

# Five minute briefing

## Local Housing Allowance Caps – Changes for the Social Housing Sector

During the aftermath of the Chancellor's speech on 25<sup>th</sup> November, the media focus was on the U turn in Tax Credit cuts and the welcome priority given to housing in the Comprehensive Spending Review (CSR). As a result, a statement made about Housing Benefit (HB) changes for social housing tenants did not get the immediate attention it deserved.

In his speech the Chancellor announced that ***'The rate of Housing Benefit in the social sector will be capped at the relevant Local Housing Allowance – in other words, the same rate paid to those in the private rented sector who receive the same benefit. This will apply to new tenancies only'***.

The published statement which followed the speech added that this would be done to ***'ensure that HB will no longer fully subsidise families to live in social houses that many working families cannot afford, and will better align the rules in the private and social rented sectors. It will also ensure that HB costs are better controlled and help prevent social landlords from charging inflated rent for their properties.'***

The sector has now begun to realise the implications of this announcement, and concern is growing about what this could mean for schemes and services for some of our most vulnerable tenants.

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### The Planned Changes

In the CSR document the planned changes are described in a little more detail but at this time information is still very limited. LHA caps on HB will apply to housing association tenancies signed after 1 April 2016, with HB entitlement changing from 1 April 2018 onwards.

There is no further detail on groups who may be affected and at this time it would appear that those in supported accommodation will not be exempt. The CSR statement comments that ***'additional Discretionary Housing Payment funding will be made available to local authorities to protect the most vulnerable including those in supported accommodation'***.

In a recent answer to a written Parliamentary Question, it was confirmed that the Government plans to increase the DHP budget by £70m pa.

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### How Does Local Housing Allowance work?

For private rented tenants, HB entitlement is based on a fixed amount called the Local Housing Allowance (LHA). The maximum amount payable varies by area and household makeup, and if the LHA is less than the rent charged (including any service charge), tenants are expected to make up the shortfall.

The factors which determine the level of LHA are:

- **Household size and composition.** The LHA for a household is based on the number of bedrooms needed to accommodate the size of the household in accordance with a set of

fixed rules relating to age and gender of members. This is a fixed amount for 1, 2, 3 and 4 bedrooms. The number of actual rooms in a home is irrelevant.

- **The area the property is in, known as the Broad Rental Market Area.** The LHA is calculated (for each property size) by taking the rent at the 30th percentile point on the distribution of all private sector rents, so around a third of the way up the local market.

Within LHA rates there is also a **Shared Accommodation Rate** which is much lower than a one bedroom rate. This affects anyone under 35 years of age who lives alone and, it is assumed, should share. There are a few exceptions to this group including some care leavers and those leaving prison.

In 2011 the government capped the amount payable to a maximum of 4 bedrooms. So even if a larger property is required, the amount would only be based on a 4 bedroomed property.

The rate of uplift of the LHA is set nationally. In this year's budget it was announced that over the next 4 years LHA rates will be frozen. In the last Parliament it was limited in most areas to an increase of 1% per annum (ie below inflation).

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### Discretionary Housing Payments (DHP)

DHP is a payment administered and awarded by a local authority which can help towards housing costs if HB does not meet the full rent. There can be several reasons why DHP may be paid:

- LHA is lower than rent
- HB is reduced because of non-dependant deductions/housing costs contributions
- HB is reduced due to having a spare bedroom in social rented property
- HB is reduced due to the Benefit Cap
- Help with a rent deposit or rent in advance for a property and removal costs.

As it is a fixed amount and can be used for various purposes at the discretion of a local authority, it cannot be relied on for ongoing support to top up a shortfall in rent. In most cases it is a short-term award used to overcome a temporary issue.

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### Implications for Riverside Tenants

At Riverside we have undertaken modelling comparing the rents and services charged (by category of provision) to the relevant LHA rate for the tenant in occupation at this time. The potential loss of housing benefit income for tenants is very significant and is shown in the tables below. However, in that the cap only applies to new tenants after April 16, in reality the loss of HB will build over time. The figures quoted in the tables represent maximum loss once all tenancies have turned over.

