



National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL

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Department for Work and Pensions

Managing the impact of Housing Benefit reform

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National Audit Office

Department for Work and Pensions

Managing the impact of Housing Benefit reform

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

26 October 2012

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Contents

Key facts 4

Summary 5

Part One

Assessing the impact of reforms 13

Part Two

Supporting claimants through reforms 22

Part Three

Planning for future challenges 29

Appendix One

Our audit approach 34

Appendix Two

Our evidence base 36

Appendix Three

Reforms to Housing Benefit 38

Appendix Four

Modelling the impact of uprating 40

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This report can be found on the National Audit Office website at www.nao.org.uk/housing-benefit-2012

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Key facts

£23.4bn

Housing Benefit spending
in real terms in 2011-12

5.0m

households receiving
Housing Benefit

£2.3bn

forecast saving from
reforms in 2014-15

54 per cent increase in real expenditure on Housing Benefit between 2001-02 and 2011-12

£23.9 billion projected Housing Benefit spending in real terms in 2014-15 without reforms

£21.6 billion projected Housing Benefit spending in real terms in 2014-15 after reforms

1.4 million households who could be affected by changes to Local Housing Allowance rules by 2014-15

56,000 households affected by the overall benefit cap by 2014-15

£390 million central government funding for Discretionary Housing Payments between 2011-12 and 2014-15

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 48 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.

Part One

Assessing the impact of reforms

1.1 Reducing spending on Housing Benefit raises difficult questions about the distribution of cuts and the impacts that reforms have on households. The Department for Work and Pensions (the Department) has a critical role in estimating and monitoring these impacts to understand and address adverse consequences.

1.2 This Part looks at the Department's estimates of the savings from Housing Benefit reforms and the distribution of impacts on claimants. It also covers what the Department's impact assessment includes or excludes; and how the Department works to better understand the likely impacts and the risks for households and public spending.

Reforms are expected to save £2.3 billion per year by 2014-15

1.3 In 2011-12 real expenditure on Housing Benefit totalled £23.4 billion, of which 60 per cent (£14 billion) went to the social rented sector and the remainder (£9.4 billion) to the private rented sector. This represented an average payment of £77.20 per week in the social sector and £107.20 per week in the private sector. Total expenditure on Housing Benefit in 2011-12 represented 14 per cent of total benefit expenditure by the Department.

1.4 Total expenditure on Housing Benefit increased by 54 per cent in real terms between 2001-02 and 2011-12. This increase was largely due to increases in the number of claimants in the private sector. Rents in the private sector also increased above inflation. Expenditure on the private rented sector rose by 155 per cent, while the number of claimants increased by 118 per cent. In the social rented sector expenditure increased by 21 per cent while claimant numbers increased by 7 per cent.

1.5 The reforms to Housing Benefit and the overall benefit cap are expected to save £2.3 billion in 2014-15, the final year of the current Spending Review period (**Figure 2** overleaf). Over this period the combined target savings total is £6.2 billion.

Figure 2

Target savings from reforms implemented from 2011-12

£ million (stated in 2012-13 prices)

Reform	2011-12	2012-13	2013-14	2014-15	Total for Spending Review 2010 period
Local Housing Allowance reforms	385	832	1,257	1,299	3,773
Social sector size criteria			480	466	946
Non-dependant deductions	129	225	313	323	990
Overall benefit cap			270	261	531
Total	514	1,057	2,320	2,349	6,240

NOTE

1 Figures are adjusted for 2012-13 prices using the GDP deflator recommended by HM Treasury.

Source: Budget June 2010, the Department's impact assessment 23 July 2010 and Spending Review October 2010

1.6 The Department does not expect the cost of Housing Benefit to fall in absolute terms despite the reforms. The Department's forecasts indicate that spending on Housing Benefit will fall to around £21.6 billion by 2014-15. Savings are calculated against projected increases that would have occurred without reforms and led to total Housing Benefit spending in 2014-15 of £23.9 billion.

Over two million households will be affected by reforms

1.7 The Department's estimates show that at least two million households (around 40 per cent of total Housing Benefit households) will be affected by reforms. Most private rented sector tenants will be affected by changes to the inflation measure for Local Housing Allowance while 660,000 social sector households could be affected by the social sector size criteria affecting under-occupation. Already by 2011-12 the Department estimates that nearly one million households in the private rented sector have been affected. **Figure 3** summarises the impact of each reform.

Figure 3

Summary of Housing Benefit impact assessments by the Department

Change	Households affected	Average weekly loss (£)	Claimants particularly affected financially
LHA – Caps	21,000	74	London and South East; those on three and four bedroom rates
LHA – Excess	438,000	11	Those on four and five bedroom rates
LHA – Benchmark	775,000	9	London; those on four and five bedroom rates
LHA – Shared room	63,000	41	Single males between 25 and 34 years not in work
LHA – Uprating using the Consumer Price Index	1,400,000	5	Tenants in areas with high rent inflation
Social sector size criteria	660,000	14	London; couples aged under 60 without children
Non-dependant deductions	300,000	20	Those with more non-dependants
Overall benefit cap	56,000	91	London; those with three or more children

NOTES

- 1 Abbreviation: LHA – Local Housing Allowance
- 2 Households affected is 2011-12 for non-dependant deductions and the following LHA changes: Caps, Excess and Benchmark; 2013-14 otherwise. Figures have been rounded to the nearest thousand.
- 3 Average loss from uprating by the Consumer Price Index is based on expected savings of £665 million in real terms by 2014-15. Estimates will be sensitive to any variations in the actual growth in LHA rates and the CPI.
- 4 The combined LHA reforms (excluding uprating using CPI) affect 970,000 households.

Source: National Audit Office analysis of impact assessments prepared by the Department for Work and Pensions

