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

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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 report 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 report sets out broad estimates and while it 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)

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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 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.

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[1], 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)[2] and comparing this with the SAR rate 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 covered by exemptions or the Supported Accommodation Fund. However, there is no certainty about this

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

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 SRS. Previous experience of shared accommodation in the SRS 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.

1. Introduction

1.1 Research aims

The research seeks to improve understanding of the impact that the introduction of LHA caps to the SRS will have on single young people aged under 35 living in Scotland and to explore the options for mitigation activity that can be carried out by the housing sector and supported by the Scottish Government.

The research aims to:

- Provide a robust assessment of the likely impact of the LHA cap on young people.
- Consider the geographical spread of impacts across Scotland.
- Examine the likely financial impact for landlords and tenants as a result of the shortfall between current rental costs and LHA rates among accommodation of different types.
- Explore the potential to mitigate the impact of LHA restrictions, through shared social tenancies, DHPs, rent re-structuring, exemption or other measures.
- Consider the likely outcomes if appropriate mitigation action is not taken.

The research methodology involved:

- Literature review to provide context to the changes, and guide later qualitative discussions with landlords.
- Secondary data analysis on the potential impact of the LHA cap in the SRS – analysis of several different data sources was undertaken. This included DWP Housing Benefit claimant data (on the number and banded awards to young people in the SRS) and ARC data (on the average rents of properties of different sizes). Scottish Household Survey data was also used to compile a four year dataset (2012-2015) to analyse the characteristics of potentially affected tenants. Finally, SCORE data (used for recording new RSL lets until 2014-15) was analysed to provide insights on the characteristics of new tenants. Data is also presented on temporary accommodation costs from recent research to help refine the estimates.
- Individual qualitative research with 17 landlords - eight Scottish local authorities and nine RSLs to explore landlords' preparedness for the change, mitigation plans, and approach in respect of temporary accommodation. A detailed topic guide was agreed with the steering group in advance of interviews. In addition, focus groups were held with approximately 40 landlord representatives at the SFHA Housing Management conference which included RSLs and local authorities.
- Case studies providing examples of mitigation strategies and sharing accommodation approaches from different landlords, including local authorities and RSLs.
- Nine of the landlords involved in the case study research also provided intelligence based on their current tenants to provide insights into the potential scale of the rent gap faced by young social tenants on Housing Benefit.

Limitations

There are a number of caveats to the methodology and the results presented that are important to take account of while reading the report.

- During the life of the research project, it was hoped that the research team would be able to access case level data on awards from the Single Housing Benefit Extract (SHBE) data with help from the DWP. The research team was unable to secure this data from the DWP, despite numerous direct approaches to the DWP and requests through Scottish Government. This means that the analysis relies on data on banded Housing Benefit caseload amounts. It should be an ongoing priority for the Scottish Government to try and secure case level data in order to refine the estimates presented here.
- Similarly, the analysis of the ARC data is based on average rents across the stock. This inevitably produces a broad estimate that will disguise the impacts of very high or very low rents across the stock. It is also not possible to isolate which properties across the stock of what size are specialist provision that would not be occupied by younger households.
- Case studies from landlords indicate that landlords currently have access to a varying level of detailed information about their tenants' characteristics and their reliance on Housing Benefit. It is not currently possible to collect consistent, large-scale, case level data directly from social landlords that would provide a finer-grained estimate of the likely impacts on young people of the LHA cap.
- The 'adjusted roll-out' of the policy means that tenants are migrating from Housing Benefit onto Universal Credit, which occurs as new tenancies are taken up from April 2016. This means that it takes some time for the envisaged savings of the policy to emerge, from 2019-2020 onwards. The estimates here are based on current tenants and the full impact of the policy, which will not be felt until then.

2. Evolution of the proposed LHA Cap in the social rented sector

The introduction of LHA caps to the SRS is the latest in a series of changes to the UK and Scottish welfare system. It follows changes such as the introduction of the 'Bedroom Tax', and reductions and freezes in the rates of LHA paid to those in the PRS, and broader changes such as the introduction of Universal Credit, Employment and Support Allowance and Personal Independence Payment, and the benefit freeze.

2.1 The evolution of the proposed changes

The proposal to cap Housing Benefit or the housing element of Universal Credit for all social housing tenants at LHA rates was announced in the UK Government's Autumn Statement and Spending Review on 25 November 2015.

The LHA cap to social rents is to be applied to the property size being rented, except for single people under 35 (the focus of this research), where the cap is set at the SAR, unless exemptions apply.

The original proposal was that the cap was to apply to all social housing, including supported accommodation for vulnerable people such as those fleeing domestic violence, homeless people, older people and those who need extra support to live independently. It was to apply from 1 April 2018, to all tenants signing a tenancy agreement on or after 1 April 2016.

In the context of the Government's overall drive to cut public spending, the then Chancellor was explicit about the dual rationale for the change; a leveling down of support available to social rented tenants to match the situation facing private sector counterparts, and controlling the level of rents charged by social rented landlords[3]:

> *'Housing Benefit will no longer fully subsidise families who live in social houses that many working families cannot afford, and will better align the rules in the private and social rented sectors. It will also ensure that Housing Benefit costs are better controlled and will stop social landlords charging inflated rent for their properties'*

No legislation has yet been introduced relating to the proposed changes, and the initial proposals were subject to further modifications in written statements to the Commons and Lords from the DWP on 21 November 2016[4] . These modifications were:

- The caps were not to be introduced until 1 April 2019.
- Reflecting the concerns of the housing sector about the initial proposal, the UK Government published a consultation document[5], on a new model for the funding of supported housing. The statement commits the UK Government to ensuring that core rent and service charges will continue to be funded through Housing Benefit or Universal Credit up to the level of the applicable LHA rate, with costs above that being met by money disbursed to local authorities in England and to devolved administrations in Scotland and Wales. In the Spring Statement in 2017[6] there was £10m of provision in 2018-2019 for exemptions and a further £310m for 'adjusted roll-out and the Supported Accommodation Fund'.
- In order 'To ensure simplicity and a streamlined process', all tenants on Universal Credit, whether existing or new, will have the LHA cap applied to their award. Anyone migrated from Housing

3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf
4 http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-11-21/HCWS273/
5 https://www.gov.uk/government/consultations/funding-for-supported-housing
6 https://www.gov.uk/government/publications/spring-budget-2017-documents

Benefit to Universal Credit without a change of circumstances after April 2019 will receive transitional protection in cash terms. This is to be paid until Universal Credit increases to the amount the recipient would previously have been entitled to, or until they have a change of circumstances, when transitional protection ends[7].

It is expected that there will be a significant number of exemptions to the application of the LHA caps, reflecting those applied to people in the PRS. Single people under the age of 35 are currently exempt from being restricted to the SAR in the PRS if they are:

- In receipt of the disability premium on Housing Benefit.
- In receipt of Disability Living Allowance, middle rate care component, or Daily Living component of Personal Independence Payment.
- Under 22 and are a care leaver or the local authority has been responsible for them after the age of 16.
- Under 22 and provided with accommodation by the local authority under a specified process.
- In need of overnight care.
- At least 25 and been living in a homeless hostel for at least three months.
- An ex offender and subject to specific residence protection oversight.

For single tenants under 35, the change may therefore affect:

- Existing tenants claiming Housing Benefit or Universal Credit who signed a tenancy after April 2016.
- New or potential tenants claiming Housing Benefit or Universal Credit who have signed or are considering signing a tenancy after April 2019.
- Pre 2016 tenants claiming the housing element of Universal Credit but protected in cash terms.
- Existing pre 2016 tenants moving from Housing Benefit to Universal Credit before April 2019, for whom it is ambiguous whether they will receive protection in cash terms after April 2019.

7 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181344/ucpbn-transitional-protection.pdf

3. Literature review: lessons from welfare reform so far

In this section, we consider what lessons can be learned from welfare reforms already implemented. The impact of the 'Bedroom Tax' and previous LHA changes on tenants and landlords, and other stakeholders' responses are considered. We set out key findings from literature relating to:

- The impact of changes on tenants, and their behavioural responses.
- The impact on social landlords, and their responses.
- Potential mitigation responses to the SAR cap from social landlords and the Scottish Government.

Key themes from this section supported the development of topic guides for the qualitative interviews with RSLs and local authorities reported in section five.

3.1 Impact on tenants and behavioural responses

Increased financial pressure on tenants

The introduction of the 'Bedroom Tax' (pre mitigation in Scotland), changes to LHA rates and broader welfare reforms have placed significant financial pressures on tenants' household budgets and their ability to afford their rent. As a result of these measures, tenants have faced increased:

- Arrears and difficulties paying rent (although the impact may have been less on tenants affected by LHA changes).
- Risk of not sustaining tenancies as landlords issue Notices of Proceedings (NOPs) and increase evictions.
- Risk of running short of money at the end of payment periods.
- Household debt.
- Levels of stress and concern about finances and tenancies[8][9][10].

Tenant responses to affordability gaps

Tenants can respond to the affordability gap they face as a result of benefit changes by seeking to move to cheaper, alternative accommodation.

The experience of tenants affected by the 'Bedroom Tax' and LHA changes suggests that most do not. Other factors such as the availability of alternative accommodation, or their prioritising of other needs and desires such as attachment to their home or wish to avoid costs or family disruption associated with moving, lead to most affected tenants staying in their current home[11][12][13].

However, significantly more considered moving without progressing to do so, a possible indication of frustrated wishes, or needs. Some PRS tenants affected by the LHA changes have looked towards the SRS, whilst some SRS tenants affected by the 'Bedroom Tax' have made the opposite move into the PRS.

Those under 35 and affected by the introduction of the SAR in the PRS were found in the DWP's research to be more likely to have moved and homelessness agencies report a strong sense that some of the people they are working with have 'gone off the radar',

8 Welfare Reform Impact Assessment' NHF 2015
9 Beatty, C et al 'The Impact of Recent Reforms to Local Housing Allowances, Summary of Key Findings' DWP 2014
10 Power, A et al 'The Impact of Welfare Reform on Social Landlords and Tenants' JRF 2014
11 Power et al 'bid
12 Beatty, C et al ibid
13 Welfare Reform Impact Assessment' NHF 2015

including shifting to 'sofa surfing'.

Tenants may also respond to an affordability gap by changing their spending, or seeking to increase their income through employment.

Tenants affected by the 'Bedroom Tax' or LHA reductions in England where it has not been mitigated appear to have responded similarly, with those responses underpinned by a widespread firm belief in the importance of paying the rent as a priority[14][15][16]. Tenants have reduced spending on household essentials, including cutting back on energy use, eating cheaper meals or skipping meals, getting rid of broadband or phones, not paying TV license fees, buying more second hand clothes or goods and selling possessions. Tenants have also increased borrowing, including from family members. Some tenants have used or were considering using foodbanks.

Only a small proportion of tenants affected by the LHA reductions appeared to have responded to the work incentive created by seeking to access employment, or seeking an increase in hours, additional or better paid employment[17].

3.2 Consequences and responses from landlords and local authorities

LHA changes have impacted negatively on PRS landlords, with about half reporting that their arrears have increased. Landlords' responses to increased pressure on their finances have included increased reluctance to let to benefit claimants, changes to their letting strategies, including no longer letting to under 35s, and making moves to evict tenants or end tenancies[18].

