Chartered Institute of Housing

MISSING THE TARGET?

Is targeted affordability funding doing its job?

August 2018

Executive summary

Introduction

- Housing benefit for private renters is based on the weekly rent payable or a local maximum rate known as the local housing allowance (LHA), whichever is the lower. Originally LHA rates were set using local market evidence so that they covered the cheapest 30 per cent of homes (the '30th percentile' rent). But since April 2013 LHA rates have been set using the previous year's rates uprated by a flat rate index which is: consumer prices index in 2013; one per cent for the next two years; and then from April 2016, frozen for four years.
- From April 2014 the UK government introduced 'targeted affordability funding' (TAF) to shore up selected LHA rates that had drifted furthest from real local market rents. This report examines how far LHA rates (as at April 2018) have receded from local rents, the effectiveness of TAF in slowing this decline, and makes recommendations for changes in policy to achieve better outcomes.

Main findings

How far have LHA rates drifted from real market rents?

- LHA rates are now so seriously out of line with local rents that private renting has become unaffordable for most low income tenants and this substantially increases their risk of homelessness. The longer the freeze continues the wider the gap becomes and the more costly it becomes to restore LHA rates to their full value.
- LHA rates are now so far out of line with local rents that only those that cover around five per cent of the market or less qualify for targeted affordability funding.
- Despite targeted affordability funding, less than 10 per cent of LHA rates now cover the rent of the cheapest 30 per cent of private homes. Or, to put it another way, over 90 per cent of LHA rates now have a gap with the 30th percentile rent and this is true for every category of dwelling except the two bed rate where over 88 per cent have a gap.
- Outside of London two out of every three LHA rates for shared accommodation have a weekly gap of £4 or more. More than half of LHA rates for all other property sizes have weekly gaps of £10 or more.
- In London gaps are more than £10 for shared accommodation in every local housing market area and more than half of LHA rates for every other category of dwelling have gaps of at least £30.
- While the uprating freeze continues, without additional support targeted affordability funding is unable to stop the gap with local rents from widening and is failing to protect low income private tenants from exposure to a rising risk of homelessness and/or acute poverty.
- Although not part of this research we estimate that a full realignment of LHA rates with local rents would cost around £1.2 billion.

What are the consequences of the uprating freeze for private renters?

- Tenants are expected to make up any gap out of their jobseeker's allowance (JSA) (or other basic benefits) even though basic benefits don't include an allowance for rent. Basic working age benefits are also subject to the uprating freeze and are now only worth 93 per cent of their 2012 value.
- Single people aged under 25 only get the shared accommodation rate and a lower rate of JSA (£57.90). On average they are expected to contribute 10 per cent of their JSA on the gap (equivalent to a 17 per cent contribution in real terms).
- Young jobseekers' resilience is severely limited because the basic benefit allowance for this group is so low that any contribution they make to close the gap significantly increases their risk of homelessness.

Background: the local housing allowance and uprating policy (2008-2020)

How LHA rates become misaligned with local rents

- In April 2008 the government introduced the local housing allowance (LHA) which set a maximum rent that housing benefit can cover for private tenants. The LHA is the rent figure which a set percentage (currently 30) of all of the rents in that market fall below ('the 30th percentile') – ensuring that same percentage of homes is affordable to low income households.
- For each of the 192 distinct local housing markets across Great Britain there are five LHA rates, one for each category of dwelling (e.g. shared accommodation, one bedroom, two bedrooms etc.). Each LHA rate is calculated using a database of rental market evidence compiled by rent officers (professional valuers who work for Her Majesty's Revenue and Customs in England or the devolved governments in Scotland and Wales).
- In April 2013 the link with local market evidence was broken and henceforth (for an unspecified period of time) existing LHA rates were uprated by the consumer prices index (CPI) or a lower figure set by the government. From April 2014 for two years the uprating index was capped at one per cent, and from April 2016 LHA rates were frozen for four years.
- Over the medium to long term rents tend to rise faster than prices (i.e. CPI), so that from April 2013 when the link with local rents was broken, the LHA's purchasing power receded and this has accelerated during the one per cent cap and the current freeze.
- From April 2014, to ensure that LHA rates remain reasonably well aligned with local rents, the government introduced targeted affordability funding (TAF). Under this policy a proportion of the savings that accrue from uprating by one per cent or zero instead of CPI is awarded to those LHA rates that have the lowest percentile value (i.e. cover the smallest proportion of the whole range of rents that are paid in that market).

About this research

What we set out to do and our methodology

- Six years after the link between LHA rates and local rents was broken, and five since the uprating cap and the introduction of TAF, our analysis explores how effective TAF has been at keeping LHA reasonably well aligned with local rents. It also looks at how far the gap has opened between LHA rates and the bottom 30 per cent of the market (i.e. the 30th percentile rent); whether TAF could be more effectively targeted; what would have happened if an alternative uprating policy had applied; how the link with local rents might be restored at the end of the freeze; and makes recommendations for policy changes.
- Our analysis comprised:
    - o a literature review of LHA uprating policy (and a freedom of information request);
    - o desk top analysis of LHA rates and awards of targeted affordability funding;
    - o a 'what if' analysis of alternative uprating methods to test their relative effectiveness compared with the actual policy.
- Our analysis focused on the gap (i.e. cash difference) between the 30th percentile rent and the current LHA rate, rather than the current (usually diminished) market share it is now equivalent to (i.e. it's percentile value). Further analysis as to the current market share of each LHA rate is the subject of a forthcoming joint CIH and Crisis paper later this year.

Other key findings

What happens when the link between LHA rates real market rents is broken?

- Only around eight and a half percent of the general prices index (CPI) is attributable to rent and, on average, rents tend to rise faster than prices by around 0.8 per cent per year so that over time the real value of the LHA is eroded. Therefore, even if there is a return to a full general CPI uprating at the end of the freeze, LHA rates will continue to decline in real terms.
- As the LHA's real value declines so does the number of homes that are affordable for low income private renters. The longer this continues, the smaller the pool of affordable homes and the more costly it becomes to restore the LHA rate to its full value.
- The gap between the uprating index (CPI, one per cent or zero) and local rent inflation in any one year determines the rate at which the pool of affordable homes shrinks, so that during the freeze this process accelerates.
- Targeted affordability funding slows the decline by closing all or part of the gap between the indexed/frozen LHA rate and the current 30th percentile rent for those LHA rates that are selected to benefit from it. However, the size of the fund in any year is linked to CPI and therefore if CPI is low or zero at a time when rent inflation is high (as it was in 2016) then little or no funding is available precisely at the time when it is most needed.

What has been the effect of targeted affordability funding in limiting the decline?

- Targeted affordability funding (TAF) has had a negligible impact in reducing the number of LHA rates with a gap, although this is to be expected given that TAF awards are capped at three per cent of the current rate regardless of the size of the gap.
- Targeted affordability funding typically covers ten per cent to 30 per cent of the gap (the 'replacement rate') with the 30th percentile rent before the award was made. Replacement rates are higher for the shared rate and slightly higher for the four bed rate partly reflecting the fact that the 30th percentile for both is more volatile (i.e. more likely to fall back in years subsequent to an award).
- The low replacement rates mean that on its own targeted affordability funding is incapable of keeping LHA rates reasonably well aligned to local (30th percentile) rents. The longer a full revaluation is deferred the less effective it will become.

Which LHA rates have benefited from targeted affordability funding?

- Twice as many awards have been made to the shared rate than any other category and shared rates are twice as likely to receive a multiple award (i.e. in more than one year).
- Multiple awards for the other categories of dwelling are concentrated in the South East around London, and outside of this in areas of known high demand.
- The housing market characteristics of shared rates receiving multiple awards are almost the polar opposite: with low demand areas such as old seaside towns featuring heavily. There is no obvious explanation this. It could be due to weaknesses in the way data collected, or a genuine feature of these markets, or both. We have noticed that when the rental data for each of these markets of is plotted on a graph the curves they map out appear to share certain common characteristics, although we haven't formally tested this observation and establishing this would require further investigation.

How effective is targeted affordability funding at directing support at the right areas?

- Taking account of the fact that rents can fall as well as rise we found that targeted affordability funding was broadly directed at the right areas. As evidence for this we found, for example, that gaps tend to be lower in areas that haven't received an award.
- Although targeted affordability funding is awarded to those LHA rates that cover the smallest market share (e.g. only five per cent of rents affordable), we found that broadly the same LHA rates would have benefited if they had been awarded to those with the largest gaps (calculated as percentage of the 30th percentile rent).

- However, despite this we found that nearly one in four LHA rates had never received an award but had a substantial cash gap. Given that it is the size of the gap that determines whether a property is affordable, we thought that at least part of the allocation could be better targeted.

What would have happened if LHA had been uprated by CPI or some other general index?

- Even with a full general (CPI) uprating, 72 to 84 per cent of LHA rates (depending on property size) would still have had a gap – nine to 17 per cent fewer than the actual policy (i.e. the freeze plus TAF).
- In the medium to long term the index of private housing rental prices (IPHRP) would be more successful at keeping LHA rates aligned with local rents than CPI.
- The rate at which LHA rates diverge from local rents in any one year is related to the gap between CPI and general rent inflation. A constant annual uprating rate (based on the medium term CPI average rather than the actual annual figures) reduces the risk each year of a large gap and so produces slightly better outcomes.
- Our modelling also shows that TAF has been significantly less effective than a general uprating at stopping large gaps opening up in the three bed and four bed categories (although even with a general uprating large gaps would be more common for these property sizes).