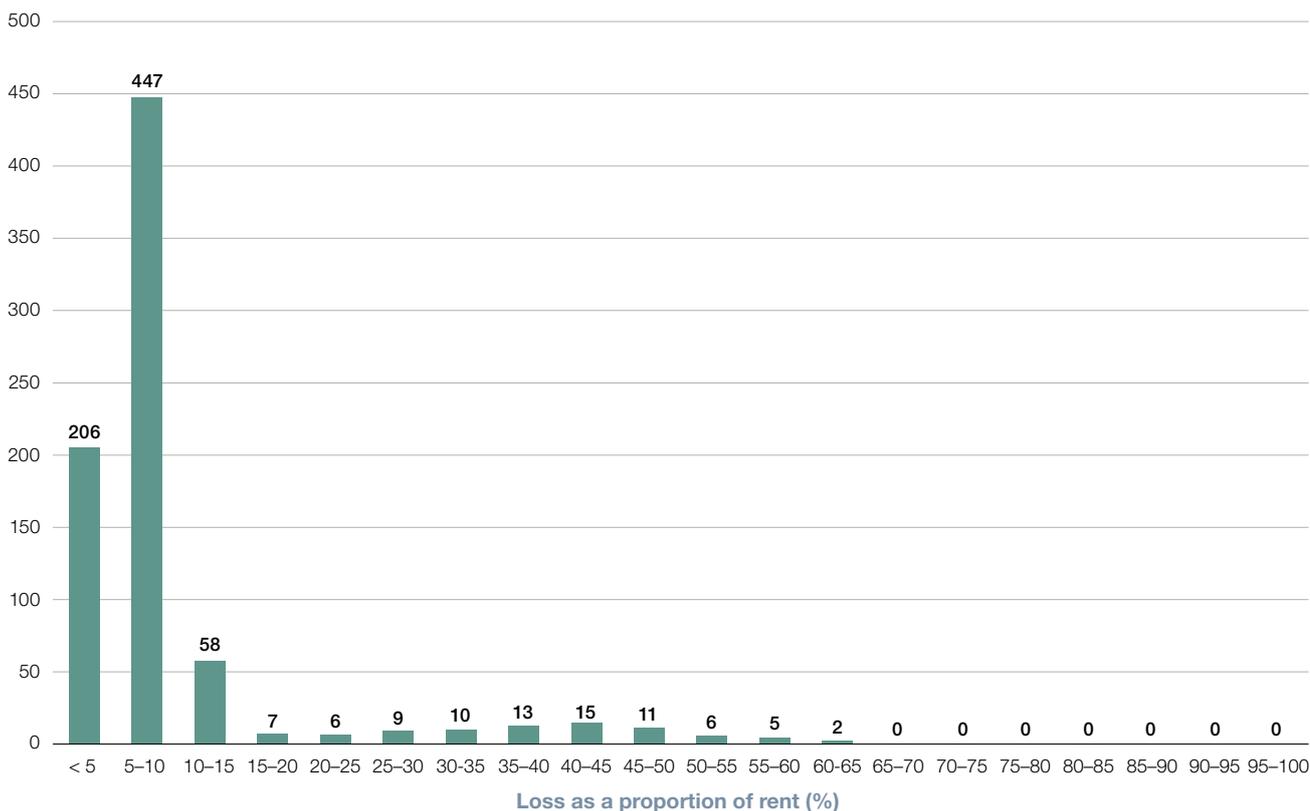
1.8 A large number of households are expected to experience small reductions in their current entitlements. Around 85 per cent of reductions resulting from changes to Local Housing Allowance will be of £15 or less. **Figure 4** overleaf shows that most households will lose less than 10 per cent of their total rental cost.

1.9 A small number of households could experience very large reductions in their entitlements. These include large families living in high rent areas who could be subject to the overall benefit cap or caps on the rates of Local Housing Allowance. The Department estimates that up to 13,000 households could experience a weekly fall in benefits of £100 or more.

Figure 4

Around 80 per cent of households receiving Local Housing Allowance will lose less than 10 per cent of household rent

Number of households affected (000s)



NOTE

1 Excludes loss of £15 excess and effect of uprating by Consumer Price Index.

Source: National Audit Office analysis of Department for Work and Pensions data

The Department’s current impact assessments only account for the direct impacts on current benefit entitlements

1.10 The Department has undertaken six impact assessments for the reforms to Housing Benefit being implemented between April 2011 and April 2013. We reviewed the most recent impact assessments for the reforms and assessed the extent to which impact assessments included: direct impacts on current claimant entitlements; interactions with other departmental reforms (to avoid double counting); impacts on administrative costs; responses by claimants to changes in benefit levels; and assessment of uncertainties (**Figure 5**).

Figure 5

National Audit Office review of the Department's impact assessments

Impact assessment	Direct impacts on current entitlement	Interactions with other reforms	Impacts on administrative costs	Responses by claimants to changes in benefit levels	Assessment of uncertainty
Changes to LHA arrangements	✓✓	✓	~	~	~
LHA – Uprating using CPI	✓	✓	X	X	X
Social sector size criteria	✓✓	X	X	~	✓
Overall benefit cap	✓✓	X	X	X	~

✓✓ Quantified and distributional effects analysed

✓ Quantified

~ Described but not quantified

X Not included in assessment

NOTES

1 Abbreviations: LHA – Local Housing Allowance; CPI – Consumer Price Index

2 The impact assessment for the overall benefit cap took account of all reforms except for the social sector size criteria when estimating expected savings.

Source: National Audit Office analysis

1.11 The Department's impact assessments cover the direct impacts on current claimant entitlements, but do not include estimates for other major impacts, administrative costs, or the further impacts on claimants resulting from how they respond to changes in benefit levels.

1.12 The Department has undertaken a thorough assessment of direct impacts on claimant entitlements, including disaggregating impacts by region or household size.

1.13 For the most part the Department's impact assessments also accounted for the cumulative effect of the reforms on estimates of savings. For example, estimates of savings from the uprating of Local Housing Allowance using the Consumer Price Index were built on estimates of savings from other reforms.

1.14 The estimated impact from the benefit cap does not account for overlap with the social sector size criteria reforms. In the Department's judgement the scale of double counting is likely to be small because large families are unlikely to be under-occupying their accommodation. The Department also stated that available data did not support a robust analysis of the overlap in this case given the small number of households affected by the benefit cap.

Administration costs could be significant for local authorities

1.15 The Department's estimated savings of £2.5 billion do not take account of the administrative costs of making changes or additional running costs to administer Housing Benefit. The Department has acknowledged the need to take account of the administrative costs or savings for local authorities.

1.16 The Department has identified the types of administrative burden that may arise from reforms and is in the process of estimating the cost implications. The Department intends to provide some funding for new burdens but the amounts are still to be determined. Local authorities will be expected to meet costs relating to the additional provision of existing services such as support and advice on applications.

1.17 The Department has increased the automation of data sharing with local authorities. It uses a system known as Automated Transfers to Local Authority Systems (ATLAS) to notify them of changes to household entitlements as a result of reforms. Local authorities need the information to update Housing Benefit and Council Tax Benefit records and reduce the number of incorrect payments. The Department estimates that daily notification of changes will save around £750 million in incorrect payments. It has provided guidance and consultancy support to help local authorities achieve the benefits.

1.18 Local authorities receive a total of around 20 million notifications a year. Notifications about changes in circumstances and entitlements are likely to increase, for example, because local authorities will now need to know when households exceed the overall benefit cap. Local authorities also expect a temporary spike in notifications while reforms are being implemented.

1.19 Some local authorities are receiving high volumes of these notifications and reporting difficulties in managing them. At the moment levels of automation vary across local authorities. The Department has issued guidance to help local authorities achieve the system benefits and is providing consultancy support to help local authorities get to steady state on ATLAS delivery.

1.20 The Department has been working with local authorities to help manage the additional workload likely to arise from the social sector size criteria reform. It has allowed more time than usual for preparatory work by making information available to local authorities nine months in advance of the change. It has also worked with housing associations to provide local authorities with information about tenants who will be affected.

Behavioural responses are highly uncertain and could have large impacts on households and public spending

1.21 The Government intends that reforms to Housing Benefit should improve incentives to work and lead to positive change for claimants. Reforms could also lead to hardship for claimants or increased risk of homelessness. These behavioural responses are potentially significant but are highly uncertain and difficult to predict.

1.22 The Department's impact assessments did not attempt to model the possible behavioural responses of landlords and tenants. Interactions between Housing Benefit and broader housing reforms are complex and the Department concluded that robust analysis of household responses would be difficult to carry out in its impact assessments in advance of implementation.