Local authorities have also felt pressure with an almost universal experience of finding it more difficult to place homeless households in the PRS when discharging their homelessness function[19].

Social landlords' experiences as a result of the 'Bedroom Tax' (pre-mitigation in Scotland) are similar, with an impact across their range of activities. Landlords have seen increases in unlet properties, particularly large, flatted properties unpopular with families, in refusal of offers, including to homeless families, by potential tenants concerned by affordability, and in relet times. Landlords report less flexibility over allocations. Local authorities report more difficulty in fulfilling their homelessness duties, and landlords more difficulty in providing appropriate offers to homeless households[20][21].

Social landlords' responses have been similarly wide ranging. They include changing allocation policies, making more lets to transfer applicants and encouraging exchanges. Research conducted

14 Power, A et al 'The Impact of Welfare Reform on Social Landlords and Tenants' JRF 2014
15 Beatty, C et al 'The Impact of Recent Reforms to Local Housing Allowances, Summary of Key Findings' DWP 2014
16 NHF 2015 ibid
17 Beatty, C et al ibid
18 Beatty, C et al ibid
19 Beatty, C et al ibid
20 'The Impact of the Bedroom Tax on Stock Management by Social Landlords' SHBVN CIH, March 2014
21 'Welfare Reform Impact Assessment' NHF 2015.

in England where the 'Bedroom Tax' has not been mitigated has suggested stricter assessment by landlords of ability to pay. Some respondents to Scottish research suggested that in the period before mitigation they ceased to make offers to people who would be affected. Other landlord responses included more proactive arrears management, work around financial inclusion, energy advice, access to humanitarian support through foodbanks, and employability, and the provision of more intensive support.

Business planning has also been affected. Some social landlords in England have amended development plans to include more one bedroom housing and some report increasing the allowance for bad debt.

The literature suggests that social landlords' efforts at mitigation have resulted in lower than expected rises in arrears as a result of the 'Bedroom Tax'.

3.3 Potential mitigation activities

The Scottish Government, local authorities, social landlords and other stakeholders face the challenge of developing mitigation responses to the introduction of the SAR in a context in which there is significant variation in the way different tenants will be treated under its introduction - due to the introduction of the cap's phasing, different personal circumstances, and potential exemptions. This should be considered in the context of limited alternative accommodation options, as evidenced through the 'Bedroom Tax' which showed the limited move-on options to smaller property.

Mitigation through Scottish Government mechanisms

Considering the way that Scottish Government responded to the 'Bedroom Tax' it may decide to fully or partially mitigate the introduction of the LHA caps through DHPs, or another mechanism as provided for under the Scotland Act 2016.

The next chapter provides some sense of the costs involved in any commitment to full mitigation (not including any additional administrative costs). Those mitigation costs would continue to grow for as long as LHA rates are frozen or raised at a rate lower than rents. Partial financial mitigation might involve:

- Providing the same level of partial support to everyone affected.
- Creating additional exemption criteria, by providing higher or full levels of support to particular groups who are least likely to benefit from other mitigation activity, or who are most vulnerable.
- Targeting mitigation resources at tenants identified as vulnerable but who will not qualify for an exemption under current LHA rules, or at particular groups who might struggle with alternatives such as shared housing, for example women fleeing domestic violence, or single parents with non resident children.
- Varying the level of mitigation support by age, for example targeting it at under 25s who have very low incomes, due to lower Jobseekers Allowance and lower paid work.
- Using the targeting of mitigating resources to support other policy goals, for example giving people higher levels of support in the period immediately after the loss of employment to prevent a financial shock triggering household debt.

Partial mitigation is clearly more complex than the full mitigation used in relation to the 'Bedroom Tax', and costing would be complex, and require access to DWP and landlord data.

Use of shared housing

Several organisations have explored possibilities around encouraging sharing homes in response to the proposed changes. The limited relevant literature on sharing (there is more focused on students and young professionals) suggests concerns about sharing amongst both tenants and landlords but also points to some success in projects that have sought to promote different approaches to sharing.

Sharing appears to be a preferred option for only a small number of younger tenants, even for those currently sharing and is less popular amongst women and people aged 30-35. There appears to be a lack of culture of sharing amongst young people likely to access the SRS.

Young people reported concerns about:

- Who they shared with, particularly issues in sharing with strangers.
- Being forced into sharing rather than having a choice.
- The need for checks on housemates.
- Fears about security and safety - particularly in relation to issues like drugs and violence.

Young people who have come from a background of supported accommodation may be particularly concerned about these issues[22].

Social rented landlords may have a number of concerns about how they manage shared tenancies, including:

- The management burden involved.
- The potential for high levels of tenancy turnover and rent arrears.
- The availability of appropriate accommodation.
- The transferability of models from the PRS.
- Risks, including reputational risks.
- Management issues around antisocial behaviour[23 24 25]

The choice of tenancy legal forms for landlords considering shared approaches requires consideration, with both joint and separate tenancies offering different advantages and disadvantages to landlords and tenants in terms of control, choice and risk.

Several different models for shared tenancies have been explored through pilots [26 27 28 29 30]. Successes include:

- Training and support tenancies, which may be effective for people with little experience of

22 Clarke, A and Heywood, N, 'Feasibility Study of the Prospect of Developing a Viable Housing Model for Those Entitled Only to Access the Shared Accommodation Rate' CHC and WLGA, 2016
23 Clarke, A and Heywood N, ibid
24 Sanders, B, and Dobie, S 'Sharing in Scotland, Supporting Young People who are Homeless on the Shared Accommodation Rate' Crisis, 2015
25 Batty, E et al 'Evaluation of the Sharing Solutions Programme' CRISIS, 2015
26 Clarke, A and Heywood, N, 'Feasibility Study of the Prospect of Developing a Viable Housing Model for Those Entitled Only to Access the Shared Accommodation Rate' CHC and WLGA, 2016
27 Batty, E et al 'Evaluation of the Sharing Solutions Programme' CRISIS, 2015.
28 Weslowicz, E and Dewison, N
29 Sanders, B, and Dobie, S 'Sharing in Scotland, Supporting Young People who are Homeless on the Shared Accommodation Rate' Crisis, 2015
30 Annual Report, Creating Successful Tenancies' Crisis, 2016

independent living or sharing.

- Lodger schemes, some of which were attempted by social landlords seeking to mitigate the impact of the 'Bedroom Tax' and may be an appropriate short term option for working people.
- Tenant matching schemes, which can be used both to put together new households and to replace existing tenants, using various combinations of face to face meetings and questionnaires and which give tenants the final say on housemates.
- Schemes for single parents, generally fathers, with non resident children, which can overcome issues and concerns around aspiration, lack of experience of living in shared accommodation, and safety.
- Peer mentoring or lead tenant schemes, which involve co-tenants or peers of those in shared accommodation bringing their own skills and experience to bear on improving tenancy sustainment once a tenancy has begun, or at the pre tenancy stage.

There are clear cross cutting practical lessons relating to these models, found from literature:

- Shared housing models are not usually appropriate for vulnerable tenants, including those with mental health problems, those with addiction issues and those fleeing violence.
- Living together with unrelated people creates the requirements for additional support as tenants learn to share.
- Three may be the magic number for success and there is no appetite from tenants or landlords for large scale hostel or HMO accommodation.
- Work to match tenants appropriately is essential, as is maximising tenant choice within inevitable constraints, taking into account their lifestyle and preferences.
- There must be sufficient investment in support and training of tenants and of others involved, such as lodgers or lead tenants, and ongoing engagement from housing staff.
- Work is required to sell the idea of sharing to tenants, dealing with the myths and realities involved in sharing, and shifting ingrained expectations, with realism about the speed with which success can be achieved and about the extent to which such schemes might be expanded.
- There should be clarity about the financial realities for all involved. Any scheme to manage shared housing carries resource implications which should be planned for. Costs may be recoverable by landlords by using separate individual tenancies and charging an increased total rent on a property let to a number of tenants in receipt of SAR.
- There may also be savings against counterfactual scenarios – tracking the whole cost of tenancy failure in mainstream social tenancies (including the cost to social landlords and to local authorities through homelessness), versus a shared accommodation model. No evidence has been found of this comparison and there is potential to undertake detailed evaluation to capture these differences.
- Tenants should always be able to choose to share or not, and tenant autonomy and independence should be respected. It should be remembered that households living unwillingly as part of other households are homeless.

Arrears management, financial inclusion and employability advice

Improvements to arrears management involving models for shifting to earlier, more proactive, more intensive and more targeted interventions, offer a further route to mitigating the impact of the LHA caps.

Landlords can increase tenants' disposable incomes through maximising their income and reducing their outgoings on debt. Benefits, money and debt advice may be delivered directly, or through a partner organisation, to tenants identified and referred by front line staff. Maximising benefit income may have a further specific role if claiming of disability related benefits is used as a criterion for being exempt from the LHA caps.

Benefits advice does have limits as many tenants hit by the caps will already have their benefit income maximised. Landlords can then seek to reduce outgoings by targeting The 'Poverty Premium' faced by many tenants, that is the tendency for people on low incomes to pay more for basic goods and services than those on higher incomes, a premium that can be as much as £1,200 per year[31]. Even if the average figure is lower for single tenants, social landlords determined to help their tenants save as little as £5 or £10 a week through accessing cheaper fuel and credit might help close the affordability gap they face[32].

Disposable incomes can also be increased by encouraging or supporting tenants to move into work. Social landlords can successfully promote employability amongst tenants in a variety of ways, including through:

- Direct funding of community education, training and employability activity.
- Promotion of education, training and employment activities to tenants.
- Provision of training.
- Offering of placements or apprenticeships within the organisation.
- Encouraging contractors to employ local people[33].

This range of mitigation methods found through the experience of welfare reform to date, and the potential to which they are considered to bring further mitigation opportunities against the LHA cap was explored with RSLs and local authorities and the findings are set out in section five.

31 'The UK Poverty Rip Off: The Poverty Premium 2010' Save the Children, 2011
32 'Welfare Rights and Wrongs: A Good Practice Guide to Welfare Reform' SFHA 2013.
33 Gardiner, L and Simmonds, D 'Housing providers' approaches to tackling worklessness Assessing value and Impact' HACT 2012.

4. The likely financial impact of LHA cap for young people

4.1 Introduction

Increased financial pressure on tenants

This section provides statistical analysis of the potential impacts of the LHA cap for young people in social rented housing. The analysis presents high-level data on the intended impacts of the policy from the DWP and then presents estimates based on (1) DWP Housing Benefit claimant data (on the number and banded awards to young people in the SRS) and (2) ARC data (on the average rents of properties of different sizes).

The Scottish Household Survey data is also used to analyse the characteristics of potentially affected tenants. Finally, SCORE data (used for recording new RSL lets until 2014-15) was analysed to provide insights on the characteristics of new tenants.

The section is summarised to show the overall estimates of the policy impacts, with more detail on methods in Annex 1.

As highlighted in the introduction, there are a number of **caveats to the methods** deployed in arriving at the estimates. Banded claimant amount information from the DWP and average rent figures from the ARC data has been used, which may dampen the estimated impacts. This is due to the fact that case level data was not provided by DWP. In addition, it has not been possible to separate out the total number of specialist properties by size and type to refine the estimate (to exclude properties not likely to be occupied by young tenants).

