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A false economy

How to reduce the Housing Benefit bill

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Recommendations

Recommendation 1: The Government should reverse the shift towards private rental accommodation and invest in replenishing the social housing stock. The upfront investment needed can, in part, be offset by scrapping Right to Buy and Help to Buy. In the longer term, this will reduce the Housing Benefit bill.

Recommendation 2: The Government should restore the connection between Local Housing Allowance rates and the private rental market by restoring entitlement to the cheapest third of local rents. This is needed to ensure Local Housing Allowance remains a reliable safety net to help those on low income cover the cost of rent.

Introduction

Government spending on Housing Benefit has swelled in recent years (see Figure 1). In 2018-19, the Department for Work and Pensions (DWP) spent £20.8 billion on Housing Benefit – more than the total police budget for the same year.¹ Housing Benefit now accounts for 77 per cent of public expenditure on housing, while less than a fifth is spent on building new homes.² The UK spends three times more than any other European country on Housing Benefit.³

Despite this increased spending, Housing Benefit is no longer fulfilling its original purpose: to help those on low incomes cover the cost of rent.⁴ Since 2011, government has introduced a series of reforms that has seen Housing Benefit fall behind the actual cost of renting.

Research has shown that low-income households are having to make “impossible choices” as a result, choosing between keeping up with the rent or paying for food and bills.⁵ These short-termist reforms may also have shifted, rather than reduced, expenditure as spending on helping people at crisis point has risen in recent years.⁶

With spending increasing but support dwindling, the Government needs to change the way it supports low-income renters. This paper explains why the Housing Benefit bill has ballooned. It examines how recent reforms have impacted individual households and local authorities, and calls for government to reject short-termism and transform the way it spends money on housing.

¹ Department for Work and Pensions, *Annual Report and Accounts 2018-19* (Department for Work and Pensions, 2019); Paul Johnson, ‘Doubling of the Housing Benefit Bill Is Sign of Something Deeply Wrong’, *Institute for Fiscal Studies*, 4 March 2019.

² Justin Chaloner, Grant Colquhoun, and Mark Pragnell, *Increasing Investment in Social Housing* (Capital Economics, 2019), 5.

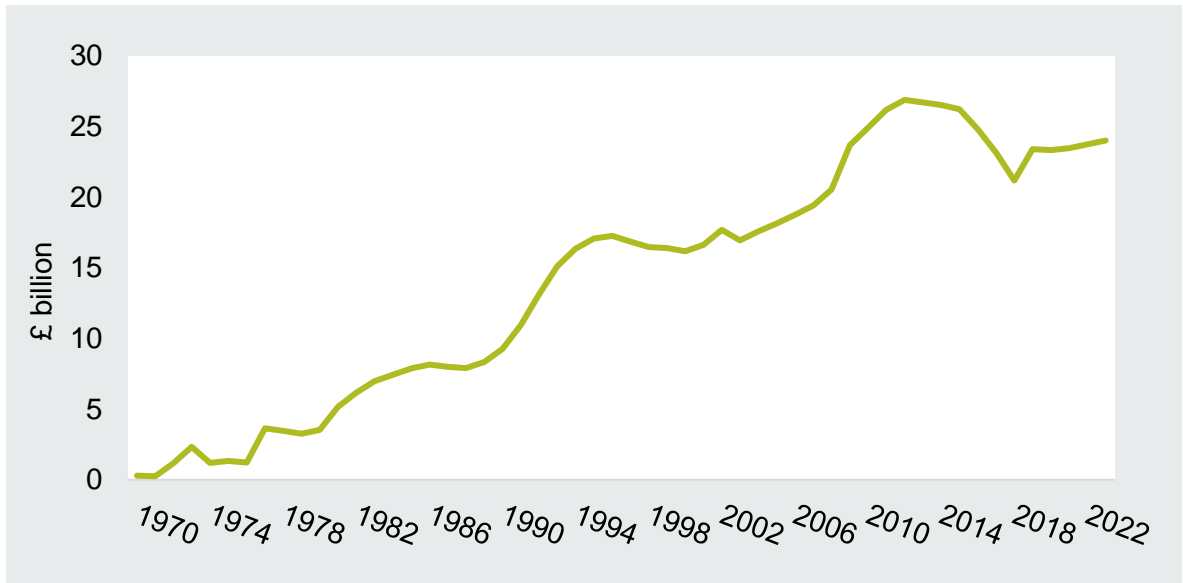
³ National Housing Federation, ‘How Public Money Is Spent on Housing’, Webpage, National Housing Federation, 2019.

⁴ Crisis, *Cover the Cost: Restoring Local Housing Allowance Rates to Prevent Homelessness*, 2019; Stephanie Kleynhans and Thomas Weekes, *From the Frontline: Universal Credit and the Broken Housing Safety Net* (Shelter, 2019); National Audit Office, *Homelessness*, 2017.

⁵ Crisis, *Cover the Cost: Restoring Local Housing Allowance Rates to Prevent Homelessness*; Kate Webb, *Fair Rent Homes* (Shelter, 2017).

⁶ National Audit Office, *Homelessness*; Department for Work and Pensions, *Use of Discretionary Housing Payments, Analysis of End of Year Returns from Local Authorities: April 2018 to March 2019*, 2019; Nathaniel Barker, ‘The Cost of Homelessness: Council Spend on Temporary Accommodation Revealed’, *Inside Housing*, 2018.

Figure 1: Real terms spending on Housing Benefit over time



Source: DWP, Benefit Expenditure and Caseload Tables (Table 1b), 2019, n.b. financial year, real terms.

