

House of Commons Work and Pensions Select Committee

Local Housing Allowance

Memorandum by the Local Government Association

Key points in this submission

- The Local Government Association is concerned at the effects of the budget measures on the private rented sector and at the potential effect on homelessness, with potential consequences for community safety, physical and mental health, social care, child protection and other services.
- The increase in the non-dependent deduction, which could increase by up to 160% in some cases over the next four years, is likely to have an effect on household stability and could affect community cohesion.
- The LGA welcomes the provision for an additional bedroom within the LHA calculation for non-resident carers. This was something which the LGA and specialist organisations had called for.
- The LGA is concerned at the increasing burden represented by supported 'exempt' accommodation; one council reports this could amount to 2% of its revenue budget and 3-4% on its council tax.

Introduction

1. The Local Government Association is pleased to submit written evidence to the Select Committee on the effects of the changes announced in the Emergency Budget 2010 on housing benefit, specifically on local housing allowance.
2. The Local Government Association (LGA) is a voluntary lobbying organisation, acting as the voice of the local government sector. We work with and on behalf of our membership to deliver our shared vision of an independent and confident local government sector, where local priorities drive public service improvement in every city, town and village and every councillor acts as a champion for their ward and for the people they represent.
3. The 423 authorities who make up the LGA cover every part of England and Wales. Together they represent over 50 million people and spend around £113 billion a year on local services. They include county councils, metropolitan district councils, English unitary authorities, London boroughs, shire district councils and Welsh unitary authorities, along with fire authorities, police authorities, national park authorities and passenger transport authorities. Of these, local housing allowance most immediately affects housing and council tax billing authorities, who have responsibility for assessment and payment of housing benefit.
4. Our submission is based on the areas of inquiry set out by the Committee.

Introductory section

5. The Local Government Association gave evidence to the Select Committee in its last enquiry into Local Housing Allowance. We also responded to the previous Government in its Housing Benefit consultation issued in December 2009.
6. We said that although we did not want the LHA to have an effect of distorting the rental market locally, we equally warned against measures that would increase homelessness through making renting to housing benefit customers less attractive to the private rented market. We said that the private rented sector has played a crucial role in tackling homelessness and we would not like to see this reversed, particularly as extra homeless acceptances will lead to more expenditure for councils.
7. We also opposed the plans to remove the £15 excess when they were proposed by the previous government as a measure which would impact on the poorest in society.
8. We do welcome a greater government contribution towards discretionary housing payments and for more flexibility on size limits for disabled customers. We had called for both of these.
9. LGA member authorities believe that the measures in the Budget are bound to have an effect on homelessness. This will have the effect of increasing local authority costs, which have come down in recent years, thanks to the private rented sector.
10. Member authorities point out the wider impact of homelessness on public services including Local Government - community safety, physical and mental health, social care, child protection and other services. The wider impact of these changes should not be underestimated and will result in increased cost for Local Government and other public services, at a time of squeezed budgets.
11. Homelessness prevention and housing options work in member authorities has been very effective and has, since the highpoint of 2005, steadily reduced homelessness. The changes will undermine this valuable work and will make it much more difficult to prevent homelessness. The PRS plays a critical role in the housing options approach, but the housing benefit changes will severely limit its role as a higher proportion will become unaffordable or inaccessible to people on housing benefit.
12. There is particular concern over the non-dependent deduction which could increase by as much as 160% over three or four years. One suggestion would be for there to be a cap on non dependant deductions so that a non dependant is not expected to pay for more than 50% of the householder's housing costs.

Incentives and access to work

13. The budget measures are primarily about savings and do not directly address incentives or access to work. Those who argue that benefits are a disincentive to work would argue that reduction in benefits, in particular the JSA cap, increases the incentive. As opposed to that, it could be argued that the measures act as a disincentive to those looking for work on the following grounds:
 - The JSA cap, and the punitive approach to worklessness that implies, will only have an effect if work is readily available. If it isn't it will only have the effect of reducing benefits for the poorest in society without affecting overall

employment and of increasing poverty. In addition it could lead to serious shortfalls in rent, thus pushing customers into debt and disengagement from landlords and local authorities, and making their employability less.

- With the general reduction of LHA rates and the caps, more areas will become unaffordable. We previously voiced our concern that broad rental market areas are set by access to facilities rather than by access to transport or work. The budget measures will particularly affect low paid claimants in London; there could be an effect in other areas. If within a particular BRMA the area with better employment opportunities has higher rents overall; the reduction will affect affordability within this area and restrict claimants to an area within the same BRMA with lower employment opportunities. An example of this is Oxfordshire; there are more jobs in Oxford city but rents in the surrounding rural area are lower. Travel costs in this instance are likely to act as a major disincentive to work.
- The reduction will hit all LHA rates, for those in as well as those out of work. So those on low incomes will have less of a top up; this could act as a disincentive when a benefit customer decides whether or not to take a low paid job and considers their total income. For example in Brighton and Hove 35% (4211 claims) of LHA claimants are from working households, who will lose on average £755 per year.
- The higher deduction for non-dependants, which affects all housing benefit irrespective of sector, as well as council tax benefit, could also act as a disincentive when households consider overall affordability. It might also act as a disincentive to non dependents such as young adult children taking a low paid job, given the effect on overall household income.

