Tracking Welfare Reform

The impact of freezing LHA rates in London

LONDON COUNCILS

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Executive summary

The affordability of privately rented properties is an important issue for London boroughs – affecting the incidence of homelessness, boroughs' ability to rehouse homeless families and the cost of procuring temporary accommodation.

Recent reforms to the way Local Housing Allowance (LHA) rates – which govern the maximum amount of housing benefit that can be paid to private renters – are calculated have already fundamentally affected the caseload of LHA claimants in London and the affordability of private rents, especially in inner London.

The government now proposes to freeze LHA rates for the duration of the current parliament.

This report presents the results of a series of projections of what the freeze might mean for levels of affordability of the private rented sector in the capital to housing benefit recipients. London Councils has serious concerns at the potential for this policy to leave the vast majority of London unaffordable to LHA recipients – the majority of whom in London are in-work households.

The confirmation of the existence of a Targeted Affordability Fund for the duration of the parliament is welcome, and holds the potential to go some way towards alleviating the lack of affordability of the private rented sector. However, the only thing we currently know about this fund is that it will offer no assistance in 2016/17. It is also possible that the existence of national cap levels will restrict its applicability in London.

Given these facts, London Councils recommends:

- The government engage with London Councils over the effects of the freeze, giving consideration to making a targeted exemption for London. This could involve a decision on the setting of LHA rates in the capital being taken on an annual basis, informed by regular assessments of affordability. Crucially, this should be determined outside of the constraints of the Targeted Affordability Scheme.

If it must proceed with a freeze on LHA rates in London, London Councils recommends:

- The government commits to a fresh programme of evaluation to assess the effects of the policy over the whole course of the parliament and beyond

- The government engages with London Councils as soon as possible over the design of the Targeted Affordability Fund (TAF), placing a priority on the affordability of private rents in the capital. This should include reviewing the basis on which the savings from the freeze are calculated to ensure a fair and appropriate TAF

Introduction

Housing benefit is a long-term feature of the welfare benefits system which exists to help low earners and the unemployed with their housing costs.

The way the government sets the amount of housing benefit that those who rent in the private sector can claim has been the subject of regular reforms.

This report aims to assess the most recently announced government policy for setting this amount – the four-year freeze in Local Housing Allowance (LHA) rates, announced in the Summer Budget – and its effect on the affordability of the private rented sector (PRS) in London.

The affordability of private rents is of crucial importance to boroughs, as it is largely into the PRS that boroughs will seek to place households to whom they have a statutory duty to house. If there are not affordable properties available locally to boroughs, they will be forced to look further afield in order to find sustainable tenancies. Should the PRS become increasingly unaffordable, existing tenancies could be destabilised leading to more households presenting as homeless to their local authorities.

The affordability of private rents is also of increasing importance for London boroughs in the procurement of temporary accommodation. With insufficient numbers of social housing units available to temporarily house homeless families, boroughs are forced to procure properties from the PRS. Crucially, under Universal Credit, the subsidy that boroughs receive from government to cover these costs will be based on future LHA levels so a growing gap between the affordability of the PRS and LHA rates will translate into extra costs for boroughs.

Local Housing Allowance

The Local Housing Allowance (LHA) was introduced in 2008 as a way of setting the rent element of housing benefit for tenants living in the deregulated private sector. LHA rates represent the maximum amount that can be paid to claimants in the private rented sector. The rates vary according to the number of bedrooms a household is entitled to and which 'Broad Rental Market Area' they live in.

From 2011, the coalition government began phasing in reforms to the way LHA rates are calculated, these included:

- Basing maximum LHA rates on the 30th percentile of local market rents rather than the 50th percentile.
- Implementing national caps for different sizes of properties.
- Removing the five-bedroom rate.
- Increasing to 35 from 25 the age until which the shared room rate will apply for single, childless adults.

In addition, the Chancellor subsequently announced in the 2012 Autumn Statement that LHA rates would rise by CPI inflation in April 2013 and then by 1 per cent in each of the following two years.

Budget measures

On 7 July, the Chancellor announced a package of reforms designed to reduce expenditure on welfare benefits by £12 billion by 2019/20. This package included a proposal to freeze all working-age benefits for the duration of the current parliament. This would include LHA rates.

This means that from April 2016 through to 2019/20, there will be a freeze on increases to LHA rates at April 2015 levels (rates may still fall if rents fall and are below the 30th percentile level).

While the freeze in most welfare benefits and tax credits is being implemented via the Welfare Reform and Work Bill, the LHA freeze does not require primary legislation to implement and will be implemented via amendments to the Rent Officers Orders. It is anticipated these amendments will be laid in October.

Targeted Affordability Funding

Following his announcement on limiting LHA rates to CPI then 1 per cent, the Chancellor announced in 2013 that a proportion (30 per cent) of the savings from the 1 per cent uprating would be set aside to allow LHA rates in some areas to rise by more than 1 per cent.

This measure, subsequently named the 'Targeted Affordability Fund' (TAF), was directed towards areas where rents had diverged the most from LHA rates and allowed many rates to increase by 4 per cent rather than 1 per cent. This was the only exception that the coalition government allowed to its caps on working-age benefits.

For the LHA freeze announced in the Summer Budget, the government has announced that a TAF representing 30 per cent of the savings will again be implemented. **As the TAF is drawn from savings, there will be no funding in 2016/17.**

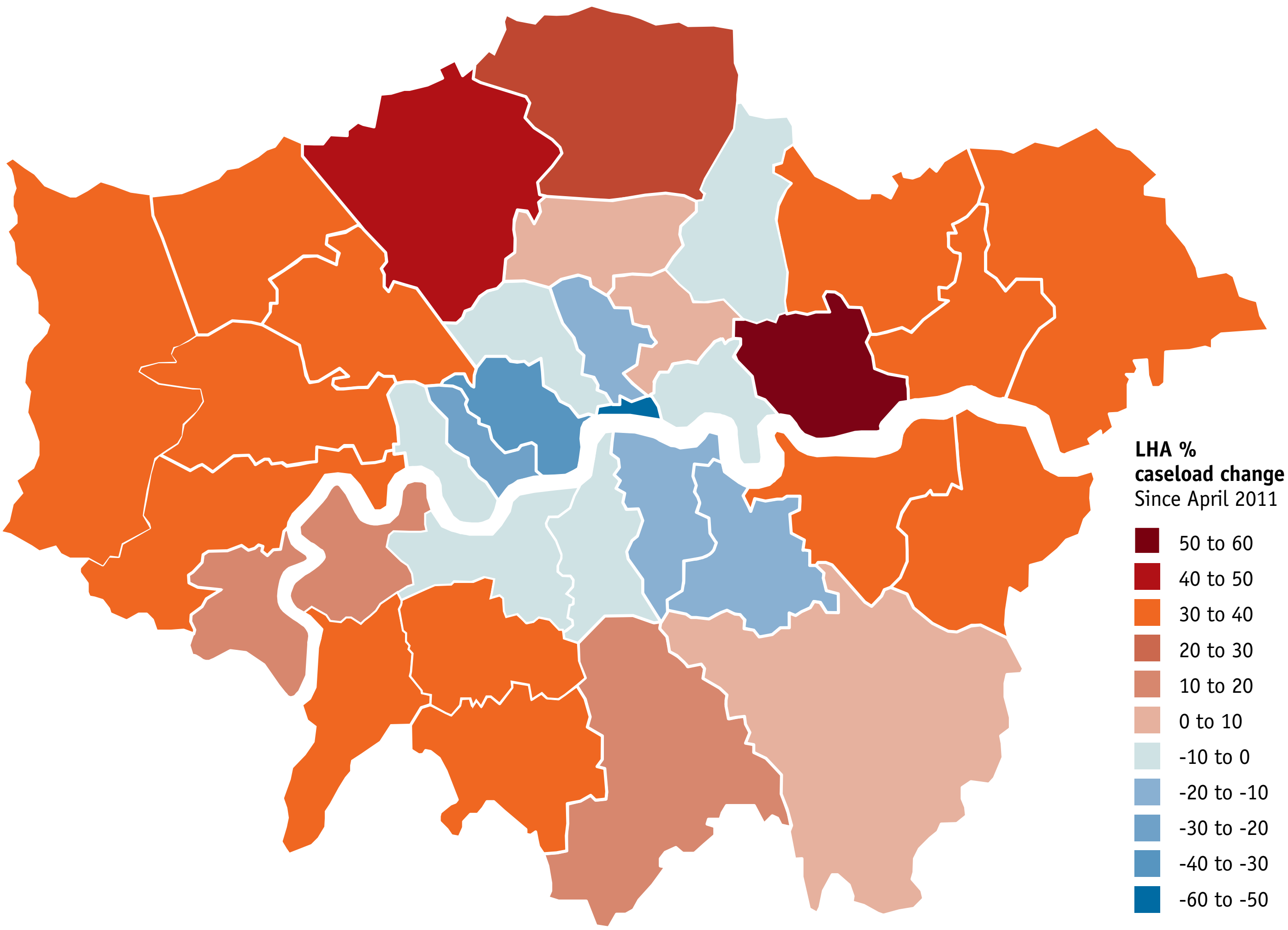
Current situation

LHA caseloads

London's LHA caseload is characterised by a growing majority of private renters in receipt of housing benefit having at least one member in employment.

