

Equality Impact Assessment

Local Housing Allowance – Removal of the £15 excess

Name of strategy/project/policy/function:

Amendment to the Housing Benefit Regulations 2006 and Housing Benefit (Persons who have attained the qualifying age for state pension credit) Regulations 2006.

Name and contact details of the officer responsible for the assessment:

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Purpose and aim(s) of the proposal or change:

1. On 22 April the Chancellor announced that from April 2010, tenants will no longer be able to keep any surplus in Housing Benefit if the appropriate Local Housing Allowance (LHA) rate is higher than the contractual rent. (This will mean that a weekly excess up to £15 over the contractual rent if it is below the LHA rate will no longer be paid). The Department proposes to take this change forward by amending the appropriate regulations so they become operative from 5 April 2010.

Background to the proposal/change:

2. The LHA was introduced from 7 April 2008 for HB customers in the de-regulated private rented sector who make a new claim or move address. Essentially, the LHA is a new way of calculating HB entitlement in the private rented sector, based on the area in which a customer lives and household size and composition. LHA is designed to be fairer than HB, as it is based on set rates of benefit and ensures that tenants in similar circumstances in the same area receive the same amount of financial support for their housing costs.
3. This is a break from the previous system as rent officers no longer have to make a decision about the appropriate rent for each individual property but establish generic LHA rates for each property size in an area, based on the number of bedrooms.
4. The underlying aims of the LHA are to promote a fairer, simpler system, improve work incentives, promote personal responsibility among tenants and support the move into work. Payments of Housing Benefit are usually made directly to the tenant.

5. One of the features of LHA has been that tenants are able to keep any excess benefit up to a maximum of £15 per week that is over and above the cost of their rent but below the appropriate LHA rate. If the rent is higher than their benefit entitlement they must make up the difference from other sources of income.
6. The Government has decided that the amending regulations should apply to all customers in the former LHA Pathfinder and Second Wave Group authorities. These customers were transitionally protected for a year from 7th April 2008 when the LHA was rolled out nationally. Since 6th April 2009 their excess has been restricted to the maximum of £15. Customers in the Pathfinder areas will lose the excess from their anniversary date of 7th April (some customers who claimed during the pathfinder phase may still receive HB at a higher rate than their relevant LHA rate, if they are still entitled to an underlying transitional protection).
7. Existing customers who are currently entitled to an excess payment of up to a maximum of £15 over their contractual rent will see a reduction in their benefit when their claims are reviewed, usually on the anniversary date of their claim. In some cases this will be almost immediately following the coming into force of the changes. Customers who make new claims or change address on or after 5 April 2010 will not be entitled to any excess over their contractual rent.
8. The removal of the up to £15 excess will mean that some people will receive less benefit. However, this should not affect their ability to meet their contractual rent because the LHA rate calculated according to their property size and location will not be affected.
9. The changes will benefit taxpayers because customers will no longer receive any Housing Benefit over and above their contractual rent. This proposal aims to ensure that benefit rates are paid at a level that provides a fair deal to both customers and to the taxpayer.
10. The Government's priority is to focus benefits where they are needed most. Paying people more in Housing Benefit than they need to keep a roof over their head is not sustainable in the current economic climate.

Impact of the proposal or change

11. Analysis of the possible impact of this proposed change on Housing Benefit customers in the private rented sector and particular subgroups has been carried out using the Family Resources Survey (FRS) data¹.
12. The Department does not currently hold reliable quality assured data on individual LHA customers. We are therefore not able to assess the specific impact of this policy on customers currently receiving an excess, as we

¹ Family Resources Survey 2006/07.

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cannot identify affected households or their characteristics (see Annex A for more detail on when we expect to have data available).

General Impact

13. Using data collected by rent officers on contractual rent (see Annex B for more information) we estimate that around half of Housing Benefit customers living in the private rented sector pay a contractual rent that is lower than the LHA rate associated with their property size and location.
14. If we apply this indicative assumption to the estimated LHA caseload in April 2010, we can broadly estimate that around 300,000 customers may see a reduction in their benefit. However, as set out in Annex B, this is based on pre-LHA rents and does not take account of any behavioural effects.
15. The amendments will be applied to the entire LHA caseload. Data limitations mean we are not able to assess how this may impact differently on certain groups. It may be the case that people of a certain age or ethnic group are more likely to 'shop around' for their accommodation and keep the additional income for other purposes. In this case there would be a disproportionate impact on different groups. However the mix of customers receiving excess payments may be entirely random. In the absence of further evidence the Family Resources Survey is used to give a high level breakdown of the private rented sector as a whole.

