Local Housing Allowance

Options for reform

Commissioned by Crisis

Crisis
Together we will end homelessness

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Executive Summary

This study examines a range of ten options for ending the freeze in Local Housing Allowance (LHA) rates, analysing the costs, benefits, poverty reduction and homelessness reduction for each option. Reform options range from introducing uprating of LHA in line with CPI inflation up to introducing annual re-alignment of all LHA rates in high-pressure areas with the 50th percentile of private rents coupled with annual re-alignment with the 30th percentile outside of high-pressure areas. Each option is analysed both under the current system of retaining the benefit cap and under the option of removing the benefit cap.

A flexible micro-simulation model has been developed using a sample of LHA claimants drawn from Understanding Society, the UK Household Longitudinal Survey. This approach enables detailed analysis of different reform options by household, which allows disaggregated results to be shown by region, income quintile and by household type. In addition to the micro-simulation model, evidence from the external literature are used to estimate financial savings from reduced homelessness.

Cost-benefit analysis (CBA) is carried out for each option, capturing the benefits of increased welfare for LHA claimants and financial savings from reduced homelessness, then setting this against the Exchequer cost of each reform option.

The most significant benefit from the reform options comes from higher welfare from providing targeted support for low income households. In addition to the direct gains for LHA claimants (i.e. income flows), ending the freeze in LHA has important distributional effects. In other words, it results in higher welfare for households at the lower parts of the income distribution; that is financial benefits for these households that are assigned a higher social value compared to equivalent benefits for claimants at the higher end of the income distribution.

To simplify the presentation of results, a reform option has been chosen to focus on as the Key Scenario for full disaggregation of results: annual re-alignment of LHA rates with the 30th percentile of local private rents for each year during the 2019/20 to 2024/2025 period. The net benefits of this scenario are large (see table below), reaching £1.3bn per year by 2024/25 and totalling nearly £5bn over the 6-year period modelled.

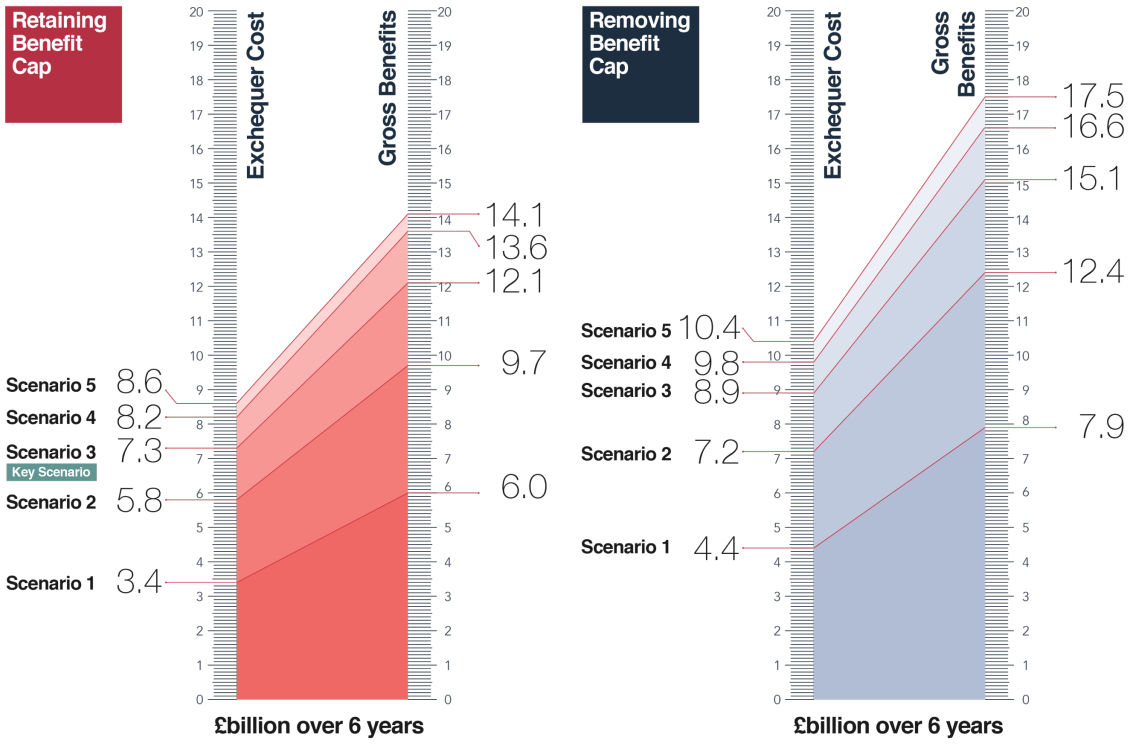
Across the range of scenarios, the options that go least far in reforming LHA still deliver significant net benefits but options with higher Exchequer costs deliver larger net benefits.

Key Scenario: Exchequer costs, net benefits and benefit-cost ratio of annual re-alignment of LHA rates with the 30th percentile of local private rents (assuming retention of the benefit cap)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Welfare gains and financial savings (£billion)	0.7	1.3	1.9	2.3	2.7	3.1
Exchequer cost (£billion)	0.5	0.8	1.1	1.4	1.6	1.9
Net benefits (£billion)	**0.3**	**0.5**	**0.7**	**0.9**	**1.1**	**1.3**
Benefit-cost ratio[1]	1.6	1.6	1.7	1.7	1.7	1.7

Note: [1]Benefit-cost ratio here defines the annual ratio rather than the ratio of the net present value of benefits to costs. Figures may not sum due to rounding.

Costs and benefits by scenario



Introduction

Local Housing Allowance (LHA), which sets the maximum amount of housing benefit that households in the private rented sector can claim, has been frozen at 2015/16 levels. This report estimates costs and benefits from various reform scenarios for the LHA.

The report proceeds as follows: there is a section on context, then the methodology is outlined in detail and, lastly, findings are reported.

Reform scenarios	
Scenario 1.	LHA rates uprated by CPI inflation
Scenario 2.	Annual re-alignment of LHA rates with the 30th percentile of local private rents for shared accommodation (SAR) and the entire set of LHA rates in high-pressure areas[1] while assuming remaining LHA rates continue to be subject to the freeze
Scenario 3.	Annual re-alignment of LHA rates with the 30th percentile of local private rents (the **Key Scenario** is Scenario 3 with retention of benefit cap)
Scenario 4.	Annual re-alignment of LHA rates with the 50th percentile of the local private rents distribution for SAR and 1-bedroom properties and with the 30th percentile for 2,3 and 4-bedroom properties
Scenario 5.	Annual re-alignment of the entire set of LHA rates with the 50th percentile for high-pressure areas and with 30th percentile for the remaining areas

All scenarios are presented with two sub-scenarios: (a) retaining the benefit cap, and (b) removing the benefit cap.

[1] See here for a House of Commons briefing on discrepancies between increasing rents and frozen LHA rates in Great Britain: https://commonslibrary.parliament.uk/social-policy/housing/housing-benefit-do-awards-cover-rents/

Context

Local housing allowance (LHA)

LHA is calculated based on the private market rents in Broad Rental Market Areas (BRMAs). The maximum amount of LHA that claimants are eligible for is calculated based on the size of the property that is needed for adults and children in the household. It is a means-tested benefit so that the actual amount received by claimants depends on their circumstances.[2]

Since 2011, as part of wider reforms, LHA rates have been subject to a range of reforms including a reduced benchmark (from the 50th to the 30th percentile of local private rents), removal of the five-bedroom rate, and abolition of the weekly £15 excess benefit that could be claimed if the rent was lower than the applicable LHA rate.

LHA rates have been frozen at 2015/16 levels while the benefit cap limits the amount of housing benefit households can claim.

The freeze in LHA rates

The freeze has been shown to have a substantial impact on housing affordability and risk of homelessness in the UK (National Audit Office, 2017).[3] Evidence suggests that following the freeze, LHA rates in the vast majority of BMRAs (around 90%) have been lower than the bottom 30th percentile of local rent distributions.[4]

The Institute for Fiscal Studies (IFS) found that 90% of the cash losses due to the LHA freeze were absorbed by tenants rather than landlords.[5] This is further supported by findings of an independent evaluation of the 2011 LHA changes conducted on behalf of DWP in 2014.[6]

Certain areas and groups have felt the impact of the LHA freeze more acutely than

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[2] See here for more information on how LHA rates are set: https://www.gov.uk/guidance/local-housing-allowance

[3] National Audit Office (2017). Homelessness. Available here: https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf

[4] Chartered Institute of Housing (2018). Missing the target? Is target affordability funding doing its job? Available here: http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Missing%20the%20target%20final.pdf

[5] Institute for Fiscal Studies (2015). The incidence of targeted housing subsidies: evidence from reforms to UK housing benefit. Available here: https://www.ifs.org.uk/uploads/publications/conferences/presentations/Housing%20Benefit%20WPEG%20280715.pdf

[6] DWP (2014). The impact of changes to the Local Housing Allowance in the private rented sector – the response of tenants. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/380461/rr872-nov-14.pdf

others. Specifically, small families with one or two children in two bedroom properties and single adults in one-bedroom properties are shown to face a shortfall of around £100 per month. Discrepancies between LHA awards and rents are particularly large for adults in shared accommodation in areas with expensive rents such as London and Cambridge.[7] The Chartered Institute of Housing (2018) also notes that for single people aged under 25, the general benefit rates are too low to contribute to the gap between housing benefit and rents, placing them at increased risk of poverty and homelessness.[8]

Concerns regarding frozen LHA rates not covering rents have also decreased confidence of private sector landlords in renting their properties to housing benefit claimants. For example, the Residential Landlords Association found that the majority (two-thirds) of a representative sample of agents would not rent to under-35s on housing benefit or Universal Credit.[9]

The benefit cap

The benefit cap introduced in 2013 affected access to affordable housing. Capped benefits at £350 per week for single people and £500 for all other households, including out-of-work households below pensionable age, led to increased numbers of households in the private rented sector being unable to cover their rent.

