



**Northern Ireland Broad Rental  
Market Areas (BRMAs)  
Scoping Study and Impact  
Assessment**

**Executive Summary**

**Submitted to**

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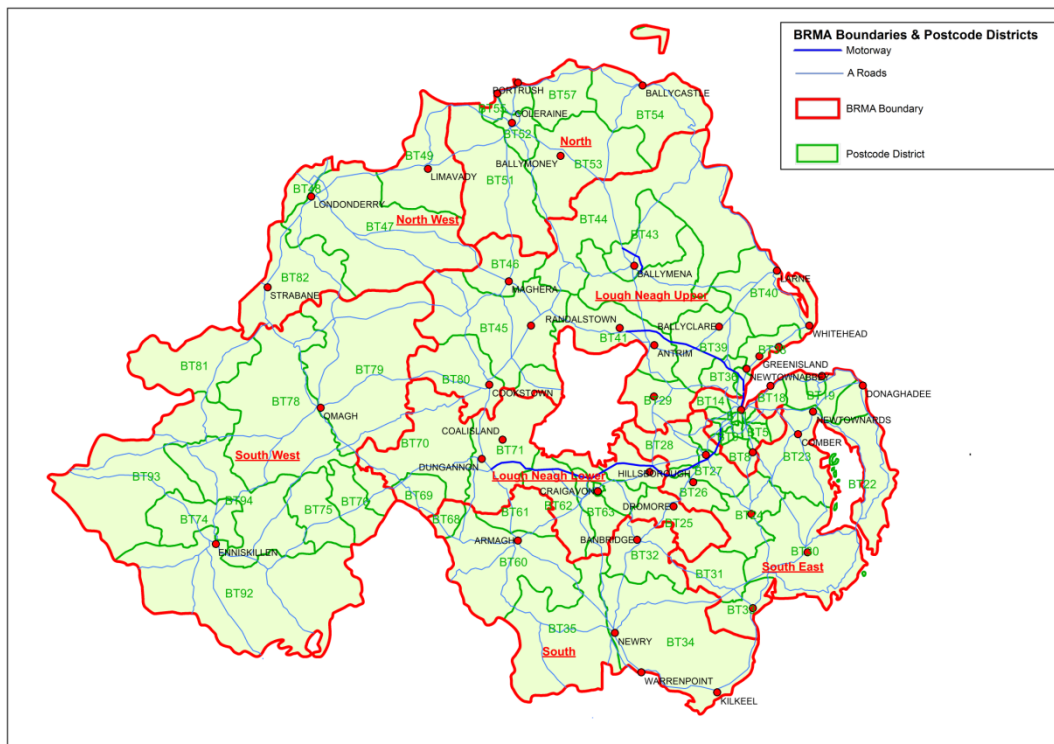
## Executive Summary

### Introduction

This report, commissioned by the Northern Ireland Housing Executive, presents the independent review and impact assessment of the Northern Ireland Broad Rental Market Areas (BRMAs) and Local Housing Allowance (LHA) rates.

Local Housing Allowances were introduced in April 2008 and apply to Housing Benefit claimants in the private rented sector. Presently, in Northern Ireland, LHA rates are set for five property size categories within each of eight geographical areas known as Broad Rental Market Areas (Map A).

### Map A Broad Rental Market Area boundaries



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The BRMA classification currently in use was defined following the introduction of the LHA regime in 2008. In the period since 2008, there has been a significant increase in the private rented sector. In addition, the 2011 Census of Population results have been published and new data sources have become available, including small area travel time estimates prepared by the Northern Ireland Statistics and Research Agency.

Against the backdrop of welfare reform and the UK Government's drive to reduce spending on benefits, the LHA arrangements have also undergone

considerable change, notably the freezing of the LHA rates from 2016 to 2020.

It is therefore now considered appropriate to review the current BRMA classification, to ensure that the areas continue to reflect the legislative requirements and to examine the possibility of reclassifying BRMAs, with a view to reduce their number.