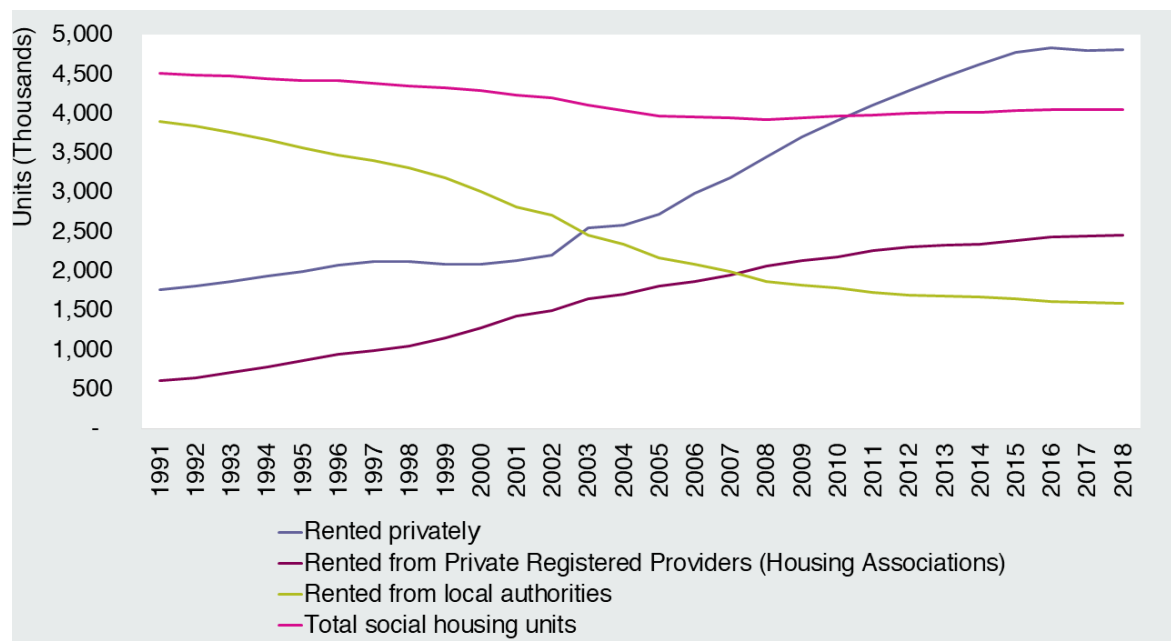
1. Why has spending increased?

Increased spending on Housing Benefit has not happened because the benefit has become more generous – in fact, the opposite has been true since 2011.⁷ It is instead the result of a shift in the way governments have chosen to support low-income households in recent decades.

Instead of investing in social housing, governments have increasingly chosen to support low-income renters by subsidising the cost of renting in the private rental market. As shown in Figure 2, the supply of social housing has dwindled in recent years, while private rental market housing has more than doubled as a proportion of total housing stock between 2000 and 2018.⁸

As a result, investment in house building has reduced as a share of total public expenditure on housing, while spending on Housing Benefit has risen: in 1990-91 spending on the two was broadly equal, but since 2011-12 Housing Benefit spending has been at least three and a half times the size of public housing investment.⁹

Figure 2: Dwelling stock by tenure (England)



Source: Ministry of Housing, Communities and Local Government, Live Tables on Dwelling Stock (Table 104), May 2019.

⁷ Department for Work and Pensions, *Housing Benefit Caseload Statistics*, 2018.

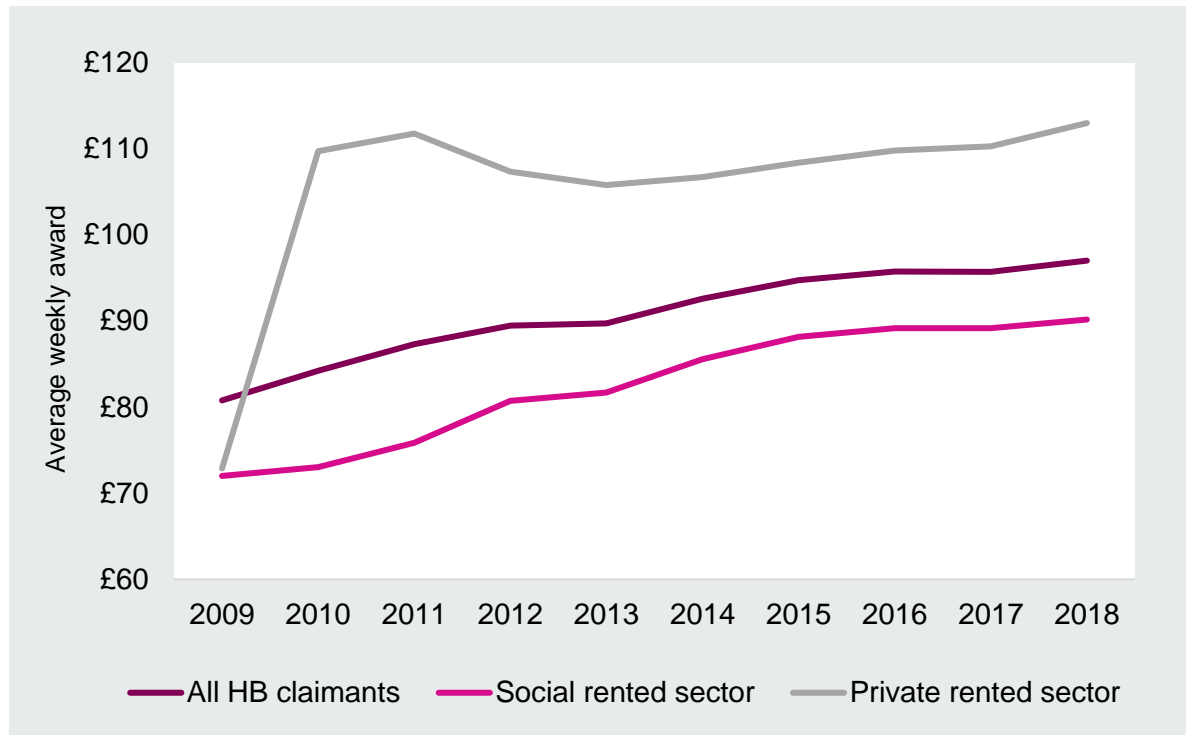
⁸ Ministry of Housing, Communities & Local Government, *Live Tables on Dwelling Stock (Including Vacants)* (GOV.UK, 2019).

⁹ Chaloner, Colquhoun, and Pragnell, *Increasing Investment in Social Housing*, 3. Investment in housebuilding includes both direct investment and funds provided to Housing Associations.

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This increased reliance on the private rented sector has proved costly for government. Average Housing Benefit weekly awards are £22.82 higher in the private sector compared to the social rented sector (see Figure 3).¹⁰ This equates to over £1,086 per year for each claim. In other words, it is 23 per cent more expensive to house someone in the private rented sector than social housing. With less and less social housing available, spending has predictably increased.

Figure 3: Housing Benefit claimants average weekly award by tenure



Source: DWP, Housing Benefit Caseload Statistics, 2018.