How appropriate is the LHA as the benchmark for personal housing costs support?

- We were surprised to discover that, given that the 30th percentile figures form the basis for the annual LHA uprating, they are not strictly comparable from year to year. Our freedom of information request confirmed that no adjustments are made to ensure that the data sample of rents compiled by the rent officer contains the same proportions of rents across all price points from year-to-year (i.e. it is not 'mix adjusted').
- Despite these methodological weaknesses for the majority of LHA rates, there is probably sufficient market evidence to ensure that the 30th percentile rent as calculated by the rent officer reflects the real rents paid by tenants.
- But for the shared and four bed LHA rates in areas where the market evidence is sparse there is a significant risk that 30th percentile figure is unreliable.

Recommendations

- The government should conduct an immediate review of the policy and seriously consider ending the freeze before the planned end date in April 2020.
- If LHA rates are not fully revalued once the freeze ends, the index of private housing rental prices (IPHRP) is more likely to be more effective at keeping LHA rates broadly aligned with local rents over the medium to long term than CPI would be and so would be a better baseline for uprating. A further element would be required to close the gap over time (e.g. IPHRP plus X per cent) that could include a mechanism similar to TAF to target further resources where the gaps are widest.
- The 30th percentile rent should be fully restored to single people aged under 25 with immediate effect. We estimate that this would cost around £15 million annually and should be in addition to any allocation set aside for TAF.
- The amount of targeted affordability funding available in any one year should be based on medium term projections for CPI (based around the Bank of England target of two per cent) rather than the actual rate (or ideally medium term projections for IPRHP). This reduces the risk of a large gap with local rent inflation opening up in any one year and will also help the government with long term planning of expenditure.
- Instead of the single metric currently used to select LHA rates for targeted affordability funding, a further test should be applied that takes account of the actual cash gap. For example, an award of TAF would not be made if the shortfall with the 30th percentile was less than a minimum prescribed amount (e.g. £5).
- The Department for Work and Pensions should commission further research to investigate the link between the shared rate and multiple awards to determine whether, and the extent to which, this is a genuine feature of these markets, or whether it arises from any weakness in the method used to calculate the 30th percentile.
- To ensure that LHA rates are comparable from year to year rent officers should be allowed to adjust their data

sample so that the spread of rents across all price points more closely reflects their proportions in the market as a whole (i.e. to make 'mix adjustments' similar to those made by the Office for National Statistics (ONS) when it calculates IPHRP). The method by which these adjustments are made should be derived from consultation with, and advice and guidance from, ONS.

- To help expand the evidence base for the shared rate the law should be changed to allow local authority licensing and council tax data on multi-occupied dwellings to be shared with rent officers.

About this research

Since its introduction in 2008, local housing allowance (LHA) rates have been set using local market evidence. But from April 2013 LHA rates have been uprated by the general prices index or a lower figure set by the government. From April 2016 to March 2020 the uprating index is zero with the Department for Work and Pensions (DWP) providing cash limited support known as 'targeted affordability funding' to bolster those rates that have become the most seriously misaligned with local rents.

The uprating freeze has been the subject of much criticism on the grounds that as rents continue to rise tenants are forced to choose between basic living expenses and paying any shortfall between their actual rent and the LHA rate. The DWP maintains that tenants are protected from unsustainable gaps by targeted affordability funding (TAF). Six years after LHA rates were decoupled from local rents and five years since the start of TAF this report examines:

- the method by which LHA rates are aligned with local rents (i.e. before they were decoupled);
- the degree of success or otherwise that targeted affordability funding has been in slowing the expected real terms decline in LHA rates;
- whether it is still credible to maintain that LHA rates are still reasonably well aligned;
- how effective TAF has been directed at targeting the right areas to support;
- whether there might be a more effective alternative to keep LHA rates aligned with local rents; and
- looking towards the end of the freeze, whether the above can tell us something about the fastest way to realign LHA rates with local rents.

To achieve these aims our research comprised:

- a literature review of housing benefit uprating policy, since the introduction of the local housing allowance and the method used to calculate it using local market evidence;
- spreadsheet based desk top analysis of LHA rates from the point they were decoupled from local rents up to the April 2018 uprating;
- a further 'what if' desk top analysis of hypothetical LHA rates generated using alternative uprating methods over the same period.

This research is concerned with changes to LHA uprating policy and in particular the effect of breaking the link with local rents.

Review of policy: LHA rates and local market evidence

General benefit uprating policy: why housing allowances are different

Since 1987 benefits have been uprated each April by inflation. The uprating is calculated using the official all item price index (RPI to 2010, CPI 2011 onwards) for the 12 months to the previous September. Means-tested benefits, including housing benefit (HB), are uprated using a modified index that excludes housing costs because these are covered separately (in other words HB is calculated on the full rent). Following private rent deregulation a maximum rate covered by HB has been set by rent officers using local market evidence. Since April 2008 these maximum rates have been based on the local housing allowance (LHA) and are also used for universal credit. The LHA is calculated using a fixed percentile of the rental evidence to ensure its relative purchasing power is maintained. Apart from the introduction of caps and a shift from the 50th to the 30th percentile in 2011 this policy remained in place until April 2013 (see next section).

How the local housing allowance rates are set

There are five local housing allowance (LHA) categories:

- One-bedroom shared accommodation ('the shared rate')
- One-bedroom self-contained accommodation ('the one bed rate')
- Two-bedroom dwellings ('the two bed rate')
- Three-bedroom dwellings ('the three bed rate')
- Four-bedroom dwellings ('the four bed rate').

Rent officers gather market evidence for each LHA category, which since April 2011 has been based on the 30th percentile rent. Basing the LHA rate on the 30th percentile means that, in theory, at least the equivalent proportion of the market is available at or below that rent[1] . It is calculated by gathering market evidence for that category, sorting it into ascending order, and then finding the item in the position that is 30 per cent along that line (the 30th percentile rent). The 30th percentile was chosen as the benchmark because:

- it roughly corresponds to the proportion of private tenants on housing benefit; and
- it typically reflects the rents being paid by tenants in low paid work but not on HB.

The area over which market evidence is collected is called the broad rental market area (BRMA) and its boundaries are set by the rent officer according to the basic services (such as health and education) that most residents use[2]. Each area is sufficiently large to reflect the general level of rents that are realistically available, rather than that may be paid in a particular neighbourhood.

[1]Typically 33-34% (because the 30th percentile rent is often the same as the 31st, etc.). See DWP (23 July 2010) Impacts of Housing Benefit proposals, Table 10

[2]Rent Officers (Housing Benefit Functions) Amendment (No. 2) Order 2008

Methodological weaknesses in calculating the 30th percentile rent

There are some risks associated with the way market evidence is collected which can mean the calculated 30th percentile rent is not as reliable as it could be. These can be summarised as follows:

- time lag – the new figures for April are based on data for the twelve month period ending the preceding September, which means data items can be up to 18 months old at the start of the year and up to 29 months old at the end (in March the following year);
- for the rarer property types (shared, four bed) the available market evidence can be as few as 25 items which can make the 30th percentile unstable;
- the law sets out what market evidence rent officers can use[3]. Only rents that are actually being paid (rather than advertised) are counted and any of these where HB is in payment must be excluded. But apart from this (with some minor exceptions) the rent officer must use all the data he/she collects;
- rent officers rely on data being volunteered which creates a risk of sampling bias. This is especially problematic for the shared rate where the loss/gain of one property changes several items in the data sample;
- because of the above, changes in the calculated figure can be more due to changes in the mix (e.g. the number of items in high and low value neighbourhoods) rather reflecting any real market change. No adjustments can be made to correct for any distortion[4]
- as a result, strictly speaking, the 30th percentile figures as calculated are not actually comparable from year to year[5] – which is somewhat surprising when it is used as the basis for uprating.

Having said this, for the majority of LHA rates, especially the one to three bed categories[6], there is probably sufficient market evidence to ensure that these distorting effects are negligible and that the calculated 30th percentile rent is reasonably accurate (given that valuation is not an exact science).

Key findings and recommendations

- For the shared and four bed rates in areas where the market evidence is sparse there is a significant risk that 30th percentile figure is unreliable. We recommend a change in the law so that local authority council tax data on shared accommodation and rental data on licensed properties can be shared with rent officers to expand the evidence base for the shared rate.
- We were surprised to discover that LHA rates are not comparable from year to year given that this is the basis for uprating. We recommend that rent officers are permitted to make adjustments for changes in the evidence mix, following advice and guidance from the Office for National Statistics.

[3]Rent Officers (Housing Benefit Functions) Order 1997, No 1984, schedule 3B, paragraph 2(4); (and for universal credit, SI 2013/382, schedule, paragraph 3(3))

[4]Response by the Valuation Office Agency 05/12/17 to freedom of information request by CIH

[5]See differences between the Valuation Office Agency (VOA) private rental market statistics which is based on the same data and is not adjusted, and the ONS private rental price indices (including IPRHP) which are adjusted and comparable from year to year: ONS (2018) Comparing measures of private rental growth in the UK

[6]For example, all the LHA rates in England in the two bed category are calculated on at least 200 rents, and the same is true in the one bed category in 137 out of 152 BRMAs

Review: LHA uprating policy since april 2013

Annual uprating of LHA rates and breaking the link with local evidence

In June 2010 the new coalition government announced a series of cuts to the LHA that included: moving from the 50th to the 30th percentile; setting a maximum figure for each category (the 'LHA caps'); and (from April 2013) uprating LHA rates by CPI instead of using local market evidence[7]. Further changes to how the LHA is uprated were announced in 2012 and 2015:

- Starting in 2014/15 for two years, the uprating index is capped at one per cent with 'exemptions in areas where rent increases were highest'[8]. A proportion of the savings that accrued from this (instead of using CPI figure) are recycled as targeted affordability funding which is used to bolster LHA rates where rents are rising fastest.
- Starting in 2016/17 LHA rates are frozen (as well as working age benefit rates) for four years[9] with targeted affordability funding continuing. See below for how this works.