1.23 Concern about the Housing Benefit reforms has centred on the responses of households and resulting impacts. **Figure 6** overleaf summarises some of the concerns that stakeholders have raised. Several of the issues raised with us by stakeholders and providers could interact with future changes to direct payments under Universal Credit. For example, greater pressure on households combined with reduced direct payments to landlords could result in increases in arrears and non-payment. The Department is running pilots in six areas to trial the direct payments process with tenants.

The Department has commissioned an evaluation to improve its understanding of household responses and impacts

1.24 The scale of the support the Department and local authorities need to provide will depend on how affected households react to the changes. At present there is little firm evidence of what options affected Housing Benefit claimants are taking.

1.25 To assess the impact of the reforms to Housing Benefit claimants in the private rental sector the Department, in association with the Scottish Government, Welsh Government and the Department for Communities and Local Government, has commissioned independent research to assess the extent to which the reforms are starting to induce behaviour changes among landlords and tenants. The research will aim to understand the longer-term impact of Local Housing Allowance reforms on new and existing claimants.

Figure 6
Stakeholder concerns about the consequences of reforms

Effect	Description of concerns
Where households move	
Reduced areas of affordability	The Cambridge Centre for Housing and Planning Research estimated that changes to Local Housing Allowance would reduce the proportion of London neighbourhoods affordable to claimants from 75 per cent to 51 per cent in 2011, and to 36 per cent by 2016.
Planning for local services	London Councils, which represents the interests of London local authorities, told us that significant uncertainties persist on the scale and pattern of movements by Housing Benefit households. The English Local Government Association expects a high proportion of movers to be from troubled families, who typically require higher levels of social care.
Increased need for services	London Councils is concerned that any displacement of impacted households could lead to localised pressures in services such as housing, social care and school places.
Impact on work opportunities	Housing Benefit reductions will apply to those in work as well as those out of work. Charities are concerned that claimants will have to move away from current and future work opportunities.
Where households do not move	
Debts	A third of households surveyed by the Housing Futures Network expect to fall into arrears because of the social sector size criteria reforms. Social landlords expect debts to increase and are planning for higher debt collection and borrowing costs. Saffron Housing Trust told us that the costs of chasing arrears and non-payment as a result of direct payments could be high. Citizens Advice has identified increases in other debt as a potentially greater problem than rent arrears among housing cases, as households appear to prioritise rent, at least in the short term.
Living standards	Charities and local authorities have expressed concerns that increased over-crowding as a consequence of the reforms will lead to longer term health and social issues. Citizens Advice has identified reduced spending on heating and food as a risk.
Homelessness	Homelessness has been increasing since 2010 putting pressure on existing budgets and services. London Councils believes the reforms are causing increased numbers of people to present themselves as homeless. Crisis reports it is becoming more difficult to rehouse homeless households, with some groups in particular (such as single under 35 year olds) particularly hard to place. Westminster Council says that it has been very challenging for local authorities in high value areas to identify affordable temporary accommodation to meet increased demand from homeless households on benefits and this has led to increased use of inappropriate bed and breakfast accommodation.

Source: National Audit Office interviews and published documents

1.26 The evaluation research programme runs from April 2011 until June 2013 and includes econometric analysis by the Institute for Fiscal Studies and spatial analysis. The programme will conduct surveys and qualitative research with landlords and claimants in 19 case study areas to pick up a wide range of local housing and labour market circumstances. The quantitative data cannot provide a statistically representative national picture. Preliminary surveys in autumn 2011 found that:

- Relatively few relevant claimants gave finance related reasons for moving home and hardly any mentioned cuts in benefits.
- Over a third of respondents who had moved while claiming Housing Benefit had faced difficulties finding accommodation.
- Over a quarter of claimants with a shortfall said they had looked for a job to make up the difference and about one in ten had looked for a better paid job to help make up the shortfall.
- Claimants' reluctance to consider moving to other areas appears to reflect a considerable attachment to their local area as a place to live.
- A considerably higher proportion of landlords with tenancies in the London case study areas were aware of the specific measures than landlords elsewhere.

1.27 The Department also plans to evaluate the impact of social sector size criteria reforms on the social rental sector once they have been introduced. A survey in autumn 2011 by Housing Futures Network, a social housing provider, of 452 under-occupying households found 25 per cent said they would be quite or very likely to downsize to a smaller property to escape the Housing Benefit reduction, with 50 per cent unlikely to do so. Just over a third thought they would fall into arrears.

Part Two

Supporting claimants through reforms

2.1 The Department has recognised the need to smooth the implementation of reforms for claimants and to provide support for households by:

- phasing in reforms to give households time to adjust to lower benefit levels;
- communicating changes to customers in advance; and
- providing additional financial support for local authorities to help households in particular difficulty.

2.2 Two particular challenges for the Department are to work in conjunction with local authorities to raise awareness among claimants as they prepare for changes and to determine an appropriate level of funding for local government. At the moment it is not clear that communications are translating to increased awareness of reforms or whether additional funding will meet the needs of local authorities.

The Department is phasing in some reforms to give existing claimants time to prepare

2.3 Some Housing Benefit reforms are being phased in to give existing claimants time to adjust to their new entitlement (**Figure 7**). In some cases claimants may have up to 21 months after introduction of the reform before changes take effect.

The Department and local authorities have forewarned claimants of changes to their benefits

2.4 The Department recognises the importance of communicating changes in Housing Benefit entitlements to customers so that they can plan ahead and make informed decisions about their future housing arrangements. It wrote to claimants in May 2012 to forewarn them that the overall benefit cap may affect them. The Department has set up a benefit cap calculator and a helpline for customers.

Figure 7
Start dates for reforms

Reform	Start date for new claimants	Start dates for existing Housing Benefit claimants depending on circumstances
LHA – Caps	1 April 2011	1 January 2012 – 31 December 2012
LHA – Excess	1 April 2011	1 April 2011 – 31 March 2012
LHA – Benchmark	1 April 2011	1 January 2012 – 31 December 2012
LHA – Shared room	1 January 2012	1 October 2012 – 30 September 2013
LHA – Uprating	1 April 2013	1 April 2013
Social sector size criteria	1 April 2013	1 April 2013
Non-dependant deductions	1 April 2011	1 April 2011
Overall benefit cap	1 April 2013	1 April 2013

NOTES

- 1 Abbreviation: LHA – Local Housing Allowance
- 2 The LHA cap, excess, benchmark and shared room reforms were phased in for existing claimants. The remaining reforms listed were applied immediately to existing claimants. The LHA uprating reform will be applied to rates frozen at 1 April 2012.
- 3 Phased reforms take effect nine months after the local authority next assesses the claimant's case following a change in circumstances.
- 4 If a claimant's circumstances do not change then the changes take effect on the anniversary of the claim. Where the anniversary is immediately prior to the start date of the reform then the claimant will have almost 21 months before the reform is applied.

Source: National Audit Office analysis of Department for Work and Pensions published statements

2.5 Nonetheless there is limited awareness of Housing Benefit reforms among claimants whose entitlement is covered by Local Housing Allowance rates. Surveys carried out between September 2011 and November 2011 found that only 13 per cent of respondents considered they knew a fair amount or a great deal, 31 per cent knew not very much about the changes that will affect them and 56 per cent said they knew nothing at all. A much higher proportion of respondents in London (26 per cent) were aware of the changes.

