.4 million of these households were in the social rented sector, mostly as tenants of local authorities and housing associations. The remaining 1.6 million rented from private landlords.
- 2** In 2011-12 real expenditure on Housing Benefit totalled £23.4 billion, 14 per cent of total benefit expenditure by the Department for Work and Pensions (the Department). Expenditure on Housing Benefit increased by 54 per cent in real terms between 2001-02 and 2011-12.
- 3** The amount of Housing Benefit a household receives depends on their personal circumstances and where they live. Claimants in receipt of certain other benefits such as income-based Jobseeker's Allowance have an automatic entitlement. Other claimants must undergo a separate means test. Claimants in the social rented sector usually have their rent paid in full. Those living in private rented accommodation receive support determined by Local Housing Allowance rates that reflect local rent levels. In March 2012 households received an average weekly payment of £77 per week in the social sector and £107 per week in the private sector.
- 4** The Department is responsible for Housing Benefit policy, setting of entitlement rules and informing local authorities of these rules. It also makes available personal data for other benefits, funds Housing Benefit, and provides guidance and advice. Local authorities undertake the day to day administration of Housing Benefit. In 2011-12 the Department provided combined funding of £546 million to local authorities to administer Housing Benefit and Council Tax Benefit.
- 5** Housing Benefit for social sector tenants is generally paid directly to housing providers. Claimants in the private rented sector receive Housing Benefit payments directly unless there are specific circumstances, such as where the local authority considers that the tenant is likely to have difficulty managing their affairs, or if it is improbable that they will pay their rent. Around 29 per cent of private sector claimants have payments made directly to their landlords.
- 6** As part of the measures announced in the emergency budget in June 2010 and the Spending Review of October 2010, the Government announced changes to Housing Benefit which aimed to reduce annual expenditure by around £2.3 billion. These include reductions to Local Housing Allowance rates for private rented sector claimants and deductions in payments to social sector tenants in under-occupied homes. From April 2013 the Government is also introducing a cap on the total amount of benefit that working age people can receive. The cap will be administered through reductions in Housing Benefit payments until the introduction of Universal Credit.

7 **Figure 1** summarises the reforms discussed in this report. A more detailed explanation of the changes to Housing Benefit can be found in Appendix Three.

8 Housing Benefit reforms are taking place in a context of major spending reductions and welfare reforms. From October 2013 the Department will introduce Universal Credit to replace several mainly working age benefits. The Department will administer the housing component of Universal Credit, and local authorities will phase out their role in the administration of Housing Benefit. The Department is proposing to increase direct payments of housing support to tenants rather than landlords.

Figure 1
Summary of Housing Benefit reforms

Change	Description	From	Private tenants	Social tenants
LHA – Caps	National cap on LHA rates for each size of dwelling to remove very high rates in high rent areas.	April 2011	✓	✗
LHA – Excess	Removal of rule allowing claimants to keep up to £15 of benefits if rent is below LHA rate.	April 2011	✓	✗
LHA – Benchmark	Rates to be set at 30th percentile of local rents rather than 50th percentile (superseded by uprating changes).	April 2011	✓	✗
LHA – Shared accommodation	Shared accommodation rate to apply to single people between ages of 25 and 34 years.	January 2012	✓	✗
LHA – Uprating	Annual uprating of rates by the Consumer Price Index or the 30th percentile of local market rents if this is lower.	April 2013	✓	✗
Social sector size criteria	Households assessed to be under-occupying their accommodation will have their entitlement reduced by 14 per cent or 25 per cent depending on whether the under-occupation is by one-bedroom or two bedrooms or more.	April 2013	✗	✓
Non-dependant deductions	Freeze since April 2001 removed for non-dependant deductions from Housing Benefit and Council Tax Benefit.	April 2011	✓	✓
Overall benefit cap	Total household benefit payments to be capped at £500 per week for a family and £350 per week for a single person and applied through reductions in Housing Benefit until Universal Credit is introduced.	April 2013	✓	✓

NOTE

1 Abbreviation: LHA - Local Housing Allowance

Source: National Audit Office summary of departmental publications

The scope of this report

9 Achieving savings in Housing Benefit will mean that households receive less in benefits, creating hard choices about how to reduce expenditure. Although these choices are largely set by Government policy, the Department has a crucial role in anticipating and managing the impact of reforms on claimants and the administration.