During the one per cent indexing cap and freeze period all the 30th percentile figures are re-calculated each year, and if that revised figure is lower than the indexed or frozen rate then that revised figure is used as the LHA rate instead[10].

What is the effect of breaking the link with local rents?

LHA rates and local rents start to drift apart as soon as the link is broken, the longer the period, the wider the gap. The drift occurs because the relationship between CPI and rent inflation is fairly weak – only 8.5 per cent of CPI is attributable to rent[11]; and, in the long run rents tend to increase faster than prices[12]. The result is that over time the value of the LHA falls in real terms, for example, instead of covering the bottom 30 per cent of the market it only covers: 25 per cent in the first year, 20 per cent in the second and so on. In the long run if local rent inflation consistently outstrips CPI, at some future date there are no longer any properties available to rent at the LHA rate. The greater the difference between the uprating index (whether CPI, one per cent or zero) and local rent inflation, the steeper the decline, so that the rate of decline accelerates during the freeze. We estimate that, on average, if local rent inflation is three per cent a year during the freeze then by the time it ends the LHA will cover less than ten per cent of the market.

[7]HM Treasury (2010) Budget 2010 Policy Costings, page 38, measure 3

[8]HM Treasury Autumn Statement 2012 Policy Costings, page 35

[9]HM Treasury Summer Budget 2015 Policy Costings, page 44

[10]In the first two years rates can fall and then rise up to the 2015/16 rate. In the following two years if the LHA rate falls it remains at the lower rate (subject to any TAF).

[11]https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/w1tow3tablesannexa. The CPI weighting for rent as at January 2018 is 8.5%, rising from 6.2% in 2013.

[12]See below for the comparison between IPRHP and CPI and the 'what if' analysis that shows that by 2018 if LHA rates had uprated by CPI, 79% would have a shortfall.

Targeted affordability funding

To help ensure the LHA rates remain reasonably well aligned with the 30th percentile, from April 2014/15 the Government introduced 'targeted affordability funding' (TAF). During the first four years of this policy (2014/15 to 2017/18) 30 per cent of savings made from not uprating all LHA rates by CPI are recycled into TAF, rising to 50 per cent from April 2019. The policy is designed to balance the competing objectives of supporting LHA rates where rents are rising fastest with a cash limited pot. If the worst affected rates were fully compensated most of the fund could be swallowed up by a small number of areas. On the other hand, if the compensation rate is too low, support is spread too thinly to make any noticeable impact. To balance these competing objectives the TAF compensation rate is set at three per cent (in addition to any one per cent indexing during the first two years). The revised LHA figure sets the baseline for the following year.

TAF slows the rate of decline in the areas that benefit from it, but if local demand remains strong at a time when general inflation is low or zero (as it was in 2016/17) then the fund available for redistribution is correspondingly small, and consequently little or none is available precisely at the same time when it is most needed[13].

Key findings and recommendations

- Once the link is broken between LHA rates and local rents their real terms value will decline over time. The longer the time, the further the decline.
- It is the gap between uprating index (CPI, one per cent or zero) and local rent inflation in any one year that determines the rate of decline. Targeted affordability funding slows the decline but as it is currently designed little or none can be available in the years when rent inflation is high.
- We recommend that the fund available in any one year is calculated based on medium term projections for CPI (based around the Bank of England target of two per cent) rather than the actual rate (or ideally medium term projections for general rent inflation). This reduces the risk of a large gap with local rent inflation opening up and will also help with long term planning of expenditure.

[13] House of Commons Debates 19 November 2015

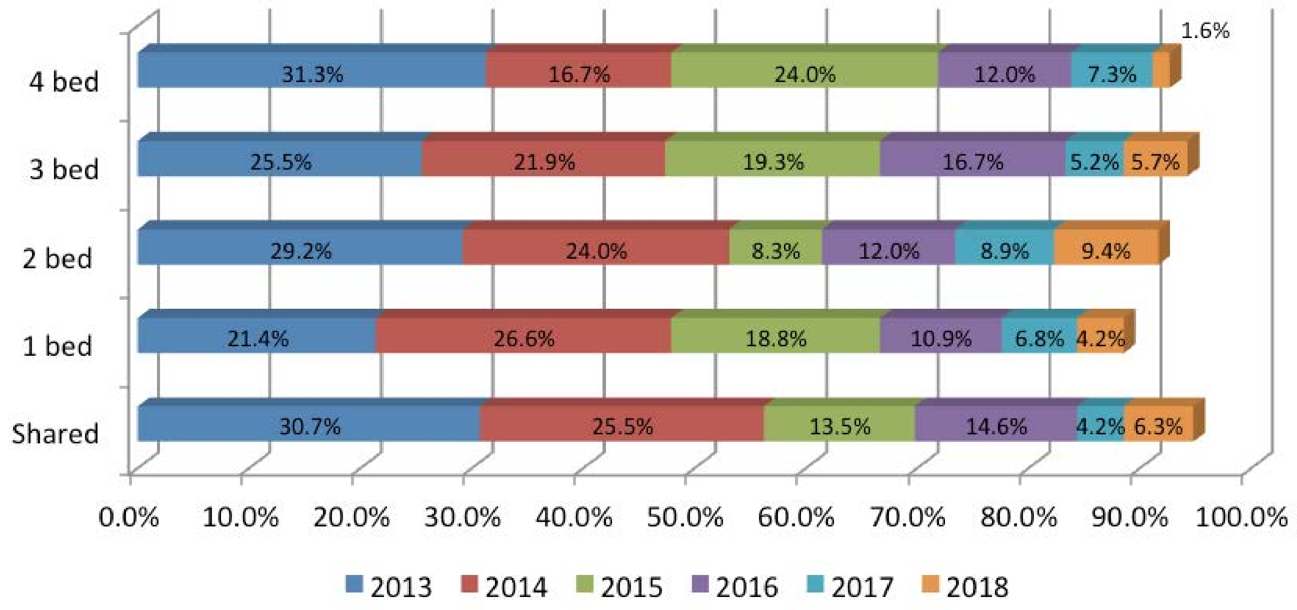
Analysis

Decline in the value of LHA: Areas with gaps

We looked at the proportion of the LHA rates below the 30th percentile for each year since the link with local rents was broken. By April 2018 over 90 per cent of LHA rates had a gap, and with the exception of the one bed rate (88.5 per cent), this is true for every category of dwelling. TAF has only had a very marginal effect in reducing this: as at 2018 only 11 LHA rates (out of 960) have had their gaps wiped out. Just under two in every five LHA rates have benefited from TAF at least once since 2014 – with the majority of these (200 out of 378 (53 per cent)) being in the shared and four bed categories.

Figure 1 shows the percentage of LHA rates with a gap in each year since the link with local rents was broken. Generally throughout that period the rarer property types (shared and four bed) have declined at a faster rate and is not surprising given that scarcity is the main factor in rent levels. Although this gives a good general picture of the LHA's decline it doesn't take account of the size of the gaps (which could be as low as £0.01).

Figure 1: Per cent of LHA rates below 30th percentile (cumulative)



Size and distribution of gaps

We compared the size of the cash gap between each LHA rate and what would be its 30th percentile value (as at 2018). We only compared the cash gap rather than the percentage of the market available at or below the LHA figure (which is the subject of a further CIH/Crisis study[14]).

Table 1 and figures 2 and 3 shows the distribution of the gaps for each LHA category for BRMAs outside London. In terms of nominal value, as would be expected, gaps are lowest in the shared rate and increase with property size. The median gap for the shared rate is around £5 per week rising to around £18 per week for the four bed rate.

[14] CIH/Crisis, forthcoming (2018). For more on how cash gaps affect housing market access for out of work tenants see Crisis (2018) Everybody In - How to End Homelessness in Great Britain page 247.