## **BRMAs and LHA Rates: Overview**

Depending on their circumstances, households in the private rented sector may be entitled to claim Housing Benefit. Since 7 April 2008, the amount of benefit entitlement is calculated with reference to Local Housing Allowance (LHA) rates. The core feature of the LHA is the use of flat rates to calculate Housing Benefit entitlement, depending on household size and the area in which the claimant lives.

Under present arrangements, LHA rates are set for each of five property size categories within the eight Broad Rental Market Areas, i.e., a total of 40 applicable LHA rates.

The 2008 Regulations under which LHAs were introduced specified a methodology for assessing the Housing Benefit rate applicable to private rented sector claimants. The prescribed method required the Housing Executive to compile lists of private sector rents, in ascending order, within each BRMA for each property size category. From those ordered lists, the applicable LHA rate was to be assessed as the median value by property size category and BRMA.

In April 2011, the median was replaced with the 30<sup>th</sup> percentile value. In an ordered list, 30 per cent of values lie below the 30<sup>th</sup> percentile amount with the remaining 70 per cent being above that amount. The rationale was that Housing Benefit claimants in the private rented sector should have access to the bottom 30 per cent of the market in their local area, having regard to their accommodation needs.

Since 2011, and driven by the Government's deficit reduction plans, various changes have been made to the method of uprating LHA rates to restrict the amount of Housing Benefit which can be paid. In the Summer Budget of 2015, it was announced that LHA rates would be frozen for four years from 2016 to 2020, at the lower of the April 2015 LHA rate and the 30<sup>th</sup> percentile rent.

Consequently, in almost all the current BRMAs, LHA rates are no longer aligned with their corresponding 30<sup>th</sup> percentile rents. Out of the 40 LHA rates assessed for 2018-19, 25 are now £5 or more below their 30<sup>th</sup> percentile rents.

As at March 2018, there were 52,300 private rented sector tenants in receipt of Housing Benefit and subject to the LHA regime. They accounted for 33 per cent of the total 157,000 Housing Benefit claimants in payment.

The average weekly contract rent recorded for private rented sector claimants subject to the LHA regime was £98. Among those 52,300 private rented sector claimants, 88 per cent were recorded on the Executive's Single Housing Benefit Extract (SHBE) as having a contract rent in excess of their applicable LHA rate, ranging from 91 per cent of claimants with entitlement to two bedrooms to 63 per cent in the four bedroom category.

Reflecting the gap between contract rents and LHA rates, almost nine in 10 private rented sector claimants (89 per cent) experience a shortfall between their weekly contract rent and the amount of Housing Benefit that they receive. Among those with such a shortfall, the average amount is £28, representing 29 per cent of their average weekly contract rent.

## **The BRMA Map: Current Position**

A BRMA is defined in the legislation as follows:

An area within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services.

In addition, a BRMA must contain:

- A variety of residential property types and tenures.
- Sufficient privately rented residential premises to ensure that the Executive can determine local housing allowances which are representative of the rents that a landlord might reasonably be expected to obtain in that area.

BRMAs are also required to cover all of Northern Ireland, be non-overlapping and be postcode-definable.

The current set of BRMAs continues to meet the access and diversity criteria. However, the sufficiency requirement is challenging. As currently constituted, there is a wide disparity across BRMAs in the numbers of households living in privately rented accommodation. That is reflected in the incidence of list sizes below 100 in the lists of rents that the Executive compiles on an annual basis to meet the requirement to determine a representative local housing allowance. There is, therefore, a rationale to consider the possibility of reducing the number of BRMAs in order to better meet the sufficiency requirement.

Within that context, a clear message from the consultations was that any proposed changes should be carefully considered. There was no strongly expressed demand for change to the current set of BRMAs.

Further, it was recognised that changes to the existing set of BRMAs would lead to some areas gaining (through an increase in LHA rates) and other areas losing (through a decrease in LHA rates). For example, the shared accommodation rate in the North West (£52.04) is currently almost £14 higher than in the neighbouring North BRMA (£38.19). Merging all or part of those two BRMAs would lead to a reduced LHA rate in the North West and an increased rate in the North.

There was therefore a general wariness of any disruption that might accompany a re-drawing of the BRMA map, especially in terms of the potential impacts on tenants, including affordability and viability of tenancies.

