

## Shut Out: Households at put at risk of homelessness by the housing benefit freeze

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## Introduction

The inability to find a new place to live, once a short term tenancy ends is the [leading cause of homelessness in England](#) and a major cause of homelessness in Scotland and Wales. Assured shorthold tenancies (the type of tenancy used in the private sector in England and Wales) are typically between six and twelve months in length. Sometimes landlords agree to renew tenancies each year. However, recent research by Shelter found that many households do have to find a new home every year.

Shelter have today published a new report into why people are struggling to find a new private rented home. It features new data analysis, interviews with people who have become homeless in the last year and interviews with frontline workers. It identifies a number of reasons why people on low incomes are increasingly unable to find a home and secure a tenancy in the private rented sector. **The research finds that the most important reason, is the shortfall between housing benefit and the cost of private renting.** Sometimes this shortfall is only small – but any shortfall can have devastating effects on whether people can find a new home when their tenancy has ended. Due to current policy, these shortfalls are set to get worse. Our analysis sets out how many people could be at risk of being affected by this by 2020, without government action.

### The shortfall between rents and housing benefit

More than a million private renters in Great Britain have to claim housing benefit in order to help cover the cost of their rent. Many of these renters will be working, but their income won't be sufficient to afford private rents in their local area.

Most private renters claiming housing benefit are assessed through Local Housing Allowance (LHA), which determines the maximum amount of support that a household is eligible for. The amount of support a household can claim will depend on where they live, the minimum number of bedrooms they need and their income. It assumes that someone claiming housing benefit will find a home to rent which is cheaper than average for their local area. The maximum 'LHA rate' for each area is set at, or below, the cost of renting a home in the bottom third of the local private rental market.

Since 2011 housing benefit levels have failed to rise in line with rising private rents. And since April 2016, all working age benefits, including Local Housing Allowance (LHA) rates, have been frozen. The freeze is due to last for four years. This means that most LHA rates will stay the same until April 2020, regardless of how much private rents have gone up by in each local area. This means that many private renters who need their income topped up by housing benefit will face a monthly shortfall between the actual amount they need to pay rent, and the support available.

About four in ten households claiming LHA are in work. Housing benefit is means-tested, and households that are working on a low income may be expected to contribute something towards the cost of their rent. Working households still experience the same shortfall as households who receive full housing benefit. This is because the means test for support looks at a household's income and their 'rent costs'. But when there is a shortfall between rents and LHA rates, a household's 'rent costs' are actually based on the (lower) LHA rate. This means that the shortfall between support needed and support received is the same for working households who do not receive full housing benefit, and for out of work households.

### The effects of the shortfall

If a household is required to move at the end of their tenancy and there is a shortfall between the cost of renting a new home and LHA where they live, they may struggle to find a new home. People in this position

may also struggle to get help from their council to avoid homelessness. One of the key ways that councils try to prevent households becoming homeless is by helping people into private renting, or by helping them to stay in their existing privately rented home. The freeze on LHA rates makes this a much more difficult task for local councils, as they too struggle to find rented properties that are affordable for anyone needing housing benefit. They also struggle to persuade private landlords to house people, as the gap between housing benefit and market rents is set to grow wider every year and landlords want to charge market rents. This means that growing numbers of households are both becoming homeless, and being trapped for months or even years in temporary accommodation, unable to find a new settled home.

## How many people could be put at risk?

Our analysis suggests that a million households in Britain (1,069,517) could be put at risk of homelessness by 2020, unless the freeze on LHA rates is lifted. This is because over a million households live in an area where there will be a shortfall between the amount of LHA they can claim, and the cost of renting one of the cheapest homes by 2020. Once their tenancy ends, they may struggle to find a new one, and be put at risk of homelessness.

This number includes:

- 586,368 Families with dependent children, of which 374,543 are in work.
- 211,070 households where someone claims a disability benefit,
- 114,917 households above pension age

Any shortfall puts a household at risk. This is because households eligible for housing benefit are already on very low incomes, and have limited resources to cover additional costs. But some households face very large shortfalls. Households living in London face the greatest shortfalls in the country, but this problem is not limited to the capital. In Cambridge, for example, a family with two young children would face a shortfall of £681.46 a month by 2020 between support and the rent for one of the cheapest two bedroom homes in the area. In Bristol, this family would face a shortfall of nearly £306.54 a month.

There are limited options for these households as it is difficult to overcome the shortfall by finding work or working more hours. This is because working households see the same shortfall in their benefits due to the way the housing benefit means test operates (see 'Introduction' above). Working households who work more hours, or take a higher paying job to increase their earnings, will also see their housing benefit tapered away steeply. Therefore, it is difficult to increase their income to the point where they could make up this shortfall.

Some areas are already seeing substantial shortfalls between rents and benefits and we are already seeing the effects of this on homelessness. The number of households accepted as homeless by their council has risen by more than 17% since 2011/12. Shelter's regional services report that we are helping an increasing number of private tenants who are being squeezed out. For example, an adviser at Shelter Sheffield said: *"We've got a significant number of people reliant on benefits and they are really struggling to access the PRS"* This is only set to worsen if the freeze continues.

## Analysis note

Our analysis estimates the number of people who could be put at risk of homelessness when their tenancy ends, if action is not taken by government to end the freeze to LHA before 2020.