In addition, there has been a general shift outwards in the caseload, with inner London boroughs tending to have experienced decreases in overall caseloads since the introduction of the LHA reforms in April 2011, and almost all outer London boroughs experiencing an increase.

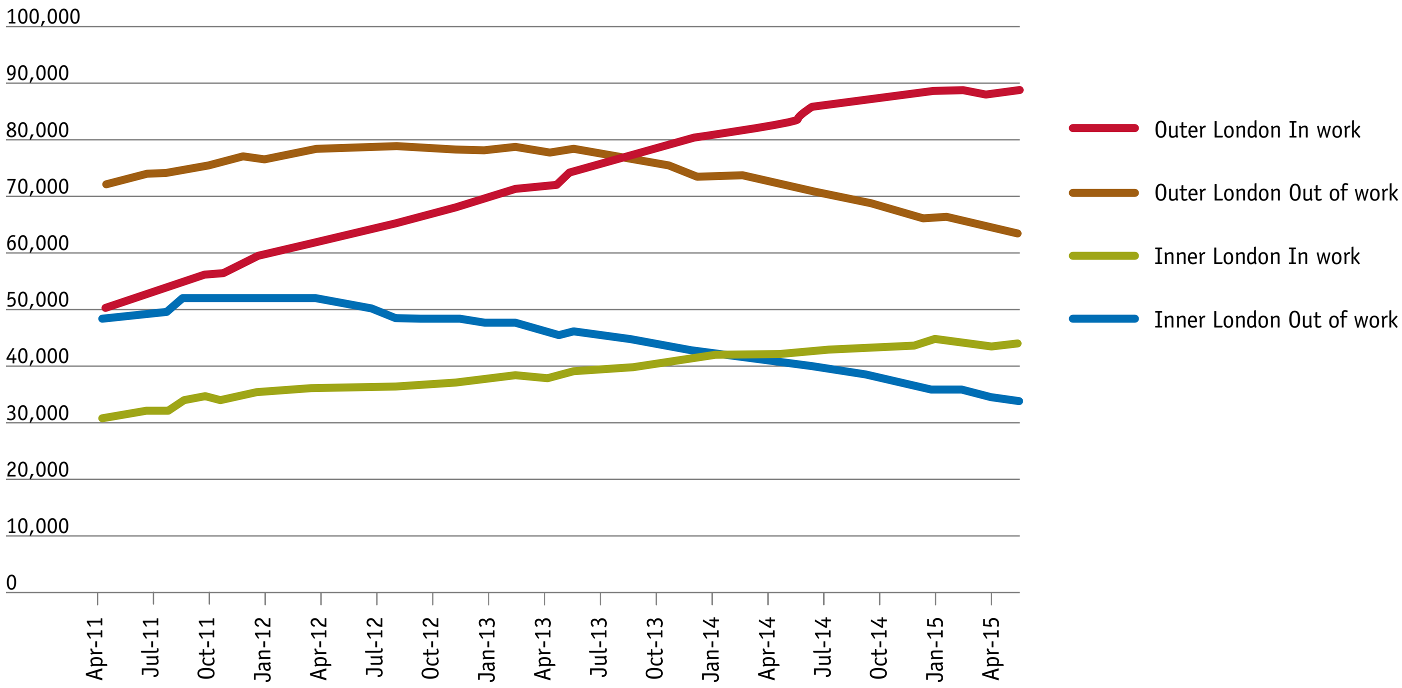
Figure 1: **Change in LHA caseload**



Almost all boroughs have experienced increases in their in-work caseloads and decreases in the out-of-work caseloads. Overall caseload changes have been driven by the relative balance between these trends.

The overall picture can be summarised in the chart below:

Figure 2: **London LHA caseload**



In all, some 57.6 per cent of London's households in receipt of LHA have a member who is in employment – the only region in England where this is true.

This poses important questions for policy makers. The limiting of increases in LHA rates is having a different effect in London than in the rest of the country. Outside of London, these limitations will be mainly reducing or limiting the housing benefit received by out of work households. **However in London, it is mainly in-work households that are affected.**

LHA rates and rent increases

There is little sign yet that the introduction of LHA reforms, nor the capping of increases at 1 per cent, has had the effect of reducing rents in London.

Rent levels have continued to rise across most parts of London and for most sizes of property. In 2014/15, 68 of London's 70 LHA rates[1] were set below the 30th percentile rent level. The figure in 2013/14 was 67.

During 2014, the 30th percentile rent level rose in 55 of the 70 LHA rate areas and in 27 of these, the increase was by 5 per cent or more. The most significant year-on-year 30th percentile rent rises, by property type, were:

- Shared rate – Outer south-west London (+24.7 per cent)
- One bedroom – Outer west London (+6.4 per cent)
- Two bedroom – Outer west London (+10.2 per cent)
- Three bedroom – Inner south-east London (+10.0 per cent)
- Four bedroom – Outer west London (+10.5 per cent)

Rents fell in **13** London LHA rate areas:

- Shared rate in inner south-west London and north-west London*
- One bedroom rate in inner east London*, inner west London*, outer east London* and outer north-east London
- Two bedroom rate in inner east London, inner west London*and outer north-east London
- Three bedroom rate in inner north London and outer east London*
- Four bedroom rate in inner north London and outer north London

(*Rate fell by less than 1 per cent)

But all of the LHA rate areas that saw rent levels fall in 2013 experienced significant rent increases in 2014.

- Shared rate in outer north-east London: **fell by 1.0 per cent** in 2013; **rose by 8.2 per cent** in 2014
- Three bedroom rate in central London: **fell by 1.5 per cent** in 2013; **rose by 8.6 per cent** in 2014
- Four bedroom rate in outer west London: **fell by 1.9 per cent** in 2013; **rose by 10.5 per cent** in 2014

This growing disparity between rent levels and LHA rates has seen London emerge as the main beneficiary of the Targeted Affordability Fund so far. In London, 40 of the 70 LHA rates increased this year by 4 per cent (one more – the four bedroom rate in outer south-west London – increased by 2.2 per cent as a result of hitting the overall cap level).

The above-inflation increases permitted for those LHA rates to benefit from the TAF means that they will be less out of step with rents than they otherwise would be.

However, there are still large disparities between many LHA rates and 30th percentile rent levels. Of the 41 LHA rates to receive an increase of more than 1 per cent, less than a third (13) made up any ground on rent levels.

1 There are 14 BRMAs that cover London, and with five different property size rates for each, that gives a total of 70 different LHA rates across London.

In total, only 25 of London's 70 LHA rates made up any ground on rent levels.

The biggest percentage shortfalls between the 30th percentile rent levels and actual LHA rates by property type are:

- Shared rate in outer south-west London (26.2 per cent shortfall)
- One bedroom rate in central London (29.6 per cent shortfall)
- Two bedroom rate in central London (39.5 per cent shortfall)
- Three bedroom rate in central London (49.0 per cent shortfall)
- Four bedroom rate in central London (53.4 per cent shortfall)

Official evaluation

The departments for Work and Pensions and Communities and Local Government and the Scottish and Welsh governments funded a suite of research reports to evaluate the LHA reforms announced at the 2012 Autumn Statement. These were conducted by a consortium project managed by Sheffield Hallam University's centre for Regional Economic and Social Research and consisted of two waves of surveys and follow-up interviews with both affected claimants and landlords along with an econometric analysis of administrative data on HB claims assessed under LHA rules[2].