Levels of rent, including regional variations

14. Figures published by the DWP and the Valuation Office Agency shows the effect that the measures will have. It will clearly have an effect on LHA rates and thus on housing benefit. Those who support the measures would argue that it is bound to have a downwards effect on rents generally, correcting the tendency for high LHA rates to contribute towards their upwards movement. As opposed to that it can be argued that rents generally are set by market factors and that LHA will not have an effect.
15. There could be a differential effect on the market. In an area where rents are low, where landlords rely on benefit customers to fill their properties and find it difficult to substitute other tenants, there could be reductions. Where other potential tenants are available, a fall in rents is unlikely. The very high LHA rates which were the subject of media attention were in Central London and the Central London rental market is affected by wider factors such as overall confidence and the state of the economy rather than by LHA.
16. In the long term, uprating in line with CPI rather than market evidence could accentuate the divorce between LHA rates and actual rents. There needs to be more clarity about the role of the Valuation Office Agency in future once updating by CPI comes in. Some have expressed concern that it will no longer gather detail on private sector rents and that broad rental market areas will no longer be reviewed and updated regularly.

17. The size and basis of broad rental market areas means that the policy will continue to have a different effect in different areas. The 30th percentile approach takes no account of the total proportion of claimants in the total. If 10% of private tenants in an area are claimants; the 30th percentile may be affordable but if 40% are on benefits (for example the LHA caseload in Brighton and Hove of 12,000 is approximately 43% of the total private rented sector, 28,000), the 30th percentile is likely to be low and many benefit customers will be unable to find affordable accommodation.

Shortfalls in rent

18. According to DWP evidence as cited by Crisis, 48% of people already face shortfalls in their benefits. The measures seem likely to accentuate this.

19. For example, Camden Council have carried out an analysis which shows that following the introduction of capping over 2,000 claimants currently living in privately rented accommodation will be affected. This represents around two thirds of those who currently receive LHA. Some will need to renegotiate their rents while others will have to find alternative accommodation within the limits set down by government. While the number of claimants affected fluctuates daily, the borough's analysis shows that, currently, over 1,200 claimants are set to lose £30 or more per week. Over 500 claimants will lose £50 or more per week. In Brighton and Hove the average loss has been calculated by the council to be £13.70 per week.

20. The reduction in the bedroom limit and the caps for the various size of property will not take effect until the anniversary of a claim. However Camden Council estimates that on a rolling basis from April 2011, 250 existing claimants each month will face a reduction in their current housing benefits and will require advice and assistance to find alternative accommodation.

21. Some authorities will experience significant peaks in impact which will apply particularly acute pressure on local benefit services, housing services and the rental market. For example in Brighton and Hove in April 2012 it is expected 2623 cases will experience a change in their entitlement which will take their LHA rates lower (or lower still) than the level of rent they pay.

22. In response to this the Government has announced it is increasing the amount made available in Discretionary Housing Payments (DHPs). The LGA had previously called for the amount made available in DHPs to be increased. However the increase by £10m a year in 2011-12 and by £40m a year (which will be a total government contribution of £60m) comes against a likelihood of increased demand.

23. Areas such as Central London, where benefit customers face a potentially unmanageable reduction of up to £1600 a week in some of the largest properties are likely to be particularly affected by the capped rates but measures such the 30th percentile and non dependent deductions will mean that all areas face increased pressure.

24. Local authorities are currently permitted to top-up DHP grant payments in a ratio of 3:2; assuming that this remains the case the total theoretical DHP payments will become £150m per annum; (£90m in council contributions; £60m grant from the Government). However whether local authorities can afford to top up at a time when their overall grant from the government could shrink has got to be debateable.

Levels of eviction and impact on homelessness.

25. The budget measures; in their totality seem bound to increase the number of evictions for non-payment of rent. As the LHA reductions become effective from April 2011 onwards; customers will face a position where LHA covers less of their rent. Some will doubtless attempt to negotiate their rent downwards, but if that it not successful it could lead to increased numbers of evictions as benefit customers fall further into arrears. Managing this is likely to be a major challenge for local authority benefits and homelessness sections. Although the private rented sector is likely to be the worst affected initially, the social housing sector will also be affected, particularly from 2013, by uprating in line with CPI and the limits in line with household size.
26. Social housing is extremely scarce and reductions in central government capital spending are likely to reverse the upward trend in new social housing completions achieved in recent years. This means that there will not be an adequate or growing social housing stock which can pick up the strain of people priced out of private rented housing.
27. There is a risk that there will be even more pressure on social housing, with councils forced to make even more difficult choices than they do already about who gets access to what stock there is. That will reinforce still further the concentration of people with the lowest incomes, who are in other ways the most vulnerable, in social housing stock.
28. One option for councils seeking to free up larger social stock which is being under-occupied is to encourage and facilitate moves into the PRS. However the benefit changes are likely to make that option more unattractive and risky to tenants with a secure social tenancy.
29. Councils will continue to have a duty to house those who are homeless and this will be a challenge to council homelessness budgets. Although the precise extra cost is still hard to estimate, temporary accommodation costs seem certain to be higher.

