

# CUTS AND CHANGES TO HOUSING BENEFIT FOR PRIVATE RENTERS (LHA)

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## SUMMARY

Low-income households renting privately can access support known as Local Housing Allowance (LHA) to help pay the rent. This briefing summarises the impact of cuts and changes to LHA introduced from 2011:

It finds that:

- Many renting households face a rent shortfall, despite qualifying for help.
- Renters have adopted a range of short-term strategies to pay their rent, and finances are precariously balanced. Some renters have moved into arrears.
- Renters are being forced to compromise on quality or overcrowd

to find affordable homes, even to the point of tolerating rogue landlords.

- Landlords are demanding greater reassurance from renters that they will be able to pay rent, making it difficult for renters to move into new accommodation. Some renters who have lost unaffordable accommodation have become homeless.

The supply of properties which low-income renters can afford is gradually constricting, and the help renters get is becoming increasingly inadequate. Further moves to open up the gap between rents and LHA could be very damaging.

# INTRODUCTION

Local Housing Allowance (LHA) is the name for housing benefit given to private renters when they do not have sufficient income to pay their rent.

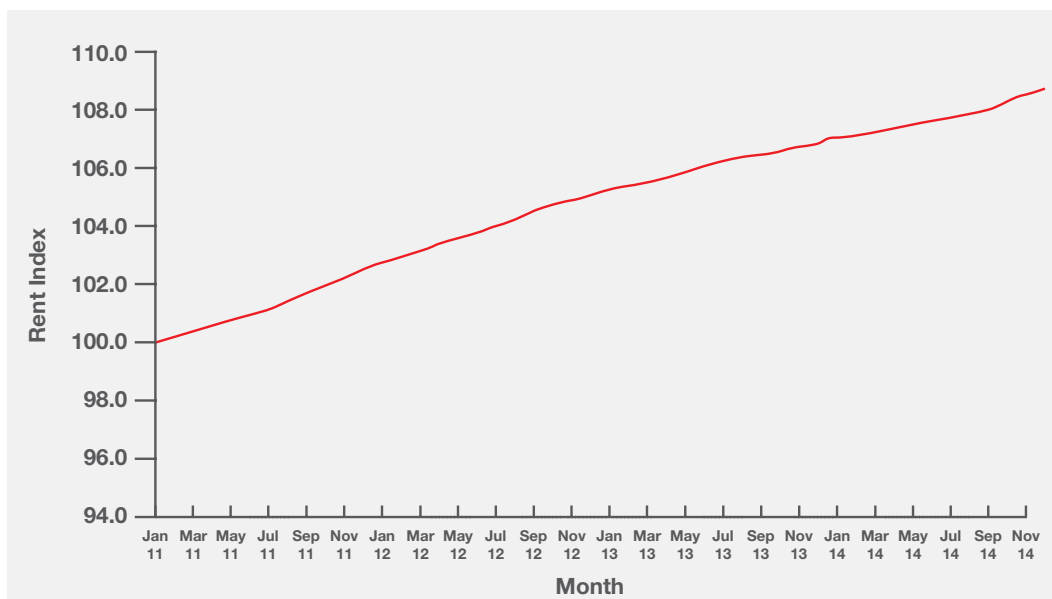
There are 4.4 million households privately renting in England, Scotland and Wales, and 1.4 million of these are in receipt of LHA to help with their housing costs. 719,875 (53%) are families with children and 526, 039 (39%) are in work.<sup>1</sup>

LHA was introduced as a way of setting clear and simple limits on the amount of housing benefit each household could receive. Rates vary by household size and geographical area. Initially LHA rates were set so that they covered the cost of rent for the cheapest half of properties in every local area. Rates were adjusted on a monthly basis so that they kept up with the cost of renting.