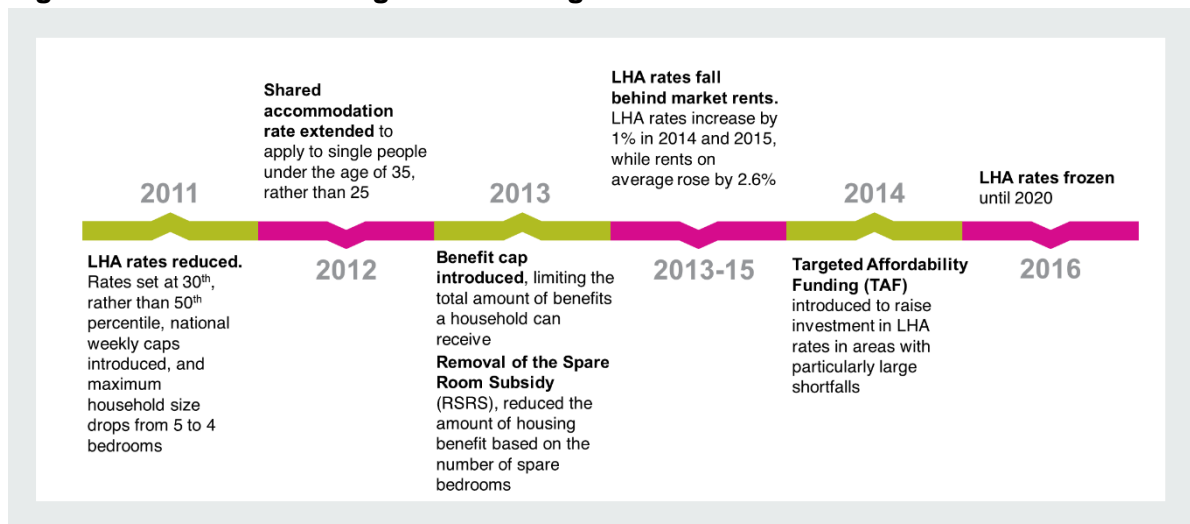
¹⁰ Department for Work and Pensions, *housing benefit Caseload Statistics*, 2018.

2. The impact of Housing Benefit reform

In an effort to stem the rising Housing Benefit bill, governments have focused on reducing the generosity of Housing Benefit through a series of welfare reforms, including the four-year freeze (see Figure 4). While Local Housing Allowance (LHA) rates (the amount private renters can claim in Housing Benefit) have remained flat since 2015, UK rental prices have risen 8 per cent over the same period.¹¹

As a result, Housing Benefit payments have become increasingly detached from the cost of renting.¹² In 94 per cent of areas in Britain, one in five or fewer private rented homes are affordable to single people, couples, or small families who need Housing Benefit.¹³

Figure 4: Timeline of changes to Housing Benefit



Source: Crisis, *Cover the Cost*, 2019.

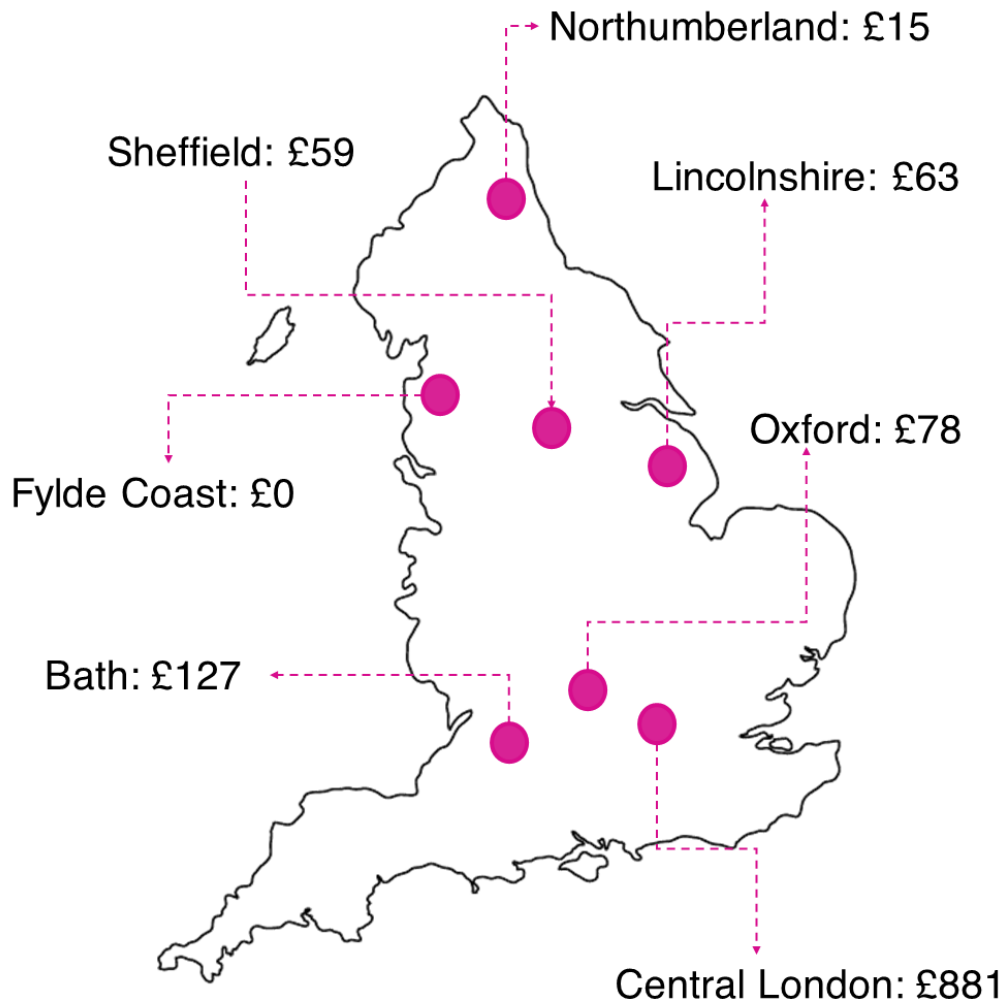
The resulting shortfall between LHA entitlements and the actual cost of renting is particularly high in certain parts of the country (see Figure 5). London is disproportionately affected, with *Reform* research showing the 20 local authorities with the highest shortfall are all based in the Capital (see appendix for methodology). This is not, however, a problem unique to London, with cities in general particularly affected: the average monthly shortfall is £157 in Cambridge, £113 in Manchester and £127 in Bristol. In 24 per cent of local authorities, the shortfall exceeds £100 each month. In comparison, just 3 per cent of local authorities do not have a Housing Benefit shortfall.

¹¹ Office for National Statistics, *Index of Private Housing Rental Prices, UK: September 2019*, 2019.

¹² Crisis, *Cover the Cost: Restoring Local Housing Allowance Rates to Prevent Homelessness*.

¹³ *Ibid.*, 9.

Figure 5: Housing Benefit shortfalls across England



Source: *Reform* analysis of Valuations Office Agency statistics, 2019 (see appendix for methodology).