Plans for a third wave of analysis were not supported, so the evaluation only tracks the effects of the policy until early 2013 – i.e. the period before the 1 per cent caps were introduced. However, the second wave of the research did find the beginnings of a potential effect on arrears, with 12 per cent of tenants reporting they were in arrears in the second wave, and the proportion of those attributing their arrears primarily to a reduction in HB grew from 2 per cent to 20 per cent between waves.

The evaluation also paints a picture of the LHA reforms having a differing impact in London compared to other 'LHA dominant' areas where there is less competition for private rented properties.

In London, the losses experienced by households tended to be larger, while landlords reported a sharper fall in the proportion who said they were willing to rent properties to LHA recipients than those out of London. Outside of London in LHA dominant areas, there was more sign of the changes putting pressure on landlords' margins and rents reducing as a result.

However, the evaluation did report that there may be early signs of greater market segmentation and the creation of distinct LHA sub-markets in London. The cessation of this research means that these developing findings have not been followed up.

This is the backdrop against which the recent decision to freeze LHA rates for the next five years has been taken.

2 https://www.gov.uk/government/publications/local-housing-allowance-monitoring-the-impact-of-changes

Effect of the four-year freeze

This year's Summer Budget confirmed that most working age benefits would be frozen for the duration of the current parliament. In the case of LHA rates, this means that individual LHA rates will remain at their current levels – or be set at the 30th percentile rent level, whichever is lowest – from April 2016 through to 2019/20. National cap levels will also be frozen.

To arrive at a measure of the impact that the LHA freeze will have on the affordability of the private rented sector, we have compared current LHA rates to the distribution of the full list of rents that the Valuation Office Agency collects for the purposes of calculating the 30th percentile rent level in a broad rental market area. This allows us to see what proportion of rents in an area would currently be affordable on LHA rates. We have then made some assumptions about future rent changes in order to estimate how this figure will change over the coming four years[3].

The following tables demonstrate how the affordability of privately rented accommodation for LHA recipients will be affected by the four-year freeze:

Shared accommodation	Percent of rents affordable via LHA rate over course of parliament				
BRMA	Current (2015/16)	2016/17	2017/18	2018/19	2019/20
Central London	5.00%	1.40%	0.60%	0.30%	0.20%
Inner East London	7.80%	5.30%	3.60%	2.30%	1.00%
Inner North London	7.40%	4.50%	2.50%	#N/A	#N/A
Inner South East London	22.50%	15.90%	12.10%	7.00%	5.70%
Inner South West London	19.70%	18.30%	13.90%	9.40%	6.60%
Inner West London	26.50%	20.90%	14.60%	13.60%	10.10%
North West London	21.00%	20.00%	18.80%	10.60%	10.10%
Outer East London	8.10%	4.70%	1.00%	#N/A	#N/A
Outer North East London	12.50%	7.60%	2.30%	1.50%	1.00%
Outer North London	16.30%	10.90%	6.50%	5.80%	4.70%
Outer South East London	26.00%	23.30%	9.60%	8.80%	7.30%
Outer South London	21.30%	12.00%	11.70%	7.80%	6.80%
Outer South West London	3.00%	0.30%	#N/A	#N/A	#N/A
Outer West London	25.70%	15.60%	13.30%	12.20%	9.50%

3 A fuller explanation of the methodology is provided at Appendix 1

4 #N/A indicates that no properties in the distribution of rents would be affordable at LHA rate levels

One bed	Percent of rents affordable via LHA rate over course of parliament				
BRMA	Current (2015/16)	2016/17	2017/18	2018/19	2019/20
Central London	2.60%	2.30%	1.90%	1.80%	1.50%
Inner East London	26.60%	20.40%	18.90%	15.30%	12.50%
Inner North London	15.00%	7.50%	5.80%	3.60%	2.40%
Inner South East London	17.80%	11.00%	9.50%	5.40%	3.20%
Inner South West London	24.10%	17.90%	13.80%	7.90%	5.40%
Inner West London	23.90%	19.10%	12.50%	5.00%	3.00%
North West London	17.10%	10.60%	9.00%	5.40%	4.40%
Outer East London	24.80%	18.00%	10.50%	7.60%	4.40%
Outer North East London	29.90%	25.30%	23.80%	21.80%	18.40%
Outer North London	24.00%	12.60%	7.60%	3.60%	2.90%
Outer South East London	19.60%	17.00%	14.20%	7.50%	6.50%
Outer South London	17.00%	11.90%	4.80%	2.90%	1.30%
Outer South West London	19.20%	13.10%	6.30%	4.60%	2.50%
Outer West London	17.60%	10.90%	5.90%	5.50%	3.50%

Two bed	Percent of rents affordable via LHA rate over course of parliament				
BRMA	Current (2015/16)	2016/17	2017/18	2018/19	2019/20
Central London	0.80%	0.60%	0.50%	0.50%	0.40%
Inner East London	20.60%	14.90%	13.00%	11.40%	10.60%
Inner North London	6.60%	3.30%	3.00%	2.90%	2.40%
Inner South East London	18.60%	11.50%	8.80%	5.40%	3.00%
Inner South West London	15.20%	9.80%	5.60%	3.80%	3.00%
Inner West London	21.70%	13.40%	8.80%	6.00%	5.00%
North West London	22.00%	10.60%	5.60%	3.90%	3.30%
Outer East London	22.40%	20.70%	15.30%	9.70%	5.80%
Outer North East London	29.90%	28.70%	26.60%	24.60%	20.80%
Outer North London	27.20%	17.00%	12.30%	7.80%	5.30%
Outer South East London	18.00%	11.00%	8.10%	3.80%	3.20%
Outer South London	16.80%	10.10%	7.40%	3.70%	2.50%
Outer South West London	24.40%	15.30%	8.60%	4.50%	2.30%
Outer West London	11.00%	5.90%	2.10%	1.60%	1.10%

Three bed	Percent of rents affordable via LHA rate over course of parliament				
BRMA	Current (2015/16)	2016/17	2017/18	2018/19	2019/20
Central London	0.20%	0.10%	0.10%	0.00%	0.00%
Inner East London	9.20%	4.00%	2.20%	0.90%	0.20%
Inner North London	4.60%	4.50%	4.20%	3.40%	3.30%
Inner South East London	19.50%	11.60%	7.30%	4.10%	2.70%
Inner South West London	11.20%	7.00%	3.30%	2.20%	1.20%
Inner West London	9.30%	6.10%	3.00%	1.20%	0.70%
North West London	22.40%	12.20%	8.30%	5.00%	4.80%
Outer East London	17.10%	11.40%	9.10%	5.80%	4.40%
Outer North East London	21.00%	17.40%	12.70%	12.30%	9.00%
Outer North London	24.60%	19.00%	10.60%	6.80%	6.20%
Outer South East London	16.90%	8.30%	4.20%	3.10%	2.50%
Outer South London	27.70%	18.70%	9.00%	6.50%	2.70%
Outer South West London	22.60%	11.80%	7.10%	2.10%	0.90%
Outer West London	15.90%	10.00%	7.10%	4.40%	2.40%