10 The Department is still in the process of implementing reforms. At this early stage the Department has undertaken impact assessments for reforms and put in place support to smooth the transition for claimants. The Department also has plans to evaluate impacts further over time.

11 The Department faces significant possible complications from household behaviour change and impacts on broader housing markets. This report therefore considers how the Department is positioned to tackle the challenges for implementation and in particular how it has:

- Assessed the impacts of Housing Benefit reforms on claimants and public spending and taken steps to improve its understanding of impacts over time (Part One).
- Put in place support for claimants to mitigate uncertain adverse consequences (Part Two).
- Planned for future risks arising from reforms, particularly as a result of interactions between Housing Benefit and the wider system of housing support (Part Three).

12 The report does not evaluate the merit of the reforms themselves. Our findings are based on a review of existing assessments by the Department supported by interviews and additional analysis where required. A more detailed explanation of our methodology can be found in Appendices One and Two.

Key findings

Assessing the impact of reforms

13 The Department expects Housing Benefit reforms to save £2.3 billion a year by 2014-15. In the absence of reforms the Department forecasts Housing Benefit spending to rise to £23.9 billion in real terms by 2014-15. The Department expects that as a result of reforms real expenditure on Housing Benefit will fall to around £21.6 billion by 2014-15, saving around £2.3 billion per year (paragraphs 1.3 to 1.6).

14 The Department has estimated the direct impacts of reforms on households' existing entitlements. The Department has used benefit data and family resources survey data to produce and publish estimates of how benefit entitlements would change for different households as a result of the reforms. For the most part the Department's impact assessments have adjusted for the cumulative effect of the reforms and avoided double counting (paragraphs 1.10 to 1.14).

15 Reforms will result in around two million households receiving lower benefits, with a smaller number of households receiving substantially less. The Department's impact assessments estimate that 1.4 million claimants in the private rented sector will be affected by changes to Local Housing Allowance. Around 85 per cent of households will lose £15 or less. Claimants with large numbers of children and those living in high rent areas such as London will be most affected. In the social rented sector, 660,000 claimants with one or more extra bedrooms could lose between 14 and 25 per cent of their Housing Benefit (an average loss of £14 a week). The overall benefit cap will affect 56,000 households losing on average £91 per week (paragraphs 1.7 to 1.9).

16 The Department's impact assessments are necessarily narrowly focused at this stage and do not reflect the full scale of potential impacts from the reforms. The Department's impact assessments openly recognise the limitations of estimating the direct impact of reforms on entitlements. The full impact of reforms will depend on the responses of households and the broader housing market. These behavioural responses are highly uncertain and could be both positive, for example if employment increases, or negative, for example if homelessness increases. Given the uncertainty around responses the Department has commissioned independent research to evaluate the impact of reforms after implementation. Initial survey findings were published in summer 2012, an interim report is due in early 2013 and the final report is due in early 2014 (Figure 5 on page 17 and paragraphs 1.21 to 1.22 and 1.26).

17 Reforms are placing additional administrative burdens on local authorities and could lead to risks for effective implementation. Local authorities currently receive notifications from the Department of changes to claimant circumstances via the Automated Transfers to Local Authority Systems (ATLAS). The system has helped to reduce overpayments but volumes of notifications are very high as even small changes in circumstances trigger notifications. Volumes are likely to increase further under the reforms, placing a large administrative burden on local authorities. The Department is still developing estimates of the administrative cost of reforms (paragraphs 1.17 to 1.19).

Supporting claimants

18 The Department is phasing in some reforms to give existing claimants time to prepare. Most reforms to Local Housing Allowance are being phased in to give existing claimants time to adjust to their new entitlement. In some cases claimants may have up to 21 months after introduction of the reform before changes take effect (paragraph 2.3).