2.6 Local authorities are responsible for communicating specific reforms to existing claimants. To help with this process the Department has provided draft letters, factsheets, and responses to frequently asked questions which local authorities are free to use or amend. The June 2012 National Audit Office report *Central government's communication and engagement with local government*¹ found that the Department's website was cited by several local authorities as particularly good, with key named contacts, for staff responsible for particular benefits.

¹ Comptroller and Auditor General, *Department for Communities and Local Government: Central government's communication and engagement with local government*, Session 2012-13, HC 187, National Audit Office, 13 June 2012.

2.7 Local authorities vary in the amount of information they provide on their websites. We reviewed what information is available on reforms using an illustrative sample of 22 local authority websites. We found that all of these websites had pages dedicated to housing benefits, but the extent of that information varied significantly (**Figure 8**).

2.8 The Department is keeping benefit claimants informed of the overall benefit cap to be introduced from April 2013. Between May and July 2012 the Department wrote to all affected claimants alerting them to the change and giving general information. During September and October 2012 claimants whose total benefits already exceed the cap, together with those that may do so by April 2013, should receive a further letter from the Department. This second communication is more specific and sets out the financial implication for the claimant with the following bands: Up to £50, £50–£100, £100–£150 and over £150 per week. The Department does not have the systems to provide claimants with a full statement of how all reforms will affect their total benefit entitlements. 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.

Figure 8
Results of a National Audit Office survey of local authority websites

Change	Local authorities reporting change (sample of 22)
LHA – Caps	19 (86%)
LHA – Excess	11 (50%)
LHA – Benchmark	11 (50%)
LHA – Shared room	16 (73%)
LHA – Uprating	7 (32%)
Social sector size criteria ³	4 (18%)
Non-dependant deductions	13 (59%)
Overall benefit cap	9 (41%)

NOTES

- 1 Abbreviation: LHA – Local Housing Allowance
- 2 The sample of 22 local authorities includes two from each economic region of England, Scotland and Wales. Local authorities varied in size, and ranged between very urban and very rural.
- 3 Nine local authorities in the sample have housing under their direct control. Three of these local authorities referred to the social sector size criteria.

Source: National Audit Office analysis

2.9 The Department's website provides online tools for households to estimate the impact of some but not all of the reforms. Social sector claimants can use calculators to see how the overall benefit cap will affect them but there is not a similar tool to assess the impact of the social sector size criteria reforms. The Department concluded it would be difficult to build in a simple online tool for the social sector size criteria because the calculation is not straightforward. It includes assessment of eligible and ineligible service charges and reasonable rates, as well as reasonable rents and size criteria calculations. Local Housing Allowance claimants can use a calculator to estimate their maximum entitlements but it does not ask questions to identify whether people will be affected by changes to shared accommodation rules. Neither calculator identifies whether claimants will face non-dependant deductions.

2.10 The Department's view is that local targeting to raise awareness is more effective than simply relying on websites and national campaigns. It has worked with claimant advocacy organisations and national industry organisations to help them understand planned reforms, so they can offer information and support to claimants. It considers that this has been particularly effective for the social sector size criteria where drop-in sessions and other face-to-face initiatives have been organised by some housing associations.

The Department has put in place additional funding for local authorities to cope flexibly with the impacts of reforms

2.11 The Department is providing £390 million of funding for temporary support to help households affected by the Housing Benefit reforms (**Figure 9**). Each local authority may contribute additional funds to raise support up to a maximum of 2.5 times the Department's contribution. Under the scheme local authorities have significant discretion about which applicants to support and by how much (**Figure 10** overleaf).

Figure 9

Central government funding of the Discretionary Housing Payments scheme over the Spending Review period 2011-12 to 2014-15

Element	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)
Baseline funding	20	20	20	20
LHA reforms	10	40	40	40
Social size criteria	–	–	30	30
Overall benefit cap	–	–	(up to) 75	(up to) 45
Total	30	60	165	135

NOTE

1 Abbreviation: LHA – Local Housing Allowance

Source: Department for Work and Pensions

Figure 10

Key features of the Discretionary Housing Payments scheme

- Claimants must be entitled to Housing Benefit or Council Tax Benefit.
- Payments provide customers with further financial assistance when a local authority considers that help with housing costs is needed. Housing costs are not defined in the regulations and this gives local authorities a broad discretion to interpret the term as they wish.
- Payments may cover rent (subject to certain exclusions) or assist with the cost of taking up a tenancy, such as rent in advance and deposits.
- Although legislation gives local authorities a very broad discretion on how they use scheme funds they have a general duty to act fairly, reasonably and consistently.

Source: Good Practice Guide March 2011 issued by the Department for Work and Pensions

2.12 Local authorities will also have other ways to fund support for households. From April 2013, the Department's Community Care Grant and Crisis Loan schemes will be abolished and funding of £178 million per year will be transferred to local authorities and the devolved administrations in Scotland and Wales. The funds are to provide support for those in a crisis, managing short term difficulty or facing unavoidable need. Local authorities and the devolved administrations will be free to decide how best to implement this support but the Department anticipates that in England a proportion of the funding will be used to help vulnerable groups with setting up home. Based on our review of 46 cases involving moving costs we estimate that the Department awarded £350 on average to help with moves.

2.13 The Department has introduced a Transitional Funding scheme for local authorities to provide additional support services that target those affected by the Housing Benefit reforms. In 2012-13 the Department awarded £15 million to local authorities based on losses from the Local Housing Allowance reforms. The Department has allocated a further £15 million per year to the scheme in 2013-14 and 2014-15 and plans to monitor good practice among local authority initiatives. **Figure 11** summarises one such initiative.

Funding levels for Discretionary Housing Payments are based on judgement rather than a formal assessment of how much is needed

2.14 The Department has anticipated the need for funding for local authorities to provide additional support for households. At this early stage the level of required support is uncertain. As reforms continue to be implemented the Department has an opportunity to:

- clarify the process for determining the overall level of funding;
- review the allocation of funding to local authorities based on need; and
- improve understanding about how payments are used.

Figure 11

Transitional funding for north London practical support hubs

In one project, six local authorities in north London have established two practical support hubs based in Haringey and Islington using £525,000 from the Transitional Fund. The hubs went live in February 2012 and will continue until March 2013. The local authorities' housing departments first identify claimants who might benefit from assistance and write to them offering the hub service.

The hubs are staffed by four support workers, dealing with Housing Benefit and accommodation and two specialist advisers dealing with money advice, debt and benefits. The emphasis is on providing practical advice and help to those affected by the Housing Benefit reforms, including helping tenants to claim benefits; negotiating with creditors to reduce debt repayments; negotiating with landlords to reduce rents and ensuring that any arrears can be repaid by affordable instalments; and applying for Discretionary Housing Payments in the short term. Up to the end of August 2012 the hubs had handled 439 cases.

Source: Community Housing Services, Haringey Council

2.15 It is not clear how the current level of funding for Discretionary Housing Payments has been determined or whether it is likely to be sufficient for local authorities in tackling the impacts of reforms. The £390 million of funding over the Spending Review period represents around six per cent of the total £6.4 billion savings expected from Housing Benefit reforms during this period. This works out at around £200 per household affected.