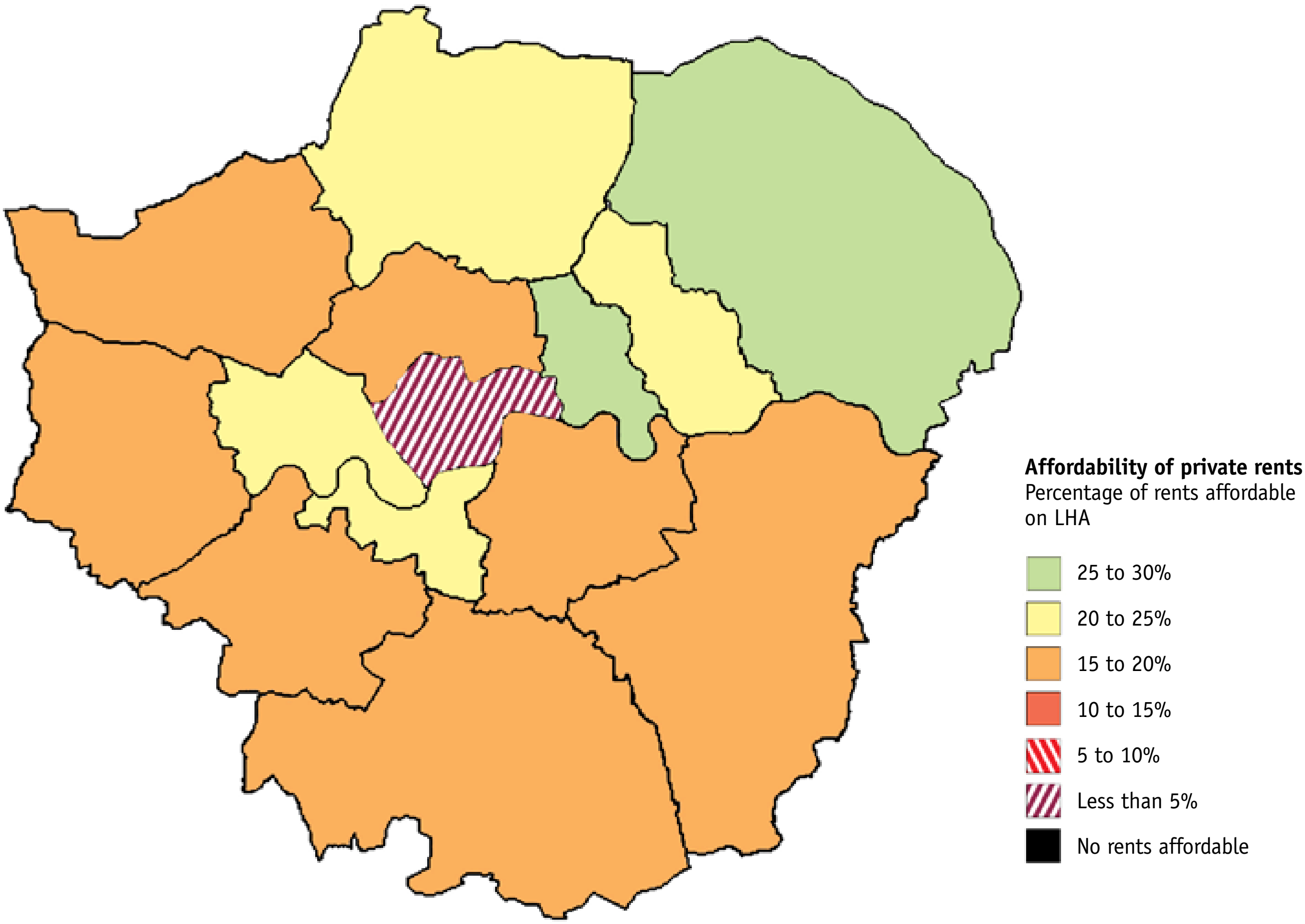
Four bed	Percent of rents affordable via LHA rate over course of parliament				
BRMA	Current (2015/16)	2016/17	2017/18	2018/19	2019/20
Central London	#N/A	#N/A	#N/A	#N/A	#N/A
Inner East London	6.00%	2.60%	1.90%	#N/A	#N/A
Inner North London	3.00%	2.20%	2.10%	1.90%	1.40%
Inner South East London	20.30%	12.00%	7.60%	5.00%	2.70%
Inner South West London	6.80%	3.60%	1.30%	0.40%	0.30%
Inner West London	3.90%	0.90%	0.20%	0.00%	#N/A
North West London	22.90%	15.30%	12.80%	8.80%	5.40%
Outer East London	10.00%	6.00%	4.10%	1.00%	0.80%
Outer North East London	22.20%	16.10%	15.30%	14.40%	12.60%
Outer North London	19.50%	15.40%	8.00%	4.20%	2.90%
Outer South East London	25.90%	16.00%	13.00%	9.50%	7.50%
Outer South London	17.00%	14.70%	7.30%	2.70%	1.90%
Outer South West London	18.20%	7.30%	3.30%	1.10%	0.00%
Outer West London	13.00%	10.30%	5.40%	2.10%	1.00%

To provide some context to these figures, the housing and homelessness charity Shelter has previously characterised the 10th percentile rent level as "very unaffordable". So an area where 10 per cent or less of private rented homes are affordable at the maximum LHA rate in that area might be considered "very unaffordable".[5]

Shelter based the choice of the 10th percentile level on previous research it had conducted: "The 10th percentile rent was selected as it allows an area to be designated 'very unaffordable' with confidence. At least half of landlords operate a 'no DSS' policy at this end of the market, and some properties will be hazardous, so that fewer than one in 20 homes on the market at any given time will be affordable, available and decent."[6]

These figures can also be displayed visually. So for one bedroom flats, the current picture on affordability is like so:

Figure 3: **One bed affordability, current**

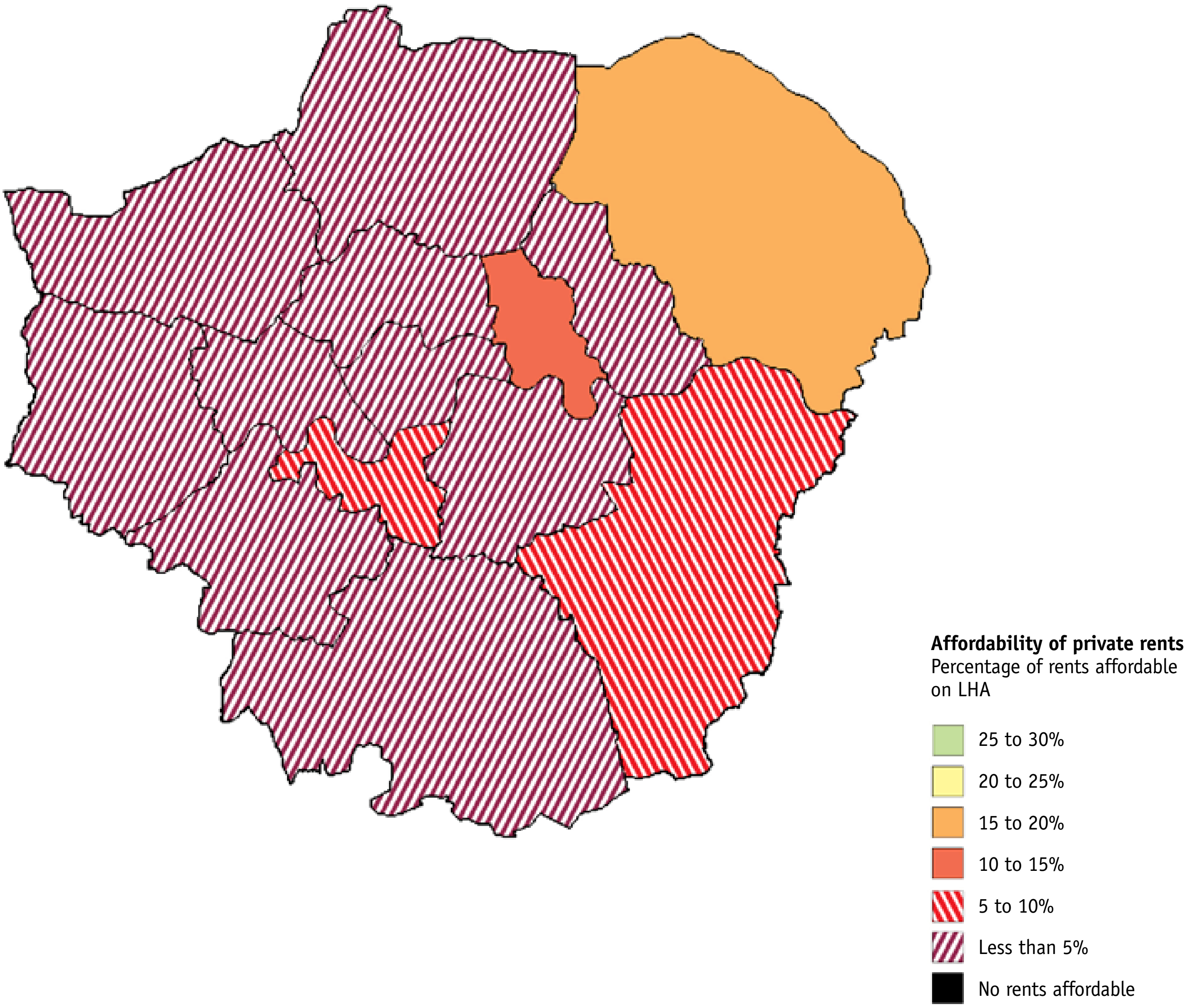


5 Areas considered "very unaffordable" are indicated by cross-hatching

6 http://england.shelter.org.uk/__data/assets/pdf_file/0007/334726/Impact_of_Welfare_Reform_Bill_measures_on_affordability_for_low_income_private_renting_families.pdf