19 Many people know very little about the changes to housing support and communication of changes to claimants has been variable. The Department has sent letters to inform affected households about the financial implications of entitlement changes under the benefit cap. Communicating other changes to Housing Benefit is currently the responsibility of local authorities. The Department has worked with them to publicise the nature of benefit reforms by providing guidance, standard letters, factsheets and responses to frequently asked questions which local authorities are free to use or amend. It also provides supporting tools, such as online calculators for the overall benefit cap and Local Housing Allowance. Communications to claimants vary depending

on where they live and changes could be confusing for claimants affected by multiple reforms. Awareness remains low; surveys of private rented sector respondents carried out between September 2011 and November 2011 found that 87 per cent knew not very much or nothing at all about the changes that will affect them (paragraphs 2.4 to 2.6).

20 The Department has anticipated the need to put in place additional funding to support claimants. Over the Spending Review period the Department has set aside up to £390 million of funding for Discretionary Housing Payments for local authorities to tackle transitional consequences of reforms. Funding can also be topped up by local authorities. It is not clear how the overall level of funding has been determined or whether it is likely to be sufficient to tackle the effects of reforms. The total amount represents six per cent of the total savings expected from the Housing Benefit reforms over the Spending Review period, or around £200 per household affected (paragraphs 2.11 and 2.14 to 2.18).

Planning for future challenges

21 Reforms will put pressure on the supply of affordable local housing. From April 2013 Local Housing Allowance limits will be updated to the new 30th percentile of local rent levels or if lower by the Consumer Price Index (CPI). The introduction of the CPI into the calculation could lead to shortages in many local authority areas of private rented accommodation with rents at or below Local Housing Allowance rates. Downward pressure on rents or increased employment would mitigate the impact, but on current trends 36 per cent of local authority areas in England could face shortfalls by 2017 (paragraphs 3.3 and 3.4).

22 Housing market effects present a major challenge for local authorities and other stakeholders. Shortfalls in housing supply could lead to migration between areas, administrative complexity and higher demand for Discretionary Housing Payments and other services provided by the Department and other stakeholders. Changes to rules on social sector under-occupation may simultaneously exacerbate shortages of smaller social housing. While predicting impacts with any certainty may not be possible, simple leading indicators could be monitored to gauge the level of pressure on households. The Department has no process to review the level of funding and support it gives to local authorities as a result of housing market impacts. The Department plans to monitor divergences between the rates and rents in each area so it can intervene in the setting of Housing Benefit limits if local rents become seriously out of reach of most benefit claimants (paragraphs 3.7 to 3.10 and 3.14 to 3.15).

Conclusion

23 The Department has adopted an active approach in preparing for the implementation of Housing Benefit reform. It has used available data to assess the impact of reforms on current entitlements and has been open about the need to evaluate the impacts that might arise from household behaviour and administrative reform. The Department has also put in place a range of support for claimants through the implementation of reforms.

24 The Department has plans in place to improve its understanding of impacts and is working with local authorities to identify administrative costs and funding requirements. It clearly has further ground to cover in: helping to raise awareness of the effect of the reforms on claimants; improving systems of delivering information to local authorities; and developing a set of leading indicators. We see the main ‘unplanned’, and perhaps ‘un-plannable’, challenges facing the Department as being those areas where the interaction of local authority funding capacity constraints, social housing stock, rental market conditions and the local economy may produce extreme impacts. The Department’s response will need to be flexible and coordinated well with other sources of support.

Recommendations

25 We recognise that housing support is a complex area and that the Department is undertaking additional research into the impacts of reforms. To support the Department in introducing reforms effectively and with minimal adverse consequences for claimants we recommend that the Department should:

a **Improve the information available to claimants on likely entitlement changes in order to raise awareness.**

- Early awareness of the extent of changes to benefits would help households to prepare for reforms and smooth the demand for advice and support.
- The Department has worked with local authorities, housing associations, and claimant groups to communicate changes. It considers that local targeting and face-to-face initiatives such as drop-in sessions are likely to be more effective than simply relying on websites and national campaigns. Even so they have so far struggled to raise awareness.
- Some local authorities publicise all reforms on their websites while others do not. The Department should work with local authority stakeholders to identify the most appropriate mode and timing of communication materials and activity, and identify and utilise synergies and good practice.