From 2011, the Coalition government oversaw cuts and changes to LHA which restricted LHA rates and reduced the income of renters - without guaranteeing housing costs would fall:

- LHA rates were changed so that they covered rent for the bottom 30th percentile of properties for rent in every local area, rather than the bottom 50th percentile.
- The amount of LHA that each renter could receive was subject to a cap. This particularly affected areas with high rents.
- The link between the increase in the actual cost of renting and increases in LHA was broken. Rates were frozen in April 2012, and subsequently increased in line with CPI inflation from April 2013, rather than rent increases.
- In 2014 and 2015, LHA rates were increased by a maximum of 1%, this was lower than inflation.

## Rent growth index since 2011, Great Britain



1. DWP Housing benefit statistics

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Despite restrictions on LHA, rents in the private sector continued to rise. By April 2014, rents had increased by 6.8% on average since April 2011.<sup>2</sup> In areas such as London, rent increases were even steeper. Over the same period LHA rates increased by just 3.22%.<sup>3</sup>

The policy has had major impacts on people's ability to pay their rent. For the last two years government have set aside some money so rates could be increased if the gap became too risky. The money has been used to increase rates by 4% in areas with the largest gap. This has helped to reduce the gap in these areas but has not brought LHA rates in line with rents for

the cheapest properties. Where rates for two bedroom properties were increased by 4% in London, there is still an average weekly gap of around £10. Even outside London, where rates for two bedroom properties were increased by 4% there is still an average weekly gap of £5.<sup>4</sup>

This briefing focuses on the impacts felt by low income renters to date.

In their manifesto, the Conservative Party announced their intention to freeze LHA rates at 2015 levels for two years. We have modelled the impact this will have in a separate briefing.

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2. ONS index of private housing rental prices:  
[www.ons.gov.uk/ons/rel/hpi/index-of-private-housing-rental-prices/index.html](http://www.ons.gov.uk/ons/rel/hpi/index-of-private-housing-rental-prices/index.html)

3. Based on LHA rate inflation 2011 – 2014.

4. <https://www.gov.uk/government/statistics/local-housing-allowance-lha-rates-applicable-from-april-2015-march-2016>

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# WHAT IS THE EFFECT OF RESTRICTING LHA?

## Rent shortfalls

LHA rates are now below rents in many areas creating rent shortfalls. In London, rent shortfalls are particularly acute. Soon after the policy was implemented, there was a gap of £100 per week in inner London between even the cheapest properties and LHA rates.<sup>5</sup> But this isn't just a South-East and London problem. Because of policy changes in 2011, renters faced an average reduction of £6.84 per week.<sup>6</sup>

In fact, over two thirds (69%) of areas are now unaffordable for families on LHA, because LHA rates only cover rents among 3 in 10 homes. Five local areas are "very unaffordable" because LHA rates cover the rent for less than 1 in 10 properties.

Low-income renters up and down the country now face a rent shortfall, not just those living in expensive areas.

## Availability of affordable accommodation

LHA rates don't reflect the proportion of the private renters reliant on LHA, meaning too many households are now chasing too few properties. The intention of the policy is that the cheapest third of properties will be affordable to renters on LHA. However this means that in areas with a high proportion of low income renters there is no longer enough affordable accommodation.

In 17 London boroughs there isn't enough cheap accommodation for the number of low income renters, meaning some renters have no choice but to rent accommodation with a shortfall. In Enfield, only half of low income renters can get a two bedroom property covered by LHA.<sup>7</sup>

Parts of London are already very unaffordable to those on LHA. This means that LHA rates are not even high

enough to cover the cheapest 10 percent of properties in an area. The five local areas that are now "very unaffordable" and all but off limits to families on LHA are all in London: Camden, City of London, Kensington and Chelsea, Westminster, Islington. Many landlords operate a 'no DSS' policy at this end of the market, and some properties will be hazardous. Where LHA rates fall below rents at the tenth percentile, less than one in 20 homes on the market at any given time will be affordable, available and decent. A small number of claimants will be able to live in these areas, but it will be extremely difficult for most LHA claimants to find affordable, accessible and decent homes.