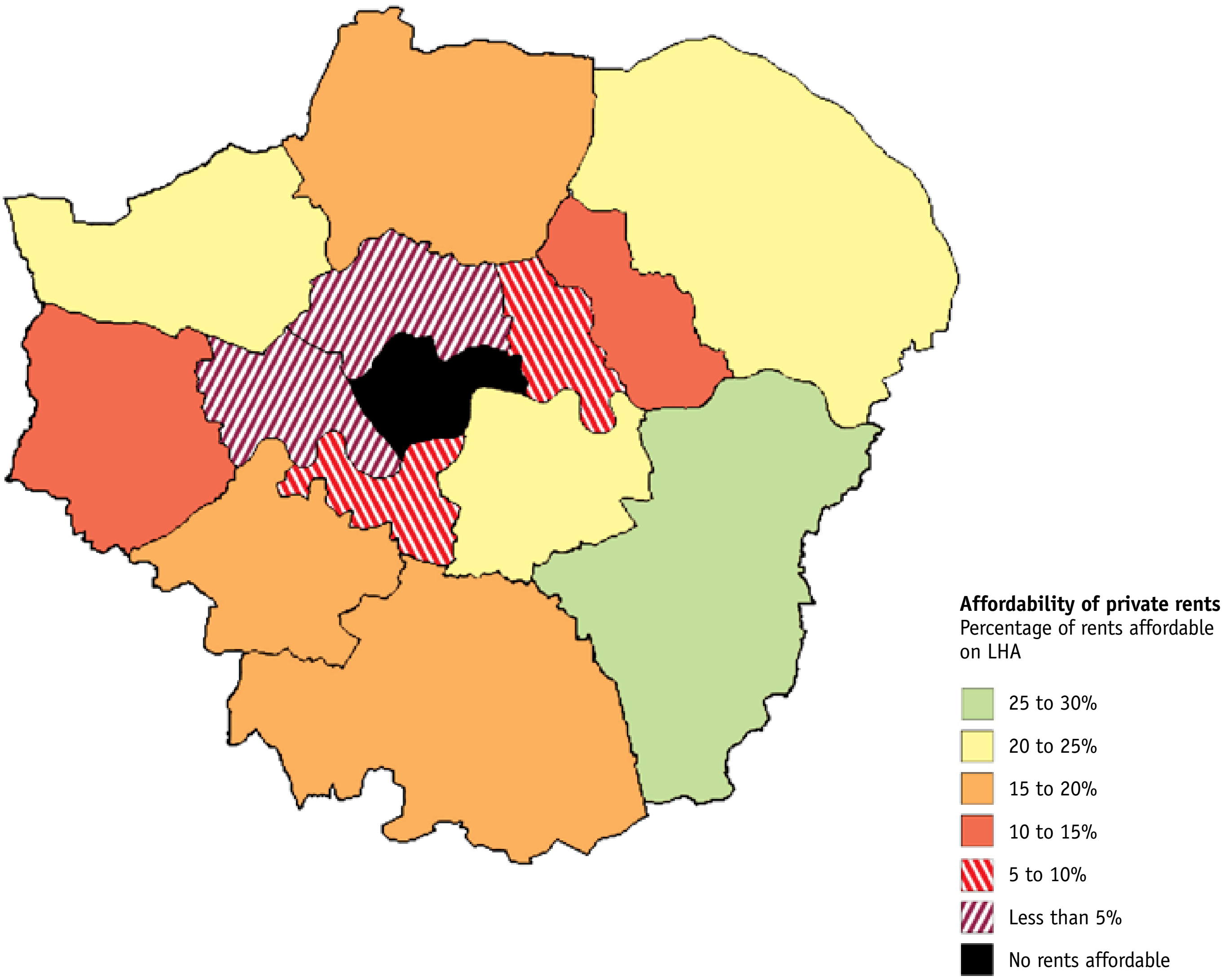
However, by 2019/20, it could look like this:

Figure 4: **Potential one bedroom affordability by 2019/20**



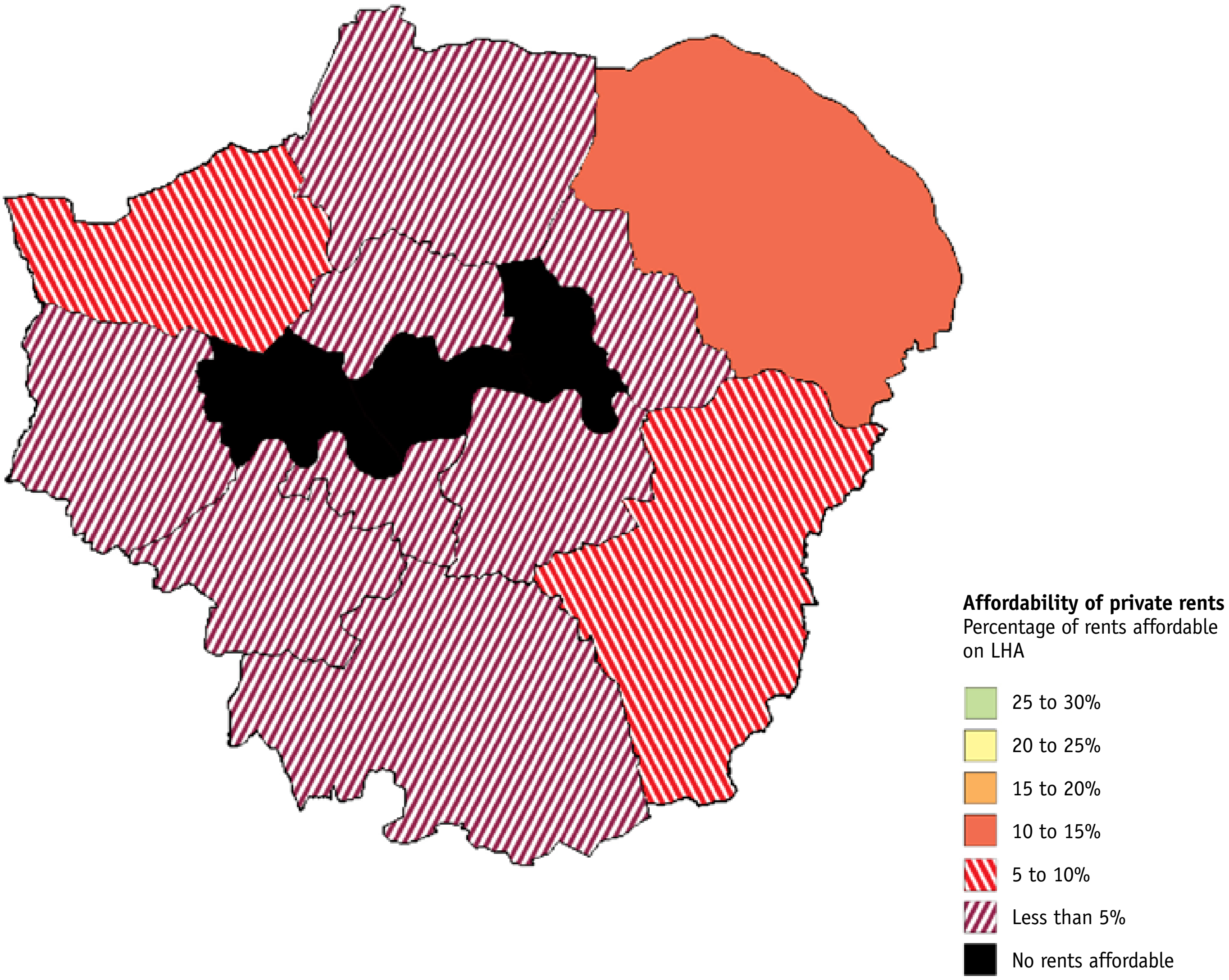
This general trend is, unsurprisingly, repeated across all property types. For example, for four bedroom properties, the current picture is like so:

Figure 5: **Four bedroom affordability, current**



However, by 2019/20, it could look like:

Figure 6: **Potential four bedroom affordability by 2019/20**



It can be clearly seen that freezing LHA rates for the current parliament has the potential to turn the unaffordability of the private rented sector from an issue currently limited to central and some parts of inner London to one that affects the whole of the capital.