- A letter highlighting the scale of monetary change from all reforms would help convey the personal impact of the reforms to claimants, and reduce the need for separate correspondence for each reform. The Department does not have the systems to provide a clear statement of the total monetary change in benefits. It also has concerns that providing claimants with an assessment of possible benefit entitlement may simply mislead or confuse because a statement may be out of date by the time change happens.
- The Department provides online tools for households to estimate the impact of some but not all of the reforms. It concluded that it would be difficult to build a calculator for the social size criteria because the calculation is not straightforward. Nonetheless, including social sector size criteria and non-dependent deductions in online calculators could better help customers to plan their finances and identify potential errors and complex cases.

b Review the burdens and risks of implementing reforms using current administrative systems.

- The volume of changes to claims could place a high administrative burden on local authorities. The Department has allowed more time than usual for preparatory work and worked with housing associations to provide local authorities with information about tenants who will be affected.
- Readiness testing of some local authorities could help identify problems before social sector changes take place.

c Establish a clear process for reviewing the level, allocation and monitoring of Discretionary Housing Payment funding.

- The Department has increased funding for Discretionary Housing Payments as a flexible short-term measure to support implementation of reforms.
- Accurately predicting the level of funding needed is difficult because it is highly challenging to determine levels of need before the introduction of reforms. The Department is reviewing its arrangements for Discretionary Housing Payments. A robust and transparent process is needed for reviewing whether the level of funding allocated to local authorities should be increased or decreased to reflect actual levels of need.

d Work with the Department for Communities and Local Government and local authorities to monitor the effect of reforms and develop the capacity for responding flexibly to impacts resulting from housing market interactions.

- The Departments have a joint programme of evaluation in place to assess the impacts of reforms.
- In the meantime reforms could create significant pressures on local authorities in managing the supply and demand for affordable housing. The Departments have compared supply and demand of different property sizes to identify imbalances at the national level but not at regional levels.
- Leading indicators of pressures on housing affordability (such as rent levels and homelessness data) should complement periodic evaluation; analysis of housing shortfalls across local authorities could help to identify local risks. The Department should consider how best to work with other stakeholders to tackle issues as they emerge, including where responsibilities lie.

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CORRECTION

Paragraph 21 (page 9) of the report was produced in error.

The report incorrectly states that on current trends 48 per cent of local authority areas in England could face shortfalls by 2017. The correct value is 36 per cent.

Please see the corrected paragraph below:

21 Reforms will put pressure on the supply of affordable local housing. From April 2013 Local Housing Allowance limits will be updated to the new 30th percentile of local rent levels or if lower by the Consumer Price Index (CPI). The introduction of the CPI into the calculation could lead to shortages in many local authority areas of private rented accommodation with rents at or below Local Housing Allowance rates. Downward pressure on rents or increased employment would mitigate the impact, but on current trends 36 per cent of local authority areas in England could face shortfalls by 2017 (paragraphs 3.3 and 3.4).

Paragraph 3.4 (page 29) of the report was produced in error.

The report incorrectly states that on current trends 48 per cent of local authority areas in England could experience a shortfall by 2017. The correct value is 36 per cent.

Please see the corrected paragraph below:

3.4 The speed and extent of shortfalls could be significant. **Figure 13** overleaf takes historic trends for rent increases and shows over time how many local authorities would have enough two bedroom private rented accommodation at rents below the Local Housing Allowance rate to house half of local claimants. On current trends 36 per cent of local authorities in England could experience a shortfall by 2017, in that they would have more than twice as many claimants as 'affordable' two bedroom homes.

Figure 13 (page 30) of the report was produced in error.

