



# IMPACT OF PROPOSED CHANGES TO HOUSING BENEFIT



*...The need for reform, not just cuts...*

## **Introduction...**

This briefing addresses the Government’s proposals to change Housing Benefit (HB), specifically Local Housing Allowance (LHA), which MPs will be debating on the 9 November 2010 during the Opposition Debate. It also sets out some alternative measures which we believe would protect access to the private-rented sector for Local Housing Allowance tenants whilst still ensuring the Government makes necessary public spending savings from the welfare budget.

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## **The scale of the cuts**

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- There are currently **1,471,130** Housing Benefit (HB) recipients housed in the private-rented sector, a **40 per cent increase** since November 2008.
- The largest growth has been the over **five-fold increase** in the number of recipients who receive Local Housing Allowance (LHA). There are now **just over one million people who receive LHA** to help them with their housing costs.
- Despite media stories suggesting wide spread excess, DWP figures show that the current **average weekly award for those on LHA is just £113.43 (under £6,000 per year)**. The majority of the largest awards have been for very large properties in particular areas, like Inner West London.
- Taken together the increase in HB expenditure should be seen in the context of this dramatic increase in the number of claimants, coupled with the long-running effects of the recession on the workforce.
- Since its introduction, Local Authorities have seen LHA as a preferable way to reduce dependency on expensive temporary accommodation, ease the pressure on their housing waiting lists and to encourage tenants to access the private-rented sector as a long-term housing solution.

## **The package of changes**

As a package, the Government’s proposals (see box) will have a severe and immediate effect on the ability of landlords to house LHA tenants. The average impact of the package, as a whole, will be **£12 per week** less support for tenant’s housing costs, though many more families will see much larger cuts in their benefit entitlement.

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*These changes will lead to an average loss of £12 per week for Housing Benefit tenants*

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- Whilst the media focus has been on the effects of the LHA ‘caps’, as a measure this will only affect **21,000** recipients and account for **only 3.2 per cent** of the Government’s project HB savings.
- In contrast, the move to the reduce LHA rates from the median level of local rents to the 30<sup>th</sup> percentile will affect **774,970 recipients** with **34 per cent of losing £10 or more per week (39,840 claimants will loose £20 per week plus)**.
- This package of changes will also affect larger families disproportionately with the average losses for larger households likely to put incredible pressure on families with already tight finances:

No. of bedrooms	Average loss, £/wk
3	-£15
4	-£22
5	-£57

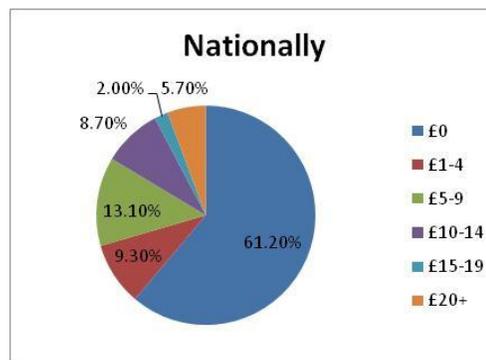
*The temptation to use LHA for other costs could see rent arrears in the LHA market rise*

The Government's policy package

- LHA rates will be set at the 30th percentile of market rents from October 2011. The rate is currently set at the 50th percentile or median rate. Annual saving of **£425m by 2014/15**;
  - Local Housing Allowance rates will be capped from April 2011 at the following rates:
    - o £250 per week for a 1 bed property
    - o £290 per week for a 2 bed
    - o £340 per week for a 3 bed
    - o £400 per week for a 4 bed or more.
- These limits will produce an annual saving of **£65m by 2014/15**;
- Local Housing Allowance (LHA) will be indexed linked and up-rated with the annual consumer price index (CPI) from 2013-14, rather than set on a monthly basis in accordance with rents in the market area. Annual saving **£390m by 2014/15**;
  - Non-dependent deductions will be increased from April 2011. Annual saving of **£340m by 2014/15**.
  - Full Housing Benefit entitlement will be cut by 10% for those claiming Job Seekers Allowance (JSA) for more than 12 months. This is to be introduced in April 2013 and will produce an estimated annual saving of **£110m by 2014/15**.
  - Housing Benefit is to be limited for working age claimants so that it only covers the property size that is deemed needed for the household, from April 2013. Annual saving of **£490m by 2014/15**.
  - Housing Benefit claimants who are disabled will be entitled to funding for an extra bedroom for a nonresident carer, from April 2011. **Annual cost £40m by 2014/15**.
  - The budget for Discretionary Housing Benefit payments will be increased from October 2010 at an **annual cost of £15m up to 2014/15**.
  - Extending Shared Room Rate in Local Housing Allowance to all single claimants under 35. Annual savings of **£215 million per annum by 2014-15**.

