

Local Housing Allowance Final Evaluation:

The survey evidence of claimants' experience in the nine Pathfinder areas

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nine Pathfinder areas**

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Glossary

List of terms used in this report:

ACT (Automated Credit Transfer) – A method of paying money directly from the Local Authority (LA) to the recipient's bank or building society account.

Appropriately-occupy – Claimants whose accommodation matches the Department for Work and Pensions (DWP) size criteria (see size criteria on page 3).

Contractual rent – The rent charged to the tenant by the landlord for a property.

Deficit – Claimants have a 'deficit' if their Housing Benefit (HB) (see below) amount (i.e. the amount they receive after adjustments for income or non-dependents) is less than their contractual rent.

Direct payments/paid direct – Refer to HB payments made to the claimant (not the landlord).

Eligible rent – The maximum amount of HB a claimant could receive based on the circumstances of the tenant, the locality in which they live and a range of restrictions applied by a Rent Officer (i.e. before adjustments for income or non-dependants). In the Pathfinders the Local Housing Allowance (LHA) (see page 2) is equal to eligible rent.

Excess – When the LHA (i.e. the maximum eligible rent before income and non-dependant based adjustments) is more than contractual rent, a claimant is said to have an excess.

Gain/Gainers – Gainers are claimants whose eligible rent is higher under the LHA assessment than it would have been under the non-LHA assessment of eligible rent. The size of the gain is the difference between the two assessments.

HB – Sometimes called rent rebate or rent allowance. It is a benefit that is paid by LAs to assist people to pay their rent. The amount that claimants receive depends on their financial and personal circumstances. It may not cover all of their rent. In Pathfinder areas, claimants in the deregulated private rented sector are paid HB amount based on LHA rules.

HB amount – Refers to the amount of LHA or HB that claimants receive after adjustments for income or non-dependants.

HB concentrated market – Housing markets where the HB sector tends to be long-standing, geographically concentrated and/or limited to a number of specialist landlords (Conwy and Leeds).

HB dispersed market – Housing markets where the HB sector is much more dispersed amongst the wider Private Rental Sector (PRS) rental market than in either the HB concentrated market or the HB dominant market (Lewisham, Brighton and Hove, Coventry and Teignbridge).

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HB dominant market – Housing markets where the HB sector dominates the local PRS rental sector (North East Lincs and Blackpool).

Local reference rent – the rent a Rent Officer determines is halfway between the lowest rent that is not 'exceptionally low' and the highest rent that is not an 'exceptionally high' amount paid for a property with an appropriately comparable number of rooms in the same locality. The LHA rates for the broad rental market areas were largely modelled on the local reference rent.

Local Housing Allowance rate – This is a flat-rate allowance towards rent costs that is calculated on the basis of the circumstances of the tenant and the broad area in which they live. It is the maximum amount of HB a claimant could receive, before any income or non-dependant based adjustments are made. This is the eligible rent in the Pathfinders.

Management Information (MI) – Statistics collected by DWP from LAs for various purposes. However some MI was collected by the DWP from Pathfinder areas specifically for LHA evaluation.

New first-time claimants – Claimants who claimed HB under the LHA for the first time.

New repeat claimants – Claimants who were not receiving HB immediately before being switched to the LHA but who had received HB in the past.

No gainer – A claimant is a 'no gainer' if their eligible rent is the same under the LHA and non-LHA assessments.

Notional loss/losers – A claimant has a 'notional loss' if their eligible rent is lower under the LHA assessment than it would have been under the non-LHA assessment of eligible rent. The size of the notional loss is the difference between the two amounts. These claimants are described as notional losers. Existing claimants who would have lost when the LHA was introduced are transitionally protected and continue to be entitled to the higher amount of eligible rent, frozen at the time of introduction of the LHA.

Over-occupy – Claimants who live in property that is deemed to be smaller than their entitlement under the DWP size criteria (see size criteria, on page 3).

Rooms – The number of 'rooms' is the number of habitable rooms in the property (excluding kitchens, bathrooms and toilets) that the tenant has access to. In cases of shared accommodation, this does not include rooms that are used solely by the other tenants.

Shared room rate – Under the LHA a single person under 25 will receive the LHA rate set for rent for a single room with a shared living room, kitchen, bathroom and toilet whether or not they occupy a property of this type, except where a non-dependant lives with them, they qualify for the severe disability premium or they are a care leaver under 22. Single people over 25 and childless couples receive the shared room rate if they occupy shared accommodation.

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Shortfall – When the LHA (i.e. the maximum eligible rent before income and non-dependent based adjustments) is less than contractual rent, a claimant is said to have a 'shortfall'.