2.16 There is also no established process for reviewing the level of funding for Discretionary Housing Payments over time. For example there is no mechanism to assess whether the overall funding amount should change to reflect higher claimant numbers. Uncertainty about the basis for future funding in part reflects the fact that the Department is still reviewing how to provide support for housing as a result of broader welfare reforms.

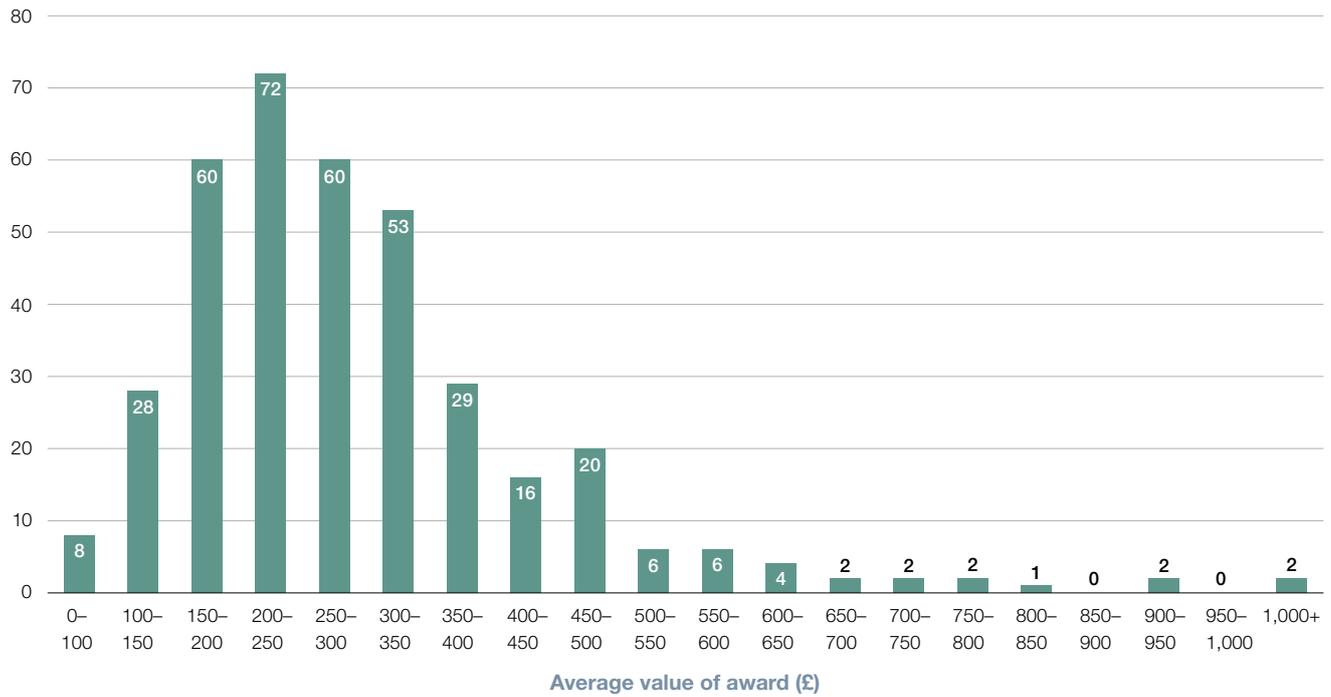
2.17 Monitoring of how payments are made by local authorities would improve the Department's understanding of local need. At the moment monitoring is limited. Our financial audit work on the Department has identified weaknesses with the assurance framework for the Discretionary Housing Payments scheme. There is no independent review of the accuracy of Discretionary Housing Payment claims and the assurance received by the Department is based solely on a certificate from each local authority. The certificate is a statement which must be signed by the Section 151 Officer authorising that the payments made have been properly incurred in accordance with the appropriate legislation. The Department considers that self-certification is appropriate for its assessment of risk.

2.18 There was a significant variation in the average value of awards made by local authorities in 2010-11 (**Figure 12** overleaf). The data collected by the Department from local authorities does not enable it to identify patterns in successful claim amounts and the volume of unsuccessful claims, which would help to prioritise funding. For example it does not collect data on the number of eligible claims from local authorities to enable it to prioritise funding. The Department is reviewing its arrangements for Discretionary Housing Payments.

Figure 12

Spread of average awards under the Discretionary Housing Payments scheme 2010-11

Number of local authorities



Source: National Audit Office analysis

Part Three

Planning for future challenges

3.1 Housing Benefit reforms could lead to rapid changes in demand for both social housing and private rented accommodation. In many cases local authorities are likely to struggle to meet local housing needs arising from:

- the uprating rules for Local Housing Allowance leading to decoupling of support from local rent increases and creating variation between local authorities in the availability of ‘affordable’ accommodation; and
- the social sector size criteria increasing demand for smaller social accommodation which is already in relatively short supply.

3.2 The effects of reforms on local housing markets are highly uncertain and the Department recognises that it will be difficult for many local authorities to respond to changes. This Part explores the interactions between Housing Benefit reforms and wider housing market demand, and identifies the challenges for the Department and other bodies in planning for and tackling risks.

Changes to uprating will lead to varying levels of ‘affordability’ for private accommodation across local authorities

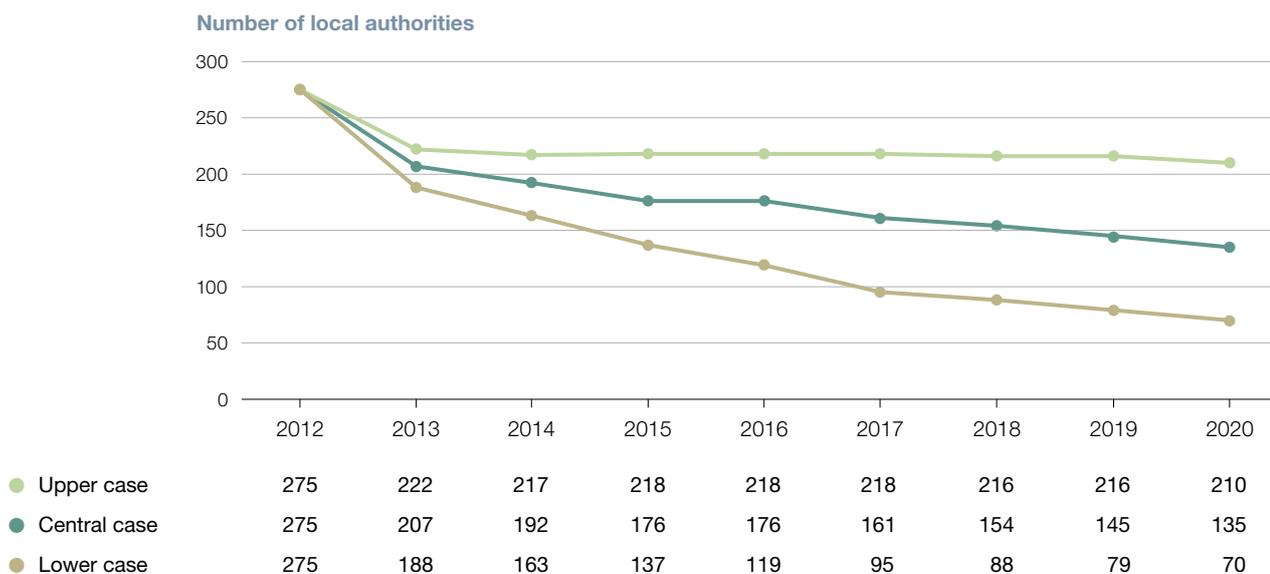
3.3 Uprating Local Housing Allowance by the Consumer Price Index rather than local rent inflation may lead to divergence between local area rents and benefits. At a national level this could lead to a shortfall between claimants and the number of dwellings with rents set below the Local Housing Allowance rate. More households would need to top up rents from other sources. Households in areas with larger shortfalls in ‘affordable’ private housing will face strong incentives to move to areas with smaller shortfalls or surpluses. Downward pressures on rents and increased employment among claimants could dampen these effects.