In 2016, the cap was further lowered to £257 per week for single people and £384 for all other households, except in London where it was lowered to £296 and £442 respectively. These lower limits caused the number of households affected by the cap to triple – from 17,800 prior to the change in the cap to around 61,000 in 2017. While larger families and households in London were most affected when the cap was first introduced in 2013, smaller families and households in areas outside London started facing important losses under the lower cap.[10]

[7] Shelter (2017). Briefing: Local Housing Allowance freeze. Available here: https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/briefing_who_is_affected_by_the_lha_freeze

[8] Chartered Institute of Housing (2018). Missing the target? Is target affordability funding doing its job? Available here: http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Missing%20the%20target%20final.pdf

[9] See here for findings from the Welfare Survey conducted by Residential Landlords Association in 2016: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/homelessness/written/28538.html

[10] Crisis (2018). The homelessness monitor: England 2018. Available here: https://www.crisis.org.uk/media/238700/homelessness_monitor_england_2018.pdf

The impact of LHA on homelessness and poverty

Homelessness

Crisis estimates that there are more than 170,800 families and individuals across Great Britain experiencing the worst forms of homelessness. This includes people sleeping rough, in cars, tents, and public transport, or staying for extended periods of time in unsuitable temporary accommodation.[11]

In England, the number of homeless households in priority need has increased by 48% between 2009/10 and 2016/17.[12] Homelessness appears to be a major problem in London – households assessed as unintentionally homeless and in priority need[13] in London accounted for 25% of total statutory homelessness acceptances in England in the first quarter of 2018.[14]

The end of private sector tenancies appears to be a major driver of homelessness in England. The proportion of households accepted as homeless by local authorities due to the end of an assured short hold tenancy (AST) increased from 11% in 2009 to 29% in 2017. The increase in London over the same period was 11% to 33%. While there has been a slight improvement over the last financial year, the end of AST is still a significant driver of homelessness, alongside relatives and/or friends no longer being able or willing to provide accommodation (31% in England in 2017).[15]

This increasing trend of people applying to local authorities for homelessness services due to loss of a private tenancy observed in England did not take place in Scotland and Wales. In 2017/18, around 13% of homelessness services applicants reported that they lost their previous accommodation because of rent arrears and landlords terminating tenancies in Scotland,[16] showing little increase compared to previous years.[17] Recent research from Crisis also suggests that private tenancy termination as

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[11] Source: https://www.crisis.org.uk/about-us/the-crisis-blog/what-is-the-scale-of-homelessness-on-any-given-night/

[12] Crisis (2018). The homelessness monitor: England 2018. Available here: https://www.crisis.org.uk/media/238700/homelessness_monitor_england_2018.pdf

[13] A household can be found intentionally homeless if they lose their home because of something that they deliberately did or failed to do, such as accruing rent or mortgage arrears. Priority need is one of the tests which a homeless person needs to pass for the Council to decide what help with housing they might be entitled to.

[14] MHCLG (2018). Statutory homeless and prevention and relief – January to March (Q1) 2018: England. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764168/Statutory_Homelessness_and_Prevention_and_Relief_Statistical_Release_Jan_to_Mar_2018__REVISED_.pdf

[15] MHCLG (2018). Statutory homeless and prevention and relief – January to March (Q1) 2018: England. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764168/Statutory_Homelessness_and_Prevention_and_Relief_Statistical_Release_Jan_to_Mar_2018__REVISED_.pdf

[16] See the supporting tables here for more information on homelessness applications in Scotland: https://www.gov.scot/publications/homelessness-scotland-2017-18/pages/4/

[17] Crisis (2019). The homelessness monitor: Scotland 2019. Available here: https://www.crisis.org.uk/media/240002/the_homelessness_monitor_scotland_2019.pdf

a cause of homelessness seems to be less important in Wales.[18]

Under the new Homelessness Reduction Act, local councils owe prevention and relief duties to all households that seek help because they are in homelessness or are threatened with homelessness.[19] However, according to the 2018 Homelessness Monitor, 49% of English councils, and virtually all (94%) London boroughs report that helping homeless people to find a self-contained private rental is "very difficult". The combined effects of rising rents and welfare benefit restrictions – particularly, frozen Local Housing Allowance rates – were cited as key factors.[20]

Poverty

According to research conducted by the Joseph Rowntree Foundation, one out of five households were in poverty in 2018, with in-work poverty rising rapidly. Frozen LHA rates not meeting increasing rents in the lower segments of the private rented market result in rent arrears and undermine the safety net of being able to keep housing arrangements for many low-income households. Therefore, reductions in LHA rates are considered to be key drivers of poverty.[21,22]

In line with the above, high housing costs appear to be the key determinant of poverty for a quarter of the households in the private rented sector that are below the poverty line.[23] Increased shortfalls between housing costs and housing benefit are shown to further fuel poverty.[24]

A simulation exercise undertaken by the Cambridge Centre for Housing and Planning Research to predict future effects of the 2011 LHA reform showed that the planned changes would push around 84,000 households including 54,000 children into severe poverty – being left with £100 per week per couple to cover all expenses after housing costs.[25]

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[18] Crisis (2017). The homelessness monitor source: Wales 2017. Available here: https://www.crisis.org.uk/media/237787/the_homelessness_monitor_wales_2017.pdf

[19] See here for more information regarding the new Homelessness Reduction Act: https://www.crisis.org.uk/get-help/information-for-crisis-members/member-news/homelessness-reduction-act/

[20] Crisis (2018). The homelessness monitor: England 2018. Available here: https://www.crisis.org.uk/media/238700/homelessness_monitor_england_2018.pdf

[21] Joseph Rowntree Foundation (2018). UK Poverty 2018: A comprehensive analysis of poverty trends and figures. Available here: https://www.jrf.org.uk/report/uk-poverty-2018

[22] Chartered Institute of Housing (2018). Missing the target? Is target affordability funding doing its job? Available here: http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Missing%20the%20target%20final.pdf

[23] National Housing Federation (2019). Poverty and housing in the private rented sector. Available here: https://www.housing.org.uk/resource-library/browse/poverty-and-housing-in-the-private-rented-sector/

[24] Joseph Rowntree Foundation (2013). The links between housing and poverty. Available here: https://www.jrf.org.uk/report/links-between-housing-and-poverty

[25] Cambridge Centre for Housing and Planning Research (2010). How will changes to Local Housing Allowance affect low-income tenants in private rented housing? Available here: https://england.shelter.org.uk/__data/assets/pdf_file/0016/290041/CCHPR_final_for_web_2.pdf

Low-income families with children appear to be more likely to experience poverty after housing costs – 44% of households with children in the private rented sector were in poverty after their rent was paid in 2019.[26] Further evidence by the Joseph Rowntree Foundation suggests that the share of children in the bottom income quintile living in the private rented sector has increased from 17% in 2015/16 to 37% in 2016/17. Expectedly, the risk of poverty is particularly imminent among lone parents and couples with children who are claiming housing benefit. Evidently, 43% of single-parent households and 37% of couples with children who claim housing benefit had to use other income sources to cover their rents in 2016/17.[27]

It follows that re-aligning LHA rates with local private rents is expected to contribute to improvements in housing affordability and hence, entail important welfare gains for low-income households in the private rented sector.

Savings from LHA re-alignment

In 2015/16, local authorities (LAs) in England spent over £1.1 billion on homelessness services. Temporary accommodation accounted for approximately £845 million, increasing by 39% in real terms between 2010/11 and 2015/16. Over the same period, spending on other components of homelessness services (e.g. prevention, support, and administration) fell by 9% in real terms from £334 million to £303 million.[28]

On top of the cost of homelessness services provided by LAs, additional support needs of homeless households are likely to be associated with high costs for other services. For example, homeless adults are likely to face mental health and substance misuse issues leading to high healthcare costs. While there is limited evidence quantifying these costs, a study from the Department of Health suggests that homeless people are 3.2 times more likely than the average population to be an in-patient admission at a 1.5 times higher average cost. Analysis from MHCLG (2012) suggested that this indicates a gross cost of £76.2 million per year, which rises to £85.6 million when out-patient usage and accident and emergency attendances are included.[29] Moreover, a recent data linkage report on health and homelessness in Scotland found that those who had experienced homelessness at some point in their lives were 3.1 times more likely to experience acute hospital admissions compared to people living in the least deprived areas in Scotland.[30]

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[26] National Housing Federation (2019). Poverty and housing in the private rented sector. Available here: https://www.housing.org.uk/resource-library/browse/poverty-and-housing-in-the-private-rented-sector/

[27] Joseph Rowntree Foundation (2018). UK Poverty 2018: A comprehensive analysis of poverty trends and figures. Available here: https://www.jrf.org.uk/report/uk-poverty-2018

[28] National Audit Office (2017). Homelessness. Available here: https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf

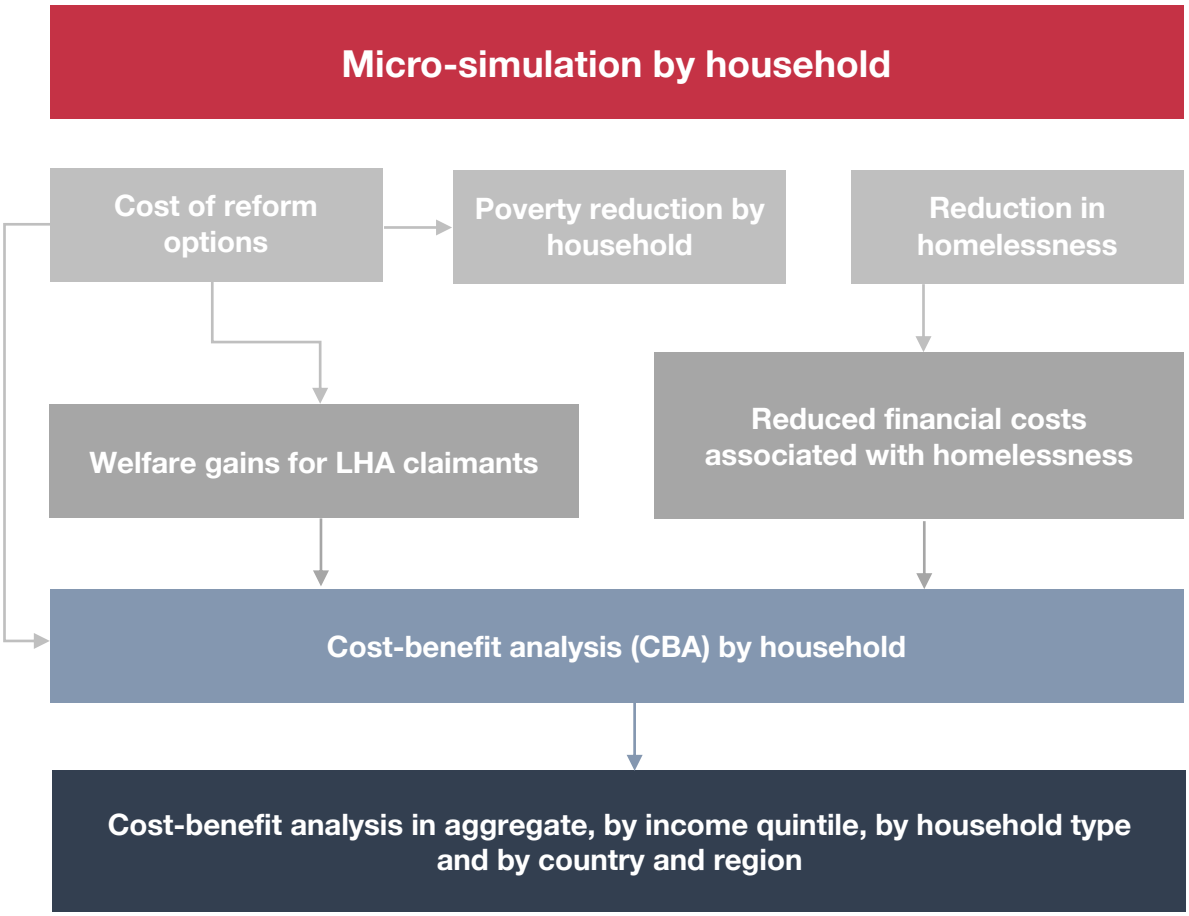
[29] DCLG (2012). Evidence review of the costs of homelessness. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7596/2200485.pdf

[30] Scottish Government, People, Communities and Places (2018). Health and homelessness in Scotland: research. Available here: https://www.gov.scot/publications/health-homelessness-scotland/pages/1/

Methodology

This section details our approach to estimating costs and assessing benefits that are expected to flow from re-aligning LHA rates with local private rents as compared to a counterfactual (*'do nothing'* scenario) assuming no change in policy for the period between 2019/20 and 2024/25.

