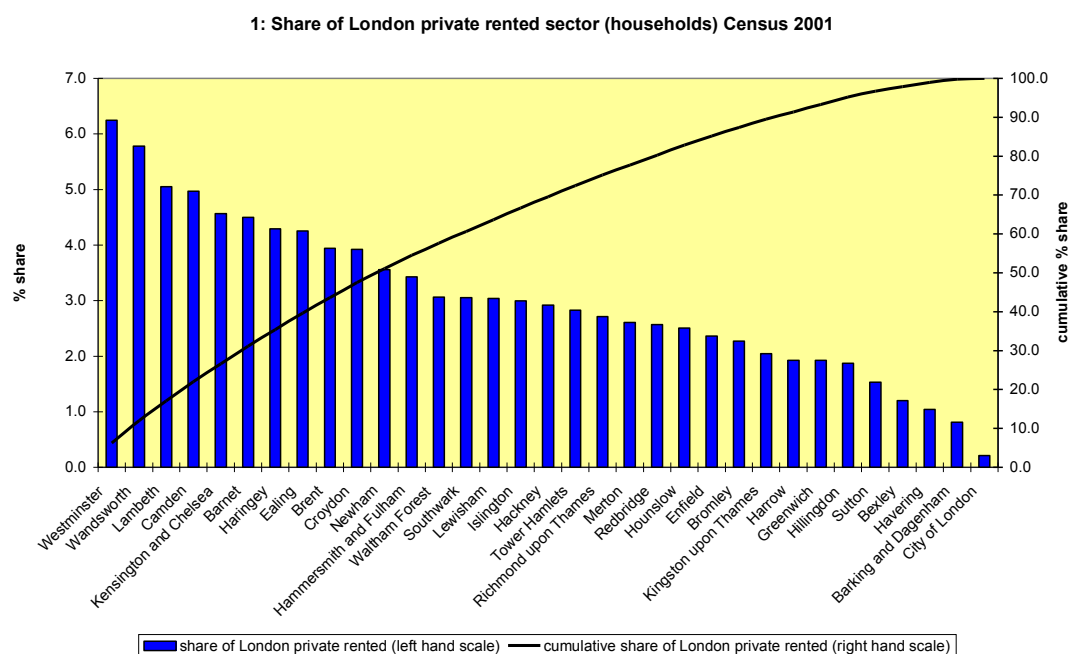


The geographical distribution of the LHA caseload in London

Context

Much of what has been said in support of capping and reducing LHA entitlements in London turns on an assumption that LHA recipients are in general blind to or indifferent to differences in rent levels between areas, leading to costs running out of control as caseload is drawn to higher rent areas. If that were the case, we would expect some measurable consequences. The assumption would be supported to some extent if the geographical distribution of the LHA caseload was strongly correlated with the availability of private rented accommodation while showing little correlation with variations in rents between areas. This note offers some evidence towards testing the assumption.