Landlord confidence

30. The PRS plays a crucial role in the housing system by meeting the needs of households who are unable to access owner occupation or social housing. The LGA is aware that many landlords consider that the introduction of LHA and of payments direct to customers has shaken landlord confidence and thus willingness to let to housing benefit customers.
31. As opposed to that some local authorities consider that it has had a positive effect on landlord tenant relations as landlords have got to make an effort to collect rents thus facilitating more contact with tenants.
32. The budget measures seem bound to affect landlord confidence in renting to housing benefit claimants. If landlords consider that they cannot realistically ask for substantially more than the LHA rate it is bound to have an effect on landlord willingness to let to benefit customers, when they could potentially get a higher rent from tenants not on benefits.
33. The LHA changes seem likely to increase arrears as households find it difficult to access affordable accommodation with the result that landlords, who are already concerned about direct payment of LHA to tenants, may cease renting to tenants on

benefit. Other landlords may well decide to move away from owning property with the result that the pool of rented accommodation will start to decline. If significant numbers of properties are put up for sale over a short period of time this could also have a negative impact on the wider housing market.

34. The LHA changes are also likely to increase the demand for the cheapest rented accommodation which may result in landlords investing in property of the poorest standards e.g. HMO's. This will not only impact on health and safety it will also increase the pressures on the Local Authority enforcement teams.

Community cohesion

35. There are concerns that the changes will have a negative effect on community cohesion. This will come about because benefit customers are likely to be concentrated in smaller areas. In addition, restricting housing benefit within the social sector could have an effect on community cohesion. Local authorities are keen to release family size accommodation but many of those affected are likely to be people well rooted in the local community, often with caring or being cared for responsibilities and with community involvement in 'Big Society' activities. In addition the LGA has heard concern that many local authorities may not have a ready supply of 2 bedroom accommodation within which to accommodate customers who no longer qualify for larger accommodation.
36. The increase in the non-dependant deduction could have a negative effect on family and community stability to the extent that young adults feel that they have to move out of the family home; there could be more concealment of their presence and income, which will add to the level of fraud and error.
37. The capping of LHA rates for larger accommodation may impact disproportionately on some black and minority ethnic households who tend to live in larger households.
38. Concern has also been expressed at the effect in rural areas. The LHA changes will limit the number properties in an area that are affordable to households on HB. This will have a particularly severe impact in some rural areas where it is already very difficult to find affordable housing to rent. Tenants in rural areas will find it extremely difficult to access alternative affordable accommodation and may be forced to move considerable distances. This will disrupt community support networks, schooling and access to employment.

Disabled people, carers and specialist housing

39. The LGA welcomes the provision for an additional bedroom within the LHA calculation for non-resident carers. This was something which the LGA and specialist organisations had called for.
40. One issue which has been raised by member councils is the position on supported exempt accommodation. In this case, typically where houses purchased on the open market have been adapted by non-profit organisations or charities to house individuals with specialist care needs, all costs above the determination by the rent officer is not funded by DWP. Depending whether the claimant is considered vulnerable, local authorities have to meet 40% or 100% of the additional costs.
41. Districts in Lancashire report that they have seen the total cost associated with exempt accommodation rise from £1.9m in 2007/08 to £3.5m in 2009/10. This is a

cost which the authority has to meet from its own resources and which potentially falls on council tax papers. One Lancashire district reports that the sum represents 2% of their entire revenue budget and 3-4% on their council tax.

Older people, large families and overcrowding

42. Young people under 25 currently receive reduced LHA, based on rent for shared accommodation and this has resulted in 70% of young people subsidising their rent from other income. A further reduction in LHA rates will exacerbate this situation. Young people will also be hardest hit by the 10% reduction for those on jobseekers allowance for more than a year as youth unemployment is disproportionately high and is increasing rapidly (Welsh colleagues point out that figures for youth unemployment in Wales increased by 20% in the last year). The rapid increase in non dependent deductions will further compound this problem as it can be expected to increase the number of young people who leave home.
43. The capping of LHA rates for larger accommodation will affect large families and will lead to significant reductions in benefit for larger households. This is likely expected to increase levels of homelessness, increase levels of overcrowding and reduce the ability of extended families to live together which in turn will increase housing need and pressures on social housing.

Further assistance

44. The Local Government Association will be happy to be of any further assistance to the Committee

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6th September 2010

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