The model discussed in this section compares costs and benefits from a set of alternative scenarios on LHA re-alignment with local private rents. Model outputs are broken down by regions and countries in the UK. Moreover, granular estimates of policy costs and benefits according to household type and income quintile of claimants are presented.



Costs from changes in LHA policy

We develop a flexible micro-simulation model using a sample of LHA claimants drawn from Understanding Society – the UK Household Longitudinal Survey (UK-HLS).[31] The sample comprises surveyed households in the private rented sector that reported claiming housing benefit in the most recent UK-HLS wave (i.e. wave 8 conducted between 2016 and 2017). We use this sample to arrive at estimates of LHA costs at the baseline (assuming no changes in the current policy) and under the alternative scenarios on LHA re-alignment. Following Green Book guidelines, we calculate costs and benefits that are additional to the baseline.

First, we calculate maximum LHA awards for each type of property (i.e. shared accommodation, and 1,2,3, and 4-bedroom properties) under each scenario using official data on private rents across BRMAs collected in September 2018 and applied for setting LHA rates for 2018/19.[32] We use official CPI forecasts from the OBR to arrive at projected rents for each year of the appraisal period.

We estimate the maximum amount of housing benefit that each claimant will be entitled to depending on household size (i.e. shared accommodation, and 1, 2, 3 and 4 bedrooms)[33] and location – i.e. LA. In order to identify the BRMA in which each household resides, we align local authority (LA) identifiers available in the UK-HLS as closely as possible with BRMA boundaries. We also take into consideration the impact of the benefit cap for all households that fall in the cap threshold[34] as well as self-reported private rents to arrive at estimates of LHA awards that each household in our sample receives.[35]

Based on estimates of LHA awards at the baseline and under alternative scenarios, we calculate additional costs to the Exchequer from changes in policy compared to baseline costs.

As LHA rates are currently subject to a freeze, we assume that the costs of the existing policy will remain relatively stable over the five years following implementation

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[31] In order to arrive at reliable estimates of costs and benefits at the Great Britain level, we apportion the number of housing benefit claimants in our sample to the population of LHA claimants in English regions, Scotland and Wales (see here: https://www.gov.uk/government/statistics/housing-benefit-caseload-statistics)

[32] Official data on private rents are from the Valuation Office Agency (VOA) for England, Rent Services Scotland (RSS) for Scotland and Rent Officers Wales (ROW) for Wales.

[33] We use UK-HLS variables on number, age and gender of dependent children in sampled household as well as number and age of adult household members to arrive at estimates of LHA rates eligibility – for example, a couple with two children under the age of 10 is considered to be eligible for the two-bedroom LHA rate while a single adult under the age of 35 is eligible for the shared accommodation LHA rates.

[34] Households that are affected by the cap are working-age households that receive income from a specific set of benefits including housing benefit that is higher than the specified cap (depending on the area they live and the household type). See here for more details on how the benefit cap is calculated: https://www.gov.uk/benefit-cap-calculator

[35] Claimants get housing benefit that are equal or lower than their weekly rent. Self-reported data on private rents are uprated for the appraisal period using OBR CPI forecasts. (source: https://obr.uk/efo/economic-fiscal-outlook-october-2018/)

of new policy in 2019/20. This is based on the assumption that the number of housing benefit claimants in the private rented sector is not likely to change dramatically over the appraisal period.[36]

Social benefits for tenants

Unfreezing LHA rates is expected to result in financial benefits as well as welfare gains mainly accruing to tenants. This section summarises our approach to estimating benefit flows for claimants following a change in LHA policy.

Financial benefits

Ending the freeze in LHA rates will result in increases in housing benefit awards for tenants in the private rented sector who have seen their rents rise faster than their housing benefit since 2015/16. Increased housing benefit is expected to substantially reduce (or completely eliminate) shortfalls between private rents and housing benefit, leading to an increase in disposable income for the majority of households claiming LHA. Therefore, increased LHA rates are expected to translate into financial benefits in the form of disposable income flows for claimants.

We expect that while some landlords may benefit from the increase in LHA rates, most of the benefits will flow to tenants. It is reasonable to assume that supply in the lower segment of the private rented market is elastic – this means that supply of rental housing responds quickly to changes in demand. We expect that increased demand for private rented houses as a result of higher housing benefit will motivate competition between landlords which will only result in small increases in rental prices. Moreover, tenants claiming LHA are a low share of the private rented sector. Therefore, changes in LHA policies are not expected to exert a significant impact on rental prices in the market. In line with this, the LHA reform in 2011 that led to reduced levels of housing benefit was found to result in tenants moving to lower quality properties that were difficult to rent to non-LHA tenants rather than a decrease in rental prices.[37]

Increased resources for private renting are expected to motivate tenants at the lowest segment of the market to move to better quality housing or persuade landlords to invest in improving living conditions in their current accommodation (e.g. through renovation) in exchange for higher rent payments.[38] We expect that additional rent

[36] This assumption is based on benefit expenditure and caseload forecasts provided by DWP showing that annual growth rates in housing benefit caseloads will be less than 1% over the appraisal period (2019/20-2024/25). See table 1C here for more information: https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2019

[37] Rugg, J. J., & Rhodes, D. J. (2018). The evolving private rented sector: its contribution and potential. Centre for Housing Policy, University of York. Available here: http://www.nationwidefoundation.org.uk/wp-content/uploads/2018/09/Private-Rented-Sector-report.pdf

[38] Based on evidence from DWP (2014) that 15% of LHA claimants moved to lower quality properties following the

payments as a result of the suggested change in LHA policy will reflect improved quality of housing and will thus generate benefits for tenants rather than increased income for landlords.

Welfare gains

"Economic appraisal is based on the principles of welfare economics – that is, how the government can improve social welfare or wellbeing." (HM Treasury Green Book, 2018). Welfare economics captures the point that the social welfare created by receiving an additional pound is higher for low-income households than for high-income households. It is not possible to exactly measure the extent of this, but the Green Book provides guidance for estimating the effect.

Under the Green Book framework, which we have followed, an additional pound is worth exactly one pound to a household on median income but is worth less than one pound to households earning more than median income and more than one pound for households earning less than median income. Specifically, we adopt the *"programme participant and taxpayer"* approach from the Green Book to estimate welfare weights.

Particularly, we use UK-HLS data on net household income to calculate the taxpayer median income (proxied by the median of all households in UK-HLS irrespective of whether they claim LHA or not). We then apply the marginal utility of income parameter,[39] which is widely used for policy appraisal purposes, to the taxpayer median income as a share of the equivalised income of each claimant.

Finally, we arrive at welfare weights that are unique to each household and thus reflect the value of one additional pound for claimants depending on their place on the income distribution. The estimated welfare weights for each household are multiplied with the additional award received by each household (i.e. the amount of housing benefit received under an alternative scenario minus the amount received assuming no change in current policy) to arrive at estimates of the distributional impact of changes in LHA policy for claimants.

2011 LHA reforms, we assume that the same share of claimants will move to higher-quality properties or improve the living conditions in existing properties as a result of ending the freeze in LHA. While there is a lot of uncertainty as regards how tenants will respond to an increase in LHA rates, it is reasonable to assume that their behavioural response will be fairly analogous to their response to a reduction in income from housing benefit. Particularly, we assume that 15% of claimants who will receive housing benefit exceeding their current rent will enjoy better quality housing every year. Namely, 15% of those expecting their future benefit to be higher than their current rents will move to better quality properties or improve living conditions in current properties during the first appraisal year – 15% of the remaining 85% in the second year (13%), 15% of the remaining 72% the third year (11%), etc.

Source: DWP (2014). The impact of changes to the Local Housing Allowance in the private rented sector – the response of tenants. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/380461/rr872-nov-14.pdf

[39] Layard et al. (2008) found that the marginal utility of income is around 1.3 – source: Layard, R., Mayraz, G., & Nickell, S. (2008). The marginal utility of income. *Journal of Public Economics*, *92*(8-9), 1846-1857.

Supplementary analysis

Potential case of rent increases in high pressure areas

While LHA re-alignment is expected to mainly benefit tenants rather than landlords in the low segments of the private rented sector, we also carry out supplementary analysis looking at how the overall results of our main analysis would be affected if it was assumed that private rents will increase in response to the change in LHA policy. More specifically, we analyse how policy costs and benefits under our key scenario would change if we make the *ad hoc* assumption that rents will rise in high pressure areas.

We assume that landlords in high pressure areas currently charging rents equal or higher than the maximum housing benefit that claimants receive at the baseline will be motivated to increase those rents. Particularly, landlords are expected to increase the rents up to the maximum LHA award that tenants are eligible for in the cases where private rents fall below the new award.

On the other hand, landlords charging rents that are lower than the maximum LHA that tenants can claim at the baseline will not be interested in further increasing the rents. Based on these assumptions, we observe how increased private rents in high pressure areas as a result of higher LHA rates will impact on costs and benefits for tenants over the appraisal period.

It should be clarified here that potential increases in rents following LHA re-alignment will be the outcome of wider market forces rather than landlords strictly acting on the basis of the tenants they are currently renting their property to. This supplementary analysis is a thought experiment aiming to explore how costs and benefits are likely to change if landlords react to changes in LHA policy rather than an attempt to precisely model their behavioural responses.

Wider social benefits from reductions in poverty and homelessness

Impact on poverty

Increased income for low-income households as a result of increased housing benefit is expected to result in reductions in relative poverty in Great Britain – meaning that more people are expected to move beyond the relative poverty line being defined at 60% of median income.[40]

To identify the households whose income will rise beyond the poverty line as a result of changes in LHA policy, we first calculate the number of claimants that would have been under the poverty line over the appraisal period assuming that their income as well as the population median income would have increased by OBR forecasts of CPI and growth in real household income.[41]

Then we calculate increased household income as a result of receiving higher amounts of housing benefit under alternative scenarios and compare it with the uprated poverty line for each appraisal year.

Finally, we compare the numbers of households below the relative poverty line at the baseline and under alternative scenarios to arrive at estimates of households that will exit poverty as a result of re-aligning LHA rates with local private rents.[42]

Impact on homelessness

Given the associations between homelessness trends and housing benefit in the UK,[43] we expect that an increase in LHA rates will have substantial homelessness effects. For the purpose of this appraisal, we assume that the impact of unfreezing housing benefit on homelessness is via increases in net equivalised income of claimants.[44]

To do that, we estimate probabilities of avoiding homelessness due to increased income for the households that would have ended up in homelessness at the baseline

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[40] Based on official DWP statistics, median weekly net disposable equivalised household income before housing costs was £494 in 2016/17 setting the poverty line to around £296 per week (source: https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201617).

[41] All household income calculations are based on self-reported data on net household income before housing costs drawn from UK-HLS wave 8. Moreover, equivalisation of income is conducted using the modified OECD equivalisation factors for each household included in the dataset. For OBR forecasts, see here: https://obr.uk/efo/economic-fiscal-outlook-october-2018/

[42] We do not report estimates for number of people exiting poverty at the sub-national level due to data constraints.

[43] For a more detailed discussion on the links between homelessness and housing benefit in the private rented sector, see the 'Homelessness' subsection in the 'Context' chapter of this report.

[44] For more details on income calculations see footnote 41 above.