Chart 1



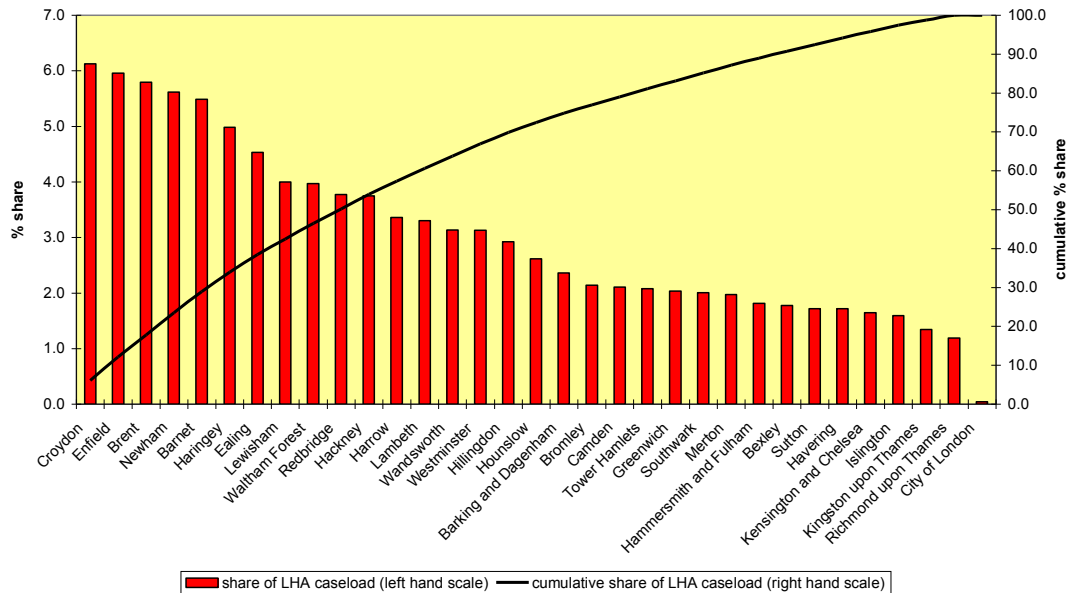
The first chart shows the share of the London private rented sector of each London local authority in 2001, measured as the share of all London households in private rented accommodation from Census table KS18. The areas are arranged in descending order of their share, moving from left to right. As can be seen, a small number of mostly inner London boroughs have particularly high shares. These are the 'high cost areas' which have been the source of concern about LHA costs.

The curve, measured against the right hand scale, shows the cumulative percentage as you move rightwards along the X axis: it shows how much of the total is accounted for by all the local authority areas up to that point. For example, the areas from Westminster to Newham on the X axis accounted for some 51% of all households in private rented accommodation in Greater London, while the areas from Westminster to Richmond account for 75%. In other words, 11 out of the 33 areas accounted for over half of the total, and 19 account for three quarters. Five areas (Westminster, Wandsworth, Lambeth, Camden and K&C) accounted for over a quarter of all London households in the private rented sector in 2001.

So the PRS is very unevenly distributed in London, and central boroughs have a disproportionate share of rented accommodation. Other things being equal, we would expect more LHA claims in these boroughs. But are other things equal?

Chart 2

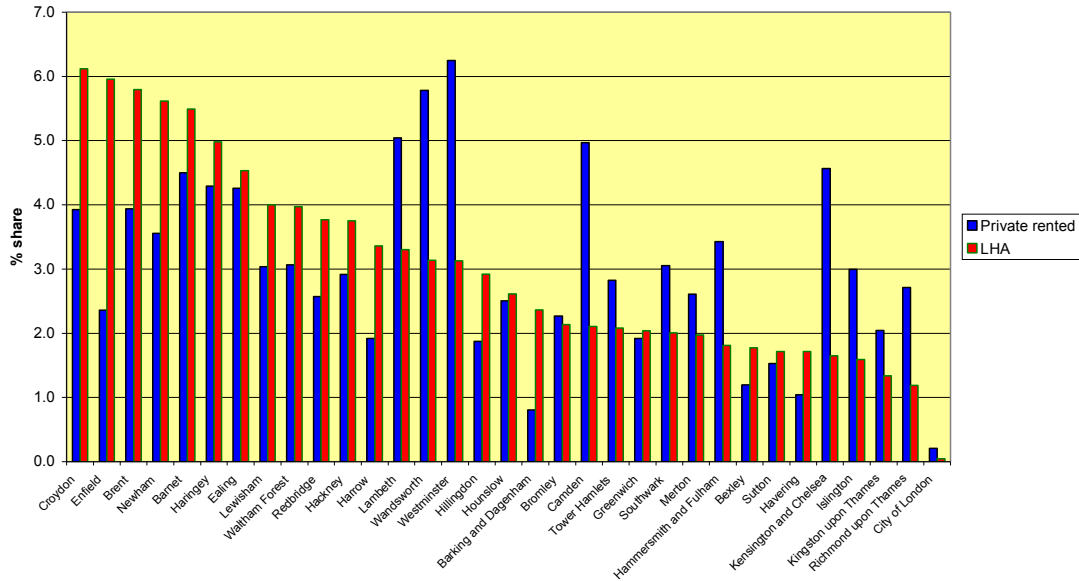
2: Distribution of LHA caseload London 2010