4.2 DWP estimates of the impact of the policy

Within the 2016 Spring Statement, the DWP provides estimates of the likely savings arising out of the policy to limit rents to LHA levels. The savings from limiting Housing Benefit to LHA-level rents are summarised below.

Table 1: Projected savings across time, extract from Spring Statement 2017

		2017-18	2018-19	2019-20	2020-21	2021-22
Measures announced at Spending Review and Autumn Statement 2015						
A	Housing Benefit: limit social sector rates to the equivalent private sector rate	0	+440	+570	+660	+740
Measures announced at Budget 2016						
B	LHA: Implement for new tenancies from April 2017	0	-130	-75	-35	-20
Measures announced at Autumn Statement 2016						
C	Social Sector Rent down-rating: exemptions	-5	-10	-15	-15	-15
D	LHA: adjusted roll-out and Supported Accommodation Fund	0	-310	-260	+165	+130
Total	**(A)+(B)+(C)+(D)**	**-5**	**-10**	**+220**	**+775**	**+835**

Source: Spring Statement Documents Table 2.2: Measures announced at Autumn Statement 2016 or earlier that will take effect from April 2017 or later (£m). Costings reflect the OBR's latest economic and fiscal determinants

These savings are split by the initial policy announced in 2015 (a) and then adjusted to take account of the negative impact on the potential savings of gradually introducing the policy for those with new tenancies announced in the 2016 budget (b) and then the negative impact on the potential budget savings of exemptions (c) and the adjusted roll-out and Supported Accommodation Fund (d) announced in the Autumn Statement in 2016.

The figures with a suffix of '+' show where the DWP expects to save Housing Benefit expenditure, £440m in 2018-2019 and £570m in 2019-2020. However, until 2019-2020 the projected savings are offset by the time taken to roll-out the savings to new tenancies as well as the costs of exemptions and the Supported Accommodation Fund.

There is a projected net saving of £220m in 2019-2020 across all social renters. This includes young people and any older tenants not covered by the Supported Accommodation Fund.

We would expect the global savings identified in Table 1 to be split in proportion to the pool of benefits received. Table 2 shows the total number of social rented Housing Benefit claimants by country and the average award. Although Scottish social renters make up 11.1% of all claimants, average awards are typically lower so this amounts to an estimated 8.6% of the overall SRS Housing Benefit bill based on the most recent data period (November 2016). If the 8.6% estimate is applied to the overall total net savings in Housing Benefit expenditure of £220m in 2019-2020, £775m in 2020-2021 and £835m 2021-2022 this would amount to a Housing Benefit budget saving in Scotland of £18.9m in 2019-2020, £66.7m in 2020-2021 and £71.81m in 2021-2022.

Table 2: SRS Housing Benefit Claimants and Average (mean) weekly award by Country, November 2016

	SRS Housing Benefit Claimants	SRS Mean of Weekly Award
England	2,637,522	£92.59
Wales	158, 358	£81.03
Scotland	349, 580	£69.49
Unknown or missing country	...	...
Total	3, 145, 463	£89.44
Scotland % of total	**11.1%**	**8.6%**

Source: DWP Stat-Xplore, Housing Benefit Claimants November 2016

These budgets cover all social renters in Scotland who are impacted by the changes to LHA that is not offset by an exemption or the Supported Accommodation Fund.

A key element of the new measure is that young people aged under 35 years old will be entitled to the SAR of LHA applicable in the PRS. This is an important measure as there are currently very limited numbers of shared tenancies in the SRS, so the SAR will be applied to young, single social renters occupying self-contained properties that are larger than a single room.

It is also important to note that the LHA was originally intended to be set at the rate of the lowest 30% of rents for PRS properties. As the LHA has been frozen since 2014 (with increases capped at 1% before this), the LHA is now below the lowest 30% of private rents in many local authorities[34].

34 https://beta.gov.scot/publications/local-housing-allowance-rates-2017/

Analysis of the ARC data for 2015-2016, comparing the average rents of different sizes of property with the LHA rate, suggests that the main impact among mainstream tenants will be the application of the SAR (described in detail below). There are also significant shortfalls for specialist providers, though the Supported Accommodation Fund may (wholly or partly) offset this.

The analysis below attempts to capture the relative scale and nature of the impact on younger tenants, as well as social landlords.

4.3 How many young people are likely to be affected?

The most complete data available on the total number of young people likely to be affected by the LHA cap at the SAR is Housing Benefit Caseload Statistics from the DWP. The DWP online data analysis portal (Stat-Xplore[35]) allows the production of aggregate local authority level data of Housing Benefit records held within the SHBE. The SHBE is a monthly electronic scan of claimant level data direct from local authority computer systems.

The DWP provides data on claimant numbers, average and banded awards by local authority, which can be further disaggregated by variables such as tenure, family type and award level.

The current estimates on numbers of affected claimants are based on the aggregate analysis from Stat-Xplore. Access to case-level data was requested from DWP to allow more detailed estimates but this data request was refused.

Table 3 below shows the area profile of Housing Benefit claimants aged under 35 years who are single applicants with no dependents. Across Scotland, between September and November 2016 (three months) there were an average of just under 24,400 Housing Benefit claimants per month who were young, single social renters. Of these young, single social renters, 31% were aged under 25 years old (c.7,500) and 69% aged between 25 and 34 years old (c.16,900).

Of course, people flow on and off Housing Benefit, with 25,000 young, single, social renter Housing Benefit claimants with no dependents in September 2016 compared with 23,900 in November 2016.

So, the estimated pool of potentially affected young tenants of around 24,400 is the mid-point in this range, with an estimated 59% of those receiving awards high enough to potentially be affected by the SAR cap – an estimated 14,400 young people.

Table 3 shows the distribution of claimants by local authority, with 18% of young social renters on Housing Benefit in Glasgow City, 9% in the City of Edinburgh and 7% in Fife. North Lanarkshire has almost 6% of young, social renter benefit claimants and South Lanarkshire has around 5%.

35 https://sw.stat-xplore.dwp.gov.uk

Table 3: Average number of Housing Benefit Claimants per month – SRS tenants aged under 35 years who are single with no dependents (Sept-Nov 2016)

Local Authority	Under 25	25 to 34	All under 35	% of the under 25s	% of the 25 to 34	% of the under 35s
Aberdeen City	330	707	1,035	4.4%	4.2%	4.2%
Aberdeenshire	189	345	534	2.5%	2.0%	2.2%
Angus	191	291	482	2.6%	1.7%	2.0%
Argyll & Bute	125	179	305	1.7%	1.1%	1.3%
Clackmannanshire	115	237	354	1.5%	1.4%	1.5%
Dumfries & Galloway	221	378	597	3.0%	2.2%	2.5%
Dundee City	318	733	1,051	4.3%	4.3%	4.3%
East Ayrshire	240	428	671	3.2%	2.5%	2.8%
East Dunbartonshire	59	155	213	0.8%	0.9%	0.9%
East Lothian	90	196	287	1.2%	1.2%	1.2%
East Renfrewshire	73	137	212	1.0%	0.8%	0.9%
Edinburgh, City of	513	1,588	2,101	6.9%	9.4%	8.6%
Na h-Eileanan Siar	27	50	74	0.4%	0.3%	0.3%
Falkirk	231	441	672	3.1%	2.6%	2.8%
Fife	559	1,210	1,770	7.5%	7.2%	7.3%
Glasgow City	1,112	3,327	4,437	14.9%	19.7%	18.2%
Highland	228	463	692	3.0%	2.7%	2.8%
Inverclyde	99	217	317	1.3%	1.3%	1.3%
Midlothian	107	244	353	1.4%	1.4%	1.4%
Moray	107	197	302	1.4%	1.2%	1.2%
North Ayrshire	260	547	806	3.5%	3.2%	3.3%
North Lanarkshire	396	962	1,358	5.3%	5.7%	5.6%
Orkney Islands	36	49	83	0.5%	0.3%	0.3%
Perth & Kinross	143	262	403	1.9%	1.6%	1.7%
Renfrewshire	281	685	965	3.8%	4.1%	4.0%
Scottish Borders	154	249	403	2.1%	1.5%	1.7%
Shetland Islands	38	64	98	0.5%	0.4%	0.4%
South Ayrshire	196	367	563	2.6%	2.2%	2.3%
South Lanarkshire	387	870	1,258	5.2%	5.1%	5.2%
Stirling	95	196	291	1.3%	1.2%	1.2%
West Dunbartonshire	266	513	778	3.6%	3.0%	3.2%
West Lothian	286	613	901	3.8%	3.6%	3.7%
Scotland	**7,470**	**16,889**	**24,361**	**100.0%**	**100.0%**	**100.0%**

Source: DWP Stat-Xplore average HB claimants Sept-Nov 2016

4.4 How is the 'rent gap' likely to take effect?

The target LHA rate is determined by the Broad Rental Market Area (BRMA) that each local authority is in. Table 4 shows the LHA rates for each size of property by BRMA, with the average Housing Benefit award shown for each individual local authority within each BRMA. Many BRMAs cover a range of local authorities and some local authorities have stock in more than one BRMA.

Table 4: LHA rates, by property size and BRMA, with average Housing Benefit awards by local authority (continued onto next page)

		Local Housing Allowance Rates				
BRMA	**Average HB award***	**Room (SAR)**	**1 Bed**	**2 Bed**	**3 Bed**	**4 Bed**
Aberdeen and shire						
Aberdeen	£75.40	£75.63	£127.25	£162.24	£184.94	£235.97
Aberdeenshire	£75.62					
Angus	£76.51					
Argyll and Bute						
Argyll and Bute	£69.41	£61.36	£84.23	£103.56	£120.29	£180.00
Stirling	£73.26					
West Dunbartonshire	£73.39					
Ayrshires						
East Ayrshire	£74.64	£62.69	£80.55	£97.81	£115.07	£158.90
North Ayrshire	£76.41					
South Ayrshire	£74.91					
Dumfries and Galloway						
Dumfries and Galloway	£67.69	£59.44	£80.55	£97.81	£108.26	£129.47
South Lanarkshire	£77.99					
Dundee and Angus						
Dundee	£73.82	£57.69	£79.24	£103.85	£128.19	£189.07
Angus	£76.51					
Perth & Kinross	£69.25					
East Dunbartonshire						
East Dunbartonshire	£81.94	£66.43	£97.81	£116.53	£160.38	£221.42
Fife						
Fife	£78.23	£59.95	£81.58	£102.56	£120.29	£174.81
Forth Valley						
Clackmannanshire	£72.51	£62.38	£83.91	£103.56	£126.57	£181.80
Falkirk	£73.52					
Stirling	£73.26					
West Lothian	£74.93					
Greater Glasgow						
Glasgow	£70.33	£68.28	£92.06	£116.53	£137.31	£206.03
East Renfrewshire	£94.34					
South Lanarkshire	£77.99					

Table 4 (continued from previous page)

