Department
for Work &
Pensions

Local Housing Allowance Targeted Affordability Funding

Outcome of the Call for Evidence

December 2013

Local Housing Allowance Targeted Affordability Funding: Outcome of the Call for Evidence held in July 2013

Background

1. Local Housing Allowance (LHA) rates determine the maximum amount of Housing Benefit people on a low income renting in the private sector are entitled to. They are set on the basis of the number of bedrooms a household requires and the Broad Rental Market Area (BRMA) in which the claimant's accommodation is situated.
2. At Autumn Statement 2012, the Government announced that most LHA rates will be increased by a maximum of 1% in 2014-15 and 2015-16. This change continues to exert downward pressure on rents and controls the growth of Housing Benefit expenditure.
3. In recognition of the fact that rental markets differ across the country, the Government committed to using 30 per cent of forecast savings as at Autumn Statement 2012 to increase rates in some areas by more than the 1 per cent limit. The funding for this is known as the 'Local Housing Allowance Targeted Affordability Funding'.
4. A 'call for evidence' was held from 28 June to 28 July, seeking views on how the funding should be targeted in 2014/15 and 2015/16. It also enabled the Department to gain further insight into the diversity of the challenges faced by Housing Benefit claimants looking for affordable accommodation in the private rented sector.
5. We received 21 responses in total from a variety of organisations. These include 12 local authorities, the Welsh Local Government Association, London Councils, four voluntary sector organisations, the Chartered Institute of Housing, the Residential Landlords Association and a Care Provider in Wales.
6. A summary of the key responses to the questions raised is covered below, together with other issues raised by stakeholders.

Summary of responses

(i) What are the important things to consider when deciding which Broad Rental Market Areas are experiencing the most significant issues with affordability of accommodation? For example we could look at which areas have the greatest shortfalls between LHA rates and market rents, or have the lowest proportion of the market available, and/or urban or rural areas.

7. The main responses were as follows:
   - Many respondents considered the funding should be targeted where there was the greatest divergence between LHA rates and rents and that this should be across the country rather than specific areas/BRMAs.
   - Some respondents said that the funding should be used to increase those rates which have fallen below the 30th percentile/re-align LHA levels. It was also noted by a couple of respondents that even rents at the 30th percentile are way out of reach for those on average incomes.
   - Some added to these high level responses and suggested things we could take into account were; correlation between greater divergences and higher levels of homelessness; how many claimants faced a shortfall in their rent; housing supply; social housing waiting lists; employment levels; and disparities within a BRMA between the urban and rural areas.

8. Detailed suggestions included:
   - Devising a scoring mechanism based on criteria such as greatest shortfall, scarcity of accommodation, more severe problems with unemployment etc and score each local authority based on how they are most adversely affected cumulatively for each of the criteria.
   - Giving priority to the Shared Accommodation Rate (SAR) in London Boroughs as low income young people are the worst affected and are having to compete with students and young professionals for accommodation.
   - Directing all of the funding to London. To help reduce the number of households in Temporary Accommodation, retain landlords in the Private Rented Sector (PRS), and ease the inner to outer London growth in LHA receipt.
   - Focusing the funding on the smaller-sized accommodation where there is the greatest demand.
   - Using the funding to uprate across the board where the Consumer Price Index (CPI) limit is lower than the 30th percentile.
   - Setting a minimum acceptable proportion of the market which should be available, eg 25th percentile and using this as a threshold for triggering the Targeted Affordability Funding (TAF).
   - Considering exceptions for rural areas where less rental evidence but increasing rents.

- Directing funding where there is a high percentage loss moving over to the 1% uprating.

(ii) How, if at all, should we consider difficulties faced by certain groups of claimants, such as young single people, families with children, disabled people, etc?

9. This question did not attract as many responses as (i), but in the main respondents cited single people under 35 who were entitled to the SAR as a 'group of claimants' who might be helped by this funding. Respondents state that there were more young people moving into the shared market, but no discernible initiatives to increase the supply of accommodation resulting in rising rents. Also, it was noted that this group is less likely to be high-priority to local authorities compared with the disabled and families with children.

10. Some respondents pointed out that they consider it would be a better approach **not** to use the funding for specific groups of claimants such as disabled people and families with children and have a more general distribution which focuses on the objective of improving affordability. One observation was that it was more appropriate to consider some of these groups for Discretionary Housing Payments (DHPs) to help specific groups or cases needing support.