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 48 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

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

**NOTES**

- '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.
- 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.
- 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

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 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.

3.6 Modelling rental demand and supply is extremely uncertain, but our analysis highlights the scale of the challenge for local authorities. Our analysis uses historic data collected by the Valuation Office Agency to estimate how rental inflation varies across local authorities. Appendix Four explains our methodology and assumptions for the model in greater detail.

3.7 The Department plans to monitor divergence 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. It intends to publish the rental level at the 30th percentile for each area to provide transparency.

Social sector Housing Benefit reforms will also increase pressures on local housing

3.8 Social sector size criteria reforms will affect local demand for social housing. The reforms are intended to make better use of the housing stock by encouraging working age tenants to move to smaller properties, for example, when children move away from home.

3.9 Local authorities may struggle to fulfil requests from households to move to smaller social housing given greater shortages of one and two bedroom dwellings. For example, the Department expects social sector size criteria reforms to affect 320,000 single people but the Department's impact assessment showed that there is already a pronounced shortage of one bedroom social housing (**Figure 14**).

3.10 The mismatch between need and availability may particularly affect Housing Benefit recipients in rural areas and other locations of low concentrations of social rented housing. Unlike reforms to Local Housing Allowance, the impact assessment completed by the Department suggests that the reforms will affect proportionally more households outside London. **Figure 15** overleaf shows that more than 40 per cent of social sector tenants will be affected in Wales, the North West and Yorkshire and Humberside, compared to between 20 and 22 per cent who live in the South East, London and the South West.

Figure 14

Under and over occupation among working age claimants in the social housing sector

Actual accommodation size	Needs of working age Housing Benefit tenants (000)	Size of accommodation currently occupied by working age tenants (000)
1 bedroom	600	360
2 bedrooms	520	510
3 bedrooms	300	560
4 bedrooms	70	60
5 bedrooms	10	10
Total	1,500	1,500

NOTE

1 Estimates exclude retired tenants and working age tenants not on Housing Benefit.

Source: Department for Work and Pensions

Figure 15

The regional impact of the social sector size criteria reform

Region	Number of claimants affected (000)	Proportion of working age claimants affected (%)	Average weekly loss in Housing Benefit (£)
Wales	40	46	12
North West	110	43	14
Yorkshire & Humberside	80	43	13
North East	50	37	13
Scotland	80	33	12
West Midlands	60	31	13
Eastern	50	30	15
East Midlands	40	27	12
London	80	22	21
South East	40	22	15
South West	30	20	15
Great Britain	660	31	14

Source: June 2012 Equality Impact Assessment by the Department for Work and Pensions

The Department needs to work with other departments and local authorities to monitor and manage risks for both private and social tenants

3.11 The Department has acknowledged the uncertainty around the potential impacts of reforms on households and local authorities. The availability of affordable accommodation over time will be dependent on a range of variables – overall size of the local rental market, demand from non-benefit renters, shifts in the local benefit caseload due to work, or as a result of claimants moving to cheaper local areas. Additionally, those living in the social sector may take on lodgers or add to their family, and as a result no longer be subject to the social sector size criteria because of under-occupancy.

3.12 The Department's evaluation programme will attempt to identify the extent of effects and the Department has put in place transitional support through increased funding for Discretionary Housing Payments. The Department has also been open about the possibility for future review, for example where local rents increase rapidly.

3.13 Some impacts on housing demand and migration may also be accepted as policy aims. However, given the significance of potential impacts on households and local authorities there are ways in which the Department could help to identify and manage responses to emerging issues.

3.14 While predicting impacts may be too uncertain, the Department could work with the Department for Communities and Local Government and local authorities to monitor shortfalls of 'affordable' private rented accommodation as they arise. This information could inform discussions about future levels and allocations of support from the Department, for example through Discretionary Housing Payments.

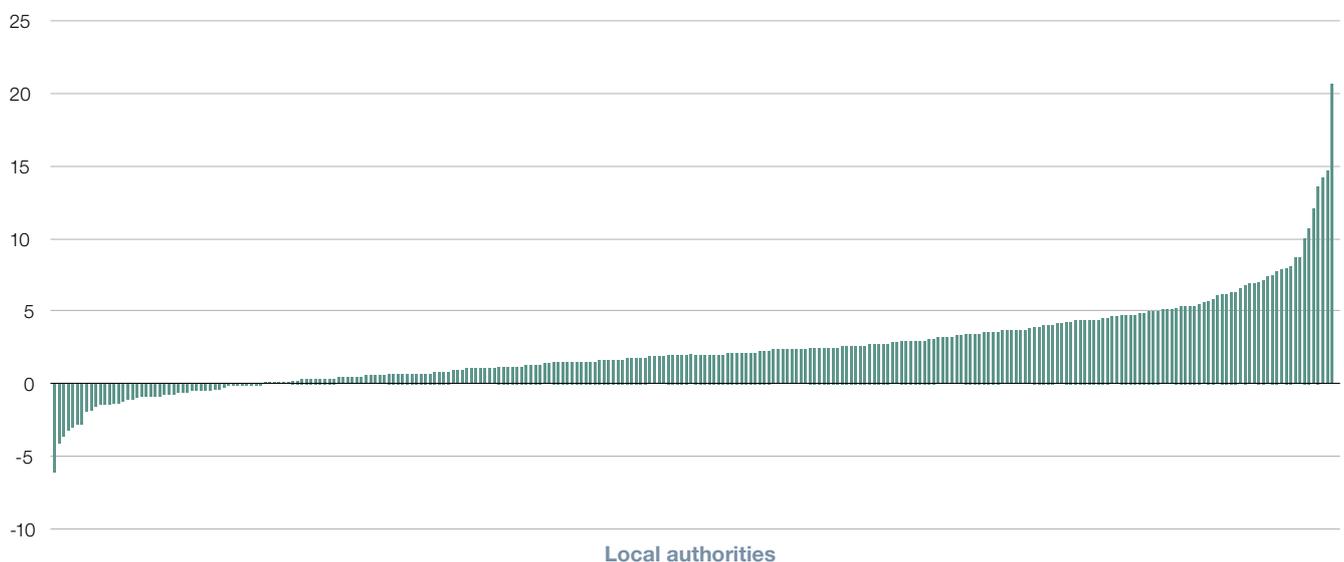
3.15 Simpler leading indicators could also be used to identify issues in the interim before full evaluation results are available. Rent information could be monitored to gauge the level of pressure on households in the private rented sector. For example, **Figure 16** examines the change in rents over the last year within the sample of properties previously used by the Valuation Office Agency to benchmark Local Housing Allowance.