## Options for Change

The following is the set of objectives which can be considered to emerge from the review of the current position:

- Meet the legislative requirements for access, diversity and sufficiency.
- Minimise any disruption to present arrangements; in particular, the impacts on Housing Benefit claimants.

The following options are considered in this review.

The 'status quo' or do nothing option is to retain the current set of BRMAs. From the review of the current position, the option of retaining the present set of BRMAs is certainly viable.

The 'do minimum' options are defined by reclassifying existing BRMAs into different configurations, ranging from variants on a seven-BRMA classification through to a single classification (all of Northern Ireland). Depending on the configuration, in the 'do-minimum' option, some subset of BRMAs may be left 'undisturbed', which assists in minimising disruption

The main 'do something' option considered in this review is to re-classify BRMAs so that they align with the NIHE's revised Housing Market Areas. That was an option suggested in a number of the consultations and would have the benefit of enhancing the coherence of geographical frameworks within which the Executive operates.

The control of spending on welfare benefits has been an important focus of UK Government policy in recent years. Within that context, the approach taken has been to consider any proposed reclassifications from a cost-neutral perspective. For each reclassification option, therefore, the effects

have been modelled so that total Housing Benefit expenditure remains unchanged from the baseline position (£3.8 million per week on private rented sector claimants subject to the LHA regime), albeit some claimants gain while others lose. The approach therefore focuses explicitly on the disruption that would ensue from re-calculated LHA rates in a reclassified set of BRMAs.

## Assessment of Options

A range of scenarios for reducing the number of BRMAs have been tested to identify those which perform best against two criteria:

- **Sufficiency**, as measured by the number of list sizes for property lettings in excess of 100, distinguishing between lists in the range 50-99 and less than 50. Reclassifications that minimise the number of such list sizes are preferred.
- **Disruption**, as measured by the predicted proportion of Housing Benefit claimants who would see their benefit amount change by £5 or more, identifying separately the proportion losing £5 or more and those gaining £5 or more. Reclassifications that minimise disruption on that metric are preferred.

The main conclusions to be drawn are as follows.

On the disruption criterion, the 'do minimum' option is preferred over aligning BRMAs and HMAs. In the latter option, over one in eight claimants would see a reduction in their LHA entitlement in excess of £5. By contrast, in the do minimum option, a number of scenarios were identified in which the predicted proportion of claimants experiencing a reduction of £5 or more was five per cent or less.

It should, however, be recognised that HMAs have been designed according to different criteria. In particular, HMAs are defined according to commuting patterns whereas BRMAs are required to be defined on the basis of access to specified services and facilities. Consequently, there is a geographical mismatch between HMAs and the current set of BRMAs. In turn, that makes it difficult to align HMAs and BRMAs without unduly disrupting the current pattern of LHA rates.

Across the range of scenarios considered within the do minimum option, there is a trade-off between minimising disruption, measured in terms of the proportion of claimants seeing a reduction of £5 or more in their LHA rate, and meeting the sufficiency requirement, as indicated by the number of BRMA/size category pairs with list sizes of 100 or more. In that context, the balance between minimising disruption and maximising sufficiency gains would best be met with a reduction to four or five BRMAs.



Within the context of a reduced set of BRMAs, a number of alternative data collection strategies were considered, focused on reducing the list sizes that may be considered appropriate to meeting the sufficiency requirement. Assessing the potential impact of alternative strategies on LHA rates is inevitably restricted by the large gaps that have opened up between 30<sup>th</sup> percentile rents and LHA rates in the period since LHA rates were frozen in 2016. Though, the results indicate that confining the data collection to a three-month period would be unlikely to satisfy the sufficiency criterion.

## Potential Impacts

The second stage in the assessment focuses in more detail on the reclassifications which perform best on the sufficiency and disruption metrics. Those options are examined with respect to their potential impacts on landlords and tenants, including differential impacts on tenants from an equality perspective and also geographically.

The potential impacts of five scenarios are brought forward from the options assessment on the basis of being least disruptive within reductions to BRMA groupings of five, four and three respectively.

The five variant BRMAs result in predicted net expenditure effects of -0.2 to -0.4 per cent relative to the current (2018) baseline. That is because the overall net expenditure effect of each of the variant reclassifications has been modelled as cost-neutral.