Our research shows that if LHA rates are frozen at 2015 levels, by 2017 some areas outside of London and the South East will become very unaffordable to people on LHA.

### Case study

In Staines, a two bedroom home in the cheapest third of the rental market costs £981 a month. The maximum amount of LHA a household can claim is £950 a month, meaning renters face a shortfall of £31 a month.

### Case study

In Manchester, a two bedroom home in the cheapest third of the rental market costs £542 a month. The maximum amount of LHA a household can claim is £514 a month, meaning renters face a shortfall of £28 a month.

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5. DWP (2014) The impact of recent reforms to Local Housing Allowances: Differences by place London: DWP, page 61.

6. DWP (2014) Econometric analysis of the impacts of Local Housing Allowance reforms on existing claimants London: DWP, page 27.

7. Research by NPI looked at the proportion of households claiming LHA for a two-bedroom home in London. [http://npi.org.uk/files/4114/0258/6162/Can\\_the\\_changes\\_to\\_LHA\\_achieve\\_their\\_aims\\_in\\_London\\_full\\_report.pdf](http://npi.org.uk/files/4114/0258/6162/Can_the_changes_to_LHA_achieve_their_aims_in_London_full_report.pdf)

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# IMPACT ON RENTERS

Less than 10% of landlords said they had negotiated a lower rent with a tenant following changes to LHA. In the main, the reductions to LHA have fallen on renters, leaving them with rent shortfalls to pay.<sup>8</sup>

Renters with rent shortfalls have taken a range of steps in response, including:

- **Finding ways to stay in their home**, predominantly by making up the rent shortfall. To pay the rent, renters are cutting back on essential outgoings, borrowing from family and friends, and getting help from the council, predominantly through Discretionary Housing Payments.
- **Moving to a new home**. Some people moved following the reforms, however overall, rental mobility fell because people are aware they won't be able to find affordable accommodation nearby.
- **Moving into work**. The reforms had a limited impact on the number of renters moving into work.

## Finding ways to stay in their home

Shelter services regularly hear from renters struggling to pay their rent in order to keep their home. Renters affected by the LHA reforms are already on a low income and therefore less able to absorb financial shocks, including a rent shortfall. No renters are immune from these benefit changes and those affected include families, pensioners and those in full time work.

Unsurprisingly, three quarters of renters on housing benefit report that they are struggling to pay their rent.<sup>9</sup>

### Case study: Bob, the Wirral

'I am on pension credits, housing benefits, and council tax benefit, my problems arose when my private landlord put my rent up well past the housing benefit received. I pay £425/month and I get about £380/month the rest I have to find. The council have stopped increasing housing benefit and when I asked they said payment was in line with the local rental values when everyone knows rents have all gone up'

## Adjusting spending

Some renters have tried to adjust their income and spending to pay the rent. Nearly half of renters affected by LHA reforms reported that they have had to cut back on essentials to pay the rent.<sup>10</sup>

For many renters, who are already on a low income, adjusting spending to pay the rent just isn't an option. A quarter of renters are using other benefits they receive, reducing their income for other essentials.<sup>11</sup>

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8. DWP (2014) Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector London: DWP, page 114.

9. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,544 adults (772 claiming HB). Fieldwork was undertaken between 11th December 2013 - 16th January 2014. The survey was carried out online. The figures have been weighted to representative of all private renters in England (aged 18+).

10. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP, page 101.

11. Ibid.

## Case study:<sup>12</sup>

### Michaela, North Yorkshire

'The council offers £592 a month in housing benefit...the cost of a 2 bed roomed house (for 3 of us)...is now about £700 per month. I have to find the money for the remainder of my rent out of my benefits'

## Adopting temporary coping mechanisms

Renters are adopting temporary - and often unreliable - strategies to manage their rent shortfall, including borrowing from relatives.