Table 1: Median gaps between LHA rate and 30th percentile rent at April 2018 by LHA category

Median gaps (ex London)	Shared	1 bed	2 bed	3 bed	4 bed
All areas (with or without a gap)	£5.18	£5.94	£8.48	£12.18	£17.26
Counting areas only with a gap	£5.60	£7.17	£9.10	£13.17	£19.19

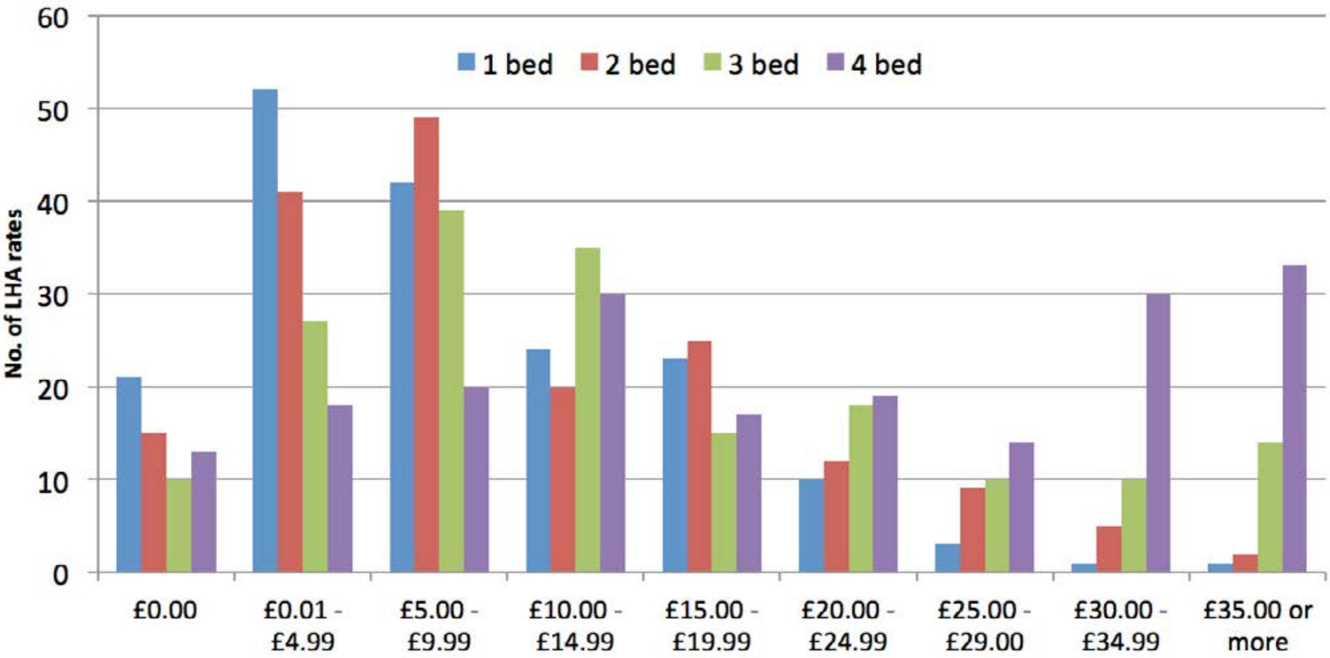
For tenants on the shared rate (figure 2) even small nominal cash gaps can be serious because their non-housing cost income (e.g. jobseeker's allowance) is much lower, and so their capacity to budget for it is reduced (bearing in mind general benefit rates are also frozen and falling in real terms). The median gap is about ten per cent of the rate of JSA for a single person aged under 25 (more in real terms – since JSA has also been frozen and is now only worth around 93 per cent of its 2012 value). In 34 out of 178 BRMAs outside London the gaps are £10 or more. The highest gaps are concentrated in the South East corner of England in a ring around London (Ipswich, Cambridge, Oxford, Bedford and Luton). But there are also some BRMAs with gaps of £10 or more outside of this with clusters in Wales, Cornwall, Greater Manchester, Lancashire and Glasgow and Edinburgh.

For the one to four bed categories (figure 3) outside London median gaps start at around £6.50 for one bed properties rising by around £3 for each LHA category up to the three bed, and then by a further £6 to the four bed category, where the median gap is around £18. The steeper jump to the four bed category partly reflects the broader distribution of the gaps with around two in every five (66 out of 178) gaps in this category being £30 or more.

The distribution of gaps tends to broaden with property size. For the one bed to three bed property sizes the very high gaps for the one to three bed properties are concentrated around the London commuter zone (with Bristol and Bath – known property hotspots falling outside). The highest gaps for the four bed category are less tightly clustered around London but still concentrated in the South and East extending further out to places such as Swindon and Southend but outside of this there also large gaps in Glasgow and East Dunbartonshire in Scotland.

Figure 2: Size of shared rate gaps: BRMAs outside London

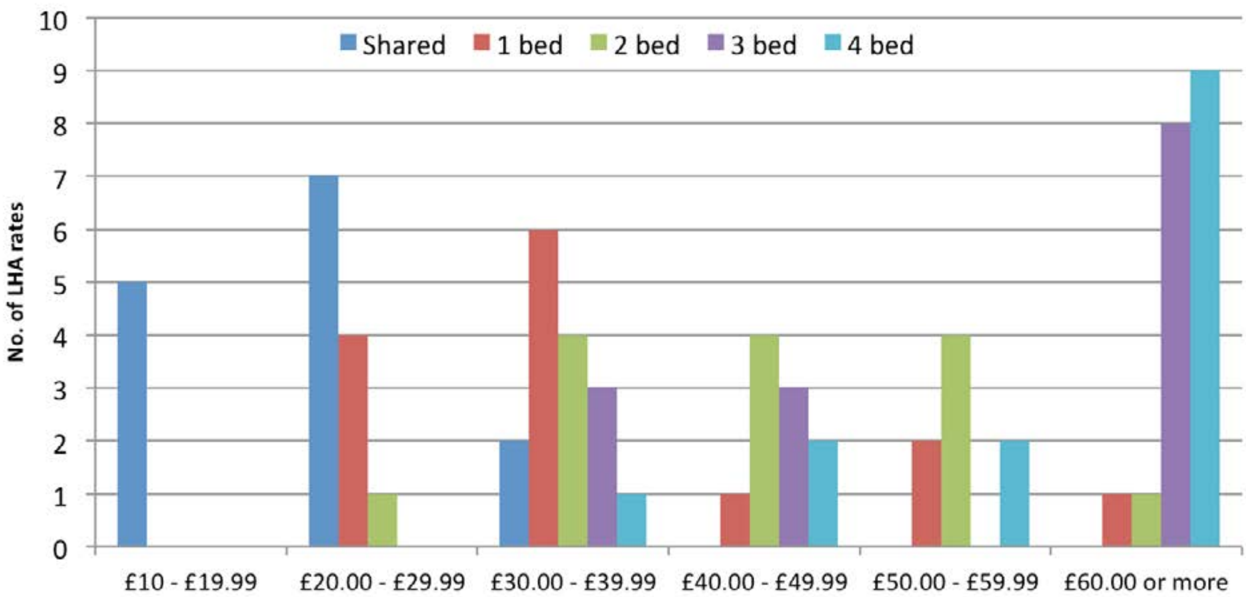
Figure 3: Size of gaps one to four bed properties: BRMAs outside London



Gaps in London BRMAs

Figure 4 show the gaps for each LHA category in the 14 BRMAs that cover Greater London. It shows that gaps for the shared rate are around two or three times higher than the rest of Great Britain with the majority being over £20. Gaps for the other categories are even higher with the LHA caps being a factor (TAF is not available once the cap is reached). The majority of these gaps are £30 or more for the one and two bed categories and are £60 or more for the three and four bed categories.

Figure 4: Size of gaps by LHA category for London BRMAs



Key findings and recommendations

- Over 90 per cent of LHA rates (and close to 90 per cent in every LHA category) as at April 2018 have a gap with the 30th percentile – even after targeted affordability funding has been awarded.
- For the shared rate nearly two out of every three BRMAs have a gap of at least £4 per week. For the other categories over half had gaps of £10 or more each week. Gaps in London are over £10 per week for shared accommodation, and the majority are over £30 per week for the other categories. Gaps have to be made up out of other benefit income (such as JSA) which for working age claimants are now only worth 93 per cent of their 2012 value.
- General benefit rates for single people aged under 25 are too low to contribute towards a gap without that person being at significantly increased risk of homelessness.
- LHA rates are already seriously out of line with the 30th percentile rent, both in terms of the number of LHA rates with a gap and the size of the gaps. The longer the freeze continues the more difficult it becomes to restore LHA rates. The Government should conduct an immediate review of the policy and seriously consider ending the freeze before the planned date in April 2020.
- We recommend that the full 30th percentile rent is restored to single people aged under 25 with immediate effect in addition to the allocation set aside for TAF. We estimate that this measure would cost around £15 million annually.

Analysis of targeted affordability funding

Areas and LHA categories receiving targeted affordability funding

In this section we look at those LHA rates that have received targeted affordability funding with the aim of testing how effectively it has been targeted at those areas most in need and in slowing the rate of decline from the 30th percentile.

Effectiveness of TAF in preventing decline

We compared the number of BRMAs in each category with a gap in 2018 with the position if TAF had not been available (in any of the years since 2014). On this crude measure TAF has had hardly any effect. In the shared category 121 BRMAs received TAF at least once but only six fewer areas had a gap than if no funding had been available. But this measure doesn't take account of the size of those gaps with or without TAF (it includes gaps of £0.01).

Table 2: BRMAs in 2018 with a gap, and what it would be without TAF

	Shared	1 bed	2 bed	3 bed	4 bed
Areas with a gap with TAF	183	171	177	182	179
Areas receiving TAF at least once	121	64	59	55	79
Areas with gap if no TAF	189	172	178	183	181
Net gain as result of TAF	6	1	1	1	2

We looked at the number of BRMAs in each category receiving TAF in each year since the start of the policy (2014 – 2018). Table 3 shows that roughly twice as many awards have been made in the shared category compared with the other property sizes. As described above, no TAF was available in 2016 and the higher number of awards in 2018 is due to the increased fund for redistribution (50 per cent of the CPI savings instead of 30 per cent).