(counterfactual '*do nothing'* scenario where no change takes place).

To arrive at probabilities of ending up in homelessness at the baseline, we make the assumption that households in the private rented sector that claim housing benefit have similar socio-demographic characteristics to households in homelessness or threatened with homelessness. Based on official statistics on the number of homelessness service applicants, we calculate baseline probabilities for turning to LAs for homelessness support and advice across English regions, Scotland and Wales.[45]

Based on these probabilities, we arrive at estimates of the number of households that will be prevented from homelessness as a result of higher disposable income following a change in LHA policy compared to what would have happened otherwise.

We quantify the homelessness effect of scenarios using existing evidence on the income elasticity of homelessness in the UK. In the absence of robust evidence on the elasticity of homelessness at the household or individual level, we rely on evidence by Bramley et al. (2010) who estimate the impact of average household income on applications for homelessness services across English LAs. Based on this finding, we assume that a 1% increase in net household income will result in 0.48% decrease in the probability of applying for LA homelessness services.[46] We also carry out sensitivity analysis allowing this elasticity to vary by 50% around its central value (i.e. from 0.24% to 0.72%) to observe the potential range of the effects of the new LHA policy on homelessness.

Savings from reduced expenses on homelessness services

We assume that every household that is expected to face the risk of homelessness will turn to local authorities for advice and support. Therefore, we expect that every household that will avoid homelessness as a result of increased housing benefit will lead to reduced expenses on homelessness services at the LA level. Lack of evidence on households that are likely to experience homelessness without seeking help from LAs (e.g. hidden homeless or people who sleep rough) results in underestimation of

[45] Based on MHCLG statistics on English Local Authorities' actions under the homelessness provisions of the 1985 and 1996 Housing Acts, we estimate the probability of facing homelessness by calculating the number of households applying for LA homelessness duties and being assessed as: i. unintentionally homeless and in priority need, ii. eligible and homeless but not in priority need, and iii. eligible, homeless and in priority need but intentionally as a share of the total population of households claiming LHA across English regions. (see here for the full tables: (table 784 – https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness). We follow the same approach to arrive at homelessness probabilities for Scotland (https://www2.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/RefTables) and Wales (sections 66- 73 and 75 – https://statswales.gov.wales/Catalogue/Housing/Homelessness)

[46] Bramley et al. (2010) develop regression models to estimate the links between a set of important homelessness predictors at the local authority level (such as household income and homelessness prevention measures) and rates of homelessness applications acceptances. Using local authority data over the 1993-2008 period, the authors find that increases in income (aggregated at the local authority level) result in reductions in homelessness rates across local authorities.

Source: Bramley, G., Pawson, H., White, M., Watkins, D., Pleace, N. (2010). Estimating housing needs. Department for Communities and Local Government. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6338/1776873.pdf

savings from costs associated with homelessness.

Based on latest MHCLG official statistics on LA decisions regarding provision of homelessness services in 2018,[47] 47% of applicants received temporary accommodation duty while the remaining 27% and 21% were assessed as being eligible for prevention and relief duties, respectively. It is reasonable to assume that the number of households that will avoid the risk of homelessness as a result of a change in LHA policies would have utilised these services offered by LAs at the rates outlined above.

We rely on housing services revenue outturn data published by MHCLG to calculate average costs of temporary accommodation, prevention and relief services per applicant.[48] For each household that would have been assessed as being unintentionally homeless and in priority need by local authorities and thus, would have been eligible for temporary accommodation, we assume that £93 pounds are saved per week.[49] For simplicity purposes, we assume that households would have spent one year in temporary accommodation.

Finally, for each household that would have received relief services, we assume that annual expenses of £2,280 per household are saved. For each household that would have been eligible for prevention support we assume that a one-off cost of around £400 is saved.[50]

Savings from wider costs associated with homelessness

In addition to costs of services provided by local authorities, we calculate savings from wider costs associated with homelessness.

As adults in homelessness are expected to have different needs compared to children, we distinguish between savings from costs of adult and child homelessness. Based on evidence from recent research on costs and benefits from implementing policies to tackle homelessness conducted on behalf of Crisis,[51] we assume that

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[47] See here for detailed data on homelessness services offered at the local authority level: (table A1, https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness)

[48] More detailed data on English LA housing services expenses can be found here: https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2017-to-2018-individual-local-authority-data-outturn

[49] Based on MHCLG data discussed above, £400,890,530 were spent in 2017/18 for temporary accommodation services for 82,310 households in 2017. Therefore, the annual cost of temporary accommodation is estimated to be £4,870 per household (around £93 per week for each household in temporary accommodation).

Cost of temporary accommodation includes: i. other nightly paid, privately managed accommodation, ii. private managed accommodation leased by the authority, iii. hostels (non-HRA support), iv. bed/breakfast accommodation, v. private managed accommodation leased by RSLs, vi. directly with a private sector landlord, vii. accommodation within the authority's own stock (non-HRA), viii. other temporary accommodation, and ix. homelessness administration costs.

[50] The cost of relief services was £36,154,000 for 15,837 cases (annual costs of £2,282 per household) while the cost for prevention services was £78,993,000 for 199,700 claimants (around £395 per claimant).

[51] PWC (2018). Assessing the costs and benefits from Crisis' plan to end homelessness. Available here: https://www.crisis.org.uk/ending-homelessness/homelessness-knowledge-hub/cost-of-homelessness/assessing-the-costs-and-benefits-of-crisis-plan-to-end-homelessness-2018/

changes in LHA rates will result in net savings from a set of services that households would have used if they were not prevented from homelessness.

Particularly, we assume that each household prevented from homelessness would have made use of drug and alcohol treatment services, mental health service as well as interacted with the criminal justice system. We use the following estimates on costs of these services per homeless household provided by Crisis research to quantify net savings from ending the LHA freeze:

- use of drug and alcohol dependence treatment (£322 per household per year),
- mental health services (£512 for contacting mental health services and £1,049 from using NHS services for mental health), and
- contacts with the criminal justice system (£2,439).

We also estimate net savings from costs associated with children being in homelessness. We assume that the following costs will be saved for each household with children that is prevented from homelessness:[52]

- healthcare services expenditure (£223 per child per year),
- mental health services (£349),
- contact with the criminal justice system (£57), and
- benefits including housing benefit and employment support allowance (£184).

[52] Based on MHCLG statistics on the share of households with dependent children that are accepted by local authorities, we assume that 67% of the households that are prevented from homelessness have dependent children (table 773 – https://www.gov.uk/government/statistics/statutory-homelessness-and-homelessness-prevention-and-relief-england-january-to-march-2018). Moreover, we assume that each household will have on average 1.9 children (https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/conceptionandfertilityrates/bulletins/childbearingforwomenbornindifferentyearsenglandandwales/2017#the-average-completed-family-size-has-fallen-below-190-for-the-first-time)

Findings

This section begins with a focus on the Key Scenario (Scenario 3a – annual re-alignment of LHA rates with the 30th percentile of local private rents for each year during the 2019/20-2024/2025 period) under the assumption that the benefit cap continues to apply to housing benefit. The costs and benefits of this option are outlined in detail, including with disaggregation by income quintile, region and household type.

This section then moves on to discuss how the impacts vary by scenario across the ten options that have been modelled.

Annual re-alignment of LHA rates with the 30th percentile of local private rents

Key Scenario (Scenario 3a)
Annual re-alignment of LHA rates with the 30th percentile of local private rents for each year during the 2019/20-2024/2025 period with retention of benefit cap

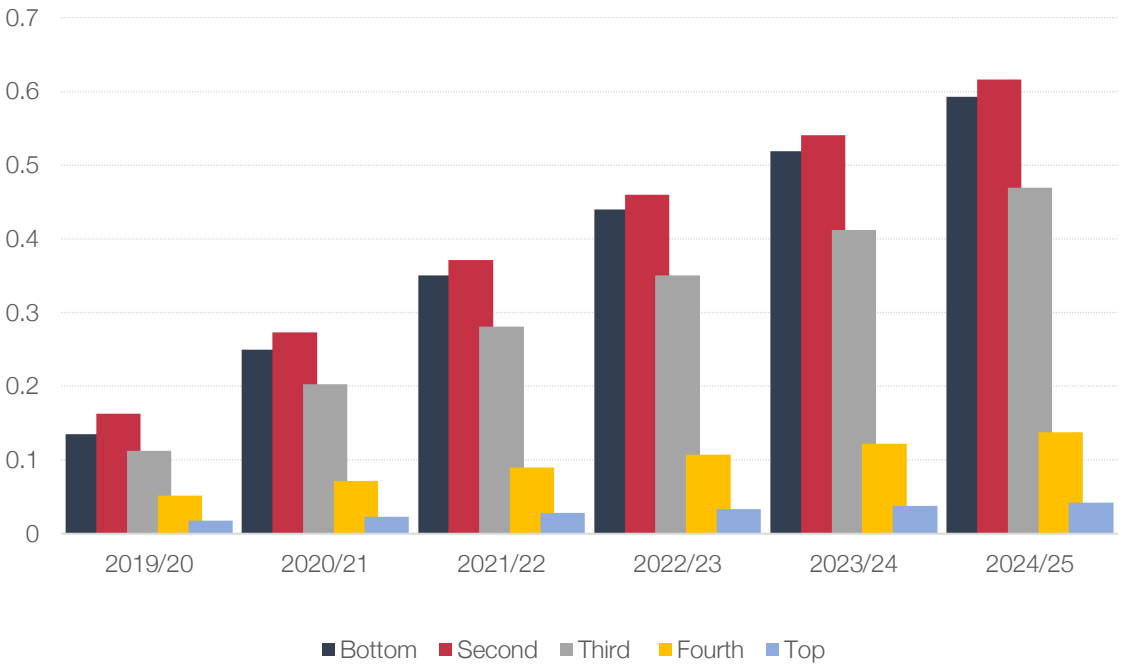
Reduced households in poverty	Prevention of homelessness
Over 55,000 households by 2024/25	Around 8,000 households by 2024/25
Benefits to LHA tenants (welfare gains)	**Financial savings from reduced homelessness**
£12 billion over 6 years	Over £0.25 billion over 6 years
Benefits net of Exchequer costs	
Nearly £5 billion over 6 years	

Welfare gains for LHA claimants

As shown in chart 1,[53] the benefits of increasing LHA rates are targeted at the lower part of the income distribution. Across the period modelled, about a third of the financial benefits from re-alignment goes to LHA claimants in the bottom quintile of the income distribution and another third goes to the second-lowest quintile. Interestingly, the largest share of the estimated financial benefits goes to claimants in the second quintile.

On the other hand, claimants in the top quintile receive less than 5% of the financial benefits generated by LHA re-alignment in the first year of the new policy implementation. The share of benefits that goes to this group of claimants further decreases to 2% after 5 years following the policy change.