11. Detailed suggestions included:

    - Using the funding to specifically support Temporary Accommodation because of difficulties some respondents said they were experiencing attracting landlords to let to Housing Benefit claimants and where housing suppliers were pulling out of schemes with the councils.
    - Holding back some funding for those with disabilities and distribute as an addition to DHP. The intention behind this would be to help the disabled impacted by the uprating measure to access suitable accommodation in the PRS.
    - Considering whether the funding could be targeted on those groups who are more tied to their local community because of support networks, schools etc, such as families with children, carers, and disabled people.

(iii) Are there other affordability issues that you are aware of for Housing Benefit claimants renting in the private sector that you think need to be considered? Can you provide details or further evidence?

12. Respondents covered quite a range of other issues which were also affecting affordability, either directly or indirectly for claimants in the PRS. These included:

    - Changes to Council Tax support exacerbating the problems for families as well as other Welfare Reforms reducing their benefit entitlement.
    - Building Restrictions on local authorities which prevent them increasing the housing supply and more generally that insufficient supply of social and affordable housing was driving the demand in the PRS

- The lack of rent regulation especially at the lower end of the market.
- The impact of the removal of the spare room subsidy as people downsize and move into the PRS, which in turn, is increasing competition for accommodation, especially one bedroom properties
- The importance of providing access to the PRS as a route out of expensive supported accommodation.
- A general lack of one bedroom supply across the private and social sectors.
- Increasing demand for Temporary Accommodation.
- Unwillingness of landlords to rent to benefit claimants which will not be helped by increasing the rates, even if brought up to the 30^{th} percentile.
- Difficulties that claimants have moving to more affordable areas. An example given was Camden, where around half of LHA claimants are in work, and shift work and unsociable hours means they need to be near their workplaces.
- The importance of providing help with upfront costs, getting guarantors and good tenancy support, particular for young people new to the PRS.
- Difficulties calculating the SAR mean that they are not representative of local rents and there isn't a third of the market available.
- Within some BRMAs, highly polarised rental markets, where the inclusion of rural areas brings down the LHA rates, makes renting in the city itself unaffordable. Claimants are pushed into rural areas where job opportunities are much poorer.
- The interaction of this policy with the benefit cap.

Government Response

13. The Government has carefully considered the responses to the call for evidence in developing the approach to the TAF. In particular, we have decided to reflect the views to target the funding where LHA rates have diverged from the 30th percentile of market rents. This also meets with the policy intention for the funding, to help prevent more areas becoming unaffordable.
14. We have proposed that the rates that have diverged from market rents the most will be increased by 4% (subject to a maximum cap) rather than the 1% limit. This approach ensures fairness and addresses many of the issues raised in the call for evidence.
15. By applying an increase of 4%, we are able to increase 126 LHA rates (out of 960 overall) – if we used a higher percentage increase, the number of rates would be lower. Conversely if we used a lower rate to increase the rates such as CPI (The September 2013 CPI rate was 2.7%), the number of rates increased would be higher but the amount of the increase lower. A 4% increase strikes a balance and concentrates the funding on areas where rents and LHA rates have diverged the most. This is in line with the Department's medium-term planning assumption of general private rent growth and is broadly in line with the increases in social and affordable rents in 2014/15 (3.7%).
16. Those LHA rates which have diverged the most from the level of market rents have been determined by comparing the proposed April 2014 rates (limited by the 1% increase) with the 30th percentile of local rents in the latest rent officer data. The LHA rates with the greatest percentage gap will be increased by 4% instead of 1%, subject to the maximum LHA cap for that category of dwelling, up to the limit of the total funding available (Funding for 2014/15 is £45 million).
17. However, the Government also wants to limit the growth of the highest rates of LHA. As such, maximum LHA caps were introduced from April 2011. These caps are in place to ensure Housing Benefit does not support people to live in accommodation that is out of reach of most people in work and not claiming benefits, and that claimants would be very unlikely to be able to afford without the support of benefits even if they find work. Therefore those LHA rates which are currently capped in the most expensive areas will only increase by 1% in April 2014.
18. We also considered the range of other issues raised in the call for evidence which respondents considered might be affecting affordability for claimants in the private rented sector. Whilst many of these are out of scope for this policy, our response is as follows:

    - We continue to monitor trends with rent levels in relation to LHA and the affordability of the private rented sector for Housing Benefit claimants.
    - We will also continue to monitor how this policy interacts with other Welfare Reform changes such as the Benefit Cap and the Removal of the Spare Room Subsidy.
    - Whilst rent regulation is outside the scope of this policy, the Government does not believe it would increase the supply of affordable accommodation to

benefit claimants. We have experienced it in the past and the private sector shrank from 55% of all households in 1939 to just 8% by the late 1980s.

