

Fact sheet

Housing Benefit Reform: the Local Housing Allowance Q&A

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Shelter

The Local Housing Allowance – what is it?

From 9 February 2004, City of Edinburgh Council is piloting the latest reforms of housing benefit in the private rented sector. Private tenants claiming housing benefit in Edinburgh and other pathfinder areas, will get a standard allowance called the local housing allowance, which is based on the area in which they live and the number of people living in their home. This could be more or less than the actual rent they pay. If it is more they keep the difference, if less they will have to make up the shortfall from other incomes.

Local Housing Allowance – February 2004

Category	North	East	Central	South
Shared accommodation	£60	£55	£66	£60
2 room property	£106	£101	£113	£103
3 room property	£133	£130	£150	£133
4 room property	£159	£155	£190	£159
5 room property	£190	£190	£242	£200
6 room property	£230	£224	£305	£225

The current housing benefits system has complex rules which contribute to rent arrears. In introducing the new scheme, the Government aim to simplify complex rent restrictions and speed up the benefit system. The Government hope that the new system will ensure that tenants and landlords know how much rent housing benefit will cover, and will allow tenants to shop around, and choose between paying more rent for a bigger or better home or keeping the extra and moving into smaller poorer accommodation.

For the first time tenants will receive their housing benefit directly (except in certain circumstances). The pilot system applies only to the deregulated private rented sector, and protections are in place to ensure that those tenants who are in receipt of housing benefit prior to 9 February do not lose out.

This paper outlines the key changes to the housing benefit system, and some concerns about the possible impact of these changes on Shelter's clients.

When and where are these changes happening?

The new system is being tested for the deregulated private rented sector in nine 'pathfinder' areas. These are Brighton and Hove City Council, Blackpool City Council, County Borough of Conwy, Coventry City Council, City of Edinburgh, Leeds City Council, London Borough of Lewisham, North East Lincolnshire Council and Teignbridge District Council. Edinburgh is the only Scottish pilot.

These pathfinders are designed to inform how the housing benefit reforms will be designed and implemented when rolled out to the rest of the private rented sector. The Government's stated intention is to roll out this reform to the rest of the private rented sector in 2005 and to the social rented sector in 2010, once rent restructuring is almost complete. It is important to

note that rent restructuring is not taking place in Scotland; this may create difficulties when the reforms are applied to the social rented sector in Scotland. The Government has also said they wish to run some pilots in the social rented sector as well.

What are the problems with the current system for private tenants?

The current system is unfair, poorly administered and complex. Housing benefit delays, shortfalls and complex rules contribute to rent arrears. In 2002/2003 the average time taken to process a new housing benefit claim in Scotland was 45 days, with the worst performing authorities taking over 100 days. Delays in housing benefit can lead to eviction and homelessness. In fact in 2002/3, 3,268 households who had private sector tenancies made homeless applications to local councils across Scotland. 11% of Shelter's clients rent in the private sector, a fifth of who come from Edinburgh. Shelter is concerned that the new system piloted in Edinburgh may make things more difficult for our clients.

How will the new system work?

At present, a private tenant claiming housing benefit generally has his or her housing benefit entitlement calculated only after they have moved into a property and had the rent for their property referred to the rent officer. The new system is intended to be simpler to administer since individual rents will no longer be referred to the Rent Service. Under the new system tenants will receive a Local Housing Allowance instead. This will be updated monthly and made publicly available by the council. Tenants will know in advance how much housing benefit they are entitled to when they are looking for a property to rent. Tenants will be able to keep any money left over if the accommodation they find is cheaper than average – but will pay any shortfall if it is more expensive than average (as under the current system).

Housing benefit will no longer be paid direct to the landlord except where a tenant is considered by the local authority to be vulnerable or has arrears of 8 weeks or more.

How is the amount of housing benefit someone is entitled to calculated¹?

To calculate the Local Housing Allowance the rent officer will define an area called a Broad Rental Market Area. This is equivalent to using a 'locality' to set the local reference rent under the current system. This area is meant to represent the area over which it is reasonable for a person to seek accommodation.

Under the new system, there are four stages to working out how much housing benefit someone is entitled to:

1. Setting the 'maximum rent (standard local rate)': For private tenants, the local council must set a maximum rent which is known as the standard local rate.
2. Setting the eligible rent: this will usually be the same as the maximum rent, or a proportion of the maximum rent in the case of joint tenants. Claimants are protected from losing out at the point of transfer to the new scheme.

3. Working out 'maximum housing benefit': The council works out the maximum housing benefit by taking the eligible rent less any non-dependent deductions.
4. Applying the means test: To work out the actual amount of housing benefit payable, the council will apply the usual means test. Maximum housing benefit is awarded if the claimant has an income at or below income support levels. The award is reduced by 65p for every pound of additional income.

Maximum Rent (Standard Local Rate)

This is the local housing allowance set by the rent officer for the broad rental market area in which the tenant lives and for the size of the house they are entitled to². This is updated monthly. The council list shows the local housing allowance for one room in shared accommodation¹, and for self-contained accommodation for 2-6 rooms. This list will be available publicly and is available from the housing benefit department and on the council website. The list for February 04 is shown at the top of this briefing.