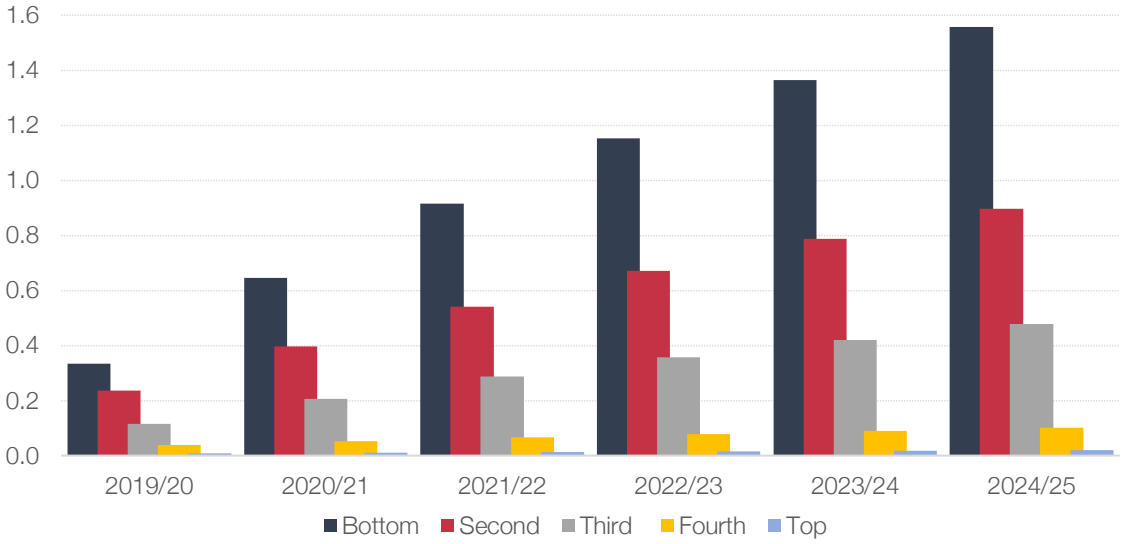
Chart 1. Financial benefit by income quintile under Scenario 3a (£billion)



The financial flows above can be converted into a measure of the welfare change for each income quintile using standard appraisal techniques. The results of applying this approach are shown in Chart 2 below.

[53] Detailed results presented in all the charts included in this section (excluding charts 10 and 11) are shown in tables A1-A9 of annex A. See footnote 56 for more details on charts 10 and 11.

Chart 2. Welfare gain (gross benefit) of Scenario 3a by income quintile (£billion)



The estimated welfare effects show that the bottom income quintile accounts for around half of the welfare gain of annual re-alignment of LHA rates. The second-lowest quintile accounts for a further third of the benefits of the policy. For example, claimants in the lowest tenth of the income distribution receive around 80% of the total welfare gains generated by the change in LHA policy in 2024/25. On the other hand, less than 3% of welfare gains goes to claimants in the highest tenth of the income distribution in the same year. These findings suggest that re-aligning LHA rates with the 30th percentile of local private rents is a policy tool with important distributional impact.

In summary, the estimated total benefits of annual re-alignment are large, rising to over £3bn per annum by 2024/25 and totalling nearly £12bn over the 6-year period modelled.

Savings from reduced homelessness

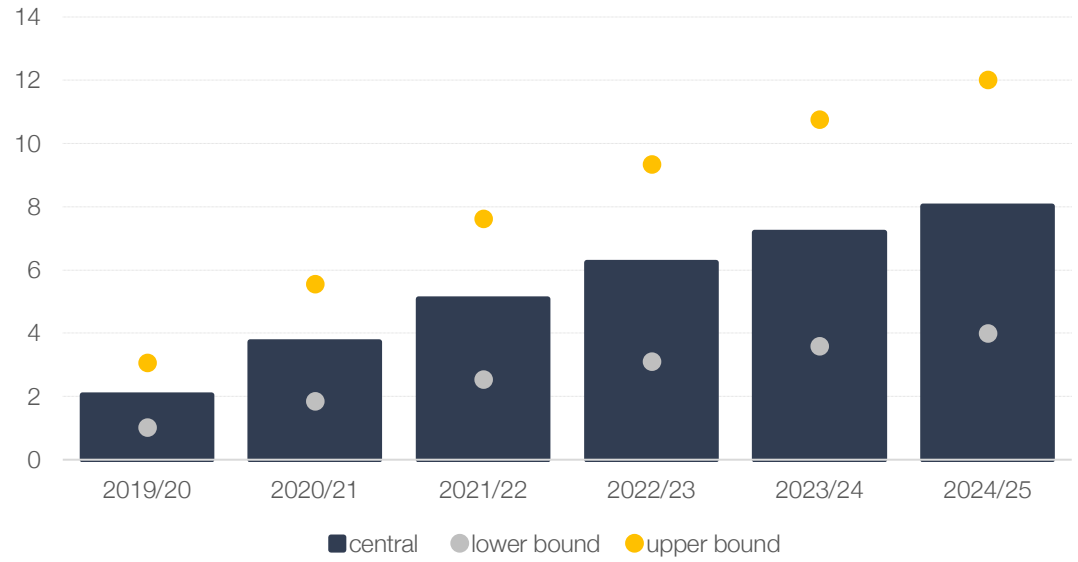
Annual re-alignment of LHA rates would prevent a significant number of households from entering homelessness, estimated at around 8,000 households by 2024/25, shown in Chart 3 below.

As discussed earlier, the homelessness effect of a change in LHA policy materialises through increased disposable income for claimants. In addition to the central estimates, Chart 3 shows lower and upper bounds of the homelessness effects of LHA re-alignment for different assumptions on the income elasticity of homelessness.[54] Assuming that homelessness is less elastic to income (an elasticity of -0.24), re-aligning LHA rates with the 30th percentile of local private rents would result

[54] See the "Impact on homelessness" sub-section in the "Methodology" chapter of this report for a more detailed discussion on the income elasticity of homelessness estimates used in our analysis.

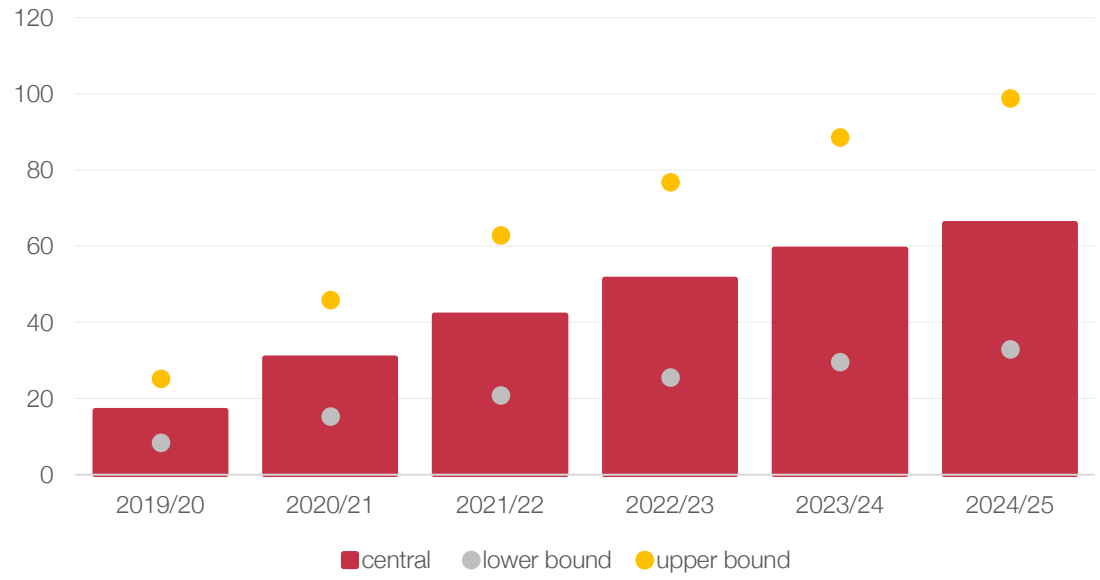
in around 4,000 households prevented from homelessness. On the other hand, assuming a stronger homelessness impact (an elasticity of -0.72), LHA re-alignment would lead to around 12,000 households exiting the risk of homelessness.

Chart 3. Number of households prevented from homelessness under Scenario 3a (thousands)



Reduced homelessness will lead to financial savings from reduced direct expenses on homelessness and the wider costs associated with it. As shown in chart 4, these savings have been estimated as over £60m per year by 2024/25 and over £250m across the 6-year period modelled. Chart 4 also presents the range of savings that can be achieved assuming different levels of income elasticities of homelessness. For example, savings from homelessness services as well as wider costs associated with homelessness range between £32.9 and £98.8 in 2024/25.

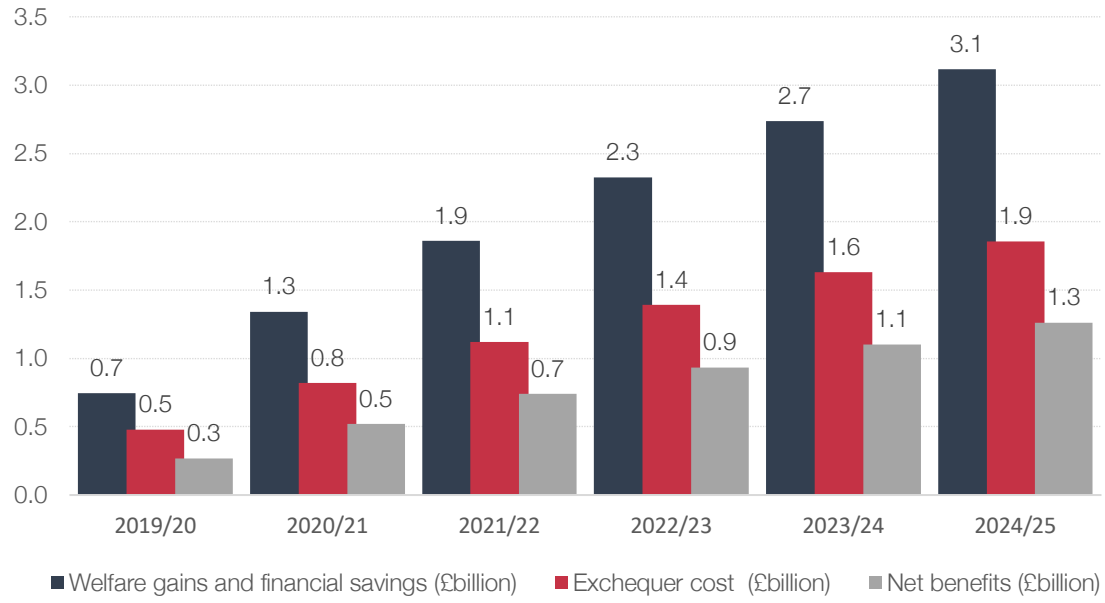
Chart 4. Financial savings from reduced homelessness under Scenario 3a (£million)



Exchequer costs and net benefits

For a full cost-benefit analysis (CBA), the welfare gains and financial savings outlined above are set against the Exchequer cost of moving to annual re-alignment. Subtracting these costs from the welfare gains and financial savings from the policy provides an assessment of the net benefits of Scenario 3a.

Chart 5. Exchequer costs, net benefits and benefit-cost ratio of Scenario 3a



The net benefits of Scenario 3a are large, reaching £1.3bn per year by 2024/25 and totalling nearly £5bn over the 6-year period. The benefit-cost ratio averages 1.7 across the period, which translates to the benefits of annual re-alignment of LHA rates being 70% higher than the Exchequer cost of the policy.[55]

Net benefits by region and household type

The micro-simulation model used to analyse LHA scenarios can disaggregate results by region and by household type. Chart 6 shows a breakdown of estimated net benefits by region in England and separately for Scotland and Wales.