As a result of the shortfall, the housing options of those claiming the housing element of Universal Credit or Housing Benefit are severely restricted: in a third of areas, the LHA rate does not even cover the cost of renting in the bottom 10 per cent of the local market.¹⁴ This is further exacerbated by the widespread reluctance of landlords to let to those on Housing Benefit, with 43 per cent of private landlords operating an outright ban.¹⁵

Research has shown that low-income households cannot make up this shortfall through better budgeting, with evidence showing people are having to cut back on essentials like food, bills and clothing to keep up with paying the rent.¹⁶ 17 per cent of renters on the lowest incomes are, or have been, in rent arrears in the last year, and 44 per cent of

¹⁴ Kleynhans and Weekes, *From the Frontline: Universal Credit and the Broken Housing Safety Net*, 5.

¹⁵ Ibid.

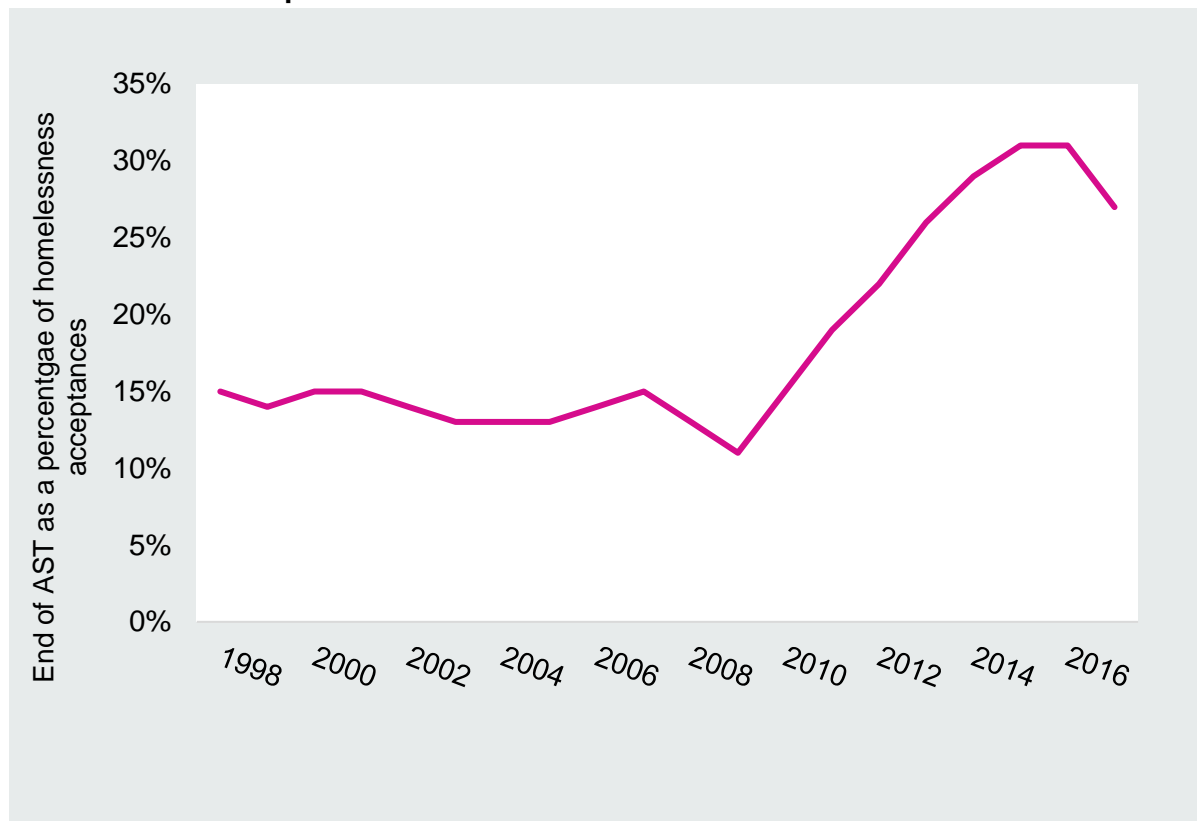
¹⁶ Shelter, *A Vision for Social Housing: The Final Report of Shelter's Commission on the Future of Social Housing*, 2019; Crisis, *Cover the Cost: Restoring Local Housing Allowance Rates to Prevent Homelessness*.

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families in the private rented sector worry that they are going to lose their home.¹⁷

In some cases, the Housing Benefit shortfall is causing people to become homeless.¹⁸ As shown in Figure 6, homelessness among people coming from the private rented sector has increased as a proportion of homeless households for whom local authorities have a duty to find accommodation, known as homelessness acceptances, in recent years. While many factors could account for this trend, research has found it is LHA rates which are “driving homelessness from the private rented sector.”¹⁹ This is devastating for those who experience homelessness, and also puts increasing pressure on local authorities. The use of temporary accommodation has increased 60 per cent since 2012, with local authority spending on temporary accommodation estimated to exceed £1 billion in 2018-19.²⁰

Figure 6: Homelessness from the private rented sector as a percentage of homelessness acceptances over time



Source: Ministry for Housing, Communities and Local Government, Acceptances and decisions live tables: Table 774, January to March 2018 (Revised), 2019.

The causes of homelessness are complex, however, and it is important to take a holistic approach to tackling the pressures facing local housing authorities across the country.

¹⁷ Shelter, *A Vision for Social Housing: The Final Report of Shelter's Commission on the Future of Social Housing*.

¹⁸ National Audit Office, *Homelessness*.

¹⁹ Chris O'Leary, Susan O'Shea, and Kevin Albertson, *Homelessness and the Private Rented Sector* (Manchester Metropolitan University Policy Evaluation and Research Unit, 2018), 4.

²⁰ Suzanne Fitzpatrick et al., *The Homelessness Monitor: England 2019* (Crisis, 2019); Barker, 'The Cost of Homelessness: Council Spend on Temporary Accommodation Revealed'.