Nearly a third of renters reported that they have had to borrow from family and friends in the last year to pay the rent.<sup>13</sup>

Renters have also drawn on their savings, where they have them. This limits their ability to absorb any unexpected future income changes.<sup>14</sup>

## Case study:<sup>15</sup>

### Renter in Thanet

'We have less money and we can afford to do less things. We have to borrow money every now and again to help subsidise us'

## Drawing on other sources of financial support

An increasing number of renters are also having to approach the council for help to keep their home. Local authorities saw 86,000 cases of people needing help to keep their home in 2011/12 - in 2013/14 this rose to 111,300.<sup>16</sup> When councils are approached they can sometimes provide additional financial support towards housing costs, known as Discretionary Housing Payments (DHPs).

Between 2011/12 and 2014/15 the government put £130 million into DHPs specifically to help renters affected by LHA changes. Evidence suggests renters who get DHPs now rely on them to pay their rent shortfall, therefore muting the visible impacts of cuts and changes to LHA.

6% of renters said they had applied for DHPs, yet only 3% of renters reported that they had been awarded a DHP.<sup>17</sup> This suggests awareness among renters about this help is low, and when renters do apply at least half are not successful.

DHP funding has now been reduced, and councils are likely to be forced to reduce the support they offer to renters struggling to pay the rent. In 2013/2014 councils awarded at least £31.3 million in DHPs to renters affected by LHA reforms, but the budget for 2015/16 for LHA reforms has been reduced to just £15 million.<sup>18</sup> Renter's reliance on DHPs to pay the rent mean that breaks in DHP payments or complete withdrawal of support will put those renters immediately at risk of arrears.

12. Ibid.

13. Ibid.

14. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP, page 104.

15. Ibid, page 103.

16. DCLG Homelessness prevention and relief statistics

17. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP, page 109.

18. DWP statistics on Use of Discretionary Housing Payments, April 2013 to September 2014.



## Case study:<sup>19</sup>

### Sandra, Barnet

When Sandra's DHP award was stopped, Sandra had to cut back and borrow money from her sister until she was awarded DHP again:

'I paid [the shortfall] out of my own money...I cut down a little bit on food spending. I know it's only five pounds a week I was trying to save but it's quite hard going...And I borrowed from my sister. I borrowed twenty pounds from my sister...it wasn't too bad because it was only for a short time. I think if it was for longer I would have panicked a bit.'

## Getting into arrears

Four in ten private renters on housing benefit now report that they are constantly struggling or falling behind with their rent – twice the proportion among tenants not on housing benefit.<sup>20</sup>

Just under half (47%) of landlords reported an increase in rent arrears following the reforms.<sup>21</sup> The most common reason given for arrears by tenants and landlords was a reduction in housing benefit.<sup>22,23</sup> 1 in 4 renters reporting arrears said their landlord had not yet responded to their arrears. This may indicate that landlords are planning to wait for the end of the contract, and then won't renew the contract.<sup>24</sup>

## Negotiating lower rents in exchange for poor conditions

Worryingly, some renters seemed to have forsaken decent conditions in return for cheaper rent. Some renters were able to negotiate a lower rent because their property was in poor condition. Some renters were able to negotiate a lower rent in exchange for making minor improvements or redecorating.<sup>25</sup> This suggests that inadvertently, the policy may be benefitting 'rogue landlords' who are prepared to rent out properties in poor condition to renters desperate to find manageable rents.

## Moving to a new home

### Falling renter mobility

One of the stated objectives of LHA reform was to incentivise renters to move into cheaper accommodation in cheaper areas. However, evidence suggests the reforms have helped create an increasingly hostile rental environment making it difficult for renters to make planned moves. Households are staying put in existing tenancies wherever possible, aware that there are increasingly few affordable alternatives available to them.