		Local Housing Allowance Rates				
BRMA	**Average HB award***	**Room (SAR)**	**1 Bed**	**2 Bed**	**3 Bed**	**4 Bed**
Highlands and Islands						
Eilean Siar	£67.71	£59.04	£91.81	£110.72	£126.92	£160.38
Highland	£71.51					
Moray	£73.46					
Orkney	£68.79					
Shetland	£69.79					
Lothian						
Edinburgh	£87.60	£68.27	£116.52	£145.43	£186.47	£276.92
East Lothian	£82.13					
Mid Lothian	£73.80					
North Lanarkshire						
North Lanarkshire	£71.53	£59.44	£80.55	£99.06	£114.23	£167.31
Perth and Kinross						
Perth and Kinross	£69.25	£57.69	£82.40	£105.94	£137.31	£183.46
Renfrewshire/Inverclyde						
Renfrewshire	£78.14	£60.00	£80.55	£101.26	£126.57	£190.80
Inverclyde	£72.89					
East Renfrewshire	£94.34					
Scottish Borders						
Scottish Borders	£67.05	£56.96	£72.00	£92.05	£109.31	£138.46
South Lanarkshire						
Dumfries and Galloway	£67.69	£63.46	£80.77	£103.56	£126.92	£180.00
South Lanarkshire	£77.99					
West Dunbartonshire						
West Dunbartonshire	£73.39	£63.46	£86.30	£103.56	£115.07	£169.69
West Lothian						
West Lothian	£74.93	£60.03	£97.81	£117.69	£133.85	£180.45
Average across BRMAs (for National Operators)	**£73.13**	**£62.34**	**£88.66**	**£110.21**	**£132.11**	**£184.72**

Source:http://www.gov.scot/Topics/Built-Environment/Housing/privaterent/tenants/Local-Housing-Allowance/figures; DWP Stat-Xplore November 2016 (Mean award, Scottish SRS tenants) - Note: Average Housing Benefit Award across all social rented tenants

This shows significant variation in awards within some BRMAs, and some average awards very close to or above the SAR. There is most variation in average awards between local authorities within the Greater Glasgow and Renfrewshire/Inverclyde BRMAs.

BRMAs vary in size, with one BRMA for the whole of the Highlands and Islands but other BRMAs that cover a single local authority. There are also some area overlaps, with some local authorities in a number of BRMAs. This poses concerns about how applicable the LHA rates are to higher value private rental areas within some of the BRMAs.

To look at how landlord's rents compare with the SAR and other LHA rates, we looked at the ARC data on average rents by landlord. The detail of the analysis is shown in Annex 1.

The estimate based on the ARC data calculates the overall rent gap likely to not be covered by Housing Benefit based on (1) current average rents across the whole stock (2) the current estimated number of young, single social renters (aged under 35 years) and (3) the proportion of these young people likely to be on Housing Benefit. Annex 1 provides details about the approach to the ARC-based estimates.

Calculating the potential impact based on the difference between average rents from ARC and the SAR for **the estimated pool of affected tenants produces an estimated rent gap of around £8.6m over the year.** This covers social tenants in lettable, self-contained accommodation.

This estimate may include some supported accommodation but is likely to be the closest estimate of mainstream accommodation available. However, as it is based on average rents, it is slightly less fine-grained than the DWP estimate below.

4.5 Estimating the rent gap from DWP awards data

An alternative method of estimating the potential gap in benefits due to the restrictions to the SAR is to use an estimate based on the banded awards received by young Housing Benefit recipients compared with the SAR. This method using the gap between the SAR for the relevant local authority and the banded awards received to calculate the overall rent gap.

This produces an annual estimated rent gap across Scotland of around £28.6m. This includes all Housing Benefit awards including awards for supported and temporary accommodation for which there will be some financial mitigation.

These methods are explained in more detail in the following sections. Annex 1 also provides further information about the approach to the DWP award-based estimates.

This estimate is considerably higher than the estimate based on ARC average rents data of £8.6m above, as it will include Housing Benefit for tenancies not included in ARC rents data (including temporary accommodation that is not part of the lettable, self-contained stock covered by the ARC return).

The following sections explore the likely scale of supported accommodation costs, to further refine the DWP-based estimate. This suggests that by removing young people assumed to be exempt from the SAR cap (living in temporary or supported accommodation), the total estimate generated from the DWP awards data would be reduced to £5.3m (see section 4.7 below).

4.6 Supported accommodation

In order to determine how many young, single people on Housing Benefit might be exempt from the cap it is useful to consider the numbers in supported accommodation. The DWP estimate of £28.6m above includes specialist and supported accommodation, so we need to determine how much that may overstate the impact of the policy.

In September 2016 the UK Government announced a new funding mechanism for supported accommodation[36]. In a written statement the UK Government confirmed that:

"It is our intention that from 2019/20 core rent and service charges will be funded through Housing Benefit or Universal Credit up to the level of the applicable LHA rate. This will apply to all those living in supported accommodation from this date. I can also confirm that the Shared Accommodation Rate will not apply to people living in the supported housing sector, in recognition of the particular challenges this would have placed upon them. For costs above the level of the LHA rate, Government will devolve in England an amount of funding for disbursement locally. In Wales and Scotland, an equivalent amount will be provided and it will be for those administrations to decide how best to allocate the funding."

Due to the grouping of the adjusted roll-out alongside

36 https://www.gov.uk/government/news/new-funding-model-for-supported-accommodation

the Supported Accommodation Fund and a lack of information about the full extent of the coverage of the Supported Accommodation Fund, it is difficult to determine how insulated young people in supported accommodation on Housing Benefit will be from the gap between their rents and the SAR. Consultation on the provisions of the Supported Accommodation Fund is underway.

The supported accommodation review[37] estimated a total of 59,500 supported accommodation units in Scotland, with an estimated 6,000 occupied by single homeless people and an estimated 1,000 places occupied by vulnerable young people. There are other groups that may include young, single people under 35 years among the categories identified. There are also cases of single homeless people who would be aged 35+.

This suggests the need to further validate the estimated figure of 7,000 young people aged under 35 years possibly being exempt from the SAR cap due to their being in supported accommodation.

37 https://www.gov.uk/government/publications/supported-accommodation-review

Table 5: Profile of supported housing by client group, Scotland and GB estimates

Client group	Units (Scotland)	%	Units (GB)	%
Older people 65+	36,500	61%	462,000	71%
People with learning difficulties	6,000	10%	47,500	7%
Single homeless people (inc. rough sleepers)	**6,000**	**10%**	**37,000**	**6%**
People with mental health problems	2,500	4%	33,000	5%
Vulnerable young people (16-25)	**1,000**	**2%**	**21,500**	**3%**
People with physical disabilities or sensory impairment	2,500	4%	12,000	2%
Homeless families	2,500	5%	8,500	1%
People with drug or alcohol misuse needs	1,000	2%	6,000	1%
At risk of domestic abuse	1,000	2%	6,000	1%
Offenders	*	*	4,500	1%
Others (inc. refugees or asylum seekers, single parents, pregnant teenagers, ex-service personnel, travellers or others with multiple/ complex needs)	500	*	13,500	2%
Total	**59,500**	**100%**	**651,500**	**100%**

Supported Accommodation Review Local Authority Survey (Base: 83 commissioners across GB). Table 3.2
*Note: * indicates a value of less than 500 or less than one per cent but greater than zero.*

A further means of testing the number of young people likely to be exempt from the SAR cap is to look at the level of awards that would be high enough to indicate that the young person is in supported accommodation. The section below tries to determine how best to account for the likely cost, in Housing Benefit terms, of supported accommodation for younger people.

4.7 Temporary accommodation costs

The most detailed current information in Scotland on the potential scale of the Housing Benefit payable to young people in supported accommodation is information on homelessness services, with temporary accommodation being the main specialist accommodation used by young, single people.

Data from the recent Shelter study on Funding Homelessness Services in Scotland[38] found significant variation in temporary accommodation rents. In local authority-owned temporary accommodation this ranged from a standard social rent to over £250 per week higher than the average social weekly rent (including rent and service charge). Bed and Breakfast (B&B) costs vary according to the local market but are typically far higher than the SAR.

Some temporary accommodation may be classed as supported accommodation and fall under the Supported Accommodation Fund in future, while other accommodation, such as mainstream temporary furnished flats, would be less likely to be.

In the Shelter research, local authority hostel accommodation charges were quoted at levels of between £150 and £400 per week, but the type of accommodation varies considerably across local authorities.

Using the most recent data provided by local authorities for 2015-2016, from benchmarking data collected from Scotland's Housing Network from 18 local authorities, we can estimate the average costs of temporary accommodation. Table 6 shows the total number of households in temporary accommodation of different types and the average cost, across all local authorities for that type of accommodation.

38 https://scotland.shelter.org.uk/__data/assets/pdf_file/0004/1274755/Funding_Homelessness_Services_in_Scotland_report.pdf/_nocache

Table 6: Estimated temporary accommodation costs by type (total households based on March 2016 data)

	Social sector	Hostel	Bed & Breakfast	Other	Total
Total households in a typical week	6,679	1,733	1,052	1,091	10,555
Average cost per week across all local authorities	£197.50	£269.33	£393.00	£249.67	
Total cost	**£1,319,103**	**£466,755**	**£413,436**	**£272,386**	**£2,471,680**
Average cost (all types)					£234.17

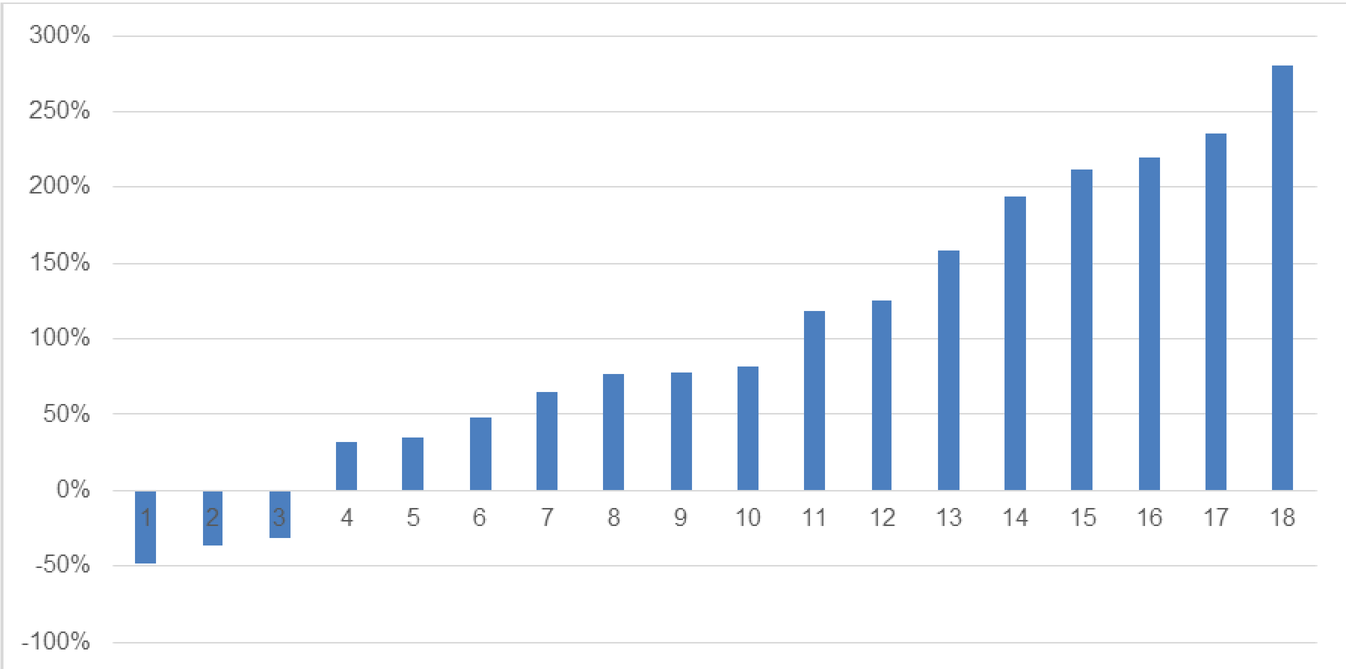
Sources: Homelessness Statistics 2015-2016 (Table 20: Households in temporary accommodation by type of accommodation); Average costs based on the costs across 18 local authorities (Scotland's Housing Network benchmarking data, 2015-2016).