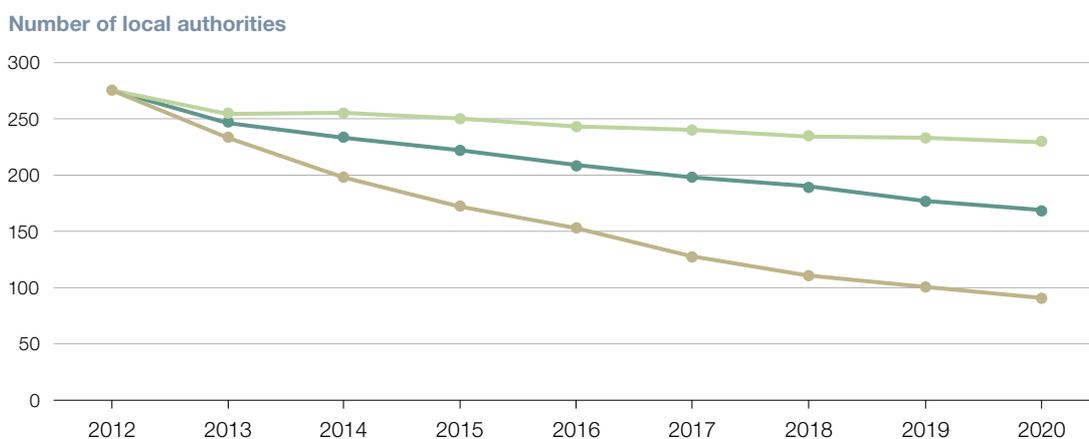
The report incorrectly states the number of local authorities where “affordable” two bedroom housing meets the needs for 50 per cent of claimants for Local Housing Allowance at the two bedroom rate during the period 2012 to 2020. The correct values reduce over this period from 275 to 229 for the upper case, to 169 for the central case and to 91 for the lower case.

Please see the corrected figure below:

Figure 13

Illustration of the effect of uprating Local Housing Allowance by the Consumer Price Index rather than local rents

Number of local authorities where ‘affordable’ two bedroom housing meets needs for 50 per cent of claimants for Local Housing Allowance at the two bedroom rate



	2012	2013	2014	2015	2016	2017	2018	2019	2020
● Upper case	275	254	255	250	243	240	234	233	229
● Central case	275	246	233	222	209	198	190	177	169
● Lower case	275	233	198	172	153	128	111	101	91

NOTES

- 1 'Affordable' is defined here as having rents below the rate of Local Housing Allowance. The analysis shows how many local authorities would have more than twice as many claimants as dwellings. Around half of claimants claim the full rate of Local Housing Allowance. The 2:1 ratio therefore indicates when local authorities have insufficient accommodation for claimants on 100 per cent of the Local Housing Allowance rate.
- 2 Central case assumes: national historic trends for average rent inflation and housing stock growth; Department forecasts of average annual claimant growth for Local Housing Allowance; local variation in rent inflation compared to national average is based on Valuation Office Agency sample data. The modelling supposes that the Valuation Office Agency's data are representative of rent distributions across the entire private rented sector.
- 3 The upper case scenario assumes that overall rent inflation and claimant growth are one percentage point lower per annum than in the central case, and housing growth is one percentage point higher. The lower case scenario makes the opposite assumptions.

Source: National Audit Office analysis

Paragraph 3.5 (page 30) of the report was produced in error.

The report incorrectly states that in the upper case by 2017 30 per cent of local authorities in England are likely to have less “affordable” private rented two bedroom accommodation than claimants of the full Local Housing Allowance. The correct value is 23 per cent.

Please see the corrected paragraph below:

3.5 Our analysis also takes into account how positive household and market responses might mitigate the effects of uprating. The upper case in our analysis assumes lower rent and claimant growth and higher housing growth than historic trends. In this case the effect is less extensive and by 2017 23 per cent of local authorities in England are likely to have less ‘affordable’ private rented two bedroom accommodation than claimants of the full Local Housing Allowance.

Paragraph 8, second bullet point (page 42) of the report was produced in error.

The report incorrectly states that our model estimates that if all dwelling stock were available to claimants, the proportion of local authorities that could experience a shortfall would be up to 6 percentage points less than our central case estimate of 48 per cent by 2017. This assertion is withdrawn.

Please see the corrected paragraph below:

- The number of two bedroom properties in the privately rented market sector is derived from the number of households privately renting as recorded in the ONS 2011 Census. We checked the figures against the number of dwelling stock in the privately rented market as reported by the Department for Communities and Local Government. Dwelling stock data also includes accommodation used for a job or business, vacant dwellings and second homes. Therefore it tends to be higher than the number of private rented sector properties recorded by the ONS.