Net benefits are assessed to be positive in all regions. The overall pattern maps closely to the 2017/18 distribution of the value of housing benefit expenditure by country and region. For example, across the 6-year period, London accounts for 27% of net benefits, which is in line with receiving 26% of housing benefit expenditure in 2017/18.

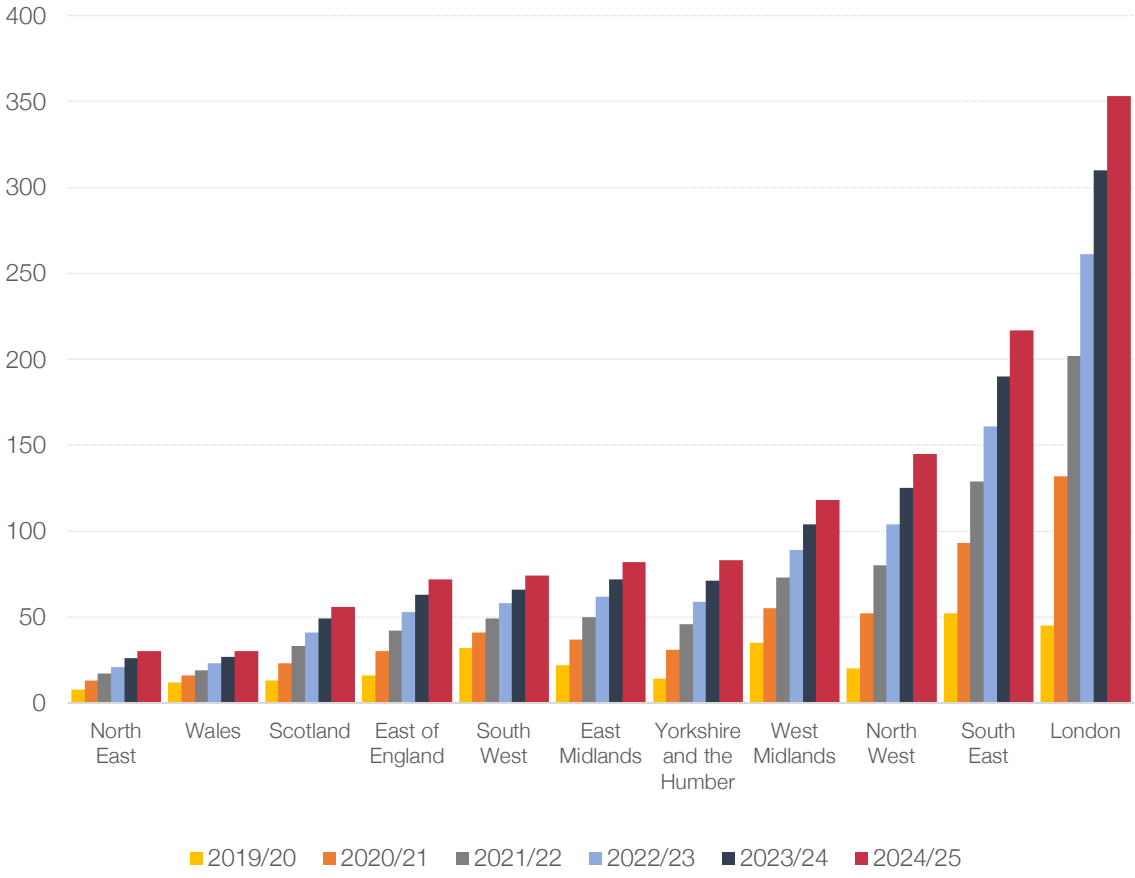
Following London, the English region with highest net benefits for LHA claimants is

[55] Benefit-cost ratio here defines the annual ratio rather than the ratio of the net present value of benefits to costs.

the South East, with claimants receiving around 17% of total net benefits from LHA re-alignment. On the other hand, claimants in North East receive the lowest share of net benefits (around 2%). As net benefits for tenants are corresponding to LA expenditure in each region, the distribution of net benefits can be explained by differences in rents across regions. For example, the lowest share of net benefits goes to claimants in the North East as a result of lower rents and thus lower housing benefit awards in this region.

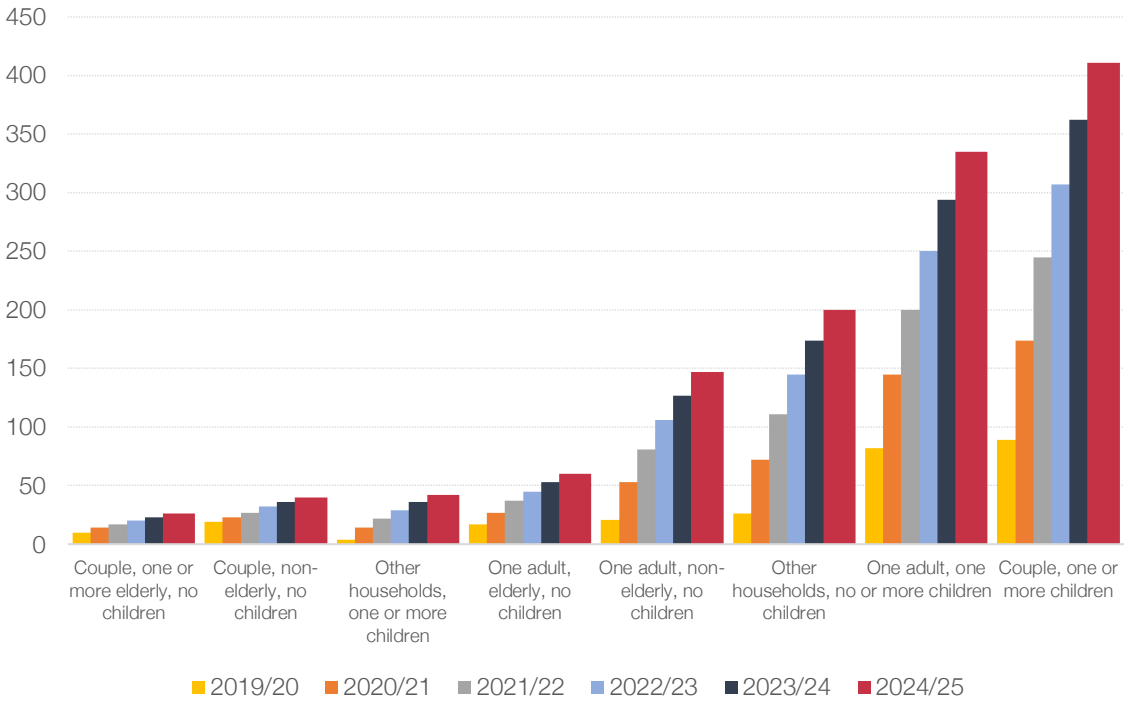
Interestingly, net benefit flows to households in Wales and Scotland are lower compared to benefits in English regions (excluding the North East).

Chart 6. Net benefit by country and region of Scenario 3a (£million)



Moving on to the breakdown by household type, Chart 7 shows that all household types benefit from annual re-alignment. Over the 6-year period, nearly two thirds of the benefit of the policy is for households with one or more children. Particularly, couples with one or more children as well as single-parent households benefit the most from changes in LHA policies. These households are expected to receive around 60% of total net benefits in 2024/25.

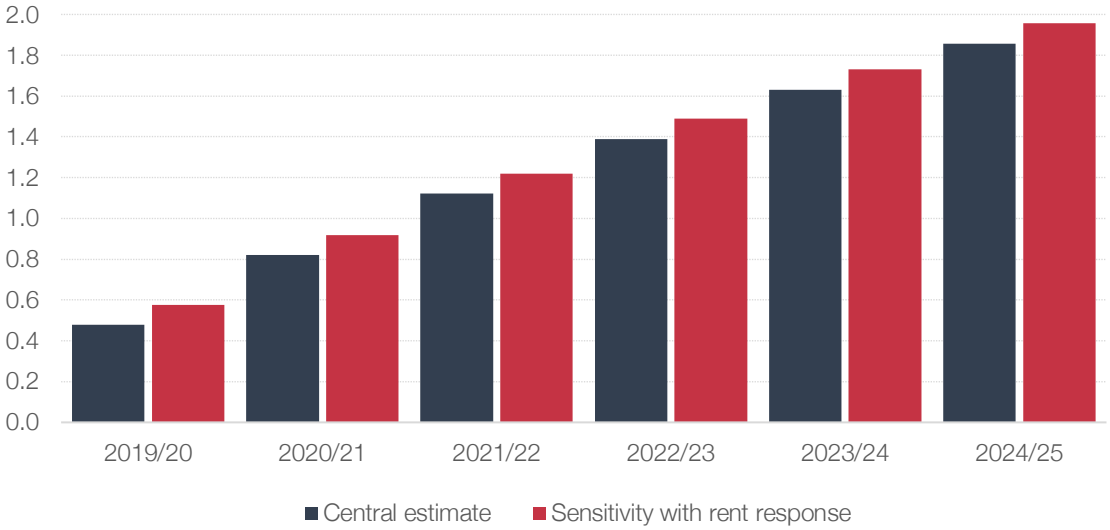
Chart 7. Net benefit by household type of Scenario 3a (£million)



Potential case of rent increases in high pressure areas

As sensitivity analysis, the case has been considered where rents in high pressure areas rise. This does not reduce the net benefits of the scenario but leads to modest increases in Exchequer costs as some of the policy change results in transfers from the Exchequer to landlords.

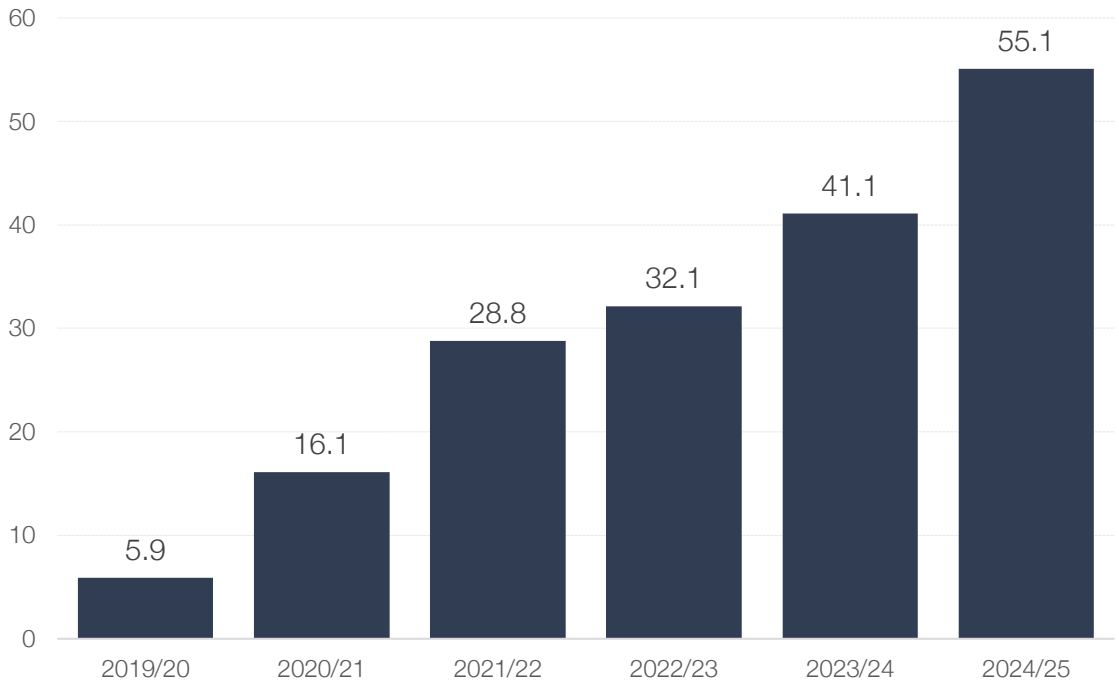
Chart 8. Exchequer costs if policy contributes to rent increases under Scenario 3a (£billion)



Impact on poverty

Moving to annual re-alignment of LHA rates with the 30th percentile of local private rents would lead to over 55,000 households being out of poverty by 2024/25 compared to maintaining the current system of freezing LHA. This number builds steadily over time from the introduction of re-alignment because the current system of freezing LHA leads to additional households entering poverty in every year that the freeze is in place.