The second chart shows the distribution of the LHA caseload as of November 2009-April 2010 on the same basis, and the main point of the comparison can be seen simply by comparing the position of local authorities on the X axis with their position in the previous chart: there is very little relationship between the distributions and in particular the high shares of the private rented sector of some central boroughs are not reflected in their shares of the LHA caseload. Moving from left to right, ten local authorities account for just over half of the caseload. There is some overlap with the areas with higher shares of the private rented sector (Newham, Haringey, Ealing, Brent), but central boroughs do not feature.

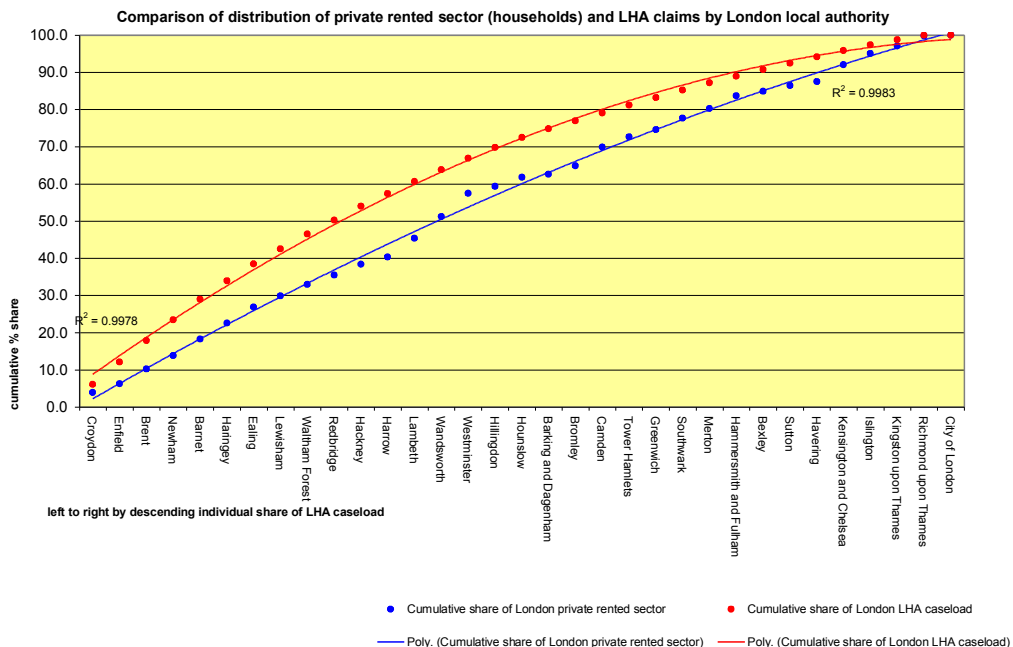
Chart 3

3: Shares of private rented sector (households, 2001) and LHA caseload (2010)



The third chart brings the two together and shows an extremely noisy pattern, with no obvious relationship between the shares of the private rented sector and the shares of the LHA caseload. Boroughs with high rent levels (such as Westminster and K&C) have disproportionately low shares of the LHA caseload given their shares of the PRS. The assumption that LHA tenants are indifferent to rent levels is looking very shaky.

Chart 4



The fourth shows how the cumulative shares compare, with areas with the highest shares of the LHA caseload on the left. The gap between the curves indicates the disproportion between shares of the sector and of the LHA caseload: for example, over 50% of the caseload is accounted for by boroughs with only 36% of the private

rented sector. (The data points are the cumulative shares of all boroughs up to that point, running from left to right.)