Race equality

16. Table 1 shows the breakdown of the private rented sector Housing Benefit caseload by ethnicity of the head of the benefit unit. The proportion of customers in the private rented sector from ethnic minority groups is broadly consistent with that in other Housing Benefit tenure types, and that of the population as a whole.

Table 1: Breakdown of the Housing Benefit caseload by ethnicity

	Private rented sector, on Housing Benefit	Social rented sector, on Housing Benefit	All renters on Housing Benefit	All renters
White	87%	90%	89%	87%
Non-white	13%	10%	11%	13%
All	100%	100%	100%	100%

Notes: Based on the Family Resources Survey for 2006/7. Ethnicity refers to the head of the benefit unit.

We are unable to say whether customers from some ethnic groups are more likely to receive an excess than others.

Gender equality

Table 2 presents the characteristics of the private rented sector caseload broken down by the gender of the head of the benefit unit.

Table 2: Breakdown of the Housing Benefit caseload by gender

	Private rented sector, on Housing Benefit	Social rented sector, on Housing Benefit	All renters on Housing Benefit	All renters
Female	57%	62%	61%	49%
Male	43%	38%	39%	51%
All	100%	100%	100%	100%

Notes: Based on the Family Resources Survey for 2006/7. Gender refers to the head of the benefit unit.

17. We do not know whether households headed by men or women are more likely to choose properties with contractual rents that are lower than the appropriate LHA rate.

Disability equality

18. Table 3 presents estimates of the breakdown of private rented sector Housing Benefit claimants who are in receipt of a disability benefit. 11% of private rented sector benefit units are in receipt of a disability benefit versus 89% who are not, reflecting the pattern amongst renters as a whole.

Table 3: Breakdown of the Housing Benefit caseload claiming disability benefit

	Private rented sector, on Housing Benefit	Social rented sector, on Housing Benefit	All renters on Housing Benefit	All renters
In receipt of a disability benefit	11%	18%	17%	9%
Not in receipt of a disability benefit	89%	82%	83%	91%
All	100%	100%	100%	100%

Notes: Based on the Family Resources Survey for 2006/7. Receipt of a disability benefit refers to someone in the benefit unit receiving the higher rate of DLA or AA.

19. We do not have sufficient evidence to say whether customers that are in receipt of disability benefits are more likely to live in properties with a contractual rent that is less than the local LHA rate for their property size.

Older people

20. Table 4 estimates the number of private rented sector Housing Benefit claimants by age. 78% of private rented sector benefit units are headed by a working age person, whilst 22% are of elderly, which is broadly in line with renters as a whole.

Table 4: Breakdown of the Housing Benefit caseload by tenure and age

	Private rented sector, on Housing Benefit	Social rented sector, on Housing Benefit	All renters on Housing Benefit	All renters
Working age	78%	57%	61%	76%
Elderly	22%	43%	39%	24%
All ages	100%	100%	100%	100%

Notes: Based on the Family Resources Survey for 2006/7. Working age is defined as the head of the benefit unit being under 60 years old.

21. Again, there is no data available on the differences between the behaviour of people of different ages when choosing between a more expensive property or choosing a cheaper property and keeping the excess benefit.

Impact on child poverty

22. Following the introduction of LHA scheme in April 2008, new customers whose contractual rent was less than the LHA rate (according to their property size and location) would have seen an increase in their income, which would have had a positive effect on child poverty.

23. As discussed, the Department does not hold reliable quality assured data on individual LHA customers, so we are not able to estimate the positive impact this has had on child poverty.

24. Although the removal of the £15 excess should not alter people's ability to meet their rent obligations, some customers will see a reduction in their income of up to £15. Reductions in the number of children in poverty that resulted from allowing customers to retain any excess up to £15 following the introduction of LHA may now be negated as a result of this policy.

25. Given the data limitations already discussed, and after only one year in operation, it is difficult to assess the impact this policy will have on child poverty. We have made a broad estimate that around 300,000 customers may see a reduction in benefit. Although we are not able to say how many of these have children, as a rough guide the table below shows that around 45% of people in the PRS have children.

Table 5: Breakdown of the Housing Benefit caseload by number of children

	Private rented sector, on Housing Benefit	Social rented sector, on Housing Benefit	All renters on Housing Benefit	All renters
No Children	55%	70%	67%	73%
Children	45%	30%	33%	27%
All	100%	100%	100%	100%

Notes: Based on the Family Resources Survey for 2006/7.

Local Housing Allowance Two Year Review

26. We have publicly committed to completing a review of the LHA scheme over a two year period. The aim of the review is to monitor the impact of LHA at a national level; against the original LHA policy objectives (see Annex C for more detail). As part of this work, we will endeavour to capture any initial impacts that this policy has had on HB customers.