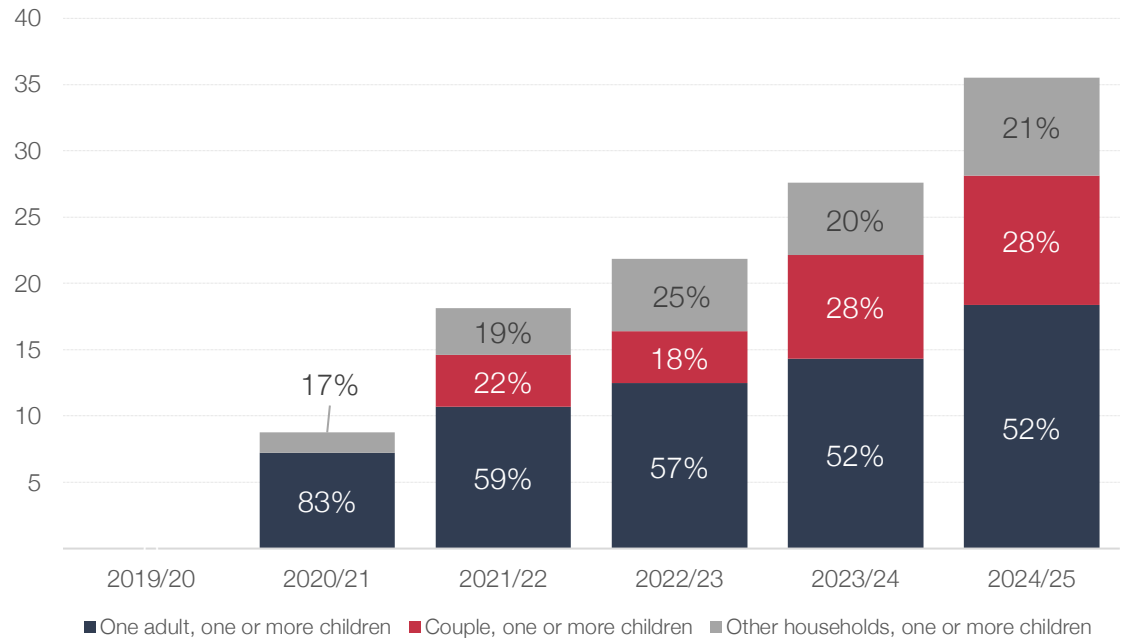
Chart 9. Number of households exiting poverty under Scenario 3a (thousands)



Our analysis suggests that households with dependent children will benefit substantially from changes in LHA rates.[56] As shown in chart 10, around 60% of households exiting poverty as a result of receiving higher LHA rates in 2024/25 have dependent children. It appears that the policy will particularly help single-parent families to exit poverty. For example, one-adult households with children account for approximately 50% of the households with children exiting poverty five years following LHA re-alignment.

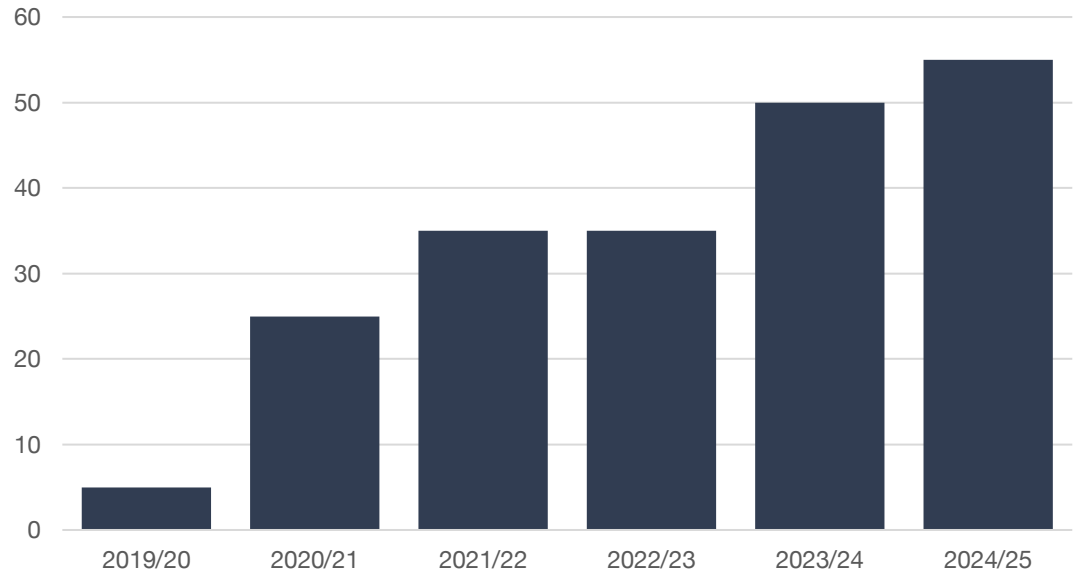
[56] The subsamples of different types of households with children are quite small in the UK-HLS sample of LHA claimants not allowing for a thorough analysis of the impact of LHA policy changes on child poverty. Therefore, the figures shown in charts 10 and 11 should be treated with caution. Our aim here is to mainly produce ballpark estimates of the effects of interest rather than precisely measure the number of children that will be exiting poverty as a result of increased housing benefit in the private rented sector. For this reason, we only present figures rounded at the nearest 5,000 that are not accompanied by Annex A tables with detailed estimates.

Chart 10. Households with dependent children exiting poverty under Scenario 3a



It follows that the suggested change in LHA policy will have a substantial effect on child poverty. Chart 11 shows the number of children that will be exiting poverty as a result of increased income from higher LHA rates. Based on the subsample of households claiming LHA in the UK-HLS, we estimate that around 55,000 children will exit poverty by 2024/25 as a result of LHA re-alignment.

Chart 11. Number of children exiting poverty under Scenario 3a (thousands)



Comparing scenarios

Cost-benefit analysis and poverty reduction by scenario

The section above focuses on Scenario 3a to illustrate the range and distribution of benefits and costs in detail, the pattern of which is broadly similar across scenarios once scaled up or down by the cost of each measure. This section goes on to compare the welfare gains, costs, net benefits, benefit-cost ratios and the number of people exiting poverty across the ten scenarios considered.[57]

Table 1. Cost-benefit analysis by scenario (6-year totals, £billion unless stated otherwise)

	Welfare gains	Exchequer cost	Net benefits	BCR[1]
Scenario 1: LHA rates uprated by CPI				
a: retaining benefit cap	+6.0	-3.4	+2.5	1.7
b: without benefit cap	+7.9	-4.4	+3.5	1.8
option (b) relative to (a), %	*33%*	*30%*	*38%*	
Scenario 2: Annual re-alignment with the 30th percentile for high-pressure areas and shared accommodation				
a: retaining benefit cap	+9.7	-5.8	+3.9	1.7
b: without benefit cap	+12.4	-7.2	+5.2	1.7
option (b) relative to (a), %	*28%*	*26%*	*33%*	
Scenario 3: Annual re-alignment with the 30th percentile				
a: retaining benefit cap	+12.1	-7.3	+4.8	1.7
b: without benefit cap	+15.1	-8.9	+6.2	1.7
option (b) relative to (a), %	*25%*	*22%*	*29%*	
Scenario 4: Annual re-alignment with the 50th percentile for shared accommodation and 1-bedroom properties and with the 30th percentile for 2-4 bedroom properties				
a: retaining benefit cap	+13.6	-8.2	+5.4	1.7
b: without benefit cap	+16.6	-9.8	+6.8	1.7
option (b) relative to (a), %	*22%*	*20%*	*27%*	
Scenario 5: Annual re-alignment with the 50th percentile for high-pressure areas and with the 30th percentile otherwise				
a: retaining benefit cap	+14.1	-8.6	+5.5	1.6
b: without benefit cap	+17.5	-10.4	+7.1	1.7
option (b) relative to (a), %	*24%*	*21%*	*29%*	

Notes: [1]Benefit-cost ratio (not in £billion) is defined here as the annual ratio rather than the ratio of the net present value of benefits to costs.

[57] Detailed results from estimating costs and benefits from each scenario are presented in Annex B.

The results above highlight that all of the scenarios considered in this report generate positive net benefits, i.e. all reform options would improve economy-wide net welfare.

Moving down Table 1, scenarios are progressively more generous on re-alignment of LHA rates. This is reflected in larger welfare gains but also correspondingly larger Exchequer costs for reform options that go further in aligning LHA rates with private sector rents. The ratio of benefits to costs across options is notably quite stable, with benefit-cost ratios falling in the range of 1.7 to 1.8 for all scenarios.

Table 2. Number of households exiting poverty by scenario (thousands)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Scenario 1: LHA rates uprated by CPI						
a: retaining benefit cap	0.0	8.6	17.7	21.7	25.1	39.0
b: without benefit cap	9.7	20.3	31.5	37.5	41.0	54.8
Scenario 2: Annual re-alignment with the 30th percentile for high-pressure areas and shared accommodation						
a: retaining benefit cap	2.0	14.2	25.0	26.3	27.5	35.7
b: without benefit cap	13.7	25.9	40.8	42.2	43.4	53.0
Scenario 3: Annual re-alignment with the 30th percentile						
a: retaining benefit cap	5.9	16.1	28.8	32.1	41.1	55.1
b: without benefit cap	17.6	27.8	44.7	51.7	60.7	76.3
Scenario 4: Annual re-alignment with the 50th percentile for shared accommodation and 1-bedroom properties and with the 30th percentile for 2-4 bedroom properties						
a: retaining benefit cap	13.9	26.1	36.9	42.0	53.8	64.4
b: without benefit cap	25.6	37.8	52.8	63.1	73.4	87.0
Scenario 5: Annual re-alignment with the 50th percentile for high-pressure areas and with the 30th percentile otherwise						
a: retaining benefit cap	9.7	19.9	32.6	42.9	55.2	64.2
b: without benefit cap	21.4	31.6	48.5	64.1	76.3	88.3

Table 2 shows for each scenario the estimated number of households that would exit poverty relative to the current system of freezing LHA rates. The numbers are substantial for all scenarios, ranging from around 40,000 households by 2024/25 for Scenario 1a up to nearly 90,000 households under Scenario 5b. Scenarios that remove the benefit cap move people out of poverty more quickly, which can be seen particularly in the results for 2019/20.

