The introduction of the LHA cap to the social rented sector: **impact on young people in Scotland**

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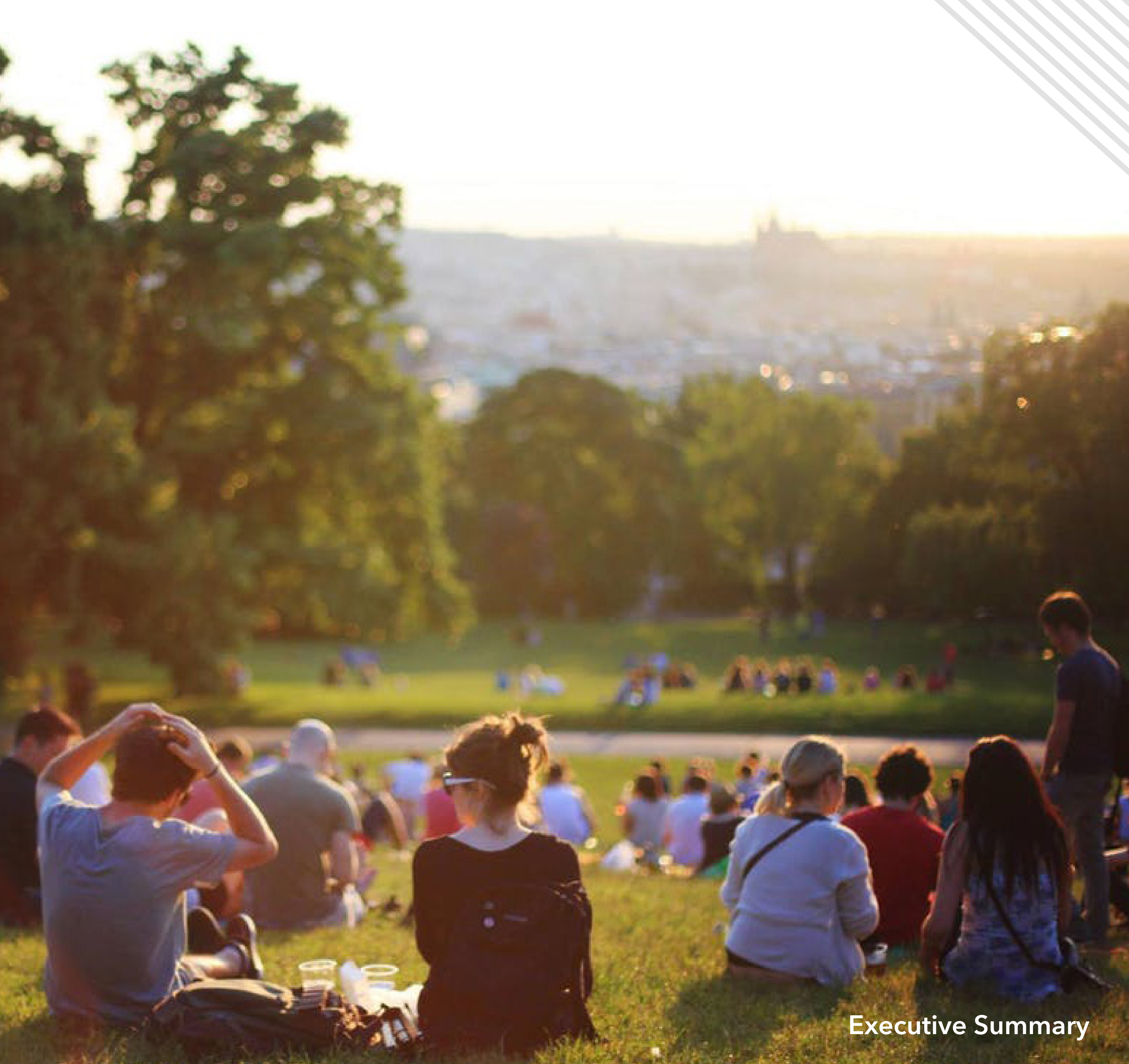

Executive Summary

About the research

This research was commissioned by CIH Scotland in partnership with the Scottish Government and was conducted by the Indigo House Group. The research seeks to improve our understanding of the potential impact that introducing a Local Housing Allowance (LHA) cap to the social rented sector will have on single tenants under the age of 35 living in social housing in Scotland. This executive summary outlines the findings from the research, including an estimate of the number of young people who could be affected, the financial shortfalls that could arise and a number of actions that could be taken by local authorities, social landlords and the Scottish Government to mitigate the impacts or support those who are affected.

