

Shelter Briefing: Westminster Hall Debate on Local Housing Allowance and Homelessness

Summary

Shelter is the UK's largest housing and homelessness charity. Last year we gave information, support and advice to millions of people experiencing bad housing and homelessness. We support people who have experienced multiple problems with housing benefit for private rents. They are regularly being forced to make up shortfalls, where their housing benefit (or Local Housing Allowance) does not cover their private rents.

Shelter research shows that in 97% of areas in England, people will experience a shortfall between their rent and Local Housing Allowance for a 2-bedroom home rented at the 30th percentile.

Local Housing Allowance is no longer fit for purpose, the rates must be raised to reflect the true cost of renting. This is having a direct impact upon homelessness

Key Recommendations:

- When the Local Housing Allowance (LHA) rate freeze comes to an end, rates **must** be restored to reflect at least the bottom 30th percentile (i.e. the cheapest third) of local rents.
- There needs to be a robust mechanism going forwards that keeps LHA rates covering at least the 30th percentile of local rents in the future, regardless of fluctuations in private rents
- If the freeze does not end early, Targeted Affordability Funding must be increased and be better targeted to the areas where it is needed.

Local Housing Allowance (LHA)

The problem

LHA is the way housing benefit is calculated for people who are privately renting. LHA rates have been subject to a range of cuts and changes since 2011. Initially set to cover the bottom half of the local market (50th percentile), LHA was cut in 2011 to cover the bottom third (30th percentile). Between April 2012 and April 2016, the LHA rates were cut in real terms and the link between them and private rents broken; they were subject to a one-year freeze, then raised by CPI (which doesn't include rents), then raised by just 1% for two years. In April 2016, the four-year benefit freeze was implemented freezing LHA rates until April 2020. **These cuts have meant that private rents have outpaced LHA rates for a number of years**, leaving the LHA rate too low for too many. This has meant those receiving LHA, or the housing element of Universal Credit, can face huge shortfalls between their rent and the amount they can receive to cover their rent. These shortfalls have to be made up through other limited means.

The impact of the LHA freeze

The freeze on LHA rates is incredibly damaging as it leaves claimants with potentially large shortfalls between their housing benefit and their rent. This quickly puts people at risk of accruing rent arrears and facing eviction and homelessness.

Our analysis of the LHA rate for 2019-20 shows that for a modest two-bedroom home, **there is now a shortfall between LHA rates and rents at the 30th percentile in 97% of broad market rental areas (BRMAs) in England.** Our analysis also shows that in one in five areas of England (21%), a family with one or two children renting a two-bedroom home at the 30th percentile **need at least an extra £100pcm, on top**

of the full amount they can receive in LHA, to cover their rent. These amounts are too large to budget around.

This isn't just an issue in London. Around the country, the LHA rate is covering so little of the local market it is incredibly difficult to find suitable homes without a large shortfall. **In one in three (32%) areas of England, the rates don't even cover 10% of the market for a two-bedroom home.** Please see the table below that represents a selection of some of the **highest shortfalls in monetary terms excluding London:**

Broad Market Rental Area in England	Difference between monthly rent at 30 th percentile and LHA rate for two-bedroom home	Broad Market Rental Area in England	Difference between monthly rent at 30 th percentile and LHA rate for two-bedroom home
Brighton and Hove	£112.71	Milton Keynes	£108.24
Bristol	£126.58	Northampton	£92.73
Cambridge	£156.74	Southern Greater Manchester	£76.25
Central Greater Manchester	£113.02	South West Essex	£131.62
Chilterns	£108.67	York	£88.04

These shortfalls can result in claimants having to make up their rent out of other subsistence benefits, cutting back on essentials or taking on further debt to prevent falling into arrears and facing the threat of repossession and homelessness. Shelter's survey of private renters' details some of the impossible trade-offs that renters in receipt of housing benefit are having to make. **One in three (31%) renters have cut back on food** for either themselves or their partner and **two in five (37%) have been forced to borrow money** to pay their rent in the last year.