Table 6 shows a range of costs from an average of £197.50 for social sector accommodation to almost £400 for B&B. This is higher than the average working-age Housing Benefit cost found in the review of supported accommodation above (which was £173).

The latest data on temporary accommodation costs, from Scotland's Housing Network found considerable variation in the rents for temporary accommodation. This will mean that some local authorities will require a larger share of the Supported Accommodation Fund due to their relatively higher rents. The chart below shows the gap between average temporary accommodation rents and the LHA, by (anonymised) local authority for the 18 local authorities that provided information.

The range in temporary accommodation charges for 'ordinary local authority dwellings' shown in the chart below, varies between below the LHA to over 250% above the LHA. Three local authorities had temporary accommodation charges that were below the LHA, seven between the LHA and 100% above the LHA rate, and eight between 100% and over 250% above the LHA rate.

Figure 1: Average temporary accommodation costs, as a proportion above or below the 2-bedroom LHA rate, by local authority (LHA rate is 0 on the chart)



Source: Average costs based on the costs across 18 local authorities (Scotland's Housing Network benchmarking data, 2015-2016).

The variation in other types of accommodation is also very significant, from as little as £90 a week for hostels and B&B accommodation to over £500 a week.

Looking at the DWP awards data for young people aged under 35 years, only 11% of Housing Benefit awards in November 2016 (2,578 awards) to young, single people aged over 35 years were over £120 per week.

The analysis above suggests that temporary accommodation costs range from as little as £90 to £150 per week. This is the rationale for selecting £120 a week as the threshold to test as a likely indicator of the young person being in temporary accommodation.

Overall, around 2,580 young people aged under 35 received an award of £120 or more in November 2016. **If these young people are assumed to be exempt from the SAR cap, the total estimate generated from the DWP awards data would be reduced to £5.3m.**

Overall, the ARC data suggests that there will be a rent gap of around £8.6m a year based on current rent figures. The potential benefit gap for young social tenants across all types of accommodation across rents and service charges (including temporary accommodation not part of the lettable, self-contained stock on the ARC return) are considerably higher, at £28.6m. However, taking account of exemptions for temporary accommodation significantly reduced the DWP estimate to between £5.3m to £6.9m.

This means that the total estimated impact of the SAR cap on young tenants aged under 35 years in mainstream tenancies, based on current rents and full exposure to the policy is between a lower estimate of £5.3m and a higher estimate of £8.6m.

4.8 Transitional impacts

The estimates above are based on full exposure to the policy, which will not happen until all tenants transition over to Universal Credit. In the short term, the first impacts will be felt by tenants on Housing Benefit who started or renewed their tenancy from April 2016 onwards and all those on Universal Credit. However, the LHA cap will not apply until April 2019. This means there will be a growing pool of affected tenants that will have the cap applied from April 2019.

The roll-out of Universal Credit sees new applicants move over to Universal Credit throughout the period from 2016 onwards. This will be new applicants and those whose circumstances have changed initially, with full migration planned by 2023. So, initially, the rate of tenancy turnover is a reasonable proxy for the transition rate (as most affected tenants will be new tenants or new applicants, for whom a new tenancy or changed tenancy will have prompted the move into Universal Credit).

The latest ARC data, for 2015-2016 shows 54,009 new lets across Scotland in 2015-2016 out of 584,715 properties. This is a turnover rate of 9.2% in a year. If the cumulative rate of turnover is the same for young people, we would expect 9.2% of the young tenants on Housing Benefit in 2015-2016 to be new tenants.

If young tenants on Housing Benefit occupy new lets at the same rate as all tenants, this would mean by April 2019 27.6% of young tenants on Housing Benefit would have started their tenancy during the three years since April 2016.

However, Scottish Household Survey data suggests that 41% of young social tenants on Housing Benefit had reported moving in the previous year, so we can assume that the transition to the full LHA cap effects may well be considerably quicker for younger tenants.

Earlier, in Table 2, the 'broad-brush' estimate was that 8.6% of the overall total net savings in Housing Benefit would be attributable to Scotland. Based on the pro-rata share of total Housing Benefit claimed, a Housing Benefit budget saving in Scotland of £20.21m in 2019-2020, £67.9m in 2020-2021 and £73.1m in 2021-2022 is expected. These savings are across all affected recipients – not just young people.

The estimated savings by 2019-2020 (at current award/rent levels) of between £5.3m and £8.6m represent between 26%-43% of the projected savings in 2019-2020 from the LHA cap.

We would also expect there to some degree of overlap between tenants currently receiving DHPs for the impact of the 'Bedroom Tax', the interaction between these policies will depend on the detail of the LHA policy and regulations published by DWP. In November 2016 (our DWP estimation period), 7,855 young, single people aged under 35 were subject to the 'Bedroom Tax', with an average reduction of around £11.41 a week. If this reduction was fully mitigated for a year, this would be around £4.7m in mitigation[39]. This is a significant sum, comparable to the estimated rent gap of between £5.3m and £8.6m.

4.9 Summary of estimates for younger social tenants

The estimate based on DWP claimant data by local authority produces an estimated gap between the SAR and current Housing Benefit awards is **£28.6m over a year. This includes all Housing Benefit claimants, including service charges currently eligible for Housing Benefit, including those for temporary accommodation and other supported accommodation.**

Excluding awards of more than £120 per week (which are judged more likely to be temporary accommodation) the estimate would be reduced to £5.3m.

This means that temporary accommodation costs (based on awards over £120 a week) are estimated to account for around 81% of the total awards of £28.6m received by just 11% of recipients.

The estimates based on average ARC rents, would be a rent gap of around £8.6m a year. This is based on tenancies excluding temporary accommodation (except where the provider is on ARC).

This gives a range of estimates of the potential gap arising from the SAR cap to mainstream tenants aged under 35 years of between £5.3m and £8.6m based on current rents and full exposure to the policy.

DWP awards data indicated that around 59% of young tenants aged under 35 years might have their award be affected by the SAR cap, an estimated 14,400 young people from the typical pool of 24,400 Housing Benefit recipients.

Some of these young people will be exempt due to being in temporary accommodation, with around 2,580 young people aged under 35 years currently receiving a higher award that might indicate likely exemption in future. **This means around 12,000 young people are expected to see a reduction in their Housing Benefit award, over time.**

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.

The current estimated level of 'Bedroom Tax' mitigation is a significant share of the likely impact of the SAR cap. However, it is unknown how the gap between the current level of Scottish Government mitigation and the future impact of the SAR may increase, as young social renters quickly transition onto Universal Credit.

39 Scottish Government DHP data is not disaggregated by recipient type and age, so we cannot cross-check this against DHP receipt.

4.10 How will different areas be affected?

Table 7 shows the average rent gap, by local authority, from the ARC data, by local authority. This shows the gap for each size of property, compared with the SAR.

Table 7: Average rent gaps, by local authority and property size (continued on next page)

Local Authority	1-Apt (bedsit/ studio)	2-Apt (1 bed)	3-Apt (2 bed)	4-Apt (3 bed)	5-Apt (4 bed)
National operator	£28.61	£57.69	£54.14	£33.32	£42.25
City of Edinburgh	£5.13	£22.09	£19.26	£26.59	£39.48
Dundee City	-£7.25	£13.93	£19.18	£27.55	£40.19
Perth & Kinross	£17.39	£11.32	£11.21	£16.56	£26.81
Scottish Borders	£1.98	£10.11	£17.49	£24.21	£33.53
Renfrewshire	-£8.67	£10.02	£17.67	£24.49	£37.19
East Renfrewshire	£54.04	£9.77	£17.95	£27.18	£38.63
West Lothian	£9.76*	£9.65	£16.00	£20.99	£26.96
Orkney Islands	-£5.81*	£9.36	£18.08	£20.52	£29.99*
Inverclyde	£4.85	£9.35	£19.86	£29.56	£39.26
Highland	£2.24	£8.69	£13.67	£22.58	£32.00
Argyll & Bute	-£5.69	£8.09	£17.43	£26.39	£36.78
Shetland Islands	-£5.83	£7.67	£18.43	£26.86	£41.83
Dumfries & Galloway	£0.45*	£7.39	£16.82	£24.11	£31.89
South Ayrshire	£0.25	£6.97	£12.17	£18.00	£25.38
East Ayrshire	-£0.29	£6.95	£9.48	£17.11	£20.88
Aberdeenshire	-£10.46*	£6.65	£11.79	£17.89	£26.59
North Ayrshire	£0.24	£6.55	£12.88	£17.55	£20.48
Western Isles	£12.55*	£6.37	£12.56	£17.59	£24.28
North Lanarkshire	-£1.36	£5.35	£10.33	£17.29	£19.79
Clackmannanshire	£0.51*	£4.83	£8.89	£12.61	£14.69
Fife	-£2.89	£3.21	£12.33	£19.68	£26.03
West Dunbartonshire	-*	£2.89	£7.77	£15.26	£26.46
Stirling	-£8.73*	£2.85	£9.08	£14.75	£19.65
Angus	-£4.59	£1.70	£12.22	£22.54	£35.30

Table 7 (continued from previous page)

Local Authority	1-Apt (bedsit/ studio)	2-Apt (1 bed)	3-Apt (2 bed)	4-Apt (3 bed)	5-Apt (4 bed)
South Lanarkshire	-£13.09	-£0.53	£8.47	£17.78	£27.60
East Lothian	-£16.43*	-£0.67	£5.14	£10.82	£12.56
Aberdeen City	-£13.81	-£0.81	£6.39	£14.41	£24.81
East Dunbartonshire	-£12.03*	-£0.89	£7.77	£14.95	£22.45
City of Glasgow	-£12.10	-£2.86	£4.73	£13.43	£24.08
Moray	-£26.19*	-£2.92	£8.26	£15.68	£29.02
Midlothian	-*	-£5.57	£0.57	£6.74	£13.36
Falkirk	-£16.87	-£7.69	£0.71	£9.86	£21.50
All landlords	**-£2.03**	**£6.60**	**£12.44**	**£18.64**	**£28.12**

Source: ARC 2015-2016 (local authority based on 2012-2013 APSR data)
**=Based on fewer than 50 properties*

The landlords in Table 7 are ranked according to the average gap between the 2-apartment (1 bed) rent and the SAR. The 'national operators' have the largest gap, but these are generally the landlords that the Supported Accommodation Fund might be expected to cover - Abbeyfield Scotland Ltd, Ark Housing Association Ltd, Bield Housing & Care, Blackwood Homes and Care, Blue Triangle (Glasgow) Housing Association Ltd, Hanover (Scotland) Housing Association Ltd, Horizon Housing Association Ltd, Key Housing Association Ltd, Link Group Ltd and Trust Housing Association Ltd. Many of these providers have housing for older people so may be affected by the rent gap, depending on the nature of the exemptions proposed.

