

Shelter Briefing: Adjournment Debate on Local Housing Allowance Rates in Nottingham

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.

Increasing numbers of people are coming to Shelter for help after experiencing multiple problems with the new benefit system. They are being forced to make up shortfalls, where their housing benefit (or Local Housing Allowance) does not cover their private rents.

This problem is far from unique to Nottingham, 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.

Key Recommendations:

- The Local Housing Allowance (LHA) rate freeze must come to an end and rates must be restored to reflect at least the bottom 30th percentile (i.e. the cheapest third) of local rents. Those receiving the housing element under UC, for their private rent, would benefit from this
- 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. This is also the case for those receiving the housing element for their private rents under UC. LHA rates have been subject to a range of cuts and changes since 2011. LHA was initially set to cover the bottom half of the local market (50th percentile), but this 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 was 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 the housing element for their private rented home on UC 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 (e.g. standard allowance of UC).

The impact of the LHA freeze

The freeze on LHA rates is the most damaging aspect of the UC system as it leaves claimants with shortfalls between their housing element and their rent. This quickly puts people at risk of accruing rent arrear debt, repossession and homelessness.

Our analysis of the LHA rate for 2019-20 shows that for a modest 2-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 marketⁱ 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 bed.**

In **Nottingham**, for a 2-bedroom home at the 30th percentile, there is a shortfall between the LHA rate and market rent of £54.47 per month, in order to meet the market rent, the LHA 2-bedroom home rate would have to be lifted by 12%. As it currently stands, the 2-bedroom LHA rate for Nottingham only covers 11% of the market. Please see the table below that represents a selection of some of the **highest shortfalls in monetary terms excluding London**ⁱⁱ:

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 rentersⁱⁱⁱ 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.

By making the housing element of UC for those in private rentals so far below the actual cost of renting, people are being pushed towards rent arrears and debt. At Shelter, we see more and more people forced into homelessness after going into debt while claiming LHA. Homelessness acceptances by local authorities in England, due to the ending of an Assured Shorthold Tenancy, **has increased by 66% (more than doubled in London) since 2011/12** – when the changes to LHA were introduced.^{iv} All available evidence points to LHA reforms as a major driver of the loss of private tenancies as an increasing cause of homelessness.^v

The solution

The LHA freeze must come to an end and the **rates should be restored** to at least the 30th percentile (i.e. cheapest third) 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.

Targeted Affordability Funding (TAF)

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, usually 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).

In 2017/18, 30% of the savings from the freeze were used for TAF. In the 2017 Autumn Budget, after successful Shelter campaigning, the Government increased the portion of savings from the freeze to be used for TAF to 50%. This has resulted in an additional £125m of TAF being allocated over two years (2018/19 and 2019/20) and is projected to help 140,000 households hit hardest by the freeze. While this is a welcome increase, it hasn't overcome the impact of the freeze as the amount TAF increases rates by is capped at just 3%. Additionally, **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.

In Nottingham, TAF has been applied to both the 3 and 4-bedroom LHA rates, yet still each rate only covers 13% of the market.

The table below shows 2-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%

Welfare savings being pushed on to Local Authorities

The National Audit Office¹ concluded in 2017 that homelessness is linked to the gap between LHA rate and rents, particularly the sharp upswing in homelessness precipitated by the ending of assured shorthold tenancies.² Recent research by the Manchester Metropolitan University, on behalf of the Residential Landlords' Association, found that the LHA freeze is driving the increase in homelessness from the private rental sector.³ This means that any savings made from the LHA rate freeze are being deflected onto local authorities whose services and budgets are stretched as it is.

² National Audit Office *Homelessness: A Report by the Comptroller and Auditor General*. London: National Audit Office, 2017

³ O'Leary, C., O'Shea, and S., Albertson, A. *Homelessness and the Private Rented Sector*. Manchester: Manchester Metropolitan University, 2018

The LHA rate freeze is placing additional financial pressure on local authorities' already diminished budgets. In 2017, almost 9 in 10 local authorities in England (89%) detailed that it was somewhat or very difficult to prevent or resolve homelessness through accessing the private rental sector.⁴ In 2018, 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".⁵ This makes it very hard to fulfil their duties 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.

**If you have any questions, or would like data specific to your area, please contact
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ⁱ For example, the full LHA rate entitlement for a two-bedroom property in Rugby and East, the BRMA, only covers 2% of the local market. For Swindon, the LHA only covers 3% of the local market for a two-bedroom property, or for Northants Central it only covers 4%.

ⁱⁱ This is not a ranked list but a selection

ⁱⁱⁱ Base: 660 private renting GB adults aged 18+ who were currently in receipt of housing benefit Interviewed online 19th July – 23rd August 2017 by YouGov on behalf of Shelter.

^{iv} Ministry for Housing Communities and Local Government (2019) [Acceptances and decisions live tables: January to March 2018 \(revised\)](#), London: MHCLG.

^v Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B., Wood, J., [The homelessness monitor: England 2018](#), Crisis, Heriot-Watt University and University of New South Wales, 2018 - page xii, second bullet

⁴ Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B., Wood, J., [The homelessness monitor: England 2018](#), Crisis, Heriot-Watt University and University of New South Wales, 2018

⁵ Fitzpatrick, S., Pawson, H., Bramley, G., Wood, J., Watts, B., Stephens, M., Blenkinsopp, J., [The homelessness monitor: England 2019](#), Heriot-Watt University and University of New South Wales, 2019