This may have made it particularly difficult for renters in expensive areas. In areas with high LHA rates, moves among renters on LHA fell after the reforms.<sup>26</sup> Those in inner London were significantly less likely to have moved.<sup>27</sup> Of those who did move, a third said they found it difficult to find new accommodation, rising to 60% among renters from London.<sup>28</sup>

19. GFK (2014) The experiences of families claiming housing benefit during a time of cuts and changes to housing benefit, page 25.

20. Ibid.

21. DWP (2014) Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector: the response of landlords London: DWP, page 93.

22. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP, page 113.

23. DWP (2014) Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector: the response of landlords, London: DWP page 95.

24. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants DWP: London page 128.

25. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants DWP: London page 57.

26. Ibid, page 52.

27. DWP (2014) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: final reports London: DWP, page 3.

28. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants, page 50.

Renters who have accessed Shelter's services are increasingly unlikely to challenge poor conditions in their accommodation. Private renters are all too aware of the threat of revenge eviction so are choosing not to report rogue landlords and poor behaviour in case they are forced to move in an unaffordable market.

Discrimination in the rented sector also makes it difficult for people to move into more affordable accommodation. More than a quarter of renters had been refused or prevented from moving into accommodation just because they were on housing benefit.<sup>29</sup>

Landlords are growing increasingly wary of letting to renters on housing benefit. 67% of landlords told us they preferred not to let to tenants on housing benefit, and some landlords specifically cited concerns about welfare reforms.<sup>30</sup>

Landlords and agents who are reluctant to rent out their properties to renters on LHA are demanding additional financial checks and guarantees from renters before they agree to rent out the property. We know that some landlords ask for several months of rent in advance, or require a guarantor. This places households in further financial difficulties, especially if they are forced to borrow money for rent in advance.

14% of renters on housing benefit told us they were prevented from getting accommodation because they couldn't afford the deposit or rent in advance. And 1 in 10 were prevented from getting accommodation because they didn't have a guarantor.<sup>32</sup>

### **Case study:**<sup>31</sup> **Landlord, Brent**

'If the tenant says "sorry I'm going to be on Housing Benefit" then obviously bells start ringing ... it's a high risk strategy now, for that reason we'd rather shy away from it.'

### **Case study:** **Sylvia, London**

'Because we're a family and we're on housing benefit, about 99% of agents don't want to entertain us. In 2013, it took us almost a year to actually find a flat for our little family. In April 2014, we had to offer 6 months in advance to make the agent bite - offering a higher advance was a suggestion that we've found from somewhere in google.'

29. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,544 adults (772 claiming HB). Fieldwork was undertaken between 11th December 2013 – 16th January 2014. The survey was carried out online. The figures have been weighted to representative of all private renters in England (aged 18+).

30. Ibid.

31. DWP (2014) Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector: the response of landlords, page 58.

32. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,544 adults (772 claiming HB). Fieldwork was undertaken between 11th December 2013 – 16th January 2014. The survey was carried out online. The figures have been weighted to representative of all private renters in England (aged 18+).

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## Case study:<sup>33</sup>

### Eileen, Barnet

‘That’s my biggest worry, finding an estate agent who would actually take me on because I’m signing on and because there’s so much competition with people not being able to afford to buy, tenants are almost haggling with estate agents...’

A renter in Thanet spoke about the vicious cycle he was trapped in: his rent was too expensive, but he was unable to move because he didn’t have a deposit.<sup>34</sup>

Moving may also potentially lead to households becoming ineligible for support. Renters are aware that if they voluntarily leave their property, but don’t find anywhere to live, the council may see them as intentionally homeless, and won’t have a duty to find them somewhere to live.<sup>35</sup> Renters are also wary of moving out of their local area if this means they will lose eligibility for social housing – even if

they have no realistic prospects of being offered a genuinely affordable home.