The benefit cap

Immediate removal of the benefit cap alongside ending the freeze in LHA rates would move 10,000 or more households out of poverty in 2019/20 compared to scenarios where the benefit cap continues to apply to housing benefit. This impact builds over time, with reform scenarios that include abolition of the cap for housing benefit moving around 15,000-25,000 more households out of poverty by 2024/25 compared to options that retain the benefit cap.

Comparing each of the five main scenarios with and without removal of the benefit cap, removal of the cap adds 27-38% to the net benefits for each option with an increase in Exchequer costs of only 20-30%.

Annex A – Costs and benefits from Key Scenario

Table A1. Financial benefit by income quintile under Scenario 3a (£billion)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Bottom	0.1	0.2	0.4	0.4	0.5	0.6
Second	0.2	0.3	0.4	0.5	0.5	0.6
Third	0.1	0.2	0.3	0.4	0.4	0.5
Fourth	0.1	0.1	0.1	0.1	0.1	0.1
Top	0.0	0.0	0.0	0.0	0.0	0.0

Table A2. Welfare gain (gross benefit) of Scenario 3a (£billion)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Bottom	0.3	0.6	0.9	1.2	1.4	1.6
Second	0.2	0.4	0.5	0.7	0.8	0.9
Third	0.1	0.2	0.3	0.4	0.4	0.5
Fourth	0.0	0.1	0.1	0.1	0.1	0.1
Top	0.0	0.0	0.0	0.0	0.0	0.0

Table A3. Number of households prevented from homelessness under Scenario 3a (thousands)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Lower bound	1.0	1.9	2.5	3.1	3.5	4.0
Central	2.1	3.7	5.1	6.2	7.2	8.0
Upper bound	3.1	5.6	7.6	9.4	10.8	12.0

Table A4. Financial savings from reduced homelessness under Scenario 3a (£million)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Lower bound	8.4	15.3	20.9	25.6	29.6	32.9
central	16.9	30.6	41.8	51.3	59.1	65.9
Upper bound	25.3	45.9	62.8	76.9	88.6	98.8

Table A5. Exchequer cost, net benefits and benefit-cost ratio of Scenario 3a

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Welfare gains and financial savings (£billion)	0.7	1.3	1.9	2.3	2.7	3.1
Exchequer cost (£billion)	0.5	0.8	1.1	1.4	1.6	1.9
Net benefits (£billion)	0.3	0.5	0.7	0.9	1.1	1.3

Table A6. Net benefit by country and region of Scenario 3a (£million)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
North East	8	13	17	21	26	30
Wales	12	16	19	23	27	30
Scotland	13	23	33	41	49	56
East of England	16	30	42	53	63	72
South West	32	41	49	58	66	74
East Midlands	22	37	50	62	72	82
Yorkshire and the Humber	14	31	46	59	71	83

West Midlands	35	55	73	89	104	118
North West	20	52	80	104	125	145
South East	52	93	129	161	190	217
London	45	132	202	261	310	353

Table A7. Net benefit by household type of Scenario 3a (£million)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Couple, one or more elderly, no children	10	14	17	20	23	26
Couple, non-elderly, no children	19	23	27	32	36	40
Other households, one or more children	4	14	22	29	36	42
One adult, elderly, no children	17	27	37	45	53	60
One adult, non-elderly, no children	21	53	81	106	127	147
Other households, no children	26	72	111	145	174	200
One adult, one or more children	82	145	200	250	294	335
Couple, one or more children	89	174	245	307	362	411

Table A8. Exchequer costs if policy contributes to rent increases under Scenario 3a (£billion)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Central estimate	0.5	0.8	1.1	1.4	1.6	1.9
Sensitivity with rent response	0.6	0.9	1.2	1.5	1.7	2.0

Table A9. Number of households exiting poverty under Scenario 3a (thousands)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
People (thousands)	5.9	16.1	28.8	32.1	41.1	55.1

Annex B – CBA by year, all scenarios

Table B1. Exchequer cost by scenario by year (£million)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Scenario 1: LHA rates uprated by CPI						
a: retaining benefit cap	0	253	485	699	895	1,083
b: without benefit cap	100	382	642	882	1,103	1,315
Scenario 2: Annual re-alignment with the 30th percentile for high-pressure areas and shared accommodation						
a: retaining benefit cap	355	644	891	1,108	1,298	1,471
b: without benefit cap	495	833	1,123	1,379	1,603	1,811
Scenario 3: Annual re-alignment with the 30th percentile						
a: retaining benefit cap	480	820	1,121	1,390	1,632	1,858
b: without benefit cap	626	1,019	1,367	1,679	1,959	2,223
Scenario 4: Annual re-alignment with the 50th percentile for shared accommodation and 1-bedroom properties and with the 30th percentile for 2-4 bedroom properties						
a: retaining benefit cap	593	951	1,265	1,546	1,796	2,031
b: without benefit cap	743	1,154	1,516	1,840	2,129	2,402
Scenario 5: Annual re-alignment with the 50th percentile for high-pressure areas and with the 30th percentile otherwise						
a: retaining benefit cap	597	988	1,326	1,625	1,890	2,136
b: without benefit cap	755	1,215	1,614	1,966	2,279	2,571

Table B2. Net benefits by scenario by year (£million)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Scenario 1: LHA rates uprated by CPI						
a: retaining benefit cap	0	195	368	523	662	793
b: without benefit cap	94	319	518	698	860	1,013
Scenario 2: Annual re-alignment with the 30th percentile for high-pressure areas and shared accommodation						
a: retaining benefit cap	200	421	606	765	903	1,026
b: without benefit cap	316	585	809	1,002	1,168	1,319
Scenario 3: Annual re-alignment with the 30th percentile						
a: retaining benefit cap	268	522	741	934	1,104	1,260
b: without benefit cap	390	698	963	1,195	1,399	1,588
Scenario 4: Annual re-alignment with the 50th percentile for shared accommodation and 1-bedroom properties and with the 30th percentile for 2-4 bedroom properties						
a: retaining benefit cap	336	603	832	1,032	1,208	1,370
b: without benefit cap	462	783	1,057	1,297	1,508	1,703
Scenario 5: Annual re-alignment with the 50th percentile for high-pressure areas and with the 30th percentile otherwise						
a: retaining benefit cap	322	611	855	1,067	1,251	1,420
b: without benefit cap	451	805	1,104	1,364	1,591	1,799

Annex C – Methodology

Key assumptions and modelling choices

	Assumptions/parameters	Source
Baseline – Counterfactual scenario		
Policy costs	Expenditure on LHA under the existing policy framework (freeze in housing benefit) is assumed to be constant over the appraisal period (the number of claimants will not change substantially over time).	DWP forecasts[1] of benefit expenditure showing that annual growth rates in housing benefit caseloads will be less than 1% over the appraisal period.
Sample of claimants	The number of housing benefit claimants in the UK-HLS sample is apportioned to the population of LHA claimants in English regions, Scotland and Wales.	DWP housing benefit caseload statistics[2]
Re-alignment of LHA rates		
Annual private rent projections	CPI forecasts are applied to official data on local private rent distributions.	CPI forecasts: OBR forecasts[3] Distribution of private rents: Valuation Office Agency (VOA) for England, Rent Services Scotland (RSS) for Scotland and Rent Officers Wales (ROW) for Wales
Local authority - BRMA alignment	Each local authority is matched with one BRMA (based on geographical lookups).	Geographical lookups: data from Crisis Location of claimants (LA): UK-HLS
Benefit cap		
Impact of the benefit cap	Households receiving income from benefits that is higher than the specified cap (depending on area of residence and household type) are identified.	Self-reported benefit income: UK-HLS

Financial benefits	Financial benefits in the form of additional disposable income are expected to accrue to tenants rather than landlords.	The LHA reform in 2011 that led to reduced levels of housing benefit was found to result in tenants moving to lower quality properties that were difficult to rent to non-LHA tenants rather than a decrease in rental prices. (Rugg & Rhodes, 2018).[4]
Benefits as a result of improved living conditions	15% of claimants expecting their future benefit to be higher than their current rents will move to better quality properties or improve living conditions in current properties during the first appraisal year – 15% of the remaining 85% in the second year (13%), 15% of the remaining 72% the third year (11%), etc.	Evidence shows that 15% of LHA claimants moved to other properties following the 2011 LHA reforms (DWP, 2014).[5]
Welfare gains for tenants	Financial benefits in the form of income flows will have greater value for claimants at the lower parts of the income distribution compared to those in the higher end.	Green Book guidelines for distributional impact of policies

Wider social benefits

Impact on poverty	Households that are below the poverty line (60% of median income) in each year of the policy appraisal period under scenarios about ending the freeze and the baseline are compared.	Self-reported data on net equivalised household income before housing costs: UK-HLS
Impact on homelessness	Households that would have ended up in homelessness under the baseline scenario are identified. It is assumed that 1% increase in income as a result of higher housing benefit will result in a 0.48% decrease in the probability of facing homelessness. These probabilities are used to calculate the number of households that are prevented from homelessness as a result of a change in policy.	Income elasticity of homelessness: Bramley et al. (2010)[6]
Savings from homelessness services costs	47% of households prevented from homelessness would have received temporary accommodation duties while the remaining 27% and 21% would have received prevention and relief duties, respectively.	Official MHCLG statistics on homelessness services provided by local authorities[7]

Savings from wider homelessness costs	It is assumed that all households prevented from homelessness would have used other services including drug and alcohol treatment services, mental health services, contacts with the criminal justice system. 67% of the households prevented from homelessness will have children and would thus use additional services for them. It is assumed that the average number of children per household is 1.9.	Homeless households with children: official MHCLG data[8] Average number of children: ONS statistics[9] Costs of services used by homeless households: Crisis (2018)[10]

Notes:

[1] https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2019

[2] https://www.gov.uk/government/statistics/housing-benefit-caseload-statistics

[3] https://obr.uk/efo/economic-fiscal-outlook-october-2018/

[4] Rugg, J. J., & Rhodes, D. J. (2018). The evolving private rented sector: its contribution and potential. Centre for Housing Policy, University of York. Available here: http://www.nationwidefoundation.org.uk/wp-content/uploads/2018/09/Private-Rented-Sector-report.pdf

[5] DWP (2014). The impact of recent reforms to Local Housing Allowances: Summary of key findings. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/329902/rr874-lha-impact-of-recent-reforms-summary.pdf

[6] Bramley, G., Pawson, H., White, M., Watkins, D., Pleace, N. (2010). Estimating housing needs. Department for Communities and Local Government. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6338/1776873.pdf

[7] https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness
https://www.gov.uk/government/publications/general-fund-revenue-account-outturn

[8] https://www.gov.uk/government/statistics/statutory-homelessness-and-homelessness-prevention-and-relief-england-january-to-march-2018

[9] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/conceptionandfertilityrates/bulletins/childbearingforwomenbornindifferentyearsenglandandwales/2017#the-average-completed-family-size-has-fallen-below-190-for-the-first-time

[10] PWC (2018). Assessing the costs and benefits from Crisis' plan to end homelessness. Available here: https://www.crisis.org.uk/ending-homelessness/homelessness-knowledge-hub/cost-of-homelessness/assessing-the-costs-and-benefits-of-crisis-plan-to-end-homelessness-2018/