While, it may be unsurprising to see that central London is already either very unaffordable or completely lacking a single property affordable on LHA rates, it is perhaps less expected to see parts of London that might not be considered high-value areas also becoming very unaffordable.

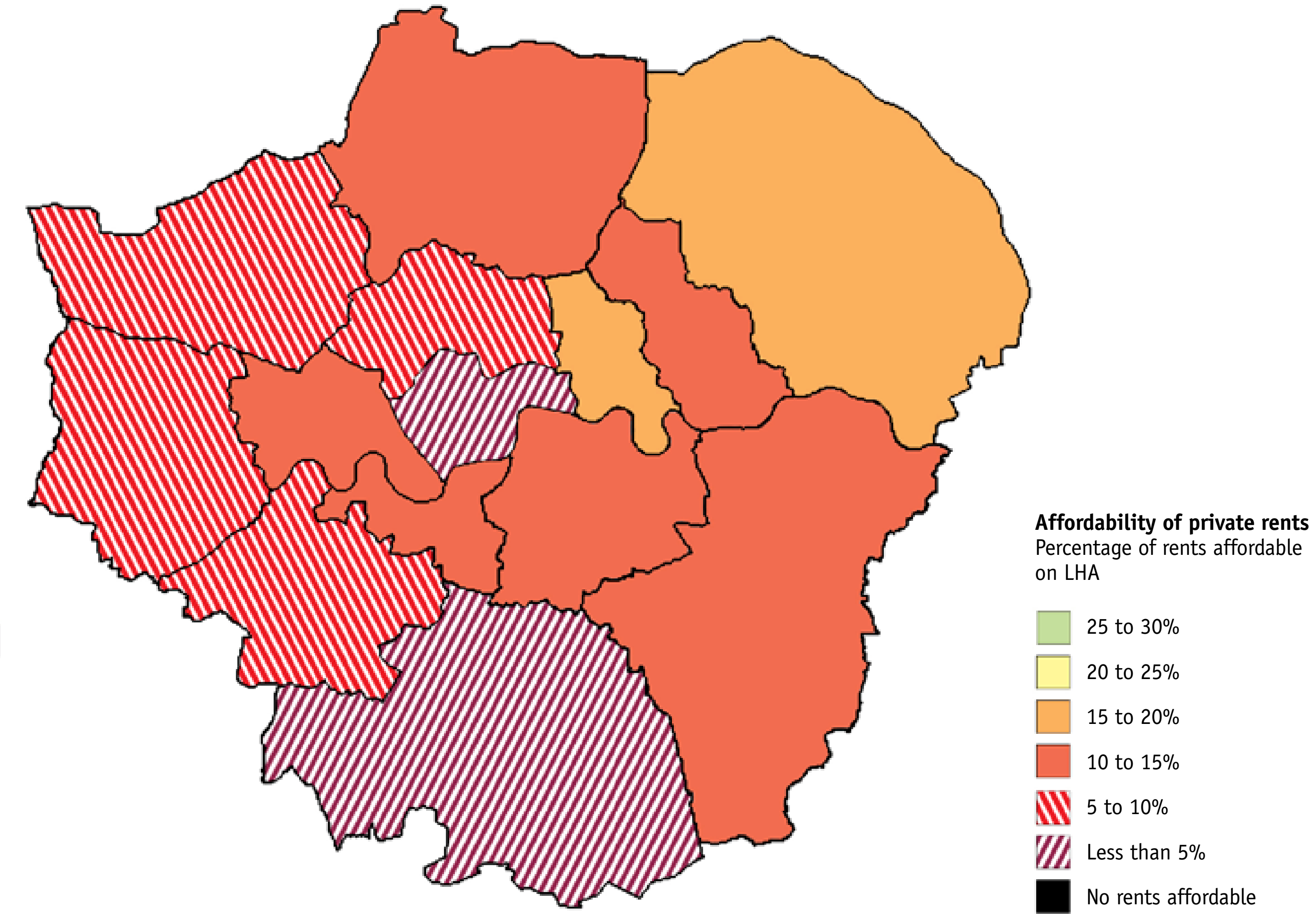
For example, in Outer South London, the three bedroom LHA rate should currently be able to secure 27.7 per cent of properties – close to the 30th percentile rent level at which properties should notionally be affordable. However, by 2019/20, the three bedroom LHA rate would only be able to secure the bottom 2.7 per cent of properties in Outer South London, rendering the area extremely unaffordable for families in need of a property of that size.

Similarly, the one bedroom LHA rate in Outer East London will currently secure the cheapest 24.8 per cent of properties – a potentially reasonable level of affordability. However, by 2019/20, that rate will only secure the cheapest 4.4 per cent of properties – again, rendering the area extremely unaffordable for those eligible for the one bedroom rate.

Inevitably with projections of this kind, the assumptions made around future rent changes strongly influence the final results. But as the maps below demonstrate, even if rents were to increase by the Consumer Price Index (CPI) measure of inflation – which in London would generally be considered an optimistic assumption – the picture on affordability would not be significantly different.

For example, for one bedroom properties, assuming rents increase by CPI gives the following picture of affordability levels by 2019/20:

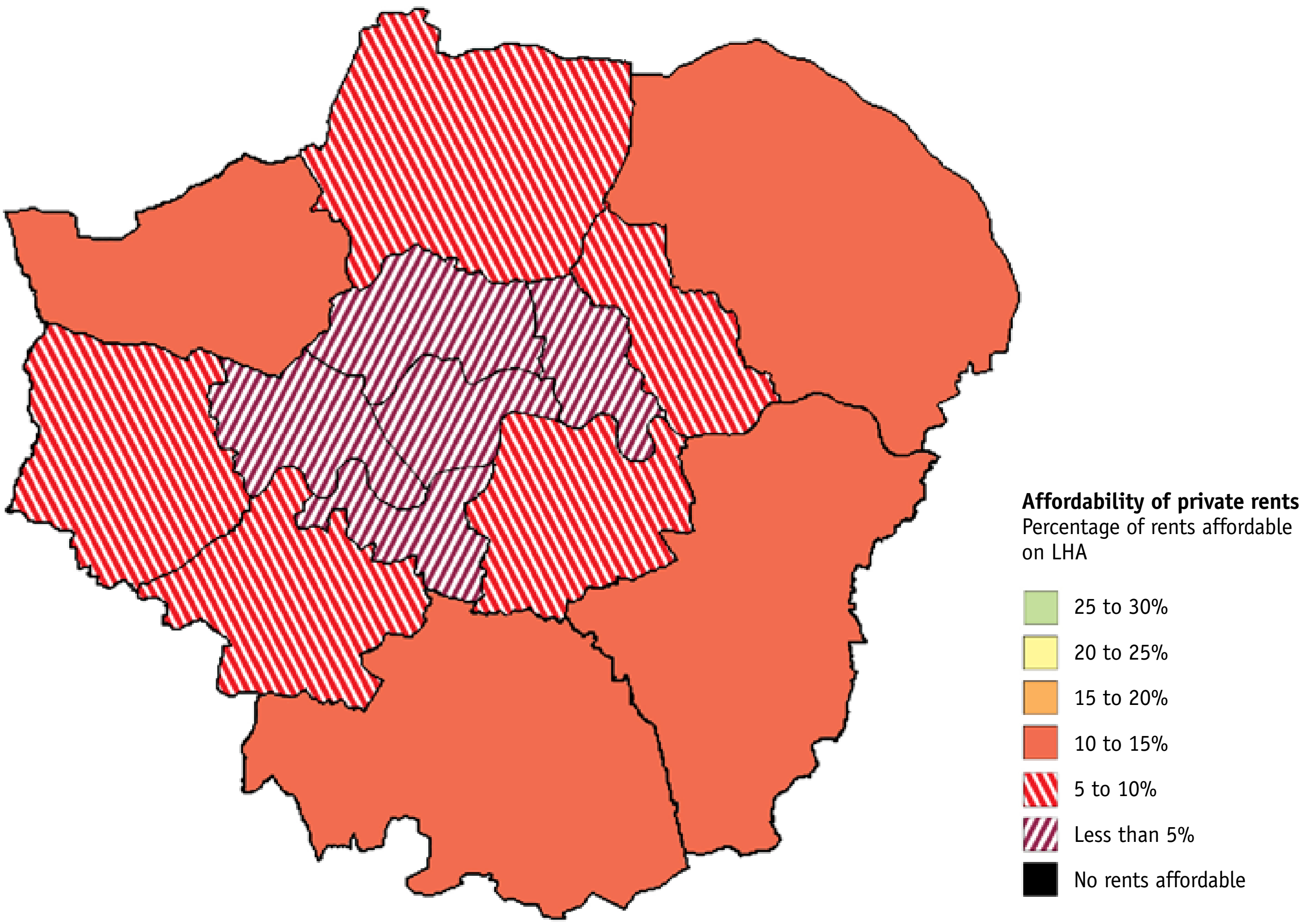
Figure 7: **Potential one bedroom affordability by 2019/20 assuming CPI increase**



As can be seen, large parts of Outer West, South-West and South London would still be at 'very unaffordable' levels whilst much of the rest of the capital would only be marginally above 'very unaffordable'.