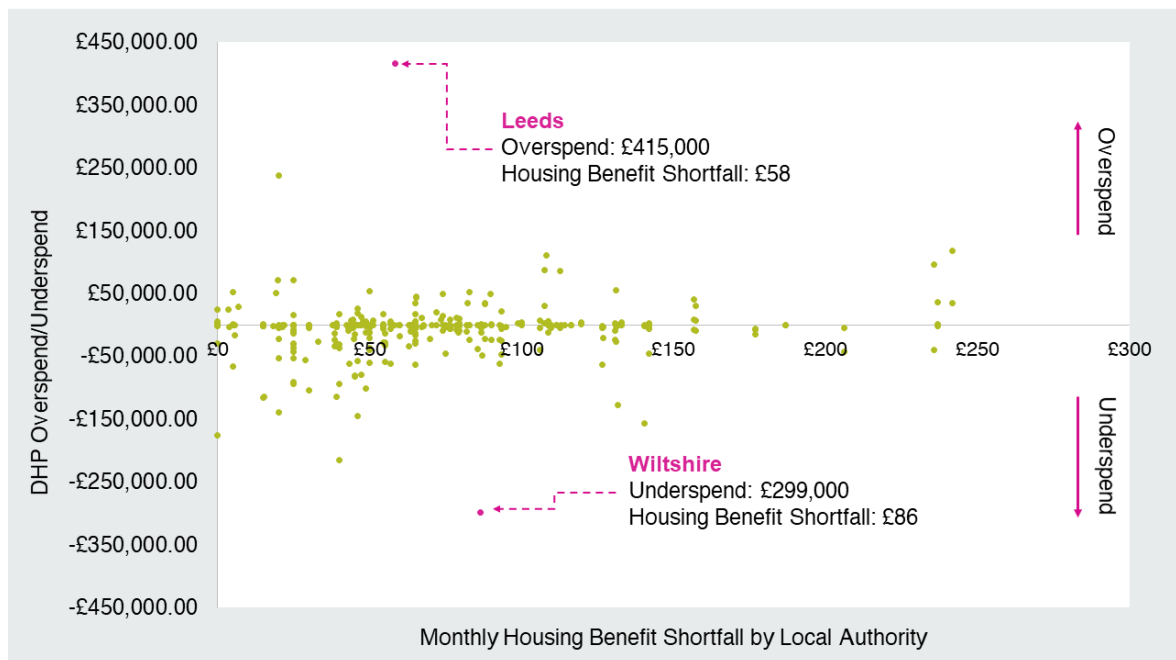
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This complexity is reflected in the figures below.

Spending on Discretionary Housing Payments (DHPs) – payments designed to help local authorities support Housing Benefit claimants struggling to meet their housing costs – has increased five-fold since 2011-14.²¹ One-third of local authorities are overspending their budget from central government, however, as shown in Figure 7, this is not always driven by LHA rates. Liverpool, for example, had the highest DHP overspend in 2018-19 but a relatively low shortfall, of £19.25. Instead, the largest driver of its DHP overspend was the removal of the spare room subsidy.²² Importantly, more research is needed to understand whether this is the result of central government poorly allocating funds, or local authorities using their discretion differently.

Similarly, there is no clear correlation between LHA shortfalls and spending on temporary accommodation (Figure 8). The 20 local authorities with the highest LHA shortfalls have a much higher average number of people in temporary accommodation (18 people per 1,000) compared to the 20 local authorities with the lowest shortfalls (less than 1 person per 1,000), but the full picture is more complex. Therefore, while LHA rates are driving homelessness in some areas, this must be seen in the wider context of central and local government policies. Unfortunately, DWP has not yet assessed the impact of its welfare reforms on homelessness.²³

Figure 7: Housing Benefit shortfalls compared with DHP spending



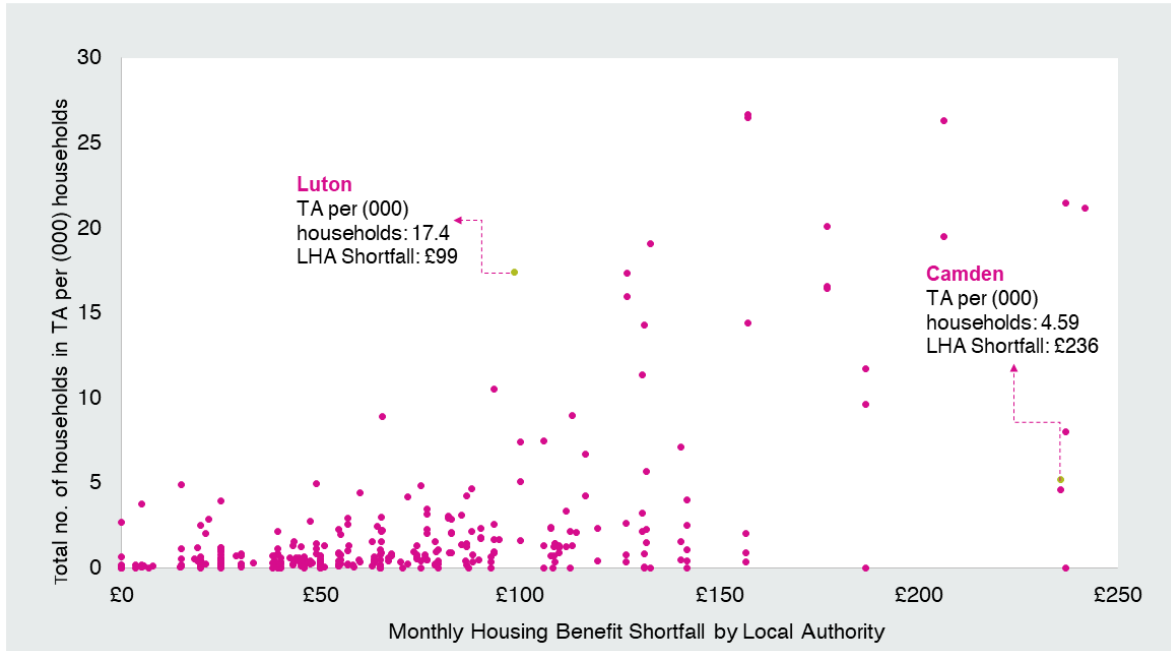
Source: *Reform Analysis of Valuation Office Agency statistics and DWP DHP Spending statistics, 2019.*

²¹ Department for Work and Pensions, *Use of Discretionary Housing Payments, Analysis of End of Year Returns from Local Authorities: April 2018 to March 2019.*

²² *Ibid.*

²³ National Audit Office, *Homelessness*, 7.

Figure 8: LHA shortfall compared to households in temporary accommodation



Source: *Reform* analysis of Valuation Office Statistics and DWP Live Homelessness Tables, 2019.

3. How to reduce the Housing Benefit bill

The 2019 Spending Round included an additional £40 million for DHPs to “tackle affordability pressures in the private rented sector.”²⁴ However, DHPs are not a permanent solution and will not reduce the growing Housing Benefit bill. The most cost-effective way to reduce spending on Housing Benefit is to invest in increasing the supply of social housing, thereby reversing the reliance on expensive private sector tenures.

