

# The impact of the 2011 housing benefit reform

By Thiemo Fetzer

Government reforms to housing benefit introduced in 2011 were intended to save the public purse hundreds of millions of pounds. But far from saving money, the change in policy simply shifted burdens to local councils: for every pound central government saved in housing benefit, local authority spending on temporary housing costs went up by 53p.

In 2008, the local housing allowance (LHA) was introduced as a way to calculate housing benefit. The aim was to ensure that private sector tenants could afford the median level of rents for a property of specified sizes in a local housing market (Broad Rental Market Areas or BRMA). This model meant that any increase in private sector rents had a direct impact on public spending.

In 2011, after the implementation of austerity, LHA was cut to cover only the 30th percentile of rents within a BRMA. In addition to this, claimants who lived in slightly cheaper accommodation and had previously been allowed to keep the difference between their rent and the LHA applicable (the so-called 'excess payment' of up to £15 a week) had this privilege cut.

While the measures were intended to provide fiscal savings to the Department for Work and Pensions (DWP), we find that the reform was largely self-defeating. The cuts brought about a significant increase in evictions and a persistent increase in households living in insecure temporary accommodation, statutory homelessness and actual rough sleeping. The money spent by local councils to deal with these problems eroded most of the fiscal savings made by the reform.

## Overall impact of the reforms

In late 2010, the DWP estimated the economic impact of the benefit cuts. Figure 1 shows the number of households affected by the cut, and the loss per affected household. ▶

There is a significant variation in the intensity of the cut across the UK, with households in London being particularly affected. On average, households claiming housing benefit lost £600 a year. In some areas of London, this rose to £2000. Around 0.9 million households were affected across the UK (about 5% of all households, and 25% of households in the private rented sector). Our research analyses a range of official and individual level survey data sources to further understand the fiscal, economic and social impact of the cuts.

**Evictions, temporary accommodation and homelessness**

We find a 22.1% increase in evictions of private sector tenants compared to the pre-reform period. There is no discernible impact on evictions issued to the social rented sector. This strongly suggests that the increase in evictions were due to housing benefit claimants in the private sector being directly affected by the LHA cuts.

Local authorities are statutorily obliged to find temporary accommodation for vulnerable households who do not have a right to occupy a property or are