This executive summary sets out broad estimates and while the main report does indicate the expected impacts at a local authority level, individual landlords must conduct their own detailed analysis to understand the likely impact on their own tenants and future tenants. We also urge landlords to start exploring different mitigation options and considering how they can best provide affordable housing and services for young people going forward.

The commissioners and researchers would like to thank the landlords and staff who took part in interviews and provided data and case studies as part of the research and the organisations that contributed their expertise to the stakeholder group:

Scottish Federation of Housing Associations (SFHA)

Crisis

Shelter Scotland

Glasgow and West of Scotland Forum of Housing Associations (GWSF)

Association of Local Authority Chief Housing Officers (ALACHO)

Executive Summary

This research seeks to improve understanding of the impact that the introduction of Local Housing Allowance (LHA) caps will have on single people aged under 35 in the social rented sector (SRS) in Scotland. The research has estimated the likely financial impact of the LHA cap on social landlords which is set out in this summary. The full report[1] includes a more detailed indication of the geographical spread of impacts across Scotland. The work has explored with Scottish local authorities and Registered Social Landlords (RSLs) potential arrangements to mitigate against the impact of the LHA restrictions, for example through information and advice, rent restructuring, shared social tenancies, Discretionary Housing Payments (DHPs), exemption or other measures.

Key findings

The UK Government proposal to cap Housing Benefit (or the housing element of Universal Credit) at LHA rates could have a significant impact on young social tenants or prospective social tenants in Scotland.

It is estimated that around 12,000 single tenants under the age of 35 living in mainstream social housing will be affected by the proposals.

The likely financial shortfall for this group of tenants would be between £5.3m and £8.6m per year based on 2015/16 figures. This is the estimated gap between current Housing Benefit and the future LHA rates for single people aged under 35.

It is estimated that there are a further 2,580 single tenants under the age of 35 living in supported accommodation who could be affected.

If all single tenants under the age of 35, including those living in supported accommodation, are taken into account, the total likely financial shortfall could be up to £28.6m per year. **However, it must be noted that tenants living in supported accommodation are likely to receive some financial mitigation or exemptions from the cap although it is not yet clear whether this will fully negate the shortfall.**

There are actions that can be taken by local authorities, social landlords and the Scottish Government to mitigate against the impact of these proposals and these should be considered now in order to prepare for implementation of the cap from 2019.

[1] Available on the CIH Scotland website: **www.cih.org/scotland**

Since October 2015 the UK Government has made various proposals and amendments to cap Housing Benefit (or the housing element of Universal Credit) for all social housing tenants at LHA rates, including supported and temporary accommodation. This will bring payments for social housing tenants in line with private rented sector (PRS) tenants. No legislation has yet been introduced but the proposals as they currently stand are:

- The LHA cap applies to the property size being rented, except for single people under 35 where the cap is set at the Shared Accommodation Rate (SAR), unless an exemption applies.
- The LHA cap will apply to all tenants (existing and new) claiming Universal Credit from April 2019. It will also apply to existing Housing Benefit claimants who signed a tenancy from April 2016.
- People claiming Housing Benefit pre-April 2016, and moving to Universal Credit after April 2019 will receive transitional cash protection.
- Additional funds are to be made available for supported housing to cover costs above LHA rates. The 'Supported Accommodation Fund' will be disbursed to local authorities in England and devolved administrations in Scotland and Wales.

Based on experience from welfare reform already implemented, and the LHA cap in the PRS, we can expect that the LHA cap for under 35s will place significant pressure on household budgets, creating a rent affordability gap. Some tenants may respond by seeking to move, or will not take up offers of a new social rented tenancy. We can expect fewer alternative options than were available for those affected by the removal of the spare room subsidy[2], otherwise known as the 'Bedroom Tax', due to the lack of suitably sized accommodation. Other tenants will not be able, or may not wish to move, and will seek to cope with the affordability gap through financial, budgeting or employment responses.