These national operators combined have an average rent for 1-apartment (bedsit/studio) properties that is £57.69 higher than the SAR, so around £120 per week. The average rent gap between 2-apartment (1 bed) properties and the SAR is £6.60, so around £69 a week.

Typically, rents for 1-apartment (bedsit/studio) properties are below the SAR by around £2.00 but there are areas where 1-apartment (bedsit/studio) rents are considerably higher (e.g. East Renfrewshire and Perth and Kinross), which may indicate that these are commonly sheltered housing, which may be eligible for supported accommodation funding.

It is worth noting the profile of the social housing stock at this point, since less than 2% of lettable self-contained properties are 1-apartment (bedsit/studio) properties (Table 8). Analysis of the Scottish Household Survey data shows that 57% of young, single social renters on Housing Benefit said they had a one bedroom (2-apartment) property while 40% said they lived in a two bedroom (3-apartment) property.

So, young, single social renters on benefits are more commonly in smaller properties but a significant proportion will face a rent gap of an average of £12.44 a week rather than £6.60 per week, because they occupy a 3-apartment (2 bed) property. These households will also be currently affected by a 'Bedroom Tax' reduction of 14% or 25%, which is currently mitigated in full by the Scottish Government. Tenants under-occupying will receive the lower of the LHA cap or the full rent with the 'Bedroom Tax' reduction.

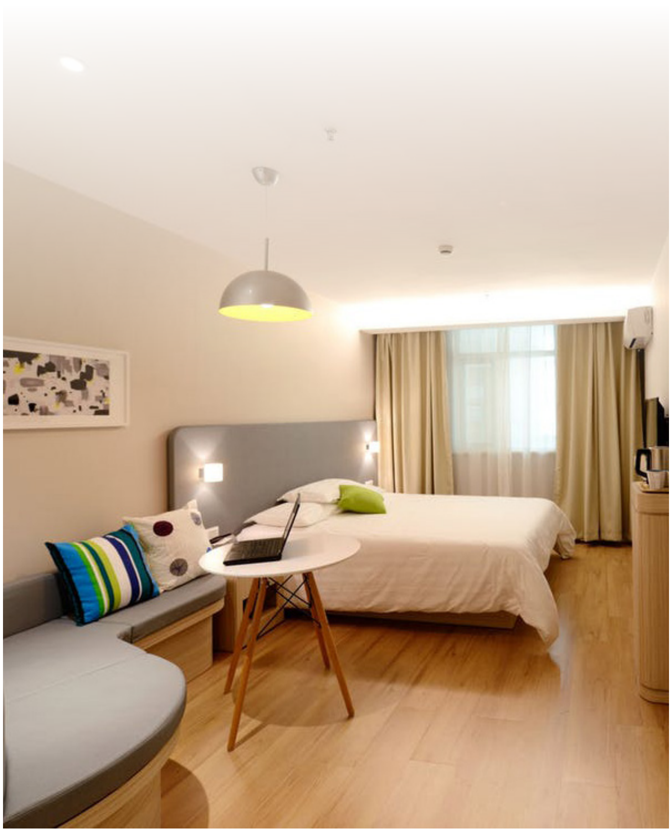


Table 8: Number of lettable self-contained properties, by local authority and property size

Local Authority	1-Apt (bedsit/ studio)	2-Apt (1 bed)	3-Apt (2 bed)	4-Apt (3 bed)	5-Apt (4 bed)	3-Apt (2-bed) %
Aberdeen City	897	10,504	12,178	4,810	329	42%
Aberdeenshire	11	5,527	6,059	3,151	253	40%
Angus	137	3,451	3,963	1,564	226	42%
Argyll & Bute	120	2,103	3,146	1,715	188	43%
City of Edinburgh	540	13,696	16,274	5,855	1,145	43%
City of Glasgow	4,131	28,292	52,117	19,515	3,469	48%
Clackmannanshire	30	1,642	2,739	1,619	161	44%
Dumfries & Galloway	27	3,671	5,274	3,113	325	42%
Dundee City	413	7,004	10,881	4,361	665	47%
East Ayrshire	208	2,316	7,150	4,639	312	49%
East Dunbartonshire	30	1,125	1,909	1,385	182	41%
East Lothian	25	2,081	5,007	2,536	260	51%*
East Renfrewshire	199	1,370	1,755	752	108	42%
Falkirk	71	2,731	9,266	5,038	543	53%*
Fife	262	8,225	17,566	9,332	1,163	48%
Highland	668	5,190	8,723	6,105	711	41%
Inverclyde	131	2,318	4,374	2,124	194	48%
Midlothian	-	873	4,361	2,889	406	51%*
Moray	35	1,729	3,055	1,463	178	47%
National operator	1,211	12,510	4,523	1,792	252	22%
North Ayrshire	126	3,940	8,262	5,095	740	45%
North Lanarkshire	326	7,918	22,137	11,825	1,383	51%*
Orkney Islands	29	550	579	357	37	37%
Perth & Kinross	166	3,935	4,771	2,006	265	43%
Renfrewshire	463	5,526	8,189	3,387	498	45%
Scottish Borders	118	3,347	4,772	2,439	315	43%
Shetland Islands	56	639	708	800	65	31%
South Ayrshire	52	2,720	4,033	2,427	233	43%
South Lanarkshire	115	6,661	13,171	5,816	830	50%
Stirling	17	1,617	2,867	1,941	303	43%
West Dunbartonshire	-	3,833	7,010	3,865	540	46%
West Lothian	45	2,861	8,150	6,211	785	45%
Western Isles	5	647	798	672	69	36%
All	**10,664**	**160,552**	**265,767**	**130,599**	**17,133**	
%	**1.8%**	**27.5%**	**45.5%**	**22.3%**	**2.9%**	

Source: ARC 2015-2016 (local authority based on 2012-2013 APSR data), all landlords with stock

The asterix above highlights those local authorities where there is a higher than average proportion of 3-apartment (2 bed) properties (at least one standard deviation above the mean). These are East Lothian, Falkirk, Midlothian and North Lanarkshire.

4.11 How will housing associations and local authorities be affected?

RSLs typically have higher rents than local authorities and this will impact on the relative size of the rent gap. Across both sectors, the average rent of a 1-apartment (bedsit/studio) property is typically 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 rent of £6.51 less than the SAR).

Since less than 2% of properties have 1-apartment (bedsit/studio), the rent gap between 2-apartment (1 bed) and 3-apartment (2 bed) stock is also important. 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.

This means that the overall rent gap is heavily weighted towards RSLs, which account for an estimated 70% of the rent gap but house just 39% of young, single renters on Housing Benefit. The total estimates by sector are shown in Table 10 below.

RSLs will expect to see an annual gap in rents of around £5.99m while local authorities will have a total rent gap of around £2.57m. This covers the lettable, self-contained stock that rent figures in ARC relate to.

As noted above, although local authorities see less of a gap in mainstream rents at present, the gaps in temporary accommodation charges and the LHA rate are considerable in some local authorities.

Table 9: Average rent gap to the SAR, local authorityand RSL properties, by property size

Landlord	SAR v 1-Apt (bedsit/ studio)	SAR v 2-Apt (1 bed)	SAR v 3-Apt (2 bed)	SAR v 4-Apt (3 bed)	SAR v 5-Apt (4 bed)
Local authority	-£6.51	-£1.15	£4.27	£10.22	£16.65
RSL	-£0.80	£7.87	£13.78	£20.05	£30.12
All	-£2.03	£6.60	£12.44	£18.64	£28.12

Source: ARC 2015-2016, all landlords with stock

Table 10: Rent gap by local authority and RSL properties, by property size

Local Authority Estimates				
Property size	**Average rent gap**	**Total potential rent gap**	**% of stock occupied by young HB tenants**	**Estimated weekly rent gap**
1-Apt (bedsit/studio)	£(6.51)	£4,057	0.4%	£15
2-Apt (1 bed)	£(1.15)	£216,528	7.8%	£16,971
3-Apt (2 bed)	£4.27	£832,507	3.4%	£28,305
4-Apt (3 bed)	£10.22	£669,886	0.5%	£3,349
5-Apt (4 bed)	£16.65	£124,694	0.7%	£873
			Weekly estimate (LA young HB)	**£49, 513**
			Annual estimate (LA young HB)	**£2,574,690**

RSL Estimates				
Property size	**Average rent gap**	**Total potential rent gap**	**% of stock occupied by young HB tenants**	**Estimated weekly rent gap**
1-Apt (bedsit/studio)	£(0.80)	£71,173	0.5%	£356.55
2-Apt (1 bed)	£7.87	£1,073,976	5.9%	£63,354
3-Apt (2 bed)	£13.78	£1,476,178	3.0%	£44,285
4-Apt (3 bed)	£20.05	£1,206,916	0.6%	£7,241
5-Apt (4 bed)	£30.12	£261,719	0.0%	£-
Local authority			**Weekly estimate (RSLs young HB)**	**£115,238**
Young HB			**Annual estimate (RSL young HB)**	**£5,992,357**
			Total (local authority + RSL)	**£8,567,047**

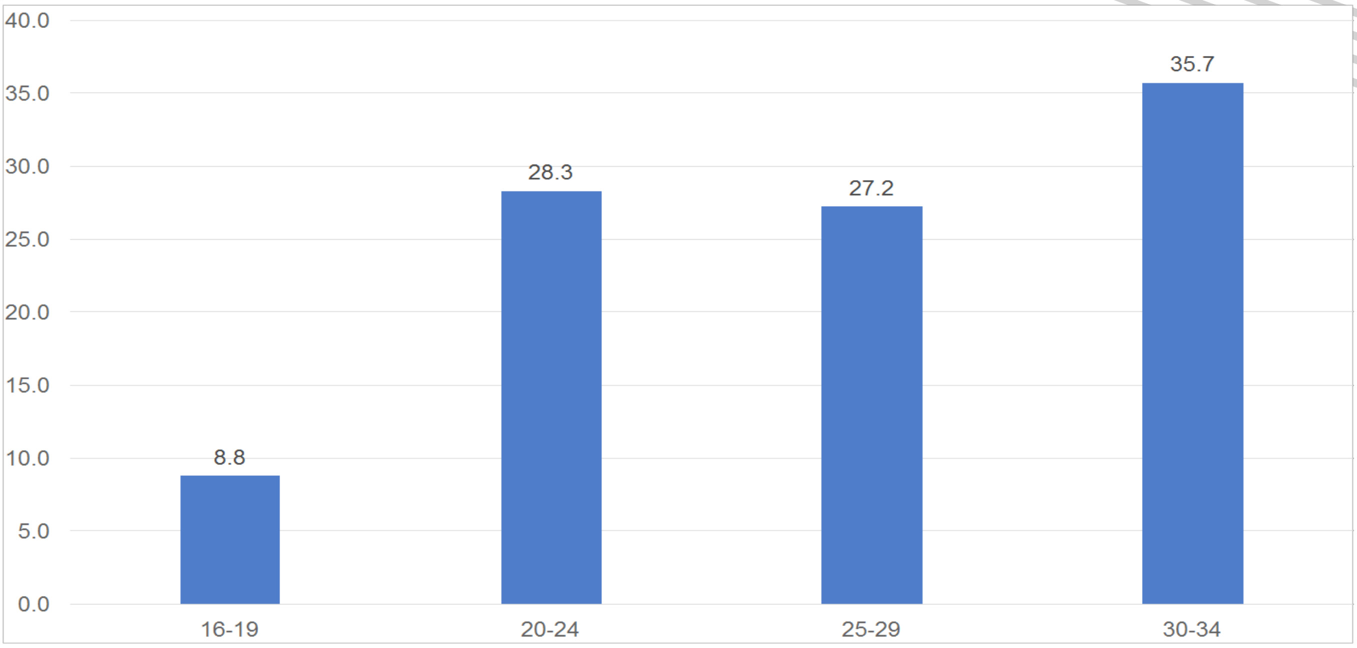
Source: ARC 2015-2016, all landlords with stock, Scottish Household Survey 2012-2015