#### All Tenants

HB Claimants Only <sup>1</sup>	
Estimated Number Over Cap	13,360
£ Impact	£20,098,565.19
Potential Void Extra	£2,759,773.43
Potential Exemption Reduction	-£1,068,482.22
<b>Total Estimated Impact</b>	<b>£21,789,856.40</b>

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<sup>1</sup> Please note figures quoted have been adjusted to account for properties currently vacant and for possible exemptions based on current LHA rules.

The losses are particularly severe for tenants living in supported housing where service charges tend to be high, and where there are significant numbers of single under 35 year olds. Once service charges are taken into account the vast majority of Riverside’s supported housing rents are above LHA levels, and any restrictions to the housing benefit our customers receive will make their rents unaffordable. Due to the nature of supported housing and the costs involved in providing this accommodation, there is little scope to reduce rents to the level our customers would be able to afford. See table below:

### Supported Housing

HB Claimants Only <sup>1</sup>	
Estimated Number Over Cap	2,813
£ Impact	£14,606,450.41
Potential Void Extra	£1,343,620.88
Potential Exemption Reduction*	-£998,369.21
<b>Total Estimated Impact</b>	<b>£14,951,702.07</b>

There is also a wider (though smaller) impact on general needs accommodation with LHA caps restricting the benefit available to all single under 35s. This is particularly marked in areas where lower value general needs rents are above LHA levels for that area. See table below:

### General Needs

HB Claimants Only <sup>1</sup>	
Estimated Number Over Cap	4,700
£ Impact	£2,409,674.50
Potential Void Extra	£72,531.68
Potential Exemption Reduction	-£70,113.01
<b>Total Estimated Impact</b>	<b>£2,412,093.17</b>

## Policy Implications for Riverside

The cap will present longer term challenges for Riverside and will require us either to reduce rents to levels which are affordable to tenants in receipt of HB, change the profile of tenants we let to or consider new types of tenancies such as shared lettings. As a result this may impact on what we build going forward.

Another longer-term impact of LHA caps relates to rent increases and the uprating of LHA rates. Once inflation linked rent increases are permitted again, if LHA increases continue to be restricted below the cost of living, then over time more and more rents will reach these caps. At this point we will have to consider whether to limit further rent increases in line with political decisions about the uprating of LHA, or continue to increase rents above the caps in the knowledge that tenants in receipt of housing benefit will need to contribute more from their own funds year on year. The prospect of a return to CPI + 1% increases looks increasingly remote, and this could have a significant impact on development viability.

Riverside has already looked at the possible impact on some of our schemes and a case study is shown below. There would be a bigger impact to supported schemes aimed at under 35s as this would reduce the rent further to shared accommodation levels:

<sup>1</sup> Please note figures quoted have been adjusted to account for properties currently vacant and for possible exemptions based on current LHA rules.

**Joseph Williams Mews, Liverpool**

**Retirement living (predominantly 2 bed). Housing designed and designated for the over 55s, with on-site scheme manager, 24 hour call system and communal facilities.**

**2 bedroom apartment**

Weekly rent:	£101.79 (affordable)
Rent in April 2018:	£97.78
Variable service charge:	£52.01
Variable service charge in 2018 (est):	£54.12
Total rent and services 2018:	£151.90
Weekly LHA (two bed rate, Liverpool):	£104.89 (NB frozen until 2018)
Weekly shortfall in 2018	£47.01
Basic state pension in 2018 (est):	£127.99
Shortfall as a % of state pension	37%
Shortfall as a % rent/services	31%.

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## Next Steps

We need to clarify precisely what the government is proposing and, with that in mind, we have written to the Housing Minister and raised the issue with the Minister for Welfare Reform. We will work closely with others in the sector to lobby for further clarification and push for areas where exemptions could be made, especially in supported housing.

We have modelled the impact on Riverside and more detailed information on this is available on request.

We will also need to look at lettings and allocations as the changes apply to new tenants from April 2016 and start reviewing our rent policy in the light of what this may mean. We will continue to provide updates as more information becomes available.

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**If you require further detail on any information in this briefing, please contact:**

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