Total amount the Government is looking to save through proposals: **£2bn by 2014-15**

- The Government believes that landlords will and can just absorb the cuts from their rents. We asked landlords "If LHA rates are cut in the future, what is the maximum average reduction in WEEKLY rent level that you could make in order to retain a LHA tenant?" – nationally landlords said (a regional breakdown is available in Appendix A):

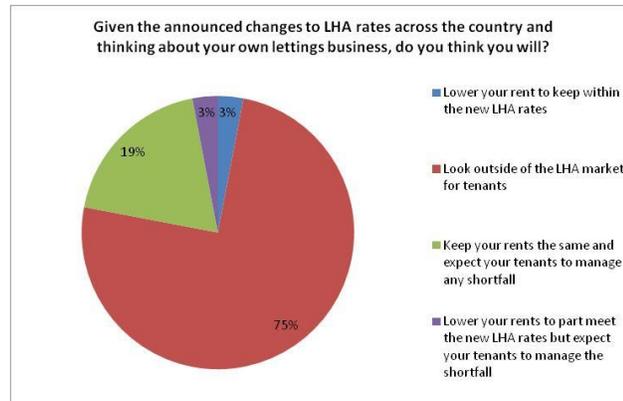


**From these figures it is clear that the Government has overestimated both the number of landlords and the size of shortfall that landlords can absorb.**

- As well as absolute cuts, the Government's move to link LHA rates not to market rent levels but to the Consumer Price Index inflation measure, will further erode tenant's ability to access the private-rented sector.

## Landlords' reactions...

The Government's assumption that landlords can absorb this level of cuts. However, the vast majority of landlords are less positive about their ability to keep letting property to LHA tenants. Landlords are adamant that they will move to looking outside of the LHA market for tenants once this programme of cuts is implemented.



Landlords are genuinely worried that the cuts as a package, rather than individual proposals on their own, will affect their ability to provide housing. Here are the reactions of just three typical landlords:

**Gerry (Scotland)** - 7 out of 9 of her properties have LHA tenants. All are in Fife. Her tenants rely on LHA completely; she knows that there is not a lot of work in this part of Scotland. She started to let to LHA tenants because she thought that by providing decent accommodation and being a reasonable landlord would mean that they would be more likely to stay on as long-term tenants.

She knows that the change to the 30th percentile will mean that she will either have to reduce the rent or face arrears. Though she doesn't think that reducing the rent to the new levels will put her out of business completely; it will leave her struggling though, especially if interest rates rise.

She hopes that perhaps her tenants will be able to manage the shortfall, but she knows they have tight budgets. She is worried that the rent will be low on their list of priorities.

**Christine (North East)** - has 16 LHA properties of her own and owns 3 with her husband, all in the Corby, Leicester, Loughborough, Rugby and Nuneaton areas. She also manages around 160 properties for other landlords, of which approximately 90 per cent are LHA.

Christine knows that, despite properties being cheap in the North East, renting is the norm as most people are long term unemployed. She prefers LHA tenants, not because they bring in more money – but because they just offer stability.

She is unconcerned about the majority of the cuts as most of her rents are low anyway but is very concerned about benefits being cut for those who are unemployed for more than a year. She argues this will have a huge impact on her tenants and she won't be able to cover the shortfall.

**Chris (Yorkshire and Humber)** – He has a portfolio of around 55 properties of which LHA accounts for 30 properties, with around 75% of these tenants having entered the properties already in receipt of LHA.