Estimates of the financial impact of the under 35s LHA cap have been generated in two ways:

- Using Department for Work and Pensions (DWP) claimant data by local authority on banded awards received by young Housing Benefit recipients (in 2015/16) compared to the SAR – **this produces an annual estimated rent gap across Scotland of £28.6m.** This method covers all tenants in receipt of Housing Benefit, including those in temporary and supported accommodation for which some financial mitigation will be available.
- Calculating the difference between average rents by property size by individual landlord from the Annual Return on the Charter (ARC 2015/16)[3] and comparing this with the SAR for the estimated tenants that are aged under 35 for that area produces an annual estimated rent gap of £8.6m. This covers all social tenants under 35 years in lettable, self-contained accommodation as recorded in the ARC. This may include some temporary and supported accommodation depending on how landlords record their data but is likely to be a much closer estimate of what the impact will be for tenants who are living in 'mainstream' accommodation.

The reason for the considerable difference between £28.6m 'unadjusted' DWP estimate and the £8.6m ARC-based estimate is that the £28.6m estimate will include some supported or temporary accommodation and their service charges not recorded on ARC. Temporary and supported accommodation rents in stock not covered by ARC (e.g. hostels) may be higher than average and service charges can be applied which are covered by Housing Benefit and will be included in the £28.6m. We would expect that some of these costs will be

[2] https://www.gov.uk/government/collections/local-authorities-removal-of-the-spare-room-subsidy
[3] ARC https://www.scottishhousingregulator.gov.uk/publications/charter-data-all-social-landlords

covered by exemptions or the Supported Accommodation Fund. However, there is no certainty about this fund, and the extent to which it will cover temporary accommodation.

If we discount Housing Benefit awards of more than £120 per week (which are more likely to be for temporary accommodation) the estimated rent gap from DWP awards is just £5.3m a year. However, at this stage it is not clear to what extent temporary accommodation will be exempt.

Overall, the estimate of the impact of the policy on mainstream tenants, based on current rents and the full impact of the policy is between £5.3m to £8.6m. Assuming rents continue to rise, and LHA rates remain frozen the impact is likely to be higher in 2019/20 and will continue to increase.

Data from DWP awards suggests that over half of young social tenants on Housing Benefit might be affected - around 14,400 tenants. Approximately 2,580 of these tenants may be in temporary accommodation, based on having an award of more than £120 per week.

That means around 12,000 mainstream tenants would be expected to be affected by the capping of Housing Benefit at the SAR.

Of course, transitional arrangements are in place and mean that we would not expect the full impact of the policy to affect all these tenants in April 2019. There will be a transition to the policy as more young people enter new tenancies or migrate onto Universal Credit, but mobility rates are high among young social renters on Housing Benefit, so the period of transition should be swift.

We would also expect there to be overlap between affected tenants, and those currently receiving DHPs for the impact of the 'Bedroom Tax'. The current estimated level of under occupancy mitigation for young social tenants (£4.7m) is a significant share of the likely impact of the SAR cap (£5.3m-£8.6m) but the gap between the current level of mitigation and the future impact of the SAR will grow considerably over the coming years.

There is a concentration of younger benefit claimants in cities and in larger local authorities, with 18% of all those aged under 35 on Housing Benefit in Scotland living in Glasgow, 9% live in Edinburgh, 7% in Fife, 6% in North Lanarkshire, whereas less than 1% of under 35 year old claimants live in each of the Island authorities.

There is a considerable range in the SAR for under 35s in Scotland depending on the local market from £56.96 per week in the lowest priced areas to £75.63 in the highest. Landlords and tenants most at risk from the impact of the LHA cap for under 35s are those with rents above or those very close to the SAR rate. Landlords with fewer smaller properties will also be at greater financial risk.

Comparing average rents for all property sizes and the SAR, it is estimated that:

- One in three social landlords in Scotland have 1-apartment stock (bedsits/studios) with a rent that is above the SAR; two in three social landlords in Scotland with 2-apartment (1 bed) stock have rent that is above the SAR, and four out of five social landlords in Scotland has an average 3-apartment (2 bed) stock with rent that is above the SAR.
- RSLs typically have higher rents than local authorities and will be affected more severely. Across both sectors, the average rent of a 1-apartment (bedsit/studio) property is below the SAR (by £2.03 a week) but RSL rents are much closer to the SAR (just £0.80 below the SAR), compared with local authorities (with an average 1-apartment (bedsit/studio) rent of £6.51 less than the SAR).
- On average, local authority 2-apartment (1 bed) rents are £1.15 lower than the SAR, while RSL 2-apartment (1 bed) properties are £7.87 a week higher than the SAR. The gap is even wider for the 3-apartment (2 bed) stock, with an average local authority rent of £4.27 more per week than the SAR, compared with £12.44 a week on average for RSLs.