Figure 16

Changes to private rental rates for two bedroom homes

Percentage change in private sector rents for each local authority area in England between 2011 and 2012

Increase in rents (%)



Source: National Audit Office analysis of Valuation Office Agency data

Appendix One

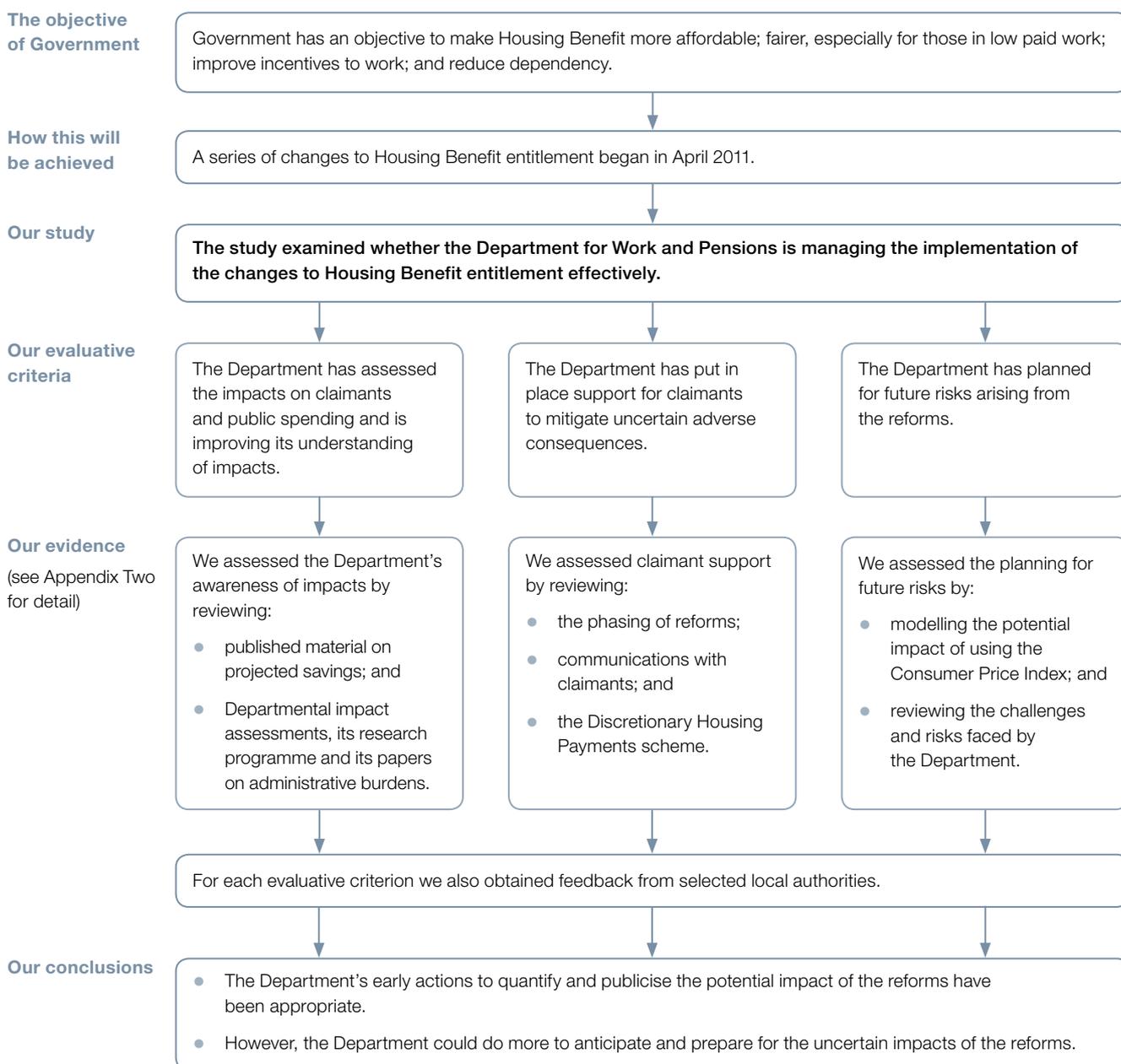
Our audit approach

1 This study examined the steps that the Department for Work and Pensions (the Department) has taken so far in implementing the reforms to Housing Benefit. We developed an analytical framework to assess the Department's performance. This identified three evaluative criteria based on good practice. The criteria ask whether the Department has:

- assessed the impacts of Housing Benefit reforms on claimants and public spending, and the steps taken to improve its understanding of impacts over time;
- put in place support for claimants to mitigate against uncertain adverse consequences; and
- planned for future risks arising from reforms, particularly as a result of interactions between Housing Benefit and the wider system of housing support.

2 Our audit approach is summarised in **Figure 17**. Our evidence base is described in Appendix Two.

Figure 17
Our audit approach



Appendix Two

Our evidence base

1 Our independent conclusions on how the Department for Work and Pensions (the Department) is positioned to tackle the challenges of implementing the reforms to Housing Benefit were reached following our analysis of evidence collected between July and September 2012.

2 We applied our analytical framework with evaluative criteria, which consider the optimal approach for managing the implementation of the changes to Housing Benefit entitlement. Our audit approach is outlined in Appendix One. In addition, we discussed our findings with the Department for Communities and Local Government.

3 **We reviewed whether the Department has assessed the impacts on claimants and public spending and is improving its understanding of impacts.**

- We **reviewed published material and departmental forecasts** on projected savings.
- We **analysed the impact assessments** prepared by the Department, focusing on the number of households affected by the individual changes to Housing Benefit, the average weekly reduction and the claimant groups most affected. We used the Department's data to **analyse** the distribution of Local Housing Allowance reductions as a proportion of household rent.
- We **reviewed the scope** of the Department's impact assessments and **examined** whether they took account of the risk of double counting.
- We **reviewed departmental papers** on the types of administrative burden that may arise from Housing Benefit reforms and the cost implications.
- We **examined briefly** the arrangements for passing information on individual claimants between the Department and local authorities.
- We **reviewed departmental and independent research** and carried out **semi-structured interviews** with selected local authorities and stakeholders to hear views about the consequences of Housing Benefit reforms.

4 We considered whether the Department has put in place support for claimants to mitigate uncertain adverse consequences.

- We **reviewed published papers** on the phasing of the reforms and confirmed our understanding with **semi-structured interviews** with selected local authorities.
- We **reviewed departmental papers and carried out semi-structured interviews with local authorities** on how they forewarned claimants of changes to their benefits. We **drew on evidence** from our previous work on communication and engagement between central and local government.²
- We **reviewed an illustrative sample** of 22 local authority websites to establish what information is available on Housing Benefit reforms.
- We **reviewed published papers** on the Discretionary Housing Payments scheme and other support schemes available to local authorities. We **carried out semi-structured interviews with local authorities** and **visited Haringey Council** to discuss how funding is being used. We **reviewed departmental papers** on the setting of funding levels for the Discretionary Housing Payments scheme and its allocation between individual local authorities.