### Movers

People who moved cited personal and family reasons, rather than financial reasons: people are unlikely to uproot from one area to another, and will do what they can to stay close to their children’s schools and employment.<sup>36</sup> Just 15% of renters who moved following the reforms said it was to seek cheaper rents.<sup>37</sup>

Some people have moved following the reforms. However there is evidence that a significant number of these moves may have been ‘forced’ rather than planned, leading to disruption for renters who were affected and often leading to damaging and expensive outcomes.

The number of possession orders by private landlords has continued to increase each year since 2012. A quarter of London landlords said they had taken action to move tenants out of their properties specifically because of the LHA reforms.<sup>38</sup> 1 in 5 landlords took possession and eviction action specifically because of the changes to LHA, rising to more than a quarter among landlords operating in inner London.<sup>39</sup>

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33. GFK (2014) The experiences of families claiming housing benefit during a time of cuts and changes to housing benefit, January 2014, page 40.
  34. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP page 65.
  35. GFK (2014) The experiences of families claiming housing benefit during a time of cuts and changes to housing benefit, page 40.
  36. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP page 58.
  37. Ibid, page 56.
  38. DWP (2014) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit: final reports London: DWP page 5.
  39. DWP (2014) Monitoring the impact of recent measures affecting Housing Benefit and Local Housing Allowances in the private rented sector: the response of landlords London: DWP page 98.

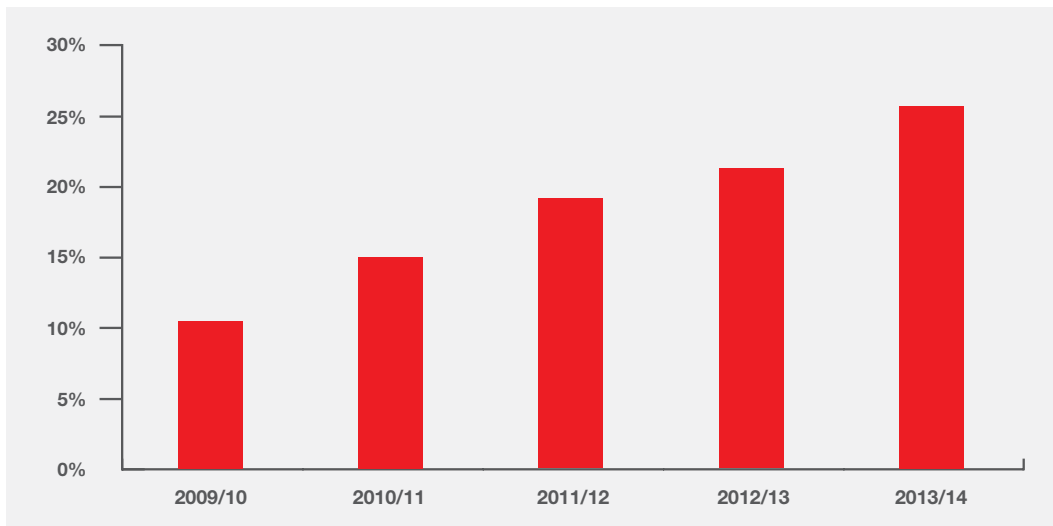
The number of households becoming homeless because their landlord asked them to leave increased significantly following the reforms, and has continued to rise as the gap between LHA rates and rents has widened.<sup>40</sup>

13% of renters who had moved following the LHA reforms had been homeless at some point in the last year, equivalent to 20,000 households.<sup>41</sup> The rise in homelessness because of the end of private tenancies was particularly noticeable in London.