Table 3: BRMAs receiving TAF in each benefit year by LHA category

TAF	Shared	1 bed	2 bed	3 bed	4 bed
2014	56	18	15	17	20
2015	63	27	23	29	49
2016	0	0	0	0	0
2017	22	8	6	6	6
2018	60	45	43	33	32
	201	**98**	**87**	**85**	**107**

Within each LHA category we looked at: how many BRMAs had received TAF at least once, more than once, and how they are distributed geographically. We thought this would give us a better insight as to how well targeted TAF is, as well as what is driving local rent inflation. If BRMAs benefiting from TAF:

- are concentrated in parts of the country known to have high demand (e.g. London, Edinburgh) it suggests that rent inflation is being driven by supply shortages
- are more widely and randomly distributed it might suggest a degree of market volatility or possibly weaknesses in the method used to calculate the LHA rates and/or to distribute TAF.

Table 4 shows the number of BRMAs (out of 192) in each LHA category that have received single or multiple awards. It shows that around twice as many areas in the shared category received TAF compared with other property sizes. A higher proportion of the shared category also benefited from multiple awards, both in terms of all areas (29 per cent of the total) or only areas that have received at least one award (46 per cent). Perhaps somewhat surprisingly multiple awards were least common in the four bed category, although this may partly be a reflection that LHA rates in this category are more likely to be capped.

Table 4: BRMAs by LHA category receiving one or more TAF awards (2014-2018)

	Shared	1 bed	2 bed	3 bed	4 bed
At least once (BRMAs receiving an award)	121	64	59	55	79
Once only	65	37	37	30	60
Twice	38	20	16	20	11
Three times	12	7	6	5	7
Four times	6	0	0	0	1
Total awards	**201**	**98**	**87**	**85**	**107**
% multiple awards of areas with awards	**46%**	**42%**	**37%**	**13%**	**24%**
% multiple awards of all areas	**29%**	**14%**	**11%**	**4%**	**10%**

Apart from the shared rate virtually all of the areas benefiting from TAF are in the greater south east of England where demand is known to be high (outer London, the M11 corridor and Bristol). BRMAs receiving multiple awards in the one to four bed categories include: Cambridge, Bristol, Luton, and those covering Hertfordshire. Inner London does not feature but this is partly due to the fact that two out of every three LHA rates in the one to four bed categories are capped[16]. The only areas outside this wider region to receive TAF on more than one occasion are: Aberdeen, Lothian, Southern Greater Manchester and East Cheshire, and apart from Aberdeen occur in only one LHA category. These are all known to be areas of high demand/high prices (and there are particular local market conditions that apply to Aberdeen described below).

The housing market characteristics of areas receiving multiple awards for shared accommodation are strikingly different; in fact pretty much the polar opposite of the other property sizes:

(a) first, they occur in all countries and regions of Great Britain, but are almost absent from those markets that feature heavily in the other LHA categories (with a few exceptions, for example: outer London, Luton, and north west Kent);

(b) second, they frequently occur in markets that are known to be areas of low demand: South Wales (Bridgend, Blaenau Gwent, Merthyr Cynon, Neath Port Talbot, and Taff Rhondda); Fife in Scotland; and in England a number of the former Housing Market Renewal Pathfinders are featured (Staffordshire North, Solihull, Darlington, Sunderland, Bolton and Bury, and Hull); and

[16]There are six BRMAs covering inner London and therefore 24 LHA rates in the one bed to four bed categories.

(c) coastal areas and seaside towns feature heavily (Thanet, Scarborough, Kings Lynn, Lancaster, Barrow, Medway and Swale, North Cornwall and Devon Borders, Wolds and Coast, and North Clwyd). A number of other seaside areas have also received TAF on at least one occasion (e.g. Southport, Southend, and Fylde Coast).

These areas appear to have the features of 'housing benefit dominant' (and maybe also 'housing benefit concentrated') markets as described in the original LHA pilot evaluation[17], although further investigation would be required to establish this.

We were unable to establish a clear reason why the housing market characteristics of shared rates receiving multiple awards are so distinct from the other LHA rates. We compared the percentile curves of these areas and the number of items in the data samples. In a number of these some of the data samples were quite small (36 to 80 rents), but the majority had a fairly large number of items (136 to 467 rents).

A number of the percentile curves (in both small and large sample sizes) have the characteristic of long horizontal sections[18] (although we did not formally test this observation). It is possible that this could be an indication of sampling bias due to a heavy reliance on a small number of landlords for the data sample (made worse in 'HB concentrated' markets because the rent officer must exclude HB rents). But it is also possible this is a genuine feature of these markets.

One other possible explanation is that these markets took longer to recover following the credit crunch and so are more likely to have been caught by the one per cent cap and the freeze, although this would not explain why the characteristic is confined to the shared rate. Further investigation is required to establish this.

Key findings and recommendations

- The impact of targeted affordability funding in limiting the number of LHA rates with gaps is negligible – although this is somewhat expected due to awards being capped at three per cent of the LHA rate.
- Twice as many awards have been made to the shared rate than any other category and they are twice as likely to receive a multiple award (i.e. in more than one year).
- Multiple awards for the one to four bed categories are concentrated around London and outside London in areas of known high demand.
- The housing market characteristics of shared rates with multiple awards are almost the polar opposite of the other categories with low demand areas and seaside towns featuring heavily.
- There is no obvious explanation for this feature. It could be as a result of weaknesses in the way data is sampled, or a genuine feature of these markets or both. We have noticed that when the rental data for each of these markets of is plotted on a graph the curves they map out appear to share certain common features (namely long horizontal sections), although we haven't formally tested this observation and establishing this would require further investigation.
- We recommend that the DWP commissions further research to establish whether there is a the link between the shared rate and multiple awards, and if there is to determine whether, and the extent to which, this is a genuine feature of these markets or is a result of methodological weaknesses in the calculation of the 30th percentile rent.

[17]https://www.york.ac.uk/media/chp/documents/2008/LHAfinal-hsglabourmkts.pdf ('Categorising the Local Housing Allowance and Control Areas' pages 41-45)

[18]See, for example Valuation Office Agency (2018) List of Rents for Medway and Swale: https://tinyurl.com/list-of-rents-Medway

Analysis: the size of TAF awards

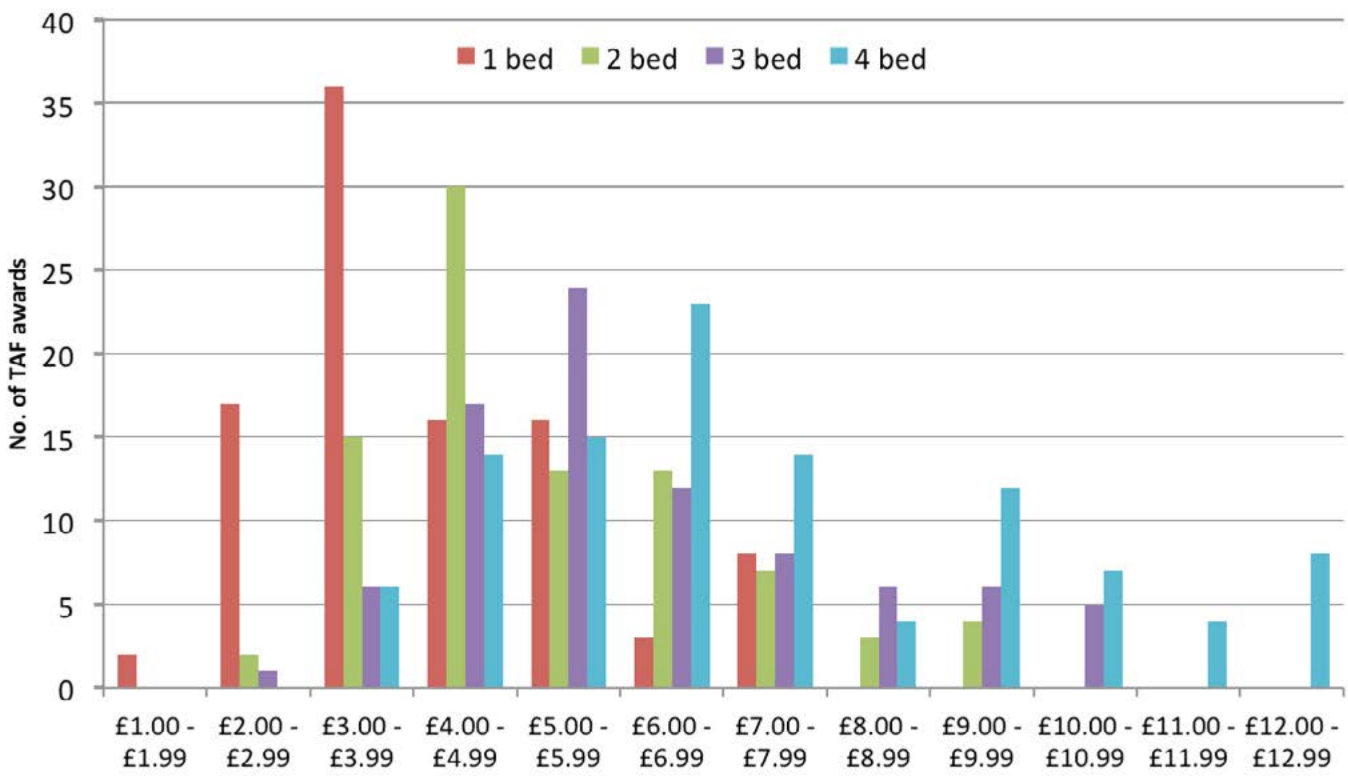
We looked at the amount of TAF received in any one year as well as cumulatively (2014/15 to 2018/19). Table 5 shows the median annual award and median aggregate award for those LHA rates benefiting from TAF. Awards increase with property size, with slightly steeper increases from the shared to one bed rate and from the three to the four bed rate.