Inadequate LHA rates are causing homelessness across England

The repeated cuts and subsequent freeze to LHA rates, mean they have now fallen significantly below the actual cost of renting. People are being pushed towards rent arrears, debt and at risk of homelessness. At Shelter, we see more and more people **forced into homelessness after going into debt while claiming LHA.** This is evidenced by research carried out by a number of organisations:

- The government's Housing White Paper acknowledged that **'high and increasing costs in the private rented sector can impact upon tenants who struggle to pay, and these households are more likely to be at risk of becoming homeless'**.
- The National Audit Office stated that **'changes to LHA are likely to have contributed to the affordability of tenancies for those on benefits and are an element of the increase in homelessness'**.
- The Manchester Metropolitan University, on behalf of the Residential Landlords' Association, also found that the **LHA freeze is driving the increase in homelessness from the private rental sector.**

- A survey of local authorities undertaken by Crisis in 2018 found that just over 9 in 10 local authorities **(91%) stated that the four-year freeze on LHA rates had increased homelessness** in their area with 6 in 10 local authorities (59%) stated that this increase was “significant”.

Homelessness acceptances by local authorities in England, due to the ending of an Assured Shorthold Tenancy (AST), **has increased by 66% (more than doubled in London) since 2011/12** – when the changes to LHA were introduced. Although the private rented sector has also grown in this period, this 66% rise in homeless acceptances from the private sector is still disproportionately high. The private rented sector has only grown by 17% in the same period indicating the sharp increase in homelessness from the private sector has been influenced by the LHA reforms. **All available evidence points to LHA reforms as a major driver of the loss of private tenancies as an increasing cause of homelessness.**

The solution

When the LHA freeze comes to an end in April 2020, the rates must be restored to at least the 30th percentile of local rents. There needs to be a **robust mechanism going forwards** that keeps LHA rates to cover at least the 30th percentile of local rents in the future, regardless of fluctuations in private rents.

The result of this is that welfare savings being pushed on to Local Authorities

Local authorities report that the inadequacy of the LHA rates mean their efforts to rehouse people can often be in vain. In 2017, almost 9 in 10 local authorities in England (86%) reported difficulty in preventing or resolving homelessness through accessing the private rental sector. **LHA rates are making it very difficult for local authorities to fulfil their duties to prevent and relieve homelessness under the Homelessness Reduction Act.**

Any cost saving by the government from the freeze of LHA, is being off-set by excessive spending by councils on temporary/ emergency accommodation and Discretionary Housing Payments, which are being used to mitigate against the effects of the freeze. In 2017-18, **councils spent almost £1.4 billion on homelessness, including just under £1 billion (£996 million) on temporary accommodation.** The total amount spent on homelessness by councils in England has increased by 56% since 2012-13. The amount spent on TA has increased by 71% over the same period.

Targeted Affordability Funding (TAF) is not alleviating the problem

Since 2014, the Government has made Targeted Affordability Funding (TAF) available as a top-up grant for the areas most impacted by the freeze. The funding **increases LHA rates, by just 3%**, in areas where the LHA rate covers the smallest percentage of the rental market across all types of home (shared accommodation rate, one-bedroom property, two-bedroom etc).

TAF is not allocated or calculated based on how many areas are actually in need, TAF is just distributed to areas down a ranked order, until the money runs out. Despite there being £85m available by way of TAF

for the 2019/20 financial year, in **97% of areas the rates available are still far below the 30th percentile for a two-bedroom home. TAF is not even close to plugging the gap.**

The table below shows two-bedroom LHA rates which have had TAF applied, from area across England. As you can see, TAF is not working.

Region	BRMA	For two-bedroom properties - all rates have had a 3% TAF applied				
		LHA rate 2019/20 Monthly	Latest 30th Percentile monthly rents	Shortfall between LHA rates and the 30th Percentile	% increase needed to bring LHA rate in line with 30th percentile	Percent of the market the rate covers
East of England	South West Essex	£743.38	£875.00	£-131.62	18%	3%
East Midlands	Northants Central	£488.36	£575.01	£-86.65	18%	4%
London	Outer North East London	£887.95	£1,124.98	£-237.03	27%	2%
North West	Southern Greater Manchester	£573.75	£650.00	£-76.25	13%	6%
South East	Milton Keynes	£698.41	£806.65	£-108.24	15%	5%
South West	Swindon	£587.82	£674.99	£-87.17	15%	3%
West Midlands	Coventry	£498.92	£550.02	£-51.10	10%	11%

If you have any questions, or would like data specific to your area, please contact Ami_McCarthy@shelter.org.uk or 0344 515 1279