The Eligible Rent

The eligible rent will usually just be the maximum rent (standard local rate). But there are some exceptions:

- Tenants who already receive housing benefit on 9 February 2004 and who would receive a lower amount of housing benefit using the new system will continue to get their existing eligible rent. Their benefit entitlement will be frozen until such time as it is equal to the local housing allowance. The tenant will lose this protection if they have a break in their claim or move house.
- If there is a death in the household, the tenant is protected from any reduction in their eligible rent for 12 months. New claims after the death are based on actual rent without restrictions for 13 weeks.
- Tenants, who have not claimed housing benefit in the last year and were paying the actual rent themselves, can have their eligible rent based on actual rent without restrictions for 13 weeks.

In all of the above cases, if the tenant would be better off getting a local housing allowance-based eligible rent they will.

Maximum Housing Benefit

The maximum housing benefit will be based either on the rate for February 04, or the time of claim after this point. The amount will be set for a year, or until a break in claim or move. The council will then update the claim so that it is based on the latest local housing allowance.

¹ For under 25s.

When do these changes not apply?

The changes do not apply to:

- protected cases, for example supported housing
- tenancies which are excluded from current rent restrictions
- exceptional cases such as caravans, houseboats and hostels
- bed and breakfast accommodation, 'hotel' accommodation, and other 'board and attendance cases'.

How is housing benefit paid under the new scheme?

Under the new scheme tenants are no longer able to choose to have their housing benefit paid to their landlord; this choice is removed under the new system. In most cases housing benefit will be paid to the tenant. The council will have the discretion to:

- pay the first cheque to the landlord, so that large amounts of back-dated housing benefit are paid direct
- pay the landlord if the tenant has difficulty managing their own affairs
- pay the landlord if they think the claimant would not pay their rent.
- In the case where the tenant has been receiving housing benefit before 9 February, and have paid direct to their landlord this will continue for six months, until a break in claim, or a move.
- The rent will be paid landlord direct in cases where there are eight or more weeks of arrears.
- In cases where the landlord is paid direct and housing benefit is more than the rent, the tenant will get the extra unless they are in arrears.

Choice for tenants?

Prior to these reforms 60 per cent of private tenants have their housing benefit paid directly to their landlord. Under the original housing benefit system, they could choose this payment option by ticking a box on their housing benefit application form. Under the new scheme this option is removed, direct payments to landlords will only be made if the tenant can't or won't pay the rent – either because they are vulnerable or are in 8 weeks arrears.

Shelter share the Government's view that people on benefits should have more control over and responsibility for their financial and housing decisions. However, Shelter is concerned about the practical consequences of removing the option of direct payments to landlords for large numbers of tenants. 30% of the poorest households in Scotland do not have access to a bank or building society account (this is higher than the UK average of 19%). Those who do not have a bank account will have their housing benefit paid in the form of crossed cheque, which can be cashed by the tenant in the branch of the bank where the cheque was written, or deposit it into a post office or credit union account. The new system is distinctly different to Edinburgh's policy of only paying by cheque if the tenant has a bank account. If

the tenant did not have bank account Edinburgh previously offered to pay the benefit directly to the landlord:

'If you are a Private tenant, we will pay your Housing Benefit by crossed cheque. This means that you must have a bank account, if you don't, we can pay your Housing Benefit directly to your landlord'³

Without access to a bank account many tenants may find themselves having to pay landlords in cash. Shelter feel that much more needs to be done to increase access to basic bank accounts, improve administration of housing benefit and protect vulnerable tenants. Without such measures, we are concerned that removing the option of direct payments to landlords could for many tenants cause arrears and homelessness.

And finally

On the surface the changes appear to be relatively simple. Certainly much more simple than the local reference rent and single room rent regulations which have been used since January 1996. The Government's case for change is based on this simplicity and the desire to ensure that the housing benefit system supports the increased market responsiveness of landlords.

Systems where a standard allowance is paid and tenants shop around, are commonplace in other countries. But the changes represent a radical change to the way that housing benefit has developed in the UK. Here housing benefit has previously been based on the rent charged to a specific property.

In the run up to the introduction of the changes, Shelter carried out an analysis of properties available to rent. This research showed that over half of available lets were too expensive for those on housing benefit. In Edinburgh there is a risk that if tenants cannot find cheap accommodation or make up the shortfall, they will have to leave in smaller or poorer quality accommodation.

Shelter research also showed that 4 in 10 properties are advertised already as 'No DSS'. Landlords are nervous about the changes. They fear that if the money is paid to the tenant there is a greater risk of rent arrears. There is potential that the number of 'No DSS' signs in advertisements could increase. Lowering access to property for people on low incomes, which could lead to homelessness.

Shelter is monitoring the pilot closely.

For more information, contact Nuala Toman, Policy & Research Officer, Shelter Scotland on 0131 473 7190 or nuala_toman@shelter.org.uk.

¹ The Housing Benefit (General) (Local Housing Allowance) Amendment Regulations 2003 No. 299

² The Rent Officers (Housing Benefit Functions) (Local Housing Allowance) Amendment Order 2003

³ Edinburgh City Council website, Housing Options Guide: <http://www.nice-work.com/hogasp/Frameset1.htm>