One hypothesis would be that if we factored in costs as well as share of the private rented sector, the noisy pattern that is shown here would become more coherent. In order to examine the role, if any, of rent levels in determining the LHA caseload, we have run some regressions using LHA average awards as a proxy for rent levels. We have used the ratio of the local LHA award by accommodation size to the cross-borough mean for that size as the rent component in the model, and the ratios of LHA caseload and of numbers in the PRS in 2001 to their respective London means as the measures of caseload and PRS size respectively. Implicitly, this assumes that the PRS ratios, as opposed to numbers in the PRS, will not have changed dramatically over ten years.

Table 1

Regression of London borough share of LHA caseload on rent and borough share of private rented sector

Sources: Census 2001 (borough share of PRS); DWP impact assessment of LHA changes (LHA caseload and average payment as proxy for rent)

(a) One-bed flat

Dependent variable: LHA one-bed caseload (ratio to cross-borough mean excluding City)

Variable	Parameter	S.E.	T-STAT	2-tail p-value	1-tail p-value
H0: coeff = 0					
Rent	-1.1423	0.3554	-3.2144	0.0032	0.0016
Size PRS	1.1391	0.2233	5.1020	0.0000	0.0000
Constant	0.9721	0.2927	0.0000	1.0000	0.5000
Multiple Linear Regression - Regression Statistics					
Multiple R	0.69				
R-squared	0.47				
Adjusted R-squared	0.44				
F-TEST	13.05				
Observations	32				
Degrees of Freedom	29				

City excluded. Variables are ratios to cross-borough means (City excluded) for 1-bed caseload, PRS and rent

(b) Two-bed flat

Dependent variable: LHA two-bed caseload (ratio to cross-borough mean excluding City)

Variable	Parameter	S.E.	T-STAT	2-tail p-value	1-tail p-value
H0: parameter = 0					
Rent	-1.1360	0.3194	-3.5570	0.0013	0.0007
Size PRS	0.6846	0.2255	3.0360	0.0050	0.0025
Constant	1.4616	0.2695	5.4229	0.0000	0.0000
Multiple Linear Regression - Regression Statistics					
Multiple R	0.57				
R-squared	0.32				
Adjusted R-squared	0.28				
F-TEST	6.95				
Observations	32				
Degrees of Freedom	29				

City excluded. Variables are ratios to cross-borough means (City excluded) for 2-bed caseload, PRS and rent

Analysis carried out using software from wessa.net

Wessa, P. (2012), Free Statistics Software, Office for Research Development and Education, version 1.1.23-r7, URL <http://www.wessa.net/>

The coefficients on the rent and size of PRS are what is important here: they are in bold in table 1. The results for one-bed properties could hardly be clearer: the coefficients for rent and the size of the private rented sector have opposite signs and almost identical absolute values. Rents reduce the LHA caseload, the size of the PRS increases the caseload, and these very strong effects pretty much balance each other. The noisy pattern in chart 3 is explained: there is no visible relationship between size

of PRS and LHA caseload because rents play an equally strong role in determining where the caseload is located. R^2 is .47, so about half the variation in the caseload between boroughs is accounted for by the rent and size of PRS variables alone.

For two bed properties the rent variable is as strong as for one-beds, but the PRS variable while having the expected sign has less explanatory power than for one-beds. This is to be expected as the variable is the size of the entire PRS, not the two-bed element in the PRS: we would expect this to correlate much better with numbers of one-bed than two-bed flats, just because the former constitute a larger share of all PRS accommodation. The R^2 is unsurprisingly lower, at a still respectable .32.

So we can reject the assumption that rents play no role in determining the location of the LHA caseload for these accommodation types at least. With this finding, the assumption that tenants are indifferent to rent levels collapses. Wealthy boroughs like Westminster and K&C have LHA tenants not because people with access to the benefit ignore rent levels but because those areas have a disproportionate share of the London PRS and the deterrent effect of high rents is not enough to completely offset the rental market supply constraint.