Table 5: Median amount of annual TAF award

	Shared	1 bed	2 bed	3 bed	4 bed
Median aggregate award 2014-18	£3.36	£6.40	£7.94	£9.67	£10.03
Median award annual award	£1.92	£3.78	£4.78	£5.65	£6.92

We looked at the size of awards for each category and how they are distributed. Figures 5 and 6 show the annual award for each LHA category. The majority of awards for the one to four bed categories (76 per cent) are in the £3 to £7 range, although this clustering is less marked for the four bed category where the size of awards is more evenly distributed over a wider range.

Figure 5: Award frequency by size of annual award and LHA category (2014 – 2018)



TAF awards for shared accommodation are much lower and nearly all of them (96 per cent) fall within the range of £1.35 - £3. This is expected as the vast majority of 30th percentile rents for shared accommodation outside London are within £50 to £85 (for which TAF at three per cent would generate awards between £1.50 and £2.55).

Total award as a proportion of the gap

We compared the total amount awarded (2014-2018) as a percentage of what the gap would have been (as at 2018) if TAF had not been available. We set a minimum threshold to avoid very small gaps distorting the results (by appearing as very high replacement rates) – although, as it turned out, this applied to only a very small number of cases.

Table 6 shows the vast majority of awards covered ten to 30 per cent of the gap. However, a significant proportion of the shared rate awards (around two in five) and four bed awards (around one in five) accounted for more than 30 per cent of the gross gap. We suspect that this is partly due to the higher volatility of the 30th percentile figures for these property types, which may reflect real market conditions or weaknesses with the evidence (or both).

Table 6: Areas receiving funding: cumulative TAF (2014-2018) as % of 2018 gap

	Shared	1 bed	2 bed	3 bed	4 bed
Minimum gap threshold applied	£3.00	£5.00	£10.00	£10.00	£10.00
No TAF	71	128	133	137	113
TAF received, gap below threshold	7	6	4	2	4
00.01-9.99%	6	2	2	4	7
10.00-19.99%	32	21	33	23	29
20.00-29.99%	30	26	16	21	23
30.00-39.99%	22	9	4	5	11
40.00-49.99%	6	0	0	0	4
50.00% or more	18	0	0	0	1
Total areas receiving funding	**121**	**64**	**59**	**55**	**79**

Key findings and recommendations

- On average TAF has restored around only ten per cent to 30 per cent of what the gaps would have been without it. Replacement rates are higher for the shared rate and slightly higher for the four bed rate and in both cases this probably reflects the fact that there is a higher probability that the 30th percentile rent is a lower figure than the previous year than for the other sizes.
- The low replacement rates of TAF mean that, on its own it is incapable of ensuring that LHA rates continue to remain reasonably aligned to the 30th percentile. However, if combined with general uprating it could be a useful mechanism to restore LHA rates to the 30th percentile overtime once the freeze ends in the absence of an immediate full revaluation.
- Once a large gap opens up TAF becomes increasingly ineffective because the award is based on the current inadequate LHA rate rather than the 30th percentile figure it is intended to narrow the gap with. We found several areas without awards that had substantially larger gaps than those with an award but that had only marginally higher (one per cent to three per cent) market coverage (see next section). We recommend that awards are based on the 30th percentile figure rather than the already inadequate LHA rate.

Analysis: has targeted affordability funding gone to the right areas?

To test how effective the distribution mechanism for TAF has been at directing funding to the right areas we looked at:

- the number of LHA rates that had a gap but had not received any TAF;
- the size of the gaps in those areas that had received none;
- the number of LHA rates that had received TAF but no longer had any gap at all; and
- an alternative mechanism for distributing funding and compared the outcomes with the actual method.

Table 7: BRMAs receiving/not receiving TAF and median gaps in areas with no award at 2018

	Shared	1 bed	2 bed	3 bed	4 bed
Areas receiving TAF	121	64	59	55	79
No TAF but gap	71	128	133	137	113
No TAF no gap	3	20	14	9	11
Median gap no TAF	£4.14	£5.76	£5.76	£10.08	£13.72

A substantial majority of LHA rates that have not received an award in any year also had a gap and this is true in every category of dwelling, although since 90 per cent of rates as at 2018 have a gap this is to be expected. Of those LHA rates not receiving TAF the median gaps for all LHA categories outside London are lower than the median gaps overall (i.e. both inside and outside London) and this difference would widen if London rates were included. This suggests that TAF is reasonably well allocated. However, there are a small but significant number of areas that haven't received TAF but where the gap is higher than the average – which suggests that there is some room for improvement in the way it is distributed.

BRMAs outside London with large gaps not getting TAF

We looked at those areas outside London that (as at 2018) had not received an award but where there was a substantial gap. We classified a substantial gap as being at least £5 per week for the shared rate and at least £10 per week for the other property sizes. As expected the number of LHA rates increases with property size (reflecting increased rent differentials) and a significant proportion of these (39 per cent) are in southern England (South East and South West regions). Somewhat less expected is that outside the South the remaining LHA rates affected are fairly evenly distributed with the North East and Wales being slightly less affected, but Scotland being slightly worse. Overall the number of LHA rates that have never received an award but with a substantial gap (226, 24 per cent) is higher than we would expected and in the three and four bed categories it accounts for one in three and three out of eight BRMAs respectively – although this partly reflects the fact that the shared rate receives a higher number of awards.

Table 8: BRMAs with a substantial gap by LHA category and region

	NE	NW	YH	EM	WM	East	SE	SW	Wales	Scot	Total
Shared	1	4	1	1	1	4	4	4	1	7	**28**
1 bed		1	2		4	3	13	3	1	1	**28**
2 bed		2	2	1	2	3	12	5	2	4	**33**
3 bed	1	6	6	5	6	5	17	10	1	8	**65**
4 bed	3	9	8	5	6	8	9	12	6	6	**72**
	5	**22**	**19**	**12**	**19**	**23**	**55**	**34**	**11**	**26**	**226**

Areas with an award that have no gap

We also looked areas that have received an award but (as at 2018) don't have a gap. Since 90 per cent of LHA rates have a gap and it can only occur where rents have risen then fallen back. As a result we would expect them to be few in number and more common in the shared rate (as it is known to be more volatile) and this is the case: as at 2018 just nine out of 960 LHA rates have had their gaps wiped out and four of these are the shared rate. Of the other five all but one is in the Aberdeen BRMA which has unique housing market conditions. In 2016, Aberdeen had the worst gaps in the country[19] reflecting the booming North Sea Oil local economy that has since declined, and with it demand for housing. This suggests, if nothing else, that the 30th percentile rent is a reasonable reflection of local housing market conditions and is sensitive to real changes.

Table 9: BRMAs with no gap that have received at least one award (£ aggregate award)

		Shared	1 bed	2 bed	3 bed	4 bed
Fylde Coast	North West	£1.82				
Greater Liverpool	North West					£4.50
Leeds	Yorkshire	£1.85				
Ceredigion	Wales	£1.79				
Newport	Wales	£1.59				
Aberdeen and Shire	Scotland		£3.67	£9.18	£10.46	£13.36

How are LHA rates selected for an award?

Prior to the April uprating all LHA rates are ranked in terms of affordability from the highest (or least affordable) to the lowest. The total fund available for redistribution is already known (being 30 per cent or 50 per cent of the savings made by not uprating all rates by CPI). The highest ranked LHA rate receives a three per cent increase; any money left in the fund is available for the 2nd ranked rate (taking account of the current caseload) and so on, until the fund is exhausted.

The ranking is based on the percentage of the market that is available at the frozen rate before TAF is awarded. We understand that for 2018 the highest ranked LHA rate to receive an award (the 213th) covered around only five per cent of the market[20]. The fact that the cut off point for an award is now this low indicates just how far disconnected from real markets LHA rates have become. There is clearly no objective basis on which the current uprating freeze can continue to be justified.

[19] Mind the Gap, CIH (2016)

[20] Joint research by CIH and Crisis (2018) estimated slightly higher market shares for some areas receiving an award (up to eight per cent) but it is not possible to determine the exact figure with the method used.

Comparison alternative distribution method for TAF based on size of gap

Although ranking LHA rates by their percentile value is a reasonable method to distribute the funding it doesn't take account of the cash gap. An LHA rate with a low percentile figure isn't necessarily as serious a barrier to access as a higher (but still diminished) percentile might be if only a small cash contribution (e.g. £2 or less) is required to raise access back to, or close to 30 per cent. Since 90 per cent of LHA rates now have a gap, a slightly higher percentile value with a substantial cash gap is likely to be more problematic.

We compared the actual distribution method with an alternative that took account of the size of the gap but used the same ranking (the 213 least affordable) as the cut off. We identified 46 LHA rates with a substantial gap that didn't get an award, (balanced by 46 with a relatively small gap that did get an award). Although most of these were reasonably close to either side of our cut off , there were some exceptions. For example, the shared rates for: Medway and Swale and North Cornwall and Devon Borders both received an award but had gaps to the 30th percentile of less than £3.50. Although market access for Medway and Swale was only two per cent before TAF, after an award of £1.95 we estimate it was raised to 45 per cent (due to the very shallow gradient of the percentile curve). Conversely, Flintshire had and Sussex East had gaps of £13.52 and £15.48 respectively but didn't get an award (and with LHA rates equivalent to 17 and 12 per cent respectively of the market).