Single room rate – Single people under the age of 25 with no partner, no dependents and who do not qualify for a severe disability premium in their HB have their rent restricted to the level that a Rent Officer determines is halfway between the lowest rent that is not 'exceptionally low' and the highest rent that is not an 'exceptionally high' amount paid in the locality for a single room with a shared living room, kitchen, bathroom and toilet.

Size criteria – The 'size criteria' are applied by the Rent Officers to calculate the number of bedrooms and living rooms that a claimant is entitled to. LHA rates are based on this entitlement.

The conditions are as follows. One room is allowed as a bedroom for:

- a married couple;
- a single person aged 16 or more;
- two children of the same sex under the age of 16;
- two children (of the same or opposite sex) under the age of 10; and
- a child under the age of 16.

In addition, living rooms are allocated as follows:

- one, if there are one to three occupiers;
- two, if there are four to six occupiers; and
- three, if there are seven or more occupiers.

Surplus – Claimants have a 'surplus' if their HB amount (i.e. after income and non-dependant based adjustments) is more than their rent.

Top up – A rent 'top up' is paid by a claimant whose HB amount is less than their rent.

Transitionally Protected – A Transitionally Protected HB claimant is a person whose eligible rent under the LHA assessment would have been less than under the non-LHA assessment when the LHA was introduced. They continue to be entitled to the higher amount of eligible rent, frozen at the time of introduction of the LHA.

Under-occupy – Claimants who live in property that is deemed to be larger than their entitlement under the DWP size criteria.

Executive summary

Introduction

As part of its reform of Housing Benefit (HB) (see Glossary on page 1, for a description of terms used in this report), the Government has introduced, in selected local authority areas, a Local Housing Allowance (LHA). This is payable to low-income tenants in the deregulated Private Rental Sector (PRS). The Department for Work and Pensions (DWP) has commissioned an evaluation of the LHA in nine local authorities, or Pathfinder areas. The evaluation design includes a longitudinal study of a cohort of LHA claimants over a period of two years after the start of the LHA in each Pathfinder. This report presents findings from administrative data and all three waves of interviews with claimants, and covers the period up to twenty-four months after the start of the LHA in each Pathfinder.¹ The survey data compares the nine Pathfinder areas with the three Control areas. The DWP administrative data compares the nine Pathfinder areas with the three Control areas and a further six areas. These nine areas (the three Control and the six additional areas) are referred to as Comparator areas.

Claimant profile

The majority of HB claimants in both the Pathfinder and Control areas are aged between 25 and 49. Claimants most commonly live alone. Only around one-fifth are in paid employment and those that do work tend to be in low-income occupations. Reported levels of ill-health are high, with just under a half of claimants saying they have a limiting long-standing health complaint.

In both Pathfinder and Control areas, there was an increase in paid employment between Wave 2 and Wave 3, a decrease in working in elementary occupations, an increase in the number of hours worked and an increase in hourly pay. However, these changes are limited to HB dispersed and HB concentrated markets.

Accommodation characteristics

The overall condition of properties in the market was stable over time, even though there was a general increase in repairs being carried out by landlords in the previous three months from Baseline to Wave 3. Within this stability, there was evidence that landlords did not maintain properties with sitting tenants, but did if they had new tenants.

Among claimants who had moved home between Wave 1 and Wave 3, there was a shift in housing type in the Pathfinder areas (towards living in a house or bungalow); there was no parallel shift in the Control areas. Upon moving, an increased proportion of Pathfinders reported being satisfied with the number of

¹ Previous reports based on the Pathfinder claimants are: Claiming HB in the Private Rented Sector: the Baseline experience of claimants in the nine LHA Pathfinder areas, Anderson, T., Stafford, B., and Woodland S. (2005), DWP; Local Housing Allowance Final Evaluation: The qualitative evidence of claimants' experience in the nine Pathfinder areas, Hill, K., Harvey, J., Phung, V., Sandu, A. and Roberts, S. (forthcoming), DWP; Receiving the LHA: Claimants' early experiences of the LHA in the nine Pathfinder areas, Roberts, S., Beckhelling, J., Hill, K., Phung, V., Stafford, B., Stratford, N. and Anderson, T. (2005), DWP, and Living with the LHA: Claimants' experiences after 15 months of the LHA in the nine Pathfinder areas, Roberts, S., Beckhelling, J., Phung, V., Boreham, R., Anderson, T. and Li, N. (2006), DWP.

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rooms in their home, compared with their previous home. Among the Controls, there was little change. These findings indicate that a minority of Pathfinder claimants may be using the more generous allowance available under the LHA to move to more suitable accommodation.

Moving history

The LHA appears to have had a minimal impact on claimant moving behaviour. In addition, there was no evidence of claimants being attracted into the Pathfinder areas by any aspect of the LHA.