However, within each variant, there is a subset of claimants predicted to gain from a reclassification, through increased Housing Benefit amounts, and a subset predicted to lose through a reduction in their Housing Benefit amounts. Across the five variants, the predicted average weekly amount lost ranges from -£1.42 to -£3.11. The predicted average weekly gains range from +£2.06 to +£3.90.

Among those predicted to experience a reduction in their Housing Benefit amount, the total annualised loss ranges from -£1.3 million in a five BRMA variant to -£4.2 million in the three-BRMA variant.

The predicted average Housing Benefit amounts gained and lost represent direct or first round effects of alternative reclassifications of BRMAs. The final impacts on claimants depend on whether and to what extent predicted Housing Benefit gains and, more particularly, losses are distributed between tenants and landlords.

Reflecting the risk to the viability of the tenancy, reductions in Housing Benefit amounts are a particular concern. That concern is reinforced by the above-average risk of income poverty among private rented sector tenants in receipt of Housing Benefit.

Where a claimant's Housing Benefit amount is reduced, the incidence may fall on the tenant (who has to fund an increased shortfall), the landlord (if a reduced rent is accepted) or both (if the increase in the shortfall is shared between landlord and tenant).

It is difficult to predict the incidence of reduced Housing Benefit amounts. The conclusion drawn is that it is prudent to assume the potential impacts of reduced Housing Benefit amounts due to reclassification of BRMAs would fall more on tenants than on landlords.

Furthermore, it is also prudent to anticipate that some fraction of those claimants predicted to see a reduction of £5 or more in their Housing Benefit might face a threat to the viability of their tenancy, in the event that an increased shortfall is beyond their financial capability. Where the viability of the tenancy is affected, that is likely to pose an increased risk of homelessness among those affected.

In the event that the existing BRMAs were reclassified to reduce the number of BRMAs, it would seem appropriate for the Executive to consider how to manage the transition from the current configuration of eight BRMAs so as to minimise the impact on those predicted to experience a reduction in their Housing Benefit amount.

## **Equality Impacts**

A reduced set of BRMAs would have differential effects both on groups within the population and geographically. The predicted effects by LHA size category and across the current set of BRMAs represent the main 'channels' through which contrasts in the effects of any reclassification would be transmitted.

The LHA size category entitlements are determined by family composition, number of dependants and age. As measured by the net expenditure effects in the reclassification variants which are examined in detail, the main predicted effect would be a reduction in shared accommodation rates in reconfigured BRMAs.

For that reason, differential effects by age group would be predicted from a reclassification of the current BRMAs to a reduced set. Reflecting the assessment criteria, those aged under-35 account for 72 per cent of all claimants with shared accommodation entitlement. Consequently, those aged 16-34 would be predicted to see the largest reduction on the net expenditure indicator.

Reflecting the correlation with age, and the shared accommodation rate entitlement criteria, those who are single with no dependants are also predicted to experience larger net reductions compared to couples and claimants with dependants.

However, differential effects were not observed in relation to disability status.

As LHA rates differ to varying degrees across the current set of BRMAs, predicted geographical patterns would also vary, depending on the combinations of BRMAs used to specify a variant.

In variants where Belfast, the South East and the North West are retained in their current form, the geographical effects from a reclassification would be confined to the remaining five current BRMAs. The South West would gain, as its current LHA rates are below the rates prevailing in neighbouring BRMAs. Conversely, net expenditure would fall in the current Lough Neagh Upper and, to a lesser extent, Lough Neagh Lower BRMAs. Those disparities would in turn be reflected in a distinct pattern in geographical effects across the Local Government Districts which are contained within those BRMAs.

Scenarios in which Belfast and/or the North West are combined with one or more neighbouring BRMAs would see net expenditure reductions in both of those regions, which tend to have higher LHA rates compared to adjacent BRMAs. In those variants, the more deprived areas would see larger negative net expenditure effects.

As the composition of the population by community background varies across the BRMAs, net expenditure effects would also be predicted to vary by community background, depending on the specific combinations of BRMAs.

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