4.12 The characteristics of young, social renters at risk

The Scottish Household Survey data includes a wide range of information about the characteristics of social renters, including property size and type, benefit receipt, experience of rent arrears or difficulties paying rents and previous experience of homelessness. This allows us to build a picture of the young people on Housing Benefit likely to be affected by the cap at the LHA rate.

The average age of young, social renters on Housing Benefit is 27 years old (both the mean and the median).

Figure 2: Age profile of young social renters on Housing Benefit



Source: Scottish Household Survey 2012-2015 dataset (single tenants aged under 35 years on Housing Benefit) Unweighted base: 284

As the figure above shows, this overall average age is driven by the fact that 36% of young social renters aged under 35 years are aged between 30 and 34 years.

Other key features of the group at risk from the rent gap posed by the LHA cap are:

- The group is disproportionately male – 65% are men and 35% women.
- 49% are unemployed and looking for work, 27% are permanently sick or disabled and 8% have a short-term illness, 8% are working and 6% are in full time education or training.
- 87% live in a house while 13% live in a flat.
- 50% get by alright or manage very well or quite well financially while 23% do not manage very well and 27% have some financial difficulties.
- 13% of the young, social tenants on Housing Benefit say they have had difficulties paying their rent.
- Over half of those who are at risk of having a gap between their Housing Benefit and the SAR say they have been homeless at some point in the past and 18% had applied to the local authority as homeless during the previous two years, with 21% saying they had stayed in temporary or emergency accommodation in that time.
- This rate of homelessness is far higher than usual – with just 2% of all young adults aged under 35 years having applied as homeless in the past two years.

Typically, 6% of homeless applicants have been 'looked after' in local authority care. Applying this proportion to those at risk of being affected by the LHA cap who had applied as homeless in the last two years, an estimated 1% of young social renters on Housing Benefit would be looked after young people. Some of these young people may, however, be exempt from the SAR cap.

4.13 Change over time

The analysis above is based on the current LHA rate compared with current Housing Benefit awards and rents from ARC as at 2015-2016. This assumes that the full impact of the policy will be felt. In fact, it will take some time up until 2019-2020 for current young tenants on Housing Benefit to transition over to Universal Credit, with only new tenancies that have been started, or altered, after April 2016 onwards affected.

The most recent SCORE data (for 2014-2015) found that 14.6% of **new** RSL tenants were young, single people aged under 35 years old on Housing Benefit[40]. This is significant, given that this group makes up just 3.5% of the whole body of RSL tenants based on Scottish Household Survey estimates for 2012-2015.

Based on the total number of new lets across local authority and RSL stock of 47,832 lets, (from ARC data 2015-2016), if 14.6% of **all** new social tenants were young people on Housing Benefit, that would be an estimated 6,980 young renters on Housing Benefit. That is the equivalent of around 29% of the November 2016 young, single social renter claimant count (23,847) and 1.2% of the total estimated occupied social rented stock (585,861), according to current estimates[41].

However, the total claimant count of young, single, social tenants has not increased – the average count between September and November 2016 was between 23,900 and 25,000 and the count has reduced from November 2014 (27,859) to November 2016 (23,856). **This suggests that the increased proportion of young, single renters on Housing Benefit taking up new tenancies is currently off-set by existing young, single renters coming off Housing Benefit.**

Young tenants on Housing Benefit are commonly recent movers – the Scottish Household Survey data shows that 41% of young social renters on Housing Benefit had moved into their property within the last year, compared with just 12% of all other adults[42].

This means that we would expect that the significant mobility among young, single people will mean that young people will migrate reasonably swiftly onto the LHA cap.

During the time between 2016 and complete exposure to the LHA cap among young social renters there is not likely to be an increase in LHA, which is now frozen at the 2014-2015 rates. However, it is likely that social sector rents will continue to rise meaning that the range of estimates based on 2015-2016 rents will be too low.

This means that we would expect young people to quickly transition over to the new regime, but the total numbers affected would not be expected to increase, according to recent trends in Housing Benefit caseloads for young, single tenants.

The Scottish Housing Regulator Analysis of the Finance[43] of RSLs in 2016 (Published in March 2017) showed that in 2016 40% of RSLs were planning a rent increase of inflation +1% or more in each of the next five years while 34% were planning inflation only rent increases. This is based on an inflation assumption of 2.0% with the average margin over inflation being 0.54% i.e. 2.5%. In the projections below we have assumed an average RSL rent rise of **2.54%** in 2016-2017.

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40 Based on the 8,364 records on SCORE 2014-2015 containing income information

41 Social Tenants in Scotland, 2015 - http://www.gov.scot/Publications/2017/02/8350

42 Recent moving behaviour is asked in the random adult section of the Scottish Household Survey, which is completed by the householder for single adult households or a randomly selected adult in households with multiple adults.

43 SHR Analysis of Finance, March 2017 - https://www.scottishhousingregulator.gov.uk/publications/analysis-finances-registered-social-landlords-2016

The Glasgow and West of Scotland Forum (GWSF) survey of members for rent increases proposed for 2016-17 showed that out of 36 returns, 14 members were proposing rent increases of 1.5% and below (RPI at around 0.8% depending on when it was assumed), nine members were proposing around 1.8% (RPI +1%) and 10 members were proposing rents above 2%. The same survey for increases to 2017-18 shows rent increases moving upwards compared to last year, with RPI assumed to be between 1.8% and 2%. From 37 respondents 10 RSLs were predicting rent increases of 1.8% and below (at RPI), 12 were predicting 2.0%, and 15 were predicting 2.5% or 3%.

For local authorities, Housing Revenue Account (HRA) statistics provide an estimated increase of 1.65% from 2015-2016 to 2016-2017. This is considerably lower than in the last two years (7.17% from 2013-2014 to 2014-2015 and 3.28% from 2014-2015 to 2015-2016) but higher than the 2012-2013 to 2013-2014 increase of just 1.20%. Across the four years, the average is an increase of 3.32%.

Based on this data, we have projected forward assuming an average increase for local authorities of **1.65%** between 2015-2016 and 2016-2017.

To project forward to the five years from 2016-2017 onwards, we have assumed a cross-sector annual rent increase of 3%, on the basis that inflation is likely to increase, although pressures on affordability and welfare reform may restrain increases.

4.14 Forward projections

The projected change in the likely rent gap between 2015-2016 to 2016-2017 is based on:

- An average rent increase for RSLs of 2.54% applied equally across the lettable, self-contained stock.
- An average rent increase for local authorities of 1.65% applied equally across the lettable, self-contained stock.
- No increase in the numbers of young people on Housing Benefit over the period.
- The five year estimates from 2017-2018 to 2021-22 are based on an average rent increase across the two sectors of 3%.

Estimates are based on full exposure to the policy among the affected young people on Housing Benefit.

Table 11 below shows the projected weekly rent gap for young, single tenants aged under 35 years old on Housing Benefit by property size, for local authorities and RSLs for each property size and then overall. The calculations in Table 11 are based on the uprating of the figures in Table 10 according to the criteria listed above.

Based on the ARC projections outlined in section 4.4 above, in 2016-2017, the total annual rent gap is projected to increase from £8.6m to £9.8m, rising to £16m by 2019-2020 and £20.9m by 2021-2022.

This is based on the full impact of the policy, across young social renters and based on no rent re-structuring taking place. It assumes that the numbers of young people affected by Housing Benefit remains stable.

Table 11: Future projected weekly and annual rent gap, by landlord and property size

Landlord type	1-Apt (bedsit/ studio)	2-Apt (1 bed)	3-Apt (2 bed)	4-Apt (3 bed)	5-Apt (4 bed)	Total weekly rent gap	Total annual rent gap
2016-2017							
LA	£22	£23,261	£34,030	£4,003	£986	£62,302	£3,239,708
RSL	£375	£68,832	£48,522	£7,722	£1,379	£126,830	£6,595,182
Total	£397	£92,093	£82,552	£11,725	£2,365	£189,132	£9,834,890
2017-2018							
LA	£34	£31,187	£42,020	£4,794	£1,123	£79,158	£4,116,240
RSL	£411	£79,346	£56,560	£8,611	£1,505	£146,432	£7,614,480
Total	£445	£110,533	£98,580	£13,405	£2,628	£225,591	£11,730,719
2018-2019							
LA	£47	£39,407	£51,267	£5,609	£1,265	£97,595	£5,074,927
RSL	£452	£90,414	£64,992	£9,527	£1,634	£167,020	£8,685,026
Total	£499	£129,821	£116,259	£15,136	£2,899	£264,614	£13,759,953
2019-2020							
LA	£63	£49,420	£61,475	£6,448	£1,410	£118,817	£6,178,489
RSL	£496	£101,975	£73,721	£10,472	£1,768	£188,431	£9,798,423
Total	£560	£151,396	£135,195	£16,920	£3,178	£307,248	£15,976,911
2020-2021							
LA	£80	£60,940	£72,502	£7,313	£1,561	£142,395	£7,404,549
RSL	£547	£114,028	£82,735	£11,444	£1,905	£210,659	£10,954,252
Total	£627	£174,968	£155,237	£18,757	£3,465	£353,054	£18,358,801
2021-2022							
LA	£98	£73,283	£83,894	£8,209	£1,718	£167,203	£8,694,561
RSL	£624	£126,727	£92,038	£12,446	£2,046	£233,881	£12,161,806
Total	£722	£200,011	£175,932	£20,655	£3,765	£401,084	£20,856,367

These estimates include the impact of young people living proportionately across the whole of the local authority and RSL stock, as we have been unable to separate out the specialist stock by property size and likely occupant age. The impacts will also differ by different markets and according to employment rates. Case level analysis would provide a finer grained estimate but this is only possible at the level of the individual landlords' data. Some case study examples are provided in the next section.