- The Government is committed to a bigger and better private rented sector which is why, following the Montague review, we have put in place the £1 billion Build to Rent fund and the £10 billion housing guarantee schemes.
- Although some views are that landlords are not letting to people on benefits, the LHA caseload continues to increase since it was introduced in 2008 which suggests that landlords are still letting to people on Housing Benefit.
- There will always be some areas which are more expensive than others and where rents rise faster than inflation, there should be no presumption that Housing Benefit will always pick up the bill. People on benefits face the same choices about affordability as those in work who often can’t afford to live in the most expensive areas.
- Discretionary Housing Payments are available for those instances where the local authority considers additional support is needed with housing costs. This could include (at the local authority’s discretion) help with the upfront costs of moving, or where it is difficult for claimants to move to more affordable areas.

Next Steps

19. Table A below provides the details of the rates that will benefit from the TAF.
20. Regulations were laid on 2 December 2013 to instruct the rent officers in England, Scotland and Wales how to set the LHA rates in January 2014 to reflect the TAF. An equalities analysis has also been published considering the impacts of the policy.
21. The new LHA rates, including those rates/areas which will benefit from the TAF, will be determined and published on 15 January by Rent Officers, together with the 30th percentiles of market rents.

Table A – LHA rates benefiting from the Targeted Affordability Funding

Broad Rental Market Area	Accommodation type
England & Wales	***SAR=shared accommodation rate***
Ashford	SAR
Aylesbury	SAR 3 bedroom
Barnsley	1 bedroom
Bath	1 bedroom 2 bedroom 3 bedroom
Bedford	1 bedroom 4 bedroom
Blackwater Valley	SAR
Blaenau Gwent	SAR
Bolton and Bury	SAR
Brecon and Radnor	3 bedroom
Bridgend	SAR
Brighton and Hove	3 bedroom
Bristol	4 bedroom
Caerphilly	4 bedroom
Cambridge	SAR 1 bedroom 3 bedroom 4 bedroom
Canterbury	4 bedroom
Central Lancs	SAR
Central London	SAR
Ceredigion	SAR 1 bedroom

Broad Rental Market Area	Accommodation type
Cheltenham	SAR
Cherwell Valley	1 bedroom 2 bedroom 4 bedroom
Chesterfield	SAR
Chichester	SAR
Coventry	2 bedroom
Crawley & Reigate	4 bedroom
Derby	SAR
Durham	SAR
East Cheshire	4 bedroom
East Thames Valley	2 bedroom 3 bedroom
Exeter	SAR
Gloucester	SAR
High Weald	3 bedroom
Hull & East Riding	SAR
Inner East London	SAR 1 bedroom
Inner North London	SAR
Inner South East London	SAR 1 bedroom 2 bedroom 3 bedroom 4 bedroom
Inner South West London	SAR 1 bedroom 2 bedroom
Inner West London	SAR 1 bedroom 2 bedroom

Broad Rental Market Area	Accommodation type
Lancaster	SAR
Leeds	SAR
Luton	SAR 2 bedroom 3 bedroom
Maidstone	SAR
Mendip	4 bedroom
Merthyr Cynon	SAR
Mid & East Devon	SAR 1 bedroom
Mid & West Dorset	SAR
Mid Staffs	SAR
Neath Port Talbot	SAR
Newbury	SAR
North Cornwall & Devon Borders	SAR
North Nottingham	1 bedroom
North West Kent	SAR
North West London	SAR 1 bedroom 2 bedroom 3 bedroom 4 bedroom
North West Wales	4 bedroom
Northampton	SAR
Outer East London	SAR 1 bedroom 2 bedroom 3 bedroom 4 bedroom

Broad Rental Market Area	Accommodation type
Outer North London	SAR 1 bedroom 2 bedroom 4 bedroom
Outer South London	3 bedroom 4 bedroom
Outer South West London	SAR 2 bedroom 3 bedroom 4 bedroom
Oxford	3 bedroom
Rotherham	2 bedroom
Scarborough	SAR
Sheffield	SAR
South Cheshire	1 bedroom 2 bedroom
South East Herts	1 bedroom
South Gwynedd	SAR
Southampton	SAR
Southern Greater Manchester	3 bedroom
Staffordshire North	SAR
Taff Rhondda	SAR
Thanet	SAR
Walton	SAR 4 bedroom
Warwickshire South	3 bedroom
West Wiltshire	4 bedroom
Wolds and Coast	SAR
Worcester North	SAR
Worcester South	SAR
Yeovil	SAR

Broad Rental Market Area	Accommodation type
Scotland	
Aberdeen and Shire	SAR 2 bedroom 3 bedroom 4 bedroom
Argyll and Bute	1 bedroom
Fife	SAR
Forth Valley	4 bedroom
Greater Glasgow	SAR
Scottish Borders	SAR