Arrangements to mitigate against the impacts of welfare reform in Scotland to date have been use of Scottish Government mitigation funds through DHPs and strengthening in income collection approaches, income maximisation services and general welfare advice and support, including employability advice. Discussions with landlords indicated that there is little appetite to use rent restructuring or allocation policies to mitigate against the LHA cap. This research has shown that Scottish social landlords generally are not changing their welfare reform mitigation approaches as a direct result of the LHA cap, and generally it is likely to be 'more of the same'. There is a hope for more Scottish Government intervention, but a realism amongst most landlords that this unlikely to materialise in the public finance context.

This research has found there to be generally poor intelligence on the number of likely tenants affected known by individual landlord, but there is a sense that this is because of the delayed timescales for implementation and due to more pressing issues, specifically the roll out of Universal Credit and coping with its impacts on tenants. That is not to say the data cannot be collected and analysed by individual landlords, but that it is not a priority at this point in time.

One option for mitigation against the SAR is to promote and develop shared accommodation in the social housing sector. Previous experience of shared accommodation in the social housing sector has been explored and consultation with Scottish landlords on their current experience and perception of shared accommodation has been undertaken. Case study examples from across Scotland are provided in the main report. In terms of perceptions of this potential housing option, there were generally concerns amongst professionals about this model around lack of demand for sharing, risks in matching, support requirements, and the level of resource required to ensure success. Potential advantages are seen as affordability, a means of providing mutual support, and providing an additional housing option where demand and supply allows.

No examples came forward for shared accommodation in the mainstream SRS in Scotland and all but one were examples of pilots being tested in the local authority temporary accommodation sector, with one in the PRS. The objectives were not necessarily around providing more affordable accommodation, but about extending the housing options for young single, homeless or potentially homeless people. From the limited evidence available for this study, there are signs of positive outcomes for some people, where strong bonds are made with flat mates who then continue to have a long term house sharing relationship. There are also examples of less successful relationships and the requirement to find alternative 'matches' which is more difficult when there is an existing, resident tenant.

In terms of using shared accommodation as a mitigation option against the pending LHA cap for social housing for under 35s, policy makers, influencers and landlords should consider the following:

- **Proof of concept** – This housing option is in its infancy in the SRS and based on consultation across over 50 landlords there are some negative perceptions to be overcome. Evaluations of ongoing pilots should clearly demonstrate the range of outcomes achieved and costs to landlords against the alternative in mainstream social housing, including the cost of tenancy failure and sustainability. This should help overcome existing negative perceptions around sharing in the social sector.
- **Scaling up** - If it is proven that this housing option can provide better outcomes and better value for money, it needs to be scaled up. In Scotland, there currently appears to be a focus on temporary accommodation for sharing. How can lessons learned from these pilots be transferred to mainstream social housing and what support and enabling infrastructure (training and dissemination of good practice) is required from Scottish Government and other influencers to encourage such a move?
- **Creating tenant demand and culture change** – This work shows that it is not the culture to share in the SRS. This is felt by tenants and landlords. This may simply be due to historical lack of choice of this option in this sector. It will take development of a variety of models which create demand from young people, combined with marketing and promotion and strong management to support change in this culture, which will take some time. In rural areas, where sharing is less common in any tenure this may be more challenging.
- **Affordability** – It is notable that several of the pilots considered were not all designed around ensuring rents were affordable in the context of the LHA cap and SAR. Going forward this will need to be an imperative to support tenancy sustainability.

About CIH

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About Indigo House Group

The Indigo House Group is a collaborative consultancy, providing end to end housing, regeneration and social inclusion consultancy services from diagnosis and research, strategy development, business planning, organisational development and change management. We work with a wider network of specialist consultants, and together we offer an unrivalled range and depth of integrated services. The authors of this LHA cap research are Anna Evans, Mandy Littlewood and Nick Hopkins.

For more on Indigo's work see **http://indigohousegroup.com/**, or contact **hello@indigohousegroup.com**.