A similar picture of widespread unaffordability by 2019/20 is clear for four bedroom properties as well, even if rents only rise by CPI:

Figure 8: **Potential four bedroom affordability by 2019/20 assuming CPI increase**



London Councils believes these projections – and their implications for boroughs attempting to place homeless households in sustainable tenancies – are sufficiently concerning to raise question marks about freezing London LHA rates over the course of the parliament.

Given the potential for this policy to affect the affordability of private rents across the entire region, London Councils calls for ministers to consider making a targeted exemption for London from the LHA freeze. This could involve a decision on rates being taken on an annual basis, informed by regular assessments of the affordability of the PRS.

At the very least, the potential effects of this policy are sufficiently concerning for there to be a strong case for monitoring its effects, in terms of landlord responses, caseload changes, movements of households and the placement of homeless families. London Councils calls for the government to commit to a fresh programme of evaluation equivalent to that previously undertaken by the consortium led by Sheffield Hallam University, and to do so for the duration of the parliament and beyond.

It should be pointed out that none of these projections nor the maps that illustrate them take into account the effect of the Targeted Affordability Fund. This shall be discussed in the next chapter.

The potential effect of the Targeted Affordability Fund

As mentioned earlier in the report, the government announced in the Summer Budget that a Targeted Affordability Fund (TAF) representing 30 per cent of the savings will again be implemented for the duration of the parliament to support areas where rent increases are causing a shortage of affordable accommodation.

A TAF representing 30 per cent of the savings from the 1 per cent cap on rates increase was available in both 2014/15 and 2015/16. In those two years, certain LHA rates that had fallen furthest behind rent levels were allowed to increase by 4 per cent rather than 1 per cent.[7]

Reflecting the strong recent growth in London's rent levels, London LHA rates tended to benefit from the TAF. In 2014/15, exactly half of London's 70 LHA rates increased by more than 1 per cent. In 2015/16, 41 of its 70 LHA rates increased by more than 1 per cent. This above inflation rise meant that those LHA rates that benefitted were less out of step with rents than they otherwise would have been.

However, those LHA rates already at the national cap levels were, and are, unable to benefit from the TAF. Currently, 19 of the 70 rates are at the cap levels.

For the TAF that will operate over the course of the coming parliament, the Department for Work and Pensions has confirmed only that it will represent 30 per cent of the savings arising from the freeze. Options for how it will be distributed will not be considered until spring 2016.

One corollary of the TAF deriving from savings is that there will be no fund in 2016/17. This is because CPI inflation – the counterfactual that the freeze is measured against – has been measured at 0 per cent for 2016/17, hence a saving will not be considered to have been made.

However, in London at least, it is likely that 30th percentile rent levels will have shown some growth in 2016/17, meaning that LHA rates will likely fall further behind rent levels than they would if a TAF were available next year.

London Councils believes that CPI inflation is a less meaningful measure than actual rent inflation in the calculation of the savings that would accrue from the LHA freeze and calls upon the Treasury to recalculate the TAF on this basis.

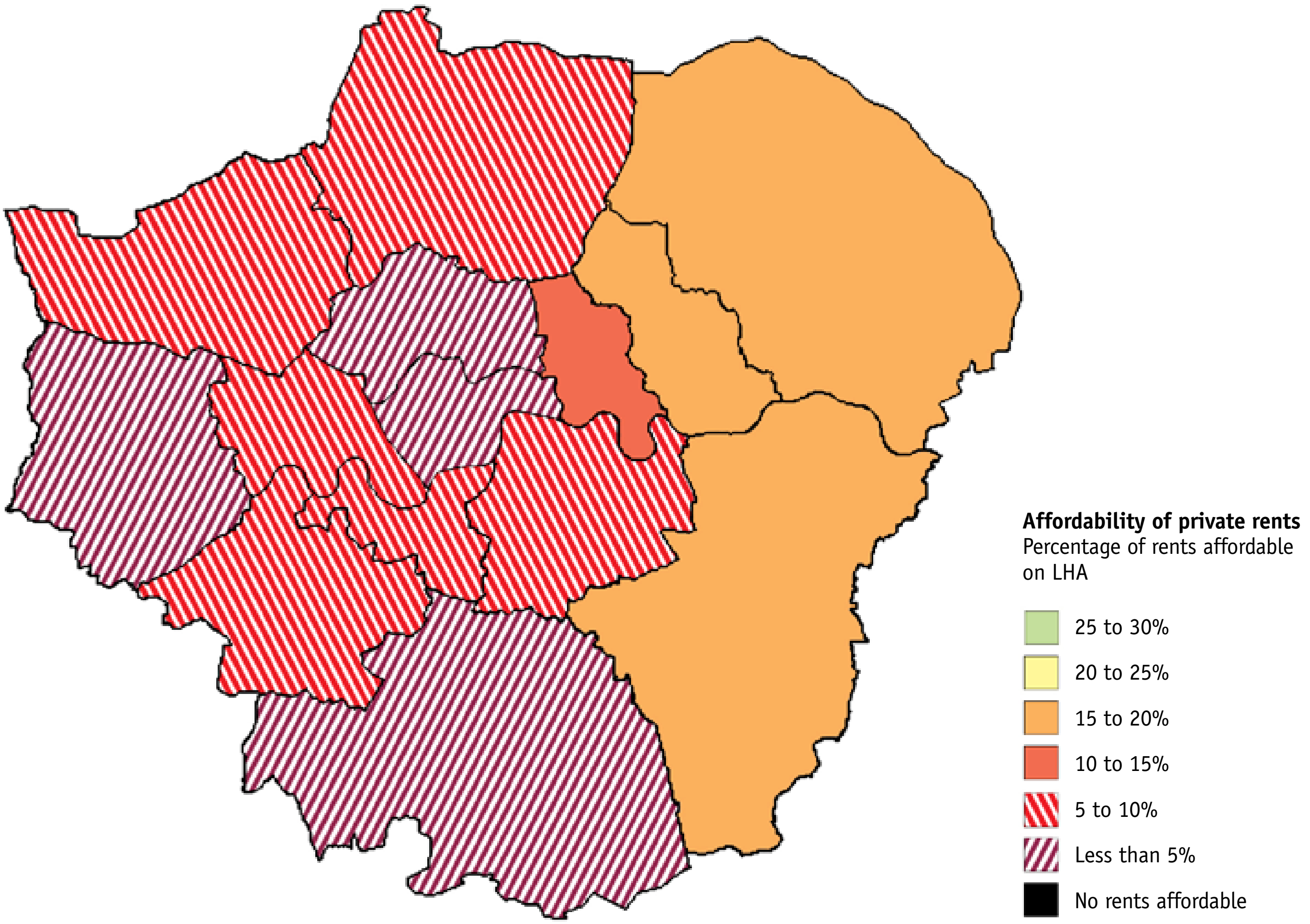
Without details of how the TAF will be distributed, it is difficult to model the effect it might have on the affordability of the private rented sector for LHA recipients. However, a reasonable assumption to make would be that London boroughs might expect to be beneficiaries.

To illustrate the kind of effect that a TAF could potentially have, London Councils has modelled the effect on affordability if every LHA rate area where the inflation indicator was 3 per cent or higher saw an annual increase of 3 per cent each year. The maps below illustrate this, taking into account the lack of a TAF in 2016/17 and the national LHA caps.