Risk

27. Under the current system if the LHA rate is higher than contractual rent, customers are able to keep the excess benefit up to a maximum of £15 per week. If the rent is higher than their LHA entitlement they must make up the difference from other sources of income.

Mitigation

28. The removal of the £15 excess will mean that some people will receive less benefit; however, this action should not affect their ability to meet their contractual rent.

29. Under the current economic climate the Department's priority is to focus benefits where they are need most.

30. Customers who already get the excess will continue to receive the same amount until their cases are reviewed usually at the anniversary date of their claim. We are planning to make and lay the regulations in late October/early November 2009 so that all the customers affected can be given sufficient notice of the reduction in their benefits. This will help them to plan ahead and make alternative financial arrangements if they need to.

Consultation and involvement

31. The Department is currently consulting with local authority associations, the devolved administrations and key voluntary sector groups for 12 weeks and the exercise will conclude on 10 September 2009.

Changes made

32. No changes have been made to the policy since the initial impact assessment was carried out.

Next steps

33. The LHA scheme is currently being monitored as part of the commitment to a review of the scheme after 2 years of operation. Diversity issues are included in the current monitoring arrangements for the whole scheme and findings will be reported in the 2 year review subject to limitations of the available data.

Annex A: Single Housing Benefit Extract

Information on Housing Benefit customers is supplied to the Department electronically by the 380 local authorities (408 before April 2009) responsible for its administration. This replaces the old system of clerical returns. The last clerical data relates to the final quarter of 2007/08.

At present no information on caseload or average awards is being routinely published while the DWP Information Directorate is undertaking a detailed quality assurance process of the data. It will not begin to be available for analytical purposes until the autumn of 2009.

Annex B: Rent Officer Referral Data

Prior to the introduction of LHA, all customers living in the private rented sector had their claim assessed by a rent officer before their Housing Benefit was awarded. Re-referrals also took place annually for live claims. This process still takes place for customers who currently remain on the pre-LHA scheme.

The assessment process collects data on the contractual rents of these customers. This “rent officer referral data” is put together over a twelve month period and provided to the DWP annually. It is the most reliable data source we have available on the actual rents that Housing Benefit customers in the private rented sector pay.

The most recent version of this dataset that we have refers to pre-LHA Rent Officer referrals over the period March 2007 and February 2008². At this time all of the caseload³ was receiving the pre-LHA scheme.

The dataset can be used to estimate the impact of policy changes on LHA customers using the following methodology:

- We assume that pre-LHA customers and LHA customers do not live in different types of accommodation and so their contractual rents are broadly comparable;
- All contractual rents in the dataset are up rated to account for market changes between 2007/8 and 2008/9;
- An ‘eligible rent’ is assigned to all observations, based on the LHA rate associated with the size of property and its location;
- A new ‘eligible rent’ is calculated based on the policy change (in this case removal of the £15 excess allowance above contractual rent);
- The number of ‘losing’ customers is calculated – i.e. those that see a fall in their eligible rent as a result of the policy change;
- Because the number of ‘losers’ is based on the entire pre-LHA caseload, we apply our estimate of the proportion of these customers that now will have moved on to the LHA scheme, and take this figure.

² We are due to receive a more up-to-date version of the Rent Officer Referrals data in June 2009

³ Excluding LHA Pathfinder areas

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There are a number of reasons why we should be cautious about estimates derived using this process:

- Some of the contractual rents data will date back as long ago as March 2007 and we cannot be sure that our up rating procedure has adequately accounted for changes in the rental housing market;
- By assuming that a fixed proportion of the pre-LHA caseload move on to the LHA we ignore potential behavioural effects – i.e. it might be the case that particular types of customer (with particular contractual rents) are more likely to break their claim in order to move on to the LHA. For example, those with low rents relative to their eligible LHA may purposefully move onto the LHA in order to receive their excess payments. This is particularly relevant since the LHA is being introduced to new claims or changes of address which may result in differences in rent.

Annex C: LHA policy objectives:

- **Fairness** – The LHA ensures households in similar circumstances in the same area will be entitled to similar amounts of benefits.
- **Choice** – The LHA allows customers to choose between the quality and price of their accommodation.
- **Transparency** – A clear and transparent set of allowance rates helps tenants (and landlords) know how much financial help is available from the state.
- **Personal responsibility** – Wherever possible, the LHA should be paid directly to tenants, and therefore promotes financial inclusion and helps develop the skills unemployed tenants will need as they move into work.
- **Improved administration and reduced barriers to work** – The LHA provides a simpler system that should help speed up administration of housing payments and give tenants more confidence when starting a job that any in-work benefit will be paid quickly.