Out of the 46 rates we identified, 19 had gaps that were greater than or equal to 20 per cent of LHA rate. Nine of the 19 are the shared rate, and nine of the remainder are the three or four bed rate. Only two of the 19 are London LHA rates.

Key findings and recommendations

- LHA rates have now drifted so far out of line with real market rents and the threshold for receiving TAF is now so ridiculously high that regardless of how effectively it is distributed, the continuation of the uprating freeze cannot be justified on any credible objective basis.
- Taking account of the fact that rents can fall as well rise we found that TAF was reasonably well targeted. As would be expected gaps tend to be lower in areas that haven't received an award. We also found that if TAF had been distributed according the cash gap then broadly the same LHA rates would have received awards as the actual basis used (which is based on the market share).
- However, despite this we found that nearly one in four LHA rates had never received an award had a substantial cash gap (at least £5, shared rate; £10 in any other case).
- It is the cash shortfall that the tenant has to pay to sustain the tenancy that puts them at risk of homelessness or acute poverty rather than the LHA's actual market share.
- We recommend that TAF is distributed in way that also takes account of the gap required to raise the LHA back to the 30th percentile (or some lower percentile) for example by setting a minimum cash amount to qualify for an award.

[21] We defined affordability as being: the shortfall between the 2017 rate and the new (2018) 30th percentile; divided by the 2017 rate. This calculation is done for each of the 960 LHA rates and results sorted from the highest to the lowest.

[22] Our cut off was a shortfall of 15.8 per cent, e.g. those getting an award with a shortfall of 13 per cent and those without with a shortfall of 18 per cent.

What if' analysis of alternative uprating methods

Description of research method

We conducted a desktop 'what if' analysis to explore whether there might be a more effective alternative to TAF to slow the LHA's decline. We started with the 2012 LHA rates (the last time LHA rates were fully uprated using the 30th percentile) as the baseline. A chosen uprating method was then applied to calculate a new hypothetical LHA rate for the following year, and the process repeated for each successive year to April 2018. The results were then compared with both the 2018 LHA rates and the current 30th percentile. We repeated this process using a number of different uprating methods as follows:

- The baseline uprating method. This is the actual method used to uprate the LHA, including targeted affordability funding.
- Consumer Prices Index (CPI) (as published by ONS for September in the previous year)
- Average CPI applied at a constant rate (based on cumulative CPI for the years covered)
- Index of Private Housing Rental Prices (IPHRP) (as published by ONS for September the previous year). (In effect CPI for private rents). (This is a new series – figures were not available for the first two years so we made an estimate based on the closest available ONS index).
- Average IPHRP applied at a constant rate (based on cumulative IPHRP for the years covered).

For each set of hypothetical LHA rates (as at 2018) generated we counted how many for each category of dwelling were at the 30th percentile or within a specified target range of it (shared rate, £5; any other £10) and the results compared with the baseline.

Results: Comparison of hypothetical LHA rates for selected uprating methods with the baseline

Table 10 shows the percentage of BRMAs in each category with a gap from the 30th percentile for each uprating method. Under the baseline method around 89 to 95 per cent of LHA rates fall below the 30th percentile. If a full CPI uprating had been carried out this would have fallen to 72 to 84 per cent depending on the LHA category, which is not surprising because the baseline method is intended to make partial savings from not applying a full CPI uprating. Slightly better results are achieved if a constant CPI figure (long run annual average) is used instead.

As an alternative to CPI we used IPHRP (as calculated by ONS) – this is the equivalent index for rent inflation and, unlike the 30th percentile, is comparable from year to year (i.e. it can be used in a time series). Since rents tend to rise faster than general inflation (see above), it produces better results than CPI: 15 to 19 per cent fewer of all BRMAs had a gap than the baseline method (roughly one quarter to third more effective). We also tracked the results for each year prior to 2018. As expected using the long run average figures for CPI/IPHRP results in less dramatic changes than using the actual (annual) figures, so in some years the outcomes are slightly better (figures 6 and 7). The results over time are similar for each category dwelling but with greater swings in the shared and four bed categories – again this is expected given the higher volatility of LHA rates.

Table 10: Per cent of LHA rates by category with a gap using different uprating methods

	Baseline	CPI	Average CPI	IPHRP	Average IPHRP
Shared	94.7%	82.3%	80.7%	77.6%	79.2%
1 bed	88.5%	71.9%	71.9%	69.3%	70.8%
2 bed	91.7%	76.0%	76.6%	72.9%	74.0%
3 bed	94.3%	81.3%	80.7%	78.6%	79.7%
4 bed	92.7%	83.9%	80.7%	78.1%	79.2%

Figure 6: Shared rate BRMAs with a gap using different uprating methods (2013-2018)

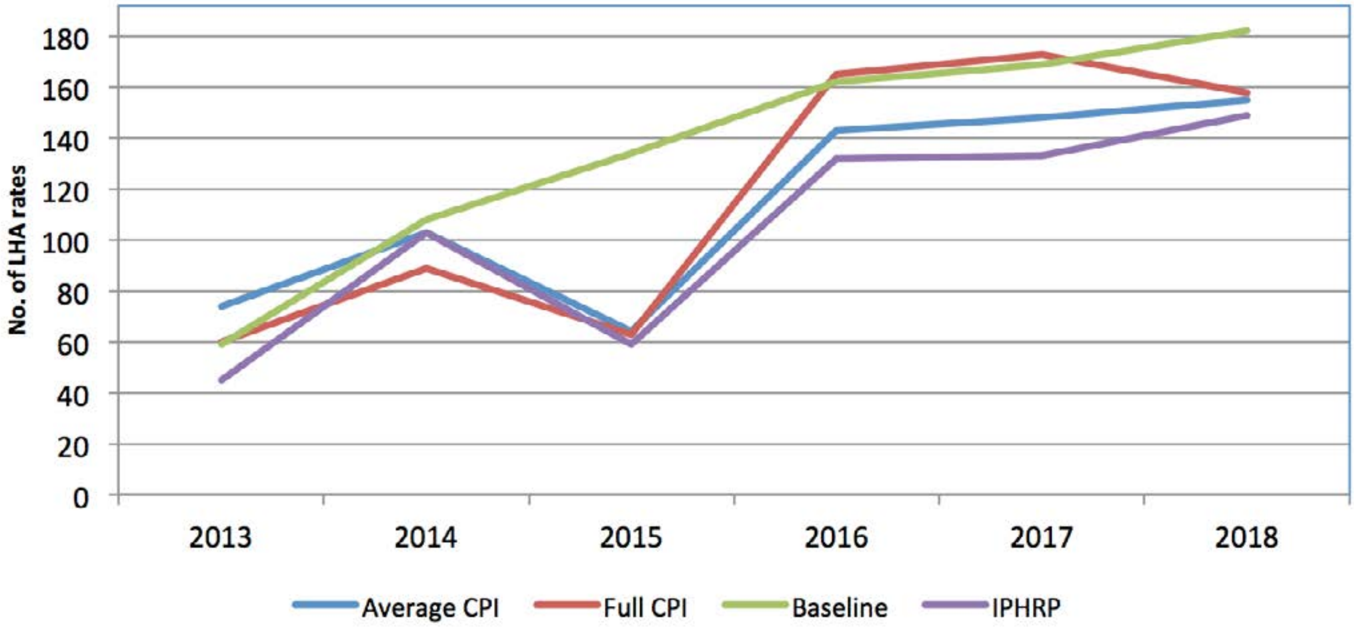
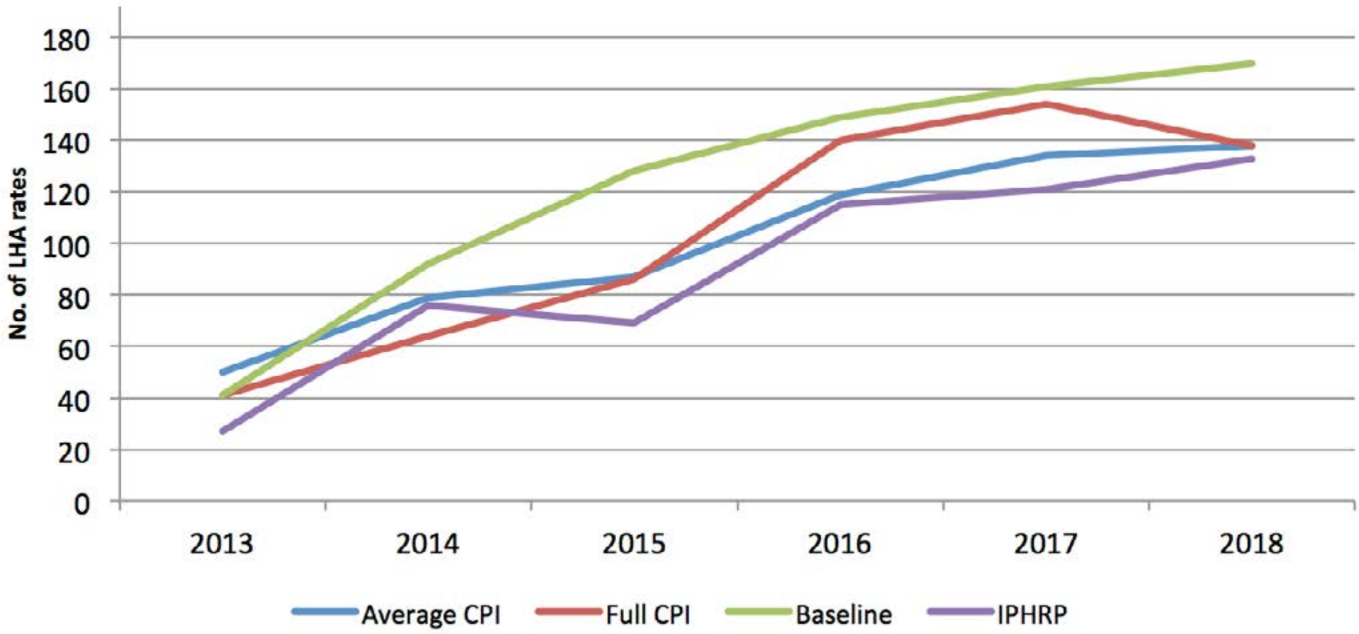


Figure 7: One bed rate BRMAs with a gap using different uprating methods (2013-2018)



We compared the results each year for each uprating method. Every LHA category shows a particularly steep decline in the LHA rates in 2016. As explained above, since CPI was zero there was no TAF to distribute at a time when rent inflation was at 2.7 per cent: resulting in the largest gap between the two indices for the years studied (figure 8). Figure 9 shows the cumulative inflation (compounded) over the period of the study. It shows that IPHRP tends to be higher than CPI by on average around eight basis points per year.