5 We assessed whether the Department has planned for future risks arising from the reforms.

- We **reviewed** the potential impact of uprating Local Housing Allowance by the Consumer Price Index. Using historic trends between the Index and rent increases, we **modelled** the number of local authorities where affordable two bedroom housing meets the needs for 50 per cent of the number of claimants for Local Housing Allowance at the two bedroom rate.
- We **reviewed departmental papers** on the regional impact of the social sector size criteria reform; and the shortage of one and two bedroom dwellings compared to possible demand arising from the Housing Benefit reforms.
- We **assessed** how the Department is monitoring and managing future risks. We **drew** on the Department's evaluation programme and **analysed** Valuation Office Agency data.

² Comptroller and Auditor General, Department for Communities and Local Government: *Central government's communication and engagement with local government*, Session 2012-13, HC 187, National Audit Office, 13 June 2012.

Appendix Three

Reforms to Housing Benefit

Change	Date introduced	Estimated number of households affected in first year
1 Capping of the weekly rates to: <ul style="list-style-type: none"> • £250 for a shared room rate and for the one bedroom rate; • £290 for a two bedroom rate; • £340 for a three bedroom rate; and • £400 for a four bedroom rate. 	April 2011	21,000
2 Removal of the dispensation whereby Housing Benefit claimants could keep up to £15 of the difference between the Local Housing Allowance received and the rent paid.	April 2011	438,000
3 Non-dependant deductions to be increased. Deductions will no longer be frozen and increases will be linked to the Consumer Price Index.	April 2011	300,000
4 Calculating Local Housing Allowance rates at the 30th percentile of rental increases in each Rental Market Area rather than the 50th percentile (median). See 6 below.	April 2011	775,000
5 An increase in the age at which a shared room rate is applied from 25 years old to 34.	January 2012	63,000
6 Local Housing Allowance will be uprated by the lower of either the Consumer Price Index or the 30th percentile of local rents.	April 2013	1,400,000
7 Restricting Housing Benefit for working age social tenants who occupy a larger property than their family size warrants to a standard regional rate for a property of the appropriate size.	April 2013	660,000

Change	Date introduced	Estimated number of households affected in first year
8 Household benefit payments will be capped on the basis of median earnings after tax for working households. The following benefits come within the cap:	April 2013	56,000
Bereavement Allowance, Widowed Parent's/Mother's Allowance		
Carer's Allowance		
Child Benefit		
Child Tax Credit		
Employment and Support Allowance (contribution and income related) ¹		
Housing Benefit		
Incapacity Benefit		
Income Support		
Jobseeker's Allowance (contribution based and income based)		
Maternity Allowance		
Severe Disablement Allowance		
Widow's Pension		

NOTE

1 Except where the support component has been awarded.

Source: Department for Work and Pensions

Appendix Four

Modelling the impact of uprating

Modelling approach

- 1** The analysis in Figure 13 (page 30) illustrates the effect that new rules on Local Housing Allowance uprating could have on the affordability of private rented accommodation in different local areas. The analysis is an illustration of effects that may arise and is not intended as a prediction of changes to housing demand or supply. The approach is based in part on work by Dr Alex Fenton for the Centre for Housing and Planning Research.³
- 2** For the purposes of the analysis, we selected two bedroom properties in England. We modelled the effects of change across 310 local government districts in England. We excluded from the analysis Wales and Scotland because of limited publicly available data. We removed 16 districts from the initial dataset of 326 districts because we had concerns with the quality of the data or data sample sizes were small.
- 3** The core measure of ‘affordability’ is defined as a coverage ratio between: the number of dwellings available at rents below the Local Housing Allowance rate; and the number of claimants of Local Housing Allowance. A coverage ratio greater than 1 implies that there are more dwellings than claimants; a coverage ratio below 1 indicates that there are more claimants than dwellings.
- 4** Figure 13 shows the number of local authorities with coverage ratio above 0.5. Any level of coverage ratio could be used for the purposes of this illustration. Figure 13 uses 0.5 to reflect the fact that a proportion of claimants do not receive 100 per cent of the Local Housing Allowance rate and may already be topping up rent payments from other sources.⁴ With a coverage ratio of less than 0.5 an area is unlikely to contain sufficient private rented accommodation for every claimant receiving the maximum Local Housing Allowance rate.

³ Cambridge Centre for Housing and Planning Research, *Housing Benefit reform and the spatial segregation of low-income households in London*, January 2011. Available at: www.cchpr.landecon.cam.ac.uk/Downloads/hb_reform_london_spatial_implications-cchpr2011.pdf

⁴ At August 2009, 48 per cent of claimants did not receive 100 per cent compensation. House of Commons Deb, 5 March 2010, c1422W.

Assumptions

5 Key assumptions in the central case include:

- Overall rents increase at the same rate as the national average rent growth over the past 10 years (2.6 per cent per year).
- Consumer prices are based on the projections by the Office of Budget Responsibility and the Bank of England.
- Local variation in rent growth follows the same pattern relative to national averages as over the past 4 years, with higher rent growth areas continuing to be higher rent growth areas.
- The current number of claimants is adjusted to include only claimants in two bedroom properties. The number of Local Housing Allowance claimants increases as projected by the Department of 0.9 per cent per year over the next five years. Housing stock increases at the same rate across all areas as over the past 11 years at 0.7 per cent per year.

6 Upper and lower case scenarios alter assumptions about rent increases, claimant increases and housing stock growth, and are explained in the table below.

Assumptions	Upper case (%)	Central case (%)	Lower case (%)
Consumer Price Index rate	2.1	2.1	2.1
Dwellings growth rate	1.7	0.7	-0.3
Rent inflation growth rate	1.6	2.6	3.6
Claimants growth rate	-0.1	0.9	1.9

7 Assumptions about local rent growth are particularly limited by data availability and are most subject to change as a result of natural variation or policy changes. For the purposes of this analysis the pattern of variation is sufficient to illustrate the effect of uprating, and no specific estimates are presented for individual areas.

Data used

8 The main sources of data were:

- Overall Office for National Statistics (ONS) trend data on historic rent increases and house building.
- 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. 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.
- Office of Budget Responsibility projections of Consumer Price Inflation up to 2014-15 and the Bank of England's 2 per cent inflation target thereafter.
- Valuation Office Agency data on the local variation in rent growth and the distribution of rents.
- Department projections of claimant numbers.
- Valuation Office Agency data on local rent distributions is based on a sample of rents in each area, excluding properties occupied by Local Housing Allowance recipients. This data is the basis on which Local Housing Allowance rates have been set over the past five years. Our modelling supposes that the Valuation Office Agency's data excluding Local Housing Allowance claimants are representative of rent distributions across the entire private rented sector. There are limitations in the use of this data to determine local area rent increases. However, by capping overall rent growth our analysis only uses the variation in the rates of growth in local rents.

Limitations of the model

9 Estimating future rent increases is inherently difficult. The analysis in this figure is indicative and based on recent trend data which may or may not continue. The Department for Communities and Local Government has expressed concerns about the use of Valuation Office Agency data for more general trend analysis. In this context we have checked and tested the data to ensure that it can be used for the purposes of this analysis. We have used national average growth rates from the Office for National Statistics and determined the distribution of rent growth around this rate. We have tested sensitivities around start and end dates for recent years to ensure data are not driven by sample size changes or specific year changes. Results from this analysis should be treated as illustrative rather than predictive.



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