3.1 Invest in social housing

This will require the Government to change the way it spends money on housing. As it stands, the Government spends over four times as much on Housing Benefit as it does on investment in affordable housing.²⁵ In addition, homeowners are the main beneficiaries of government housing subsidies.²⁶ It is estimated that government will lend a total of £29 billion to first-time buyers through the Help to Buy scheme – which “enables those on relatively high incomes to buy relatively expensive homes” – by 2023. In comparison, £2.4 billion was spent on grant funding for affordable housing over the same period.²⁷

Further, grant funding has been directed towards homes for affordable, rather than social, rent since the introduction of the Affordable Homes Programme in 2011 (see Figure 9).²⁸ This is an important distinction: while ‘social rent’ is set using a government formula based on local income levels, ‘affordable rent’ can be up to 80 per cent of local market rent.²⁹ As a result, homes for ‘affordable rent’ were the most common type of affordable housing supplied, while homes for social rent made up just 2.7 per cent of new housing starts in 2018-19 (see Figure 9).³⁰ However, research has found the difference between social and affordable rents for ranges from £650 to £5,000 per year for a two-bedroom home.³¹ These ‘affordable’ homes are simply not genuinely affordable in many parts of the country.

²⁴ HM Treasury and The Rt Hon Sajid Javid MP, *Spending Round 2019: Document*, CP 170 (London: The Stationery Office, 2019).

²⁵ Chaloner, Colquhoun, and Pragnell, *Increasing Investment in Social Housing*, 3.

²⁶ Steve Wilcox and Peter Williams, *Dreams and Reality?* (Chartered Institute of Housing, 2018).

²⁷ Chaloner, Colquhoun, and Pragnell, *Increasing Investment in Social Housing*, 30.

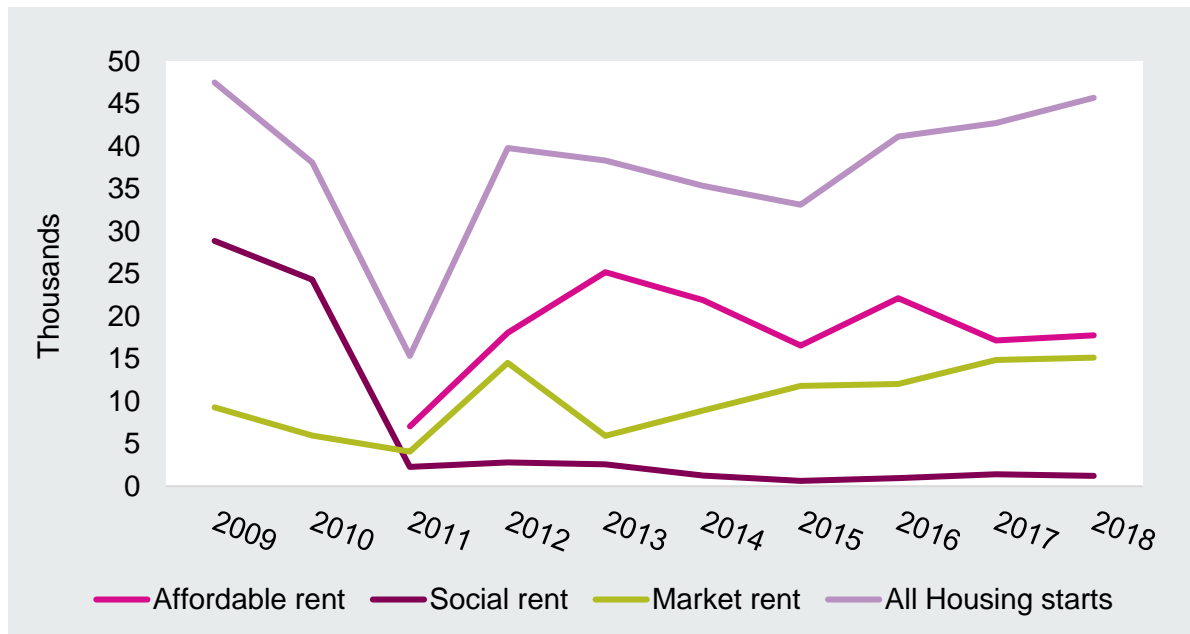
²⁸ Chaloner, Colquhoun, and Pragnell, *Increasing Investment in Social Housing*.

²⁹ Ministry for Housing, Communities and Local Government, *Policy Statement on Rents for Social Housing*, 2019.

³⁰ Homes England, *Homes England Housing Statistics 1 April 2018-31 March 2019*, 2019, 6.

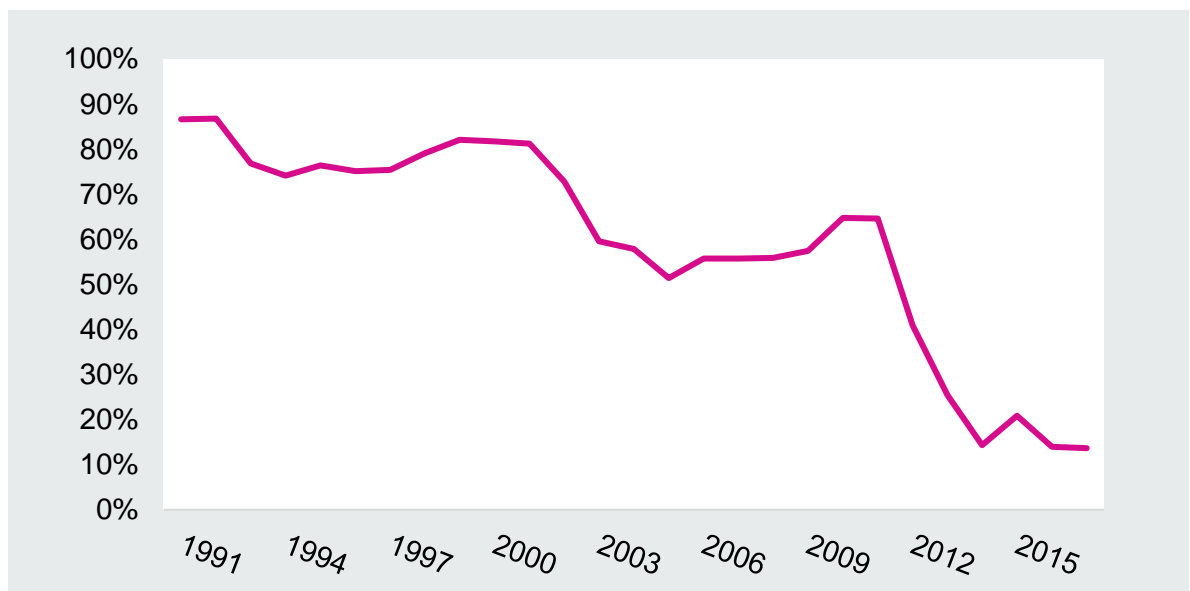
³¹ Joseph Rowntree Foundation, ‘Affordable Rents Compared to Traditional Social Rents’, Webpage, 2018.