7 Unless the increase brought the LHA rate to the overall national cap for the relevant property size, in which case the increase was for some amount less than 4%.

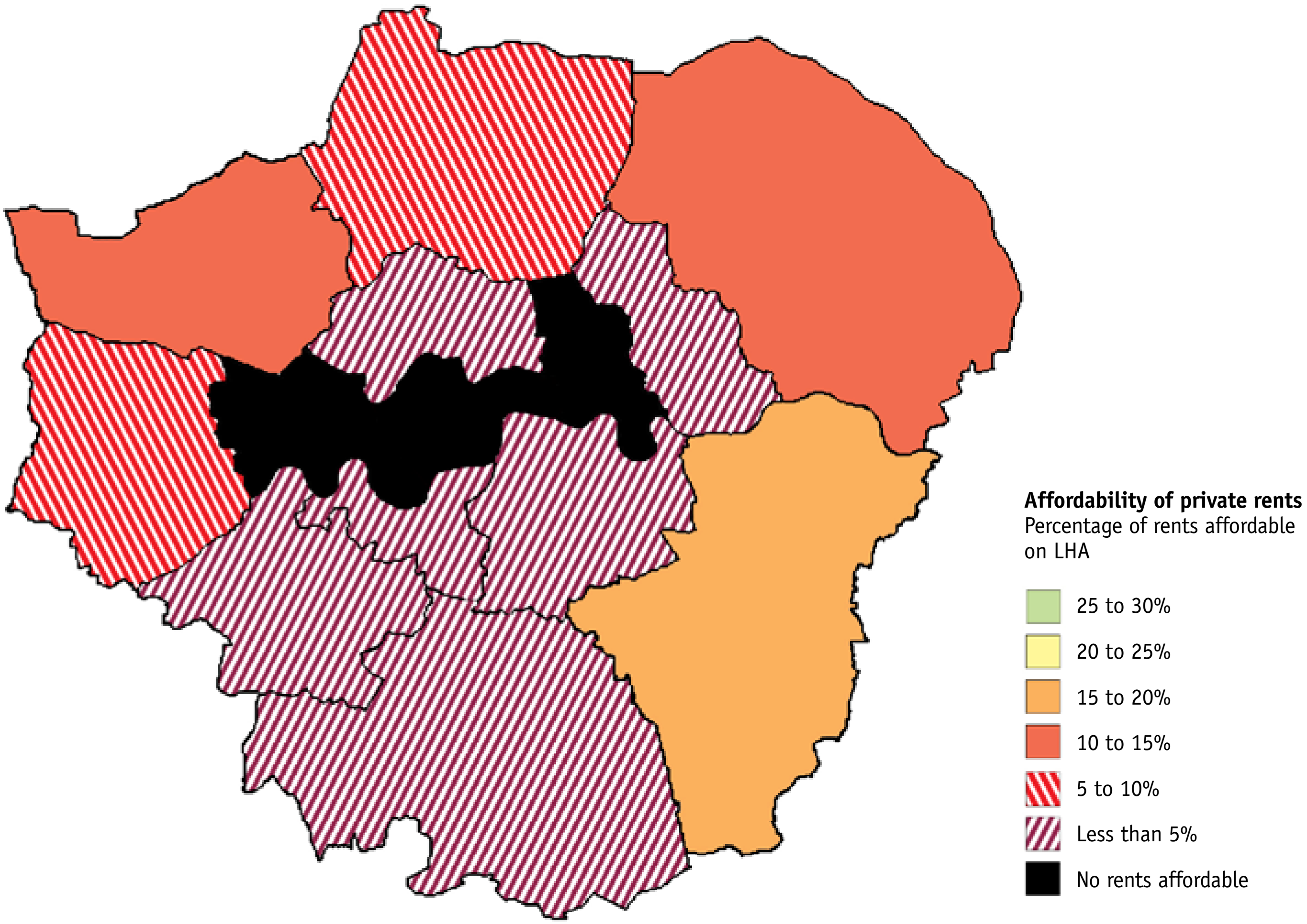
For one bedroom properties, the projected affordability of the PRS in 2019/20 looks like so:

Figure 9: **Potential one bedroom affordability by 2019/20 with TAF in place**



And for four bedroom properties, the projected affordability of the PRS in 2019/20 looks like so:

Figure 10: **Potential four bedroom affordability by 2019/20 with TAF in place**



Compared to the affordability maps shown earlier, these illustrations show that a TAF might have the ability to prevent some areas from falling into unaffordability. However, it is still the case that large parts – if not the majority – of London would be at levels, or just above levels, that could be considered "very unaffordable".

So while London Councils welcomes the government's commitment to provide a TAF for the extent of the current parliament, these illustrations suggest that its effectiveness could be limited in terms of keeping the PRS affordable in London – especially given national caps and the lack of funding in the first year of the scheme.

Conclusion and recommendations

The decision to freeze LHA rates for the entirety of the current parliament has been taken in a context of a growing divergence from 30th percentile rent levels as a result of absolute national caps and existing caps on increases.

In London, the LHA caseload has changed in recent years, with falling levels in inner London contrasting with strong growth in outer London. In addition, levels of in-work LHA receipt are growing across London, such that the majority of LHA recipients in London are households with a member in work – the only region where this is the case.

There is a perception that, while LHA reforms may have left central London unaffordable to LHA recipients, the rest of London is still affordable. London Councils' estimates suggest that applying a freeze on LHA rates across the entirety of the current parliament from this starting point holds the potential to leave the private rented sector unaffordable to LHA recipients across the vast majority of London.

Furthermore, while the government's commitment to continue having a Targeted Affordability Scheme is welcome and can delay the spread of unaffordability across London, it does not change the inherent problem. The government's decision to assess the savings resulting from the freeze against a baseline assumption of rents increasing by CPI means that there will be no TAF in 2016/17, the first year of the freeze.

Given these facts, London Councils recommends:

- The government engage with London Councils over the effects of the freeze, giving consideration to making a targeted exemption for London. This could involve a decision on the setting of LHA rates in the capital being taken on an annual basis, informed by regular assessments of affordability. Crucially, this should be determined outside of the constraints of the TAF.

If it must proceed with a freeze on LHA rates in London, London councils recommends:

- The government commits to a fresh programme of evaluation to assess the effects of the policy over the whole course of the parliament and beyond

- The government engages with London Councils as soon as possible over the design of the Targeted Affordability Fund, placing a priority on the affordability of private rents in the capital. This should include reviewing the basis on which the savings from the freeze are calculated to ensure a fair and appropriate TAF

Appendix 1 - Methodology

Estimating the effect that a four-year freeze might have on the affordability of the private rented sector to those in receipt of housing benefit is inevitably complicated by the impossibility of predicting with certainty how private rent levels might change in the near future.

This appendix explains the methodology we have used and the assumptions we have made in order to estimate what the effect of the freeze might be on the affordability of private rents

The Valuation Office Agency (VOA) collects lists of rent levels for different property types in different broad rental market areas in order to calculate the LHA rates. The LHA rate is notionally set at the 30th percentile rent level, although the existence of national caps and, in recent years, caps on annual increases mean that in practice, the LHA rate is often below the 30th percentile rent level.

The VOA publishes a visual representation of the rental data it collects along with an indication of the 30th percentile rent level on the direct.gov.uk website.

Officers at the VOA were kind enough to provide London Councils with the full list of data points that sit behind such graphs for every one of London's 70 different LHA rate areas (14 BRMAs, five rate categories – shared room rate, one bedroom, two bedroom, three bedroom, four bedroom). This allowed a comparison with current LHA rates to be made to calculate current levels of affordability.

To estimate how those levels might change as a result of a four-year freeze, we calculated an 'inflation indicator' for each of those 70 rate areas by calculating the annual growth rate of the 30th percentile rent level over recent years and then applying a uniform reduction of 15 per cent to account for the possibility that future rent rises will be slower in the five years to come than they have been in recent years.

Making the assumption that the 'shape' of the distribution would remain constant, we then applied the relevant inflation indicator to every data point in the list of rents to essentially create a new distribution of rents for each of the following four years.

This allowed us to compare the relevant frozen LHA rate to those distributions to calculate what proportion of rents would be affordable within a given year.

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