The introduction of the LHA seems to have had an initial impact on landlords' use of formal tenancy agreements, which became more common between Baseline and Wave 1. This may reflect that some landlords were mitigating the perceived risks of more direct payments under the LHA. However, as Pathfinder LAs were actively promoting the use of tenancy agreements for HB claimants, this may also have had an impact. The stabilisation in the percentage of claimants having a formal tenancy agreement after Wave 1 may be attributable to the absence of any major increase in rent arrears as a result of the introduction of the LHA.

Payment methods and rent arrears

The LHA has substantially increased the incidence of direct payments in the Pathfinder areas. Since Wave 1, there has been a modest increase in payments to the landlord, driven by applications to classify the claimant as vulnerable or unlikely to pay the rent. This is slightly more likely to occur where the claimant and landlord have a longer association. Landlord payments are more likely in rental markets that are dominated by the HB sector, which may be due to the higher rate of reported rent arrears in those markets.

Nearly all Pathfinder claimants have access to a bank or building society and a large majority of those on direct payments receive their LHA by Automated Credit Transfer (ACT). However, many of these do not pay their rent by standing order or direct debit.

There is no evidence of a significant increase in rent arrears as a result of the LHA. It seems that the LHA rules around direct and landlord payments may be working as intended, with reported rent arrears decreasing slightly among claimants who remain on direct payments by Wave 3, and decreasing for those on landlord payments between Wave 2 and Wave 3. This latter finding provides weak evidence that reverting to landlord payments protects some of the most vulnerable claimants from getting into rent arrears.

Future decisions

Across the period covered by the surveys, there was no evidence of systematic change in the proportion of claimants who hoped to move in the next few years. However, at Wave 3, Pathfinder area movers were less inclined than their counterparts in the Control areas to say that they still hoped to move. This could reflect that movers in the Pathfinder areas were more content with their new home than those in the Control areas. Between Wave 1 and Wave 3, there was a rise in the proportion of non-movers who hope to move

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in the future. This increase was substantially larger in the Pathfinder areas than in the Control areas. This could similarly indicate a push-effect of the LHA with claimants in Pathfinder areas feeling that they could afford more suitable accommodation, if they could only find it.

Between Baseline and Wave 1, among claimants who hoped to move, those living in Pathfinder areas became more likely to give 'larger accommodation' as a reason for moving, and less likely to cite 'rent'. By contrast, across this period in Control areas, would-be movers became less likely to cite 'larger accommodation' while the numbers citing 'rent-related reasons' stayed constant. This should allay concerns that LHA recipients would seek to downgrade to smaller, inappropriate accommodation in order to generate a surplus. Pathfinder claimants with a surplus were more likely to hope to move to larger accommodation than those with no surplus. This is consistent with the LHA's aims of increasing choice and encouraging personal responsibility.

Analysis of variations in work intentions across time and between areas was complicated by the close association between work intentions and current economic activity. However, the similar trends within Pathfinder and Control areas do not support the contention that the LHA has had an impact on claimants' work intentions.

Household finance and financial well-being

Claimants' financial situations improved over the course of the study in both the Pathfinder and Control areas. Prior to Wave 3, these shifts cannot be attributed to increased employment rates; however, they may be associated with the increased take-up of certain benefits, such as Council Tax Benefit (CTB) and Child Tax Credit. HB amounts in payment had also increased over the survey waves, and by a greater amount in Pathfinder areas than in Control areas, which could also play a small part in increasing household income.

In the Control areas, there was an almost threefold increase in the percentage of mover claimants who said a change to HB/LHA made them worse off from Wave 1 to Wave 3, whereas in the Pathfinder areas there was a slight decrease. This finding may reflect a positive outcome of the introduction of the LHA. Under LHA rules, HB amount is not dependent on the property that is rented and LHA rates published, so it may have been easier for claimants in Pathfinder areas to ensure that they were not worse off when they moved.

Across the course of the study, an increasing proportion of Pathfinder and Control claimants felt that, financially, they were managing all right or at least getting by. This is consistent with the concomitant rise in household incomes.

Eligible and contractual rents, and Housing Benefit amounts in payment

The LHA assessment of eligible rent as implemented in the Pathfinders is more generous than the non-LHA assessment in the existing HB system, and has subsequently increased the amount of HB available to claimants in the Pathfinders, on average.

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The Pathfinder claimants with the largest excesses are likely to be those who qualify for large accommodation under the rules, but who over-occupy, either out of choice, or because of a lack of appropriately sized accommodation in their local rental market. There is no evidence that the introduction of the LHA has driven claimants to systematically over-occupy (and therefore over-crowd) their accommodation in order to maximise any excess.

The Wave 3 survey claimants have a higher proportion of their contractual rent covered by HB, and have lower average HB deficit, than Flow claimants in both the Pathfinders and Comparators. If the Wave 3 sample does indeed represent a more stable, long-term set of claimants than the Flow sample, then it would appear that claimants with stable claims benefit to a greater degree from stable contractual rents.