Figure 9: Housing starts on site by tenure, England



Source: Homes England, Housing starts on site by tenure, 2018-19, n.b. financial year.

Figure 10: New homes for social rent as a percentage of all new affordable housing supply



Source: Live Table 1000, Live Tables on Affordable Housing Supply, 2019, n.b financial year.

Recent policy developments are a welcome change: announcements include £1.67 billion to help fund the building of 23,000 new affordable homes, of which 12,500 will be social rent homes.³² Under this programme, the average grant award for each of these new

³² Homes England, *Shared Ownership and Affordable Homes Programme 2016 to 2021: Addendum to the Prospectus, SOAHP Addendum - Social Rent*, 2018.

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23,000 affordable homes is £72,610.³³ There is a strong investment case for this increased funding. According to research conducted by Capital Economics, the £72,610 investment into a social rent home in an area of high affordability pressures will deliver a net benefit to government of between £10,850 and £38,500 over a 30-year time horizon.³⁴ This includes the multiplier effects of housebuilding on the wider economy, as well as Housing Benefit savings.

3.2 Scrap counterproductive policies

A shift towards social housing will require upfront investment from government. This could, in part, be offset by scrapping counterproductive policies such as Help to Buy and Right to Buy.

The government has already loaned £12 billion through Help to Buy, and is expected to have invested £29 billion by 2023.³⁵ The National Audit Office has concluded, however, that three-fifths of buyers could have bought a property without the support of the scheme.³⁶ Right to Buy has subsidised the sale of 86,596 social houses since 2012. In 2017-18, estimated Right to Buy subsidises totalled over £776 million.³⁷ Between 2011-12 and 2017-18, subsidies are estimated to have exceeded £4.24 billion.³⁸

Right to Buy has contributed to the decline in the social housing stock. There is currently no requirement to replace homes sold through Right to Buy on a like-for-like basis (e.g. to replace a home let on a social rent with another let on a social rent), and the commitment to replace homes on a one-for-one basis within three years is not being met (see Figure 11).³⁹ Between 2012-13 and 2018-19, 4,170 fewer homes were built than were needed to meet the replacement commitment.⁴⁰

Part of the problem is that it is estimated that less than half of the funds raised through Right to Buy are used to build replacement housing, with the remaining funds being split between "the Treasury, the repayment of historic council debts and the administration of the [Right to Buy] scheme."⁴¹ Further, several reports have found a "considerable number" of properties – estimated to be up to 40 per cent – bought under Right to Buy are then rented privately, and in some instances local authorities who used to own them are now renting them to house people at risk of homelessness.⁴² This is not an effective use of public money and must be scrapped.

³³ Chaloner, Colquhoun, and Pragnell, *Increasing Investment in Social Housing*, 38.

³⁴ *Ibid.*, 39.

³⁵ Ministry for Housing, Communities and Local Government, *Help to Buy: Equity Loan Scheme - Progress Review*.

³⁶ Ministry for Housing, Communities and Local Government, *Help to Buy: Equity Loan Scheme - Progress Review*, 2019, 8.

³⁷ Ministry for Housing, Communities and Local Government, 'Live Tables on Social Housing Sales, Table 682', Webpage, 2019.

³⁸ *Ibid.*

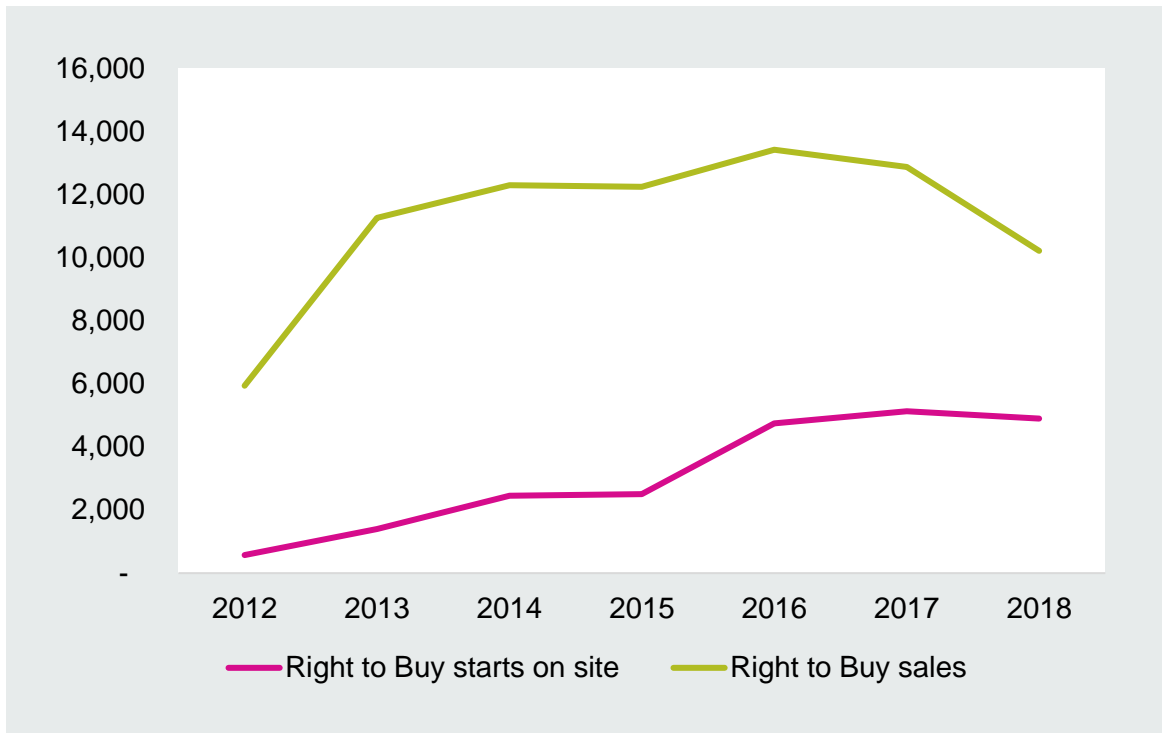
³⁹ Wendy Wilson and Cassie Barton, *What Is Affordable Housing?* (House of Commons Library, 2019).

⁴⁰ Ministry for Housing, Communities and Local Government, *Right to Buy Sales in England: January to March 2019* (GOV.UK, 2019), 10.