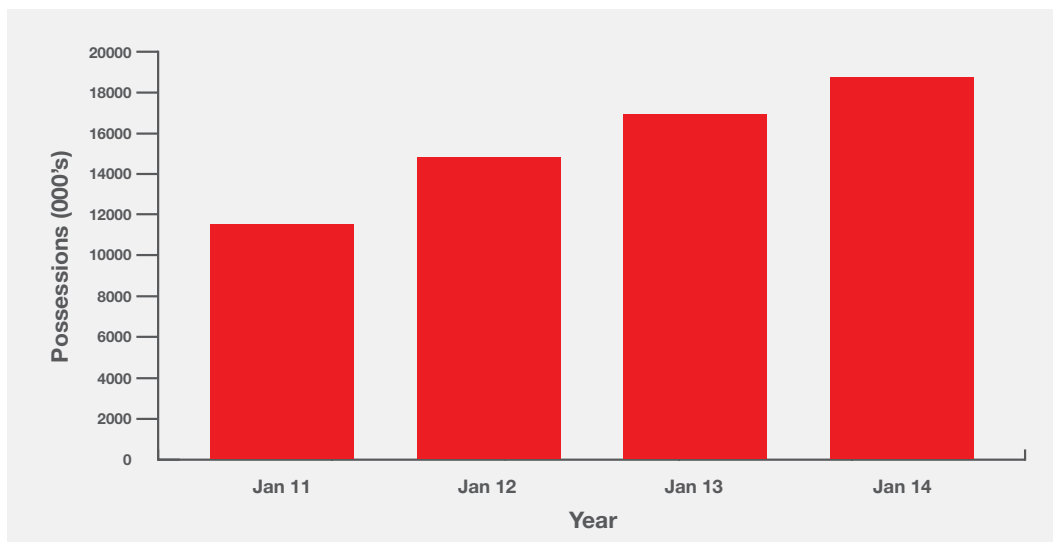
### Moving into work

One of the stated objectives of LHA is to move people into work. In practice, LHA reforms did not lead to a significant increase in employment. This may reflect that 39% of households receiving housing benefit are already in work. People getting LHA may also be on other benefits where there is no expectation that they work – for example, income support or employment and support allowance.

### Proportion of homeless households made homeless due to the ending of a private tenancy



### Private landlord possessions (2011–2014)



40. DCLG Homelessness statistics

41. DWP (2014) The impact of changes to the Local Housing Allowance in the private rented sector: the response of tenants London: DWP page 126.

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# WHAT DOES THE FUTURE HOLD?

## Case study: Juliette, London

'I worry continuously about my soaring rent taking me away'

## Case study:<sup>42</sup> Gemma, Haringey

'It's very scary...if you live somewhere and there's going to be a rent increase...then what do you do?'

If LHA rates are frozen at 2015 levels for two years, more renters will face shortfalls and struggle to find affordable accommodation:

- By 2017 there will only be a handful of areas where the cheapest 30th percentile of properties for rent are within LHA rates. By this measure only 6% of England will be 'affordable' to renters in receipt of LHA. All will be in areas with low employment and far from employment growth in London and the South East.
- By 2017 in more than twenty areas LHA will cover the rent of less than 1 in 10 properties for rent. These include areas in London, Manchester, and the East of England.

Renting households on housing benefit are already in a financially precarious position, and are concerned about their ability to carry on finding rent payments and deal with income shocks in the future. The widening gap between LHA rates and rents could have significant effects:

- Renters may find it difficult to pay their rent if they face a greater shortfall, even if they have managed their rent payments to date.
- Renters that have adopted short-term strategies to manage their rent payment and keep hold of their accommodation may be particularly at risk if their shortfall increases or they face a further income shock.
- Renters who cannot meet their shortfall may move into arrears and have to find somewhere else to live.
- The current renting climate and additional financial barriers faced by renters on housing benefit may mean that renters find it difficult to secure a new tenancy independently.
- Renters who cannot find and access a tenancy independently may have no choice but to approach the council as homeless. The growing proportion of homeless cases caused by the end of a private tenancy are likely to continue to rise.

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42. GFK (2014) The experiences of families claiming housing benefit during a time of cuts and changes to housing benefit, page 28.

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struggling with bad housing or homelessness –  
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