Figure 8: comparison of CPI and IPRHP rates 2013/14 to 2018/19[23]

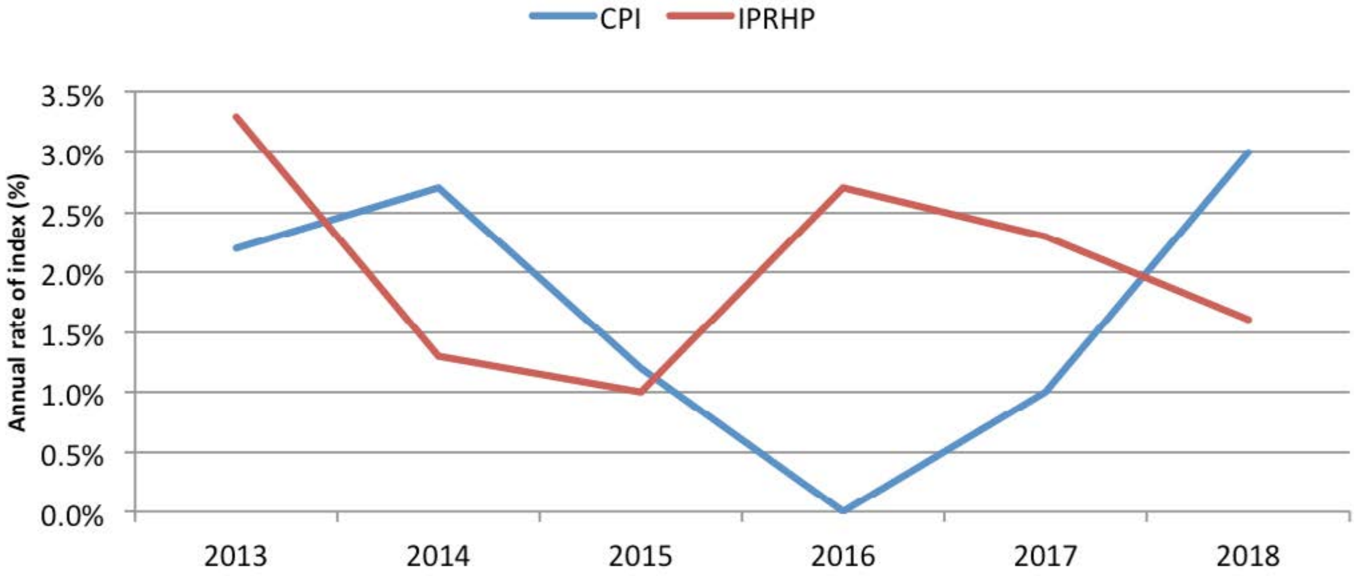
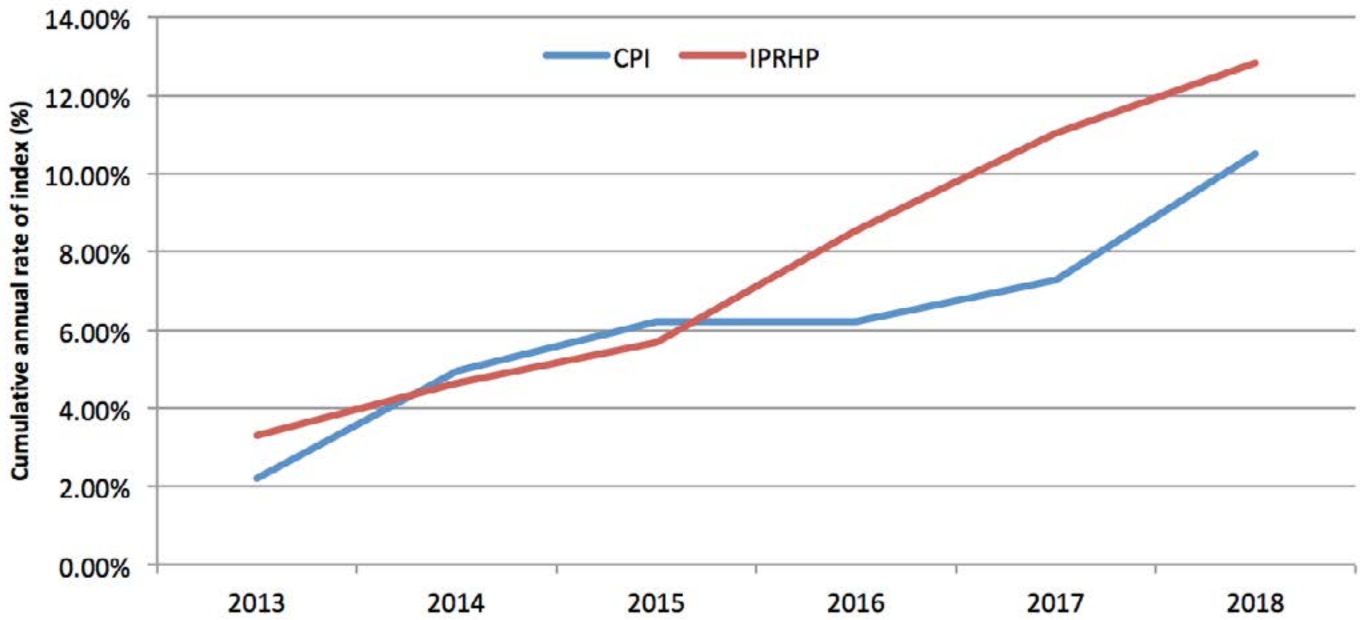


Figure 9: cumulative inflation rates for CPI and IPRHP 2013/14 to 2018/19



Aware that the total number with gaps is a fairly crude measure we also looked at how many of the gaps were within target range of £5 per week for the shared rate and £10 per week for the other categories. This would give an indication what might be the most effective method to realign LHA rates with the 30th percentile in the shortest time once the freeze ends, other than a full immediate revaluation. The results are in table 11.

[23]Comparison between CPI and IPRHP as uprating indexes over period 2013/14 to 2018/19 (by convention the figure used is the rate calculated by ONS for the previous September).

Table 11: per cent of LHA rates with gap at or below target (£5, shared rate; £10 others)

	Baseline	CPI	Average CPI	IPHRP	Av IPHRP
Shared	44.8%	55.2%	56.3%	59.4%	58.3%
1 bed	59.9%	69.8%	73.4%	74.5%	74.0%
2 bed	54.7%	65.6%	68.2%	70.8%	69.3%
3 bed	39.6%	59.9%	62.0%	65.1%	62.5%
4 bed	26.6%	43.2%	45.3%	49.0%	47.4%

The results show that the proportion of LHA rates within the target range would be substantially improved if LHA rates had been fully indexed to IPHRP. Slightly better results are also achieved in every category if average CPI had been used instead of actual CPI. This reinforces the finding that it is the gap between general inflation (CPI) rent inflation that matters not the gross uprating figure: applying a constant rate reduces the risk that a large gap will open up in periods when rents are rising faster than prices.

Key findings and recommendations

- Our 'what if' analysis confirms the previous finding that the speed at which LHA rates diverge in any one year is proportionate to the gap between CPI and general rent inflation. A constant annual uprating rate (rather than one based on the actual annual figures) reduces the risk that in any one year the gap will be large.
- If LHA rates had been fully uprated by CPI then nine to 17 per cent fewer BRMAs would have had a gap than the actual uprating policy (taking into account TAF). Slightly better outcomes would have been achieved if the medium term average figure for CPI had been used instead of the actual annual figure.
- Our modelling also shows that TAF has been significantly less effective at preventing large gaps opening up for the three bed and four bed categories than it has for the other property sizes.
- Unsurprisingly the index of private rental housing prices (IPHRP) would be more successful in keeping LHA aligned with local rents than CPI in the medium to long term. Over the period studied IPRHP is on average around eight basis points higher than CPI inflation.
- If LHA rates are not returned to their full value at the end of the freeze we recommend that IPHRP should be used as the baseline to stop further misalignment, with a further element to close the gap (e.g. IPHRP plus X per cent) that could include a mechanism similar to TAF to target extra resources where the gap is widest.

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