In terms of the cuts, he cannot afford to keep LHA tenants after April 2011. Currently the average mortgage on his properties is around £100k with interest payments of around £6k. His LHA tenants bring in an average of £5k a year and therefore barely cover interest, yet alone mortgage payments.

Chris plans to quickly reduce his number of LHA tenants as of April 2011 and replace them with private renters as he will not be able to cover the shortfall when LHA rates fall.

## ***Reducing negative impacts...***

We all understand the need to play our part in the difficult decisions being made to reduce the nation's deficit. However a home is a persons' most basic of needs and the Government needs to recognise the costs involved in providing safe and decent homes for those who cannot buy and who are excluded from social housing.

We believe that introducing the following alternative reforms would ensure that LHA ***works better***, as well as costing less.

- **Implement the 'caps' and re-rating in one go:** The Government should implement LHA 'caps' and the re-rating of LHA rates on the same date, October 2011. Implementing both policies at the same time would:
  - Give local authorities more time to ensure landlords and tenants understand the changes and their possible impact on tenants' housing situation;
  - Allow people with varying incomes to have a fair idea of the actual benefits they will be entitled to and the ability for tenants and landlords to plan accordingly.
- **Stagger the implementation of the move to the 30<sup>th</sup> percentile:** For some families this will be a substantial drop and this will heavily affect availability of LHA housing locally. Well over 60 per cent of landlords are already concerned about whether they will be able to continue to provide housing to this client group.

Staggering the implementation over two years, e.g. move to the 40<sup>th</sup> percentile and then the 30<sup>th</sup> percentile a year later, would give landlords time to absorb smaller changes in rates into their business models and plan for the future.
- **Encourage greater long-term private-rented sector leasing:** Encouraging local authorities to increase the take up of long term leasing would encourage small landlords to provide their housing through local authorities. Some Landlords view these arrangements as beneficial because they guarantee regular payment and eliminate void periods
- **Protect tenants at risk of rent arrears:** Implementing this programme of cuts and the initial stages of the Universal Credit reform will place tenants' budgets under significant pressure for a number of years. Landlords are already reporting 40 per cent of their LHA tenants as in arrears and, last quarter, experienced on average **£532.58 in rent arrears**.

Tenants previously could choose to have their housing benefit paid directly to their landlord. The Government should re-introduce that help for tenants who would gain an important protection against falling into a rent arrears trap and putting their tenancies at risk.
- **Re-think the extra LHA cut for JSA tenants after 12 months:** The extra 10 per cent cut for JSA claimants after 12 months will place unfair additional costs on landlords. Landlords are not responsible for the employment of their tenant and this extra cut could make some tenancies unsustainable forcing people into difficult housing situations.

Most importantly:

- **Incentivise landlord accreditation to recognise value for money:** At the moment LHA does not recognise the greater cost of providing professionally managed and decent accommodation. There is a danger that the programme of changes will encourage a rush to the cheapest bottom of the market, potentially putting vulnerable tenants at risk of exploitation by a minority of 'rogue' landlords.

Providing some measure of financial up-rating for accredited landlords would ensure the taxpayer gets **value for money** for the housing benefit they pay. It would create an inbuilt incentive for tenants to pick accredited landlords, providing decent and professionally managed properties, as well as incentivising landlords to engage with their local authority's accreditation scheme.

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The National Landlords Association (NLA) exists to protect and promote the interests of private residential landlords. With over 20,000 individual landlords from around the United Kingdom and over 90 local authority associates, it provides a comprehensive range of benefits and services to its members and strives to raise standards in rented accommodation. The NLA seeks to safeguard landlords' legitimate interests by making their collective voice heard by local and central government and the media. The NLA seeks a fair legislative and regulatory environment for the private-rented sector while aiming to ensure that landlords are aware of their statutory rights and responsibilities towards their tenants.

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**Appendix A – Regional breakdown: “IF LHA rates are cut in the future, what is the maximum average reduction in WEEKLY rent level that you could make in order to retain a LHA tenant?”**