⁴¹ Peter Apps, 'Less than Half of £4.8bn Right to Buy Receipts Used for Replacement Housing', *Inside Housing*, May 2018.

⁴² Department for Communities and Local Government, *The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations*, 2015.

Figure 11: Right to Buy sales compared to starts on site



Source: Ministry for Housing, Communities and Local Government, Live tables on social housing sales: Tables 693 and 691, 2019.

Recommendation 1: The Government should reverse the shift towards private rental accommodation and invest in replenishing the social housing stock. The upfront investment needed can, in part, be offset by scrapping Right to Buy and Help to Buy. In the longer term, this will reduce the Housing Benefit bill.

3.3 Restore Housing Benefit rates

Reducing reliance on the private rental sector will take time. It is estimated that 90,000 homes for social rent will need to be built in England each year for fifteen years to meet new demand and to address the backlog.⁴³ The government should commit to, and fund, delivering against this.

In the meantime, investment is needed to ensure Housing Benefit can fulfil its original purpose: to help those on low incomes cover the cost of rent. The Local Housing Allowance freeze will end in April 2020, and Housing Benefit is expected to rise in line with inflation for the first time since 2012. This will not offset the impact of the freeze, however, and will not fix the problem that LHA rates do not reflect the actual cost of renting.

⁴³ National Housing Federation and Crisis, *Housing Supply Requirements across Great Britain: For Low-Income Households and Homeless People*, 2018, 6.

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As well as ending the freeze, the Government should restore rates to the cheapest third of local rents. Doing so is estimated to cost the Government £3.3 billion over the next 3 years.⁴⁴ This will likely lead to savings across other public services, however as mentioned above, these are difficult to quantify. According to research from Alma Economics commissioned by Crisis, the net benefits to the Treasury of annual re-alignment of LHA rates to the 30th percentile are 70 per cent higher than the cost of the policy over a 6-year period to 2024-25.⁴⁵

Critics of restoring LHA rates to the cheapest third of rents have focused on the inflationary effect that this policy could have, given a significant minority (27 per cent) of private renters receive LHA.⁴⁶ Yet, there is limited evidence of a correlation between landlord behaviour and LHA rates in practice.⁴⁷ For example, research carried out by DWP following a reduction in Housing Benefit entitlements from 50 per cent to 30 per cent of market rates in 2011 found the policy change did not lead to a downward pressure on the rental market.⁴⁸ Although this does not necessarily mean that the reverse would not be true, it highlights that other factors, including landlord costs and desire to maintain tenancies, also play a role.⁴⁹ Given the many factors influencing how tenants and landlords respond to LHA rates, a casual link between the two factors should not be assumed.⁵⁰

Recommendation 2: The Government should restore the connection between Local Housing Allowance rates and the private rental market by restoring entitlement to the cheapest third of local rents. This is needed to ensure Local Housing Allowance remains a reliable safety net to help those on low income cover the cost of rent.

⁴⁴ Crisis, *Cover the Cost: Restoring Local Housing Allowance Rates to Prevent Homelessness*.

⁴⁵ Alma Economics, *Local Housing Allowance: Options for Reform*, 2019.

⁴⁶ Paul Johnson, 'Doubling of the housing benefit Bill Is Sign of Something Deeply Wrong', *Institute for Fiscal Studies*, 4 March 2019.

⁴⁷ Shelter, *The Relationship between Local Housing Allowance Rates and Rents*, 2019.

⁴⁸ Department for Work and Pensions, *Local Housing Allowance: Monitoring the Impact of Changes* (GOV.UK, 2015).

⁴⁹ Shelter, *The Relationship between Local Housing Allowance Rates and Rents*.

⁵⁰ *Ibid.*

Conclusion

The current Housing Benefit system is broken. Spending has skyrocketed in recent years, yet Housing Benefit is not enough to cover the cheapest third of rents in the vast majority of local areas. The Government's approach in recent years – to reduce Housing Benefit entitlements, only to increase spending to help people in crisis – has benefited neither Housing Benefit claimants nor the public purse. While reforms may have slowed the growth of spending, the Housing Benefit bill continues to rise.

Government must reject short-termism and transform the way it spends money on housing. Crucially, it needs to reverse the increased reliance on the private rented sector by increasing the supply of social housing. This will require upfront funding, but it is a smart investment. Subsidising the cost of renting in the private sector is more expensive than supporting people in social housing.

This shift will take time, however, and low-income families need support now. To cover this transitional period, the Government should reinstate the connection between Housing Benefit and the cost of renting. This would ensure Housing Benefit remains a reliable safety net to help those on low incomes cover the cost of rent.

Appendix

Methodology

Local Housing Allowance shortfalls by local authority were calculated by comparing the maximum amount of Housing Benefit a household requiring a two-bedroom home would be eligible for in 2019-20 to the amount needed to rent a two-bedroom home at the cheapest third of rents in the same area. All 326 local authorities in England were included in the analysis, unless otherwise stated.

Data collected by the Valuation Office Agency was used to determine the cost of renting a two-bedroom home (CAT C) at the 30th percentile, applicable for the financial year 2019-20 (LHA 2019-20 Tables, Table 2). Data in this publication were derived from the twelve months letting information collected up to the end of September 2018. The Valuation Office Agency provides information for each Broad Rental Market Area (BRMA). These were aligned as closely as possible with local authority boundaries using a conversion table provided to *Reform* by Shelter.

This information was then compared to Valuation Office Statistics which provide the LHA rates effective from 1st April 2019, taking account of the Maximum Local Housing Allowance (LHA 2019-20 Tables, Table 4). This information was then converted to local authority level using the same conversion table provided by Shelter. The Shortfall per local authority was then calculated by subtracting the maximum LHA Allowance per local authority from the average rent at the 30th percentile for the same area.

To calculate the information shown in Figure 8 (LHA shortfall compared to households in temporary accommodation), LHA shortfalls by local authority were compared to the total number of households in temporary accommodation per (000) between January-March 2019. This information is part of the live tables on homelessness collected by the Ministry of Housing, Communities and Local Government (Table TA1). Twenty-three local authorities were excluded from the analysis because they did not have information on temporary accommodation per (000). Outliers were removed from Figure, but the full dataset is available on request.

To calculate the information shown in Figure 7 (Housing Benefit shortfalls compared to DHP Spending), the above information was compared to the latest data on Discretionary Housing Spending (2018-19 Financial Year) held at the local authority level. Overspend or underspend per local authority was calculated by subtracting total expenditure from total funding provided by central government. Seven local authorities were excluded from the analysis because their DHP spend was not recorded. Outliers were removed from Figure 7, but the full dataset is available on request.

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