The analysis involves three calculations:

- What would it cost to privately rent a room in a room in a shared house, a one-bedroom, two-bedroom, three-bedroom and a four-bedroom home in each local authority in 2019/20?
- What is the maximum amount of housing benefit (LHA) that households would be eligible for in 2019/20 in each size of home, in each area?
- How many households will be claiming LHA in each size of home in each area by 2019/20

We used this information to come up with a total number of households at risk. We did this by identifying all of the places where there would be a shortfall between the rent of one of the cheaper rooms in a shared house and a one-bedroom, two-bedroom, three-bedroom or a four-bedroom home and the maximum amount of LHA that households could receive in these homes by 2019/20. We then added up the number of households claiming LHA in an area where the size of home they are eligible to rent will cost more to rent than the amount of LHA they will be able to claim in 2019/20. These are households who will need to find a home of this size and in this area when their tenancy ends, and who may struggle to do so due to the shortfall.

We know that households are resilient and often find a way to keep themselves housed, even in the face of seemingly insurmountable challenges. We also know that some landlords are prepared to renew, or leave short term tenancies at below market levels. Therefore, this analysis does not suggest that one million households will be homeless in 2020. However, the shortfall does put these households at risk if they have to find a new tenancy. Demand for private renting means that even small shortfalls can cause households to struggle to find somewhere they can afford, or to persuade a landlord to offer them a tenancy. Some of the shortfalls are so great, that households are very likely to struggle to find somewhere they can afford to rent and meet essential living costs, or to find a landlord who is prepared to let to them.

### Calculations

What is the maximum amount of housing benefit (LHA) that households would be eligible for in 2019/20?

- We calculated this by looking at the LHA rates for 2017/18 published by the Valuation Office Agency<sup>1</sup>, and the Scottish<sup>2</sup> and Welsh<sup>3</sup> governments. LHA rates are frozen until 2019/20, therefore we have assumed that 2019/20 rates will be the same. It may be that some rates will increase due to 'targeted affordability funding'. However, this is strictly rationed, and has not been made available every year. Therefore, we have assumed it will not be available.
- We aligned data on LHA eligibility with DWP statistics on housing benefit caseload. LHA eligibility is determined by broad market rental area (BRMA). This is the local area that the government determines that a person could reasonably be expected to live within, taking into account access to

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<sup>1</sup> Valuation Office Agency, 'Local Housing Allowance (LHA) rates applicable from April 2017 - March 2018' <https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2017-march-2018> Data accessed June 2017.

<sup>2</sup> Scottish Government, 'Local Housing Allowance rates 2017-2018' <https://beta.gov.scot/publications/local-housing-allowance-rates-2017/> Data accessed June 2017.

<sup>3</sup> Welsh Government, 'Local Housing Allowance Rates applicable from April 2017' <http://gov.wales/topics/housing-and-regeneration/welfare-reform/rentofficers/publications/local-housing-allowance-2017/?lang=en> Data accessed June 2017.

facilities and services. In order to relate this information to DWP statistics on the housing benefit caseload, we aligned BRMAs as closely as possible with local authority boundaries in England, Scotland and Wales.

What would it cost to privately rent a room in a shared house, a one-bedroom, two-bedroom, three-bedroom and a four-bedroom home in 2019/20?

- We calculated this by taking data on the rent of a room in each size home in 2015/16<sup>4</sup>. It is expected that people receiving housing benefit will try to access properties at the bottom end of the rental market. Therefore, we looked at rents at the lower quartile of the private market.
- We updated this data to 2019/20 by calculating a cautious rent inflation indicator for each property size in each local authority. In order to smooth out uncharacteristic annual rent increases or decreases, we used data on lower quartile rents collected from 2011/12 and 2015/16 and calculated an average annual rent increase across this period. We then reduced this by 20% in order to take a cautious approach and reflect the possibility that rents may not rise as quickly as in the past in all areas. We then applied this to the 2015/16 data. These assumptions do not account for longer-term socioeconomic changes that may create uplift in specific local markets. This may mean that unusual long-term growth in some areas slows down over the coming years, while other gentrifying areas may grow faster than they have in the past. However, continued restrictions in supply mean that it is likely that the cost of renting will continue to rise nationally, despite the current low rate of inflation. This means that at least for some areas, our estimates will be conservative.
- We excluded local authorities if published rental data was based on a sample of less than fifty properties. This mainly affects rooms in shared accommodation. This is likely to have made our estimate more conservative.

How many households will be renting each type of home in each area by 2019/20?

- We downloaded data on the number of LHA claimants from the DWP database 'Stat-xplore'<sup>5</sup>. Data is released every month. We calculated the average number of claimants in 2016 in each property size and in each claimant group in every local authority in England, Scotland and Wales.
- The housing benefit (or housing element of universal credit) caseload is projected to grow over the next three years. Therefore, we applied an inflator based on the projected growth in housing benefit claimants across Great Britain, calculated by the Office for Budget Responsibility<sup>6</sup>.

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<sup>4</sup> Valuation Office Agency, 'Valuation Office Agency: private rental market statistics', 19 May 2016, <https://www.gov.uk/government/collections/private-rental-market-statistics> Data accessed June 2017. StatsWales, 'Private sector rents' 11 April 2017, <http://gov.wales/statistics-and-research/private-sector-rents/?lang=en>, Data accessed June 2017, Scottish Government 'Private Sector Rent Statistics, Scotland, 2010 to 2016', 07 November 2016, <http://www.gov.scot/Publications/2016/11/3295/downloads>. Data accessed June 2017.

<sup>5</sup> Stat-xplore <https://stat-xplore.dwp.gov.uk/> Data accessed June 2017.

<sup>6</sup> Office for Budget Responsibility, 'Welfare Trends Report', HM Stationary Office, October 2016 [http://budgetresponsibility.org.uk/docs/dlm\\_uploads/Welfare-Trends-Report.pdf](http://budgetresponsibility.org.uk/docs/dlm_uploads/Welfare-Trends-Report.pdf)