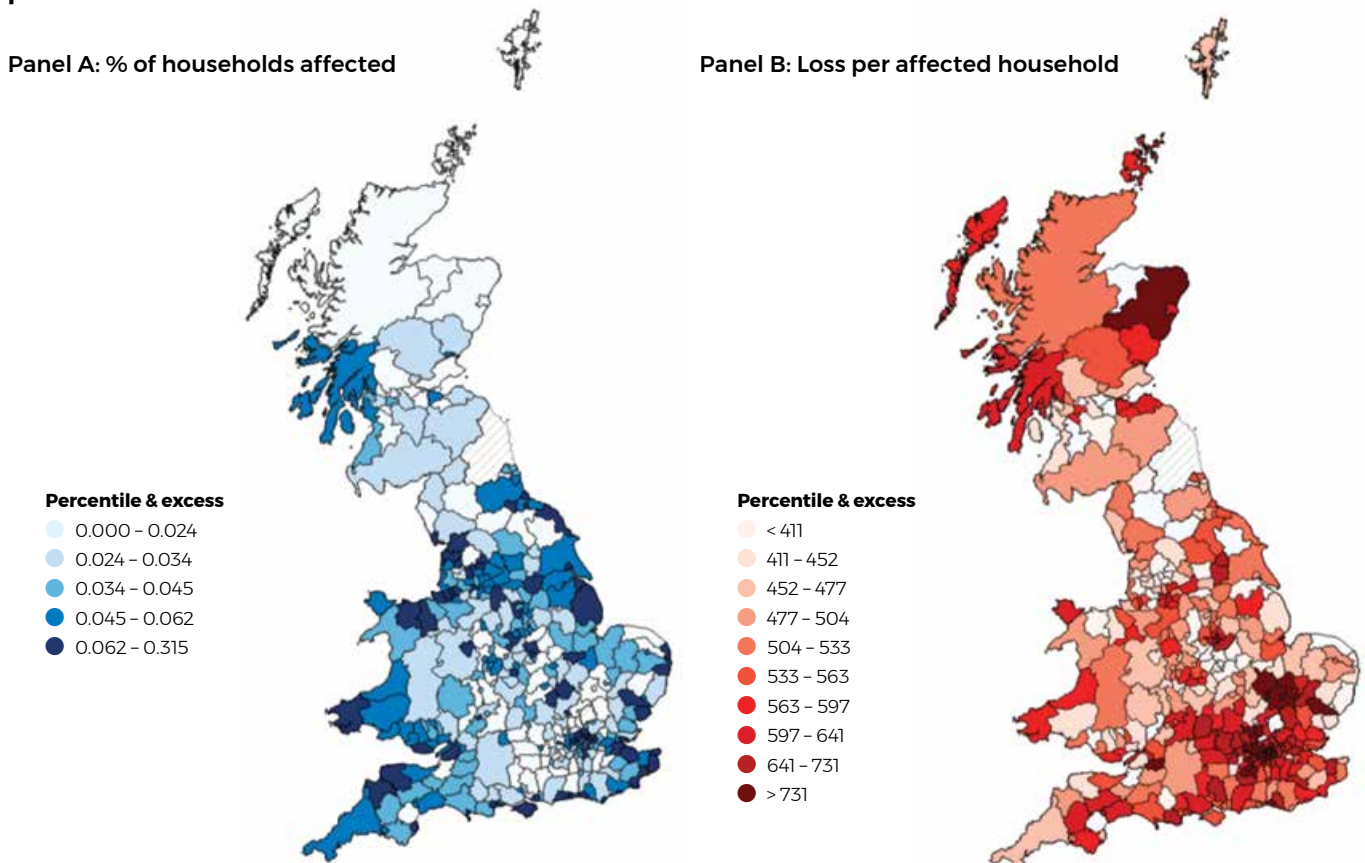
at imminent risk of becoming homeless (statutory homelessness). The data indicates a 10-13% increase in statutory homelessness and an almost 50% rise in rough sleeping rates. The number of households being placed in temporary accommodation rose by 18.8%.

Since 2011, the structure of statutory homelessness has also dramatically shifted. Rapid rises in homelessness are concentrated among working-age adults and particularly households with children. Eviction from rented accommodation is the main reason why households in districts most exposed to the housing benefit cut become homeless.

**Electoral Registration and EU referendum vote**

We also link exposure to the housing benefit cut to measures of democratic participation. In the 2016 EU referendum vote, turnout was significantly lower in districts more affected by the cut: a 1 Standard Deviation (SD) increase in exposure to the housing benefit cut decreased turnout by 1.3 to 1.8 percentage points. It also increased support for Leave by 2.2 percentage points.

**Figure 1: Ex-ante estimated impact of LHA cut from median to 30th percentile and the removal of the excess – Panel A highlights the share of resident households affected while Panel B presents the loss per affected household across deciles**



### The cost of the reforms

Even though the cut to housing benefits was originally intended to provide fiscal savings to the DWP, we show that a large portion of the fiscal savings were offset by the local councils spending on anti-homelessness measures. Figure 2 shows the money saved by the DWP through the reform and the increase in local council spending on anti-homelessness measures in £'s per resident households. For every pound central government saved in housing benefit, local authority spending on temporary housing costs went up by 53p.

Our research indicates that cutting housing subsidies, while appearing fiscally attractive, may end up producing new and significant economic and social costs. The housing benefit reforms were intended to save the government money during the period of austerity, but the long-lasting effect of these reforms have put pressure on local councils, increased the number of households in insecure housing and even affected democratic participation. In the long-term, increases in housing insecurity across the UK also has the potential to negatively affect health, childhood attainment and employment. ◀

### About the author

**Thiemo Fetzer** is Associate Professor of Economics at the University of Warwick and a CAGE Theme Leader.

### Further reading

Fetzer, T., Sen, S., & Souza, P. C. (2019). 'Housing insecurity, homelessness and populism: Evidence from the UK'. CAGE working paper (no.444).

**“Eviction from rented accommodation is the main reason why households in districts most exposed to the housing benefit cut become homeless.”**

**Figure 2: Cost-Benefit Analysis: Implied fiscal savings to central government from housing benefit cut versus higher council spending on homelessness**