5. Landlords' strategies on the LHA cap

5.1 Introduction

Individual consultation was undertaken with a total of 17 social landlords - eight local authorities and nine RSLs. In addition, a series of group consultations was undertaken through meetings with ALACHO members and focus group discussions were held with approximately 40 landlord representatives at the SFHA Housing Management Conference in June.

This qualitative research explored the following areas:

- Preparedness – evidence on the potential impact, business intelligence on under 35s, business planning and governance.
- Mitigation plans – what strategies may be deployed to mitigate the impact.
- Housing Options and supporting tenants – whether this has, or may change as a result of the LHA cap.
- Sharing tenancies – whether landlords are considering this as an option in the SRS, what works, and what lessons have been learned.
- Homelessness and temporary accommodation – how will the LHA cap affect the ability of local authorities to discharge their duties and fund temporary accommodation.

Throughout this discussion, case studies are included to illustrate landlord approaches.

5.2 Preparedness and business intelligence

The study team found mixed levels of preparedness and business intelligence in relation to the potential impact of the LHA cap amongst the landlords consulted. The levels of detail in tenancy databases vary considerably, with more recent tenant data generally being more comprehensive. Many landlords have increased their focus on data collection in response to welfare reform.

Some landlords were not able to determine the proportion of under 35s claiming Housing Benefit, others did not have sufficient information on family composition to identify single tenants under the age of 35. In general, the experience from this research is that many landlords do not readily have all the data available to be able to make an accurate LHA cap impact assessment. That is not to say it cannot be found, rather that currently, this analysis does not appear to be a priority.

Many landlords did note that they are observing increasing numbers of new lets to tenants aged under 35 years, though this was sometimes an impression, rather than based on rigorous analysis of data.

Only a minority of landlords consulted have collected and analysed the evidence on the LHA cap in detail, including the potential number of current and new tenants that may be affected, and an estimate of the potential shortfalls in benefit for those tenants. Fewer have used this data to understand the impacts on their business plans. Landlords did often have a clear sense of which properties or types of property were likely to prove least affordable for those affected, often identifying new build stock as being problematic in this regard.

Those that have undertaken detailed analysis of the impact of the change on their business planning tend to have higher rent levels, or face lower LHA rates in the area they cover, and so are more likely to be impacted by the LHA cap. A minority of the landlords that have made these impact assessments were not willing to share their projections of financial impact on the basis of sensitivity. Many felt that because of the dynamic nature of welfare reform, the financial impacts may change. Where detailed analysis has been undertaken, it has been on the basis of a snapshot of what the impact of the benefit would be if it were introduced today, rather than in two years time after further rent rises and two further years of frozen LHA levels. A small number of RSLs appear to have grasped the risk posed to sitting tenants because of change of circumstances.

The majority of landlords consulted have established broad brush conclusions on the potential impact of the LHA cap, and have developed risk assessments that include the introduction of the cap which have been presented to Boards, Committees or Welfare Reform Groups. For many RSLs, welfare reform is a standard item on their Board meeting agenda, and the issues have been explored in away days or business planning days, though the LHA cap is only one of a number of welfare reform issues being explored. Welfare rights officers have often played a role in supporting these discussions. The eventual implementation of Universal Credit and the coming of the LHA cap have led to the restarting of some welfare reform working groups.

Changes that have been made to business plans rarely reflect the impact of the LHA cap in isolation, but are the result of attempts to respond to welfare reform more generally. RSLs have responded to welfare reform by assuming higher levels of arrears, including former tenant arrears, higher levels of bad debt and reduced income, and by changing key performance indicators (KPIs). A number of RSLs were also facing wider 'strategic' decisions about their funding of mitigation activity.

The level of concern about the LHA cap varies. A number of landlords made the point that as their rents are lower than the LHA rates, they do not have great concerns over the LHA cap on its own and so have undertaken little work on impact assessment. Others are more nervous, expecting a significant impact on tenants and their business plan. In general, the study team have found that the LHA cap is not currently landlords' highest priority - they are more focused on dealing with urgent operational issues around the roll out of Universal Credit. One participant stated:

"Just don't want to think about this – there's too much else going on with Universal Credit. This'll be the next thing we have to look at, but can't just now."

To some extent, landlords have also put concerns on a backburner because the implementation of the LHA cap is almost two years away, and there remain open questions about potential mitigation and the details of exemptions. The sheer difficulty of getting an accurate handle on the level of impact and identifying tenants who are at risk has also had a dampening impact on the attention being given to the change.

The City of Edinburgh Council (CEC) has undertaken detailed profiling of its tenants in mainstream accommodation. CEC's rents are relatively high at £75 per week for a 1-apartment (bedsit/studio) property, compared to the LHA SAR of £68.27. CEC has projected the number of new lets to under 35s and estimates that 78% of these claim Housing Benefit (whether full or partial). 60% of CEC's new lets are to homeless households who CEC knows are more likely to be claiming benefit. Profiling of rent arrears shows that the highest proportion of arrears are in the under 35s, with 64% of CEC tenants aged under 35 in arrears. This is a key risk group going forward for CEC with scenario planning, financial impacts, and regular updates made to the HRA business plan.

Cunninghame Housing Association has carried out an exercise to identify how many of its 2,300 tenants will be impacted by the SAR when they move to Universal Credit. They estimate 133 will be in this category, with an average shortfall if the change was introduced today of £16.25 a week, a high figure driven by the low SAR for the area the Association serves. The Association sees the impact on single tenants in two bedroomed properties as 'Bedroom Tax max'.

A rent restructuring exercise is currently being undertaken (planned before the introduction of the caps) which will ensure that all properties are below their equivalent bedroom LHA rates. This cannot eradicate the affordability gap for single tenants under 35, but will reduce it to an average £10-£12 a week.

The Association remains concerned about the impact of the change on its business risks and has altered its business planning to account for increased bad debt provision and to set aside additional resources to work with clients, though it suggests that officers must now make spend to stand still rather than spend to save arguments in relation to such investments. Its business planning is deliberately based on the assumption of no mitigation from the Scottish Government.

The Association already faces challenges around tenancy sustainment, particularly for homeless applicants and believes that it will be forced into making offers of properties to tenants who cannot afford them. It has calculated that 25% of its new lets are to homeless people, suggesting these challenges will only increase.

The Association will work with tenants through its financial inclusion and employability teams and its Citrus Energy advice subsidiary to maximise incomes and reduce outgoings, and to help people access exemptions in the same way as it tries to get people on Universal Credit access to managed payments. However, it believes its mitigation options are limited, certainly more limited than under previous changes, and that ultimately a policy designed to save money is likely to impact negatively on tenants.

In response to the impact of Universal Credit, and to a lesser extent the introduction of the LHA Caps **Hillhead Housing Association** has increased its accounting in its business plan for rent arrears to a (conservative) 8% over the next four years. Historically the Association's rent arrears have been much lower, at around 2%, but they have increased to 3% over the last six months, largely as a result of the introduction of full service Universal Credit in its area. The Association's rent arrears KPI has also been increased from 2% to 3.5%.

Very few local authorities have temporary accommodation rents that are within LHA rates. Local authorities are therefore concentrating more on addressing the considerable impacts envisaged in the temporary accommodation stock than they are on general needs housing and the LHA cap. In the short term, some of the financial impact for loss of the 'management fees' which previously accompanied LHA for temporary accommodation has been offset by funding of £22.5m for 2017-18 allocated to the Scottish Government from the UK Government and has then been allocated further to local authorities. The method of allocation was based on percentage share of homeless households in temporary accommodation, using a three year average. Consultees talked about 'winners and losers' in this process.

East Lothian Council (ELC) is better placed than some landlords in relation to the LHA cap as it is a relatively low rent landlord in a high LHA region. This applies to its mainstream housing and unusually in its temporary accommodation. Rents are relatively low at £51.77 for 1-apartment (bedsit/studio) properties and £56.77 for 2-apartment (1 bed) properties compared to the Lothian SAR of £68.27 and 1 bedroom rate of £116.52. ELC charges the normal local authority rent in its temporary accommodation with no additional service charges. It also has a private sector leasing (PSL) scheme which is providing a crucial additional source of temporary accommodation. In the PSL the loss of the management allowances from 1st April 2017 has been partially offset by the recent mitigation funding from Government.

ELC still faces considerable challenges – lack of affordable housing generally, lack of smaller sized housing options and no access to private rented stock due to lack of interest from landlords in higher priced markets, particularly in the context of Universal Credit. ELC is looking at a shared accommodation pilot for temporary accommodation. However, its immediate concern is the experience in Universal Credit roll out with increasing destitution for tenants and negative daily impact on front line staff in implementing the change.

5.3 Data case studies from landlords

During the qualitative case studies, landlords agreed to provide what information they had available from their own data. Nine landlords provided data of different levels of detail.

Landlord 1 – Large RSL

This landlord has 133 tenants who would be affected by the SAR. Their current average rent is a little under £80 a week, so tenants would have a shortfall, on average, of £16.25 per week. That is a potential rent gap of £2,161.25 a week across the 133 tenants. The landlord is restructuring rents, which will bring that average down to between £10 and £12 per week shortfall. That would reduce the total weekly shortfall to between £1,330 and £1,596. They report a higher proportion of single under 35s currently being allocated homes and a higher proportion dependant on Housing Benefit.

Landlord 2 – Local authority

17.6% of the current tenant body are aged under 35 years, with 40% of new lets going to the under 35s. There are 954 tenants aged under 35 on Housing Benefit but no indication of what the rent gap faced by these tenants might be.

Landlord 3 – Local authority

This landlord has around 320 lets to new tenants aged under 35 years each year, with around 250 estimated to receive Housing Benefit. It is not clear how many of these tenants are single tenants, though. New lets to young people make up about one in 10 young tenants, so the overall pool of young people affected could be large BUT without information about how many are couples or single tenants, it is hard to say.

Landlord 4 – Medium-sized RSL

Analysis of this landlord's smallest properties suggests an average rent gap of £6.15 for young people allocated a 2-apartment (1 bed) property, or £7.65 if allocated a 3-apartment (2 bed) property.

The landlord has 97 tenants potentially impacted by the LHA rates. However, of these, only a couple are potentially affected by the SAR. Of 86 new tenants nine are single under 35s but only one is in receipt of Housing Benefit.

Landlord 5 – Small RSL

This landlord has a list of 30 single tenants with no dependent children on Housing Benefit:

- Five of these tenants would not be affected due to other income from employment and are on very low entitlement.
- Of the other 25 directly affected by the possible LHA cap the average shortfall would be £20.55 per week. This ranged from some with shortfall of £10.93 while others were up at £28.53.
- 13 were male and 17 female, with ages ranging from 19 to 35 years.
- Five of the 25 tenants are in some form of sheltered or supported accommodation.

Landlord 6 – Large RSL

This landlord has 21 tenants in total on benefits aged between 18-35 and single, and 108 Tenants in total on HB aged between 18-35 years. No information is provided about the likely rent gap.

Landlord 7 – Medium-sized RSL

This landlord has identified 16 2-apartment (1 bed) properties where, if the SAR was applied there would be a rent shortfall of around £16 per week at year one of the LHA freeze, rising to £24 per week in the final year of the LHA freeze. By the final year of the freeze, a tenant affected by the cap would face an annual rent shortfall of over £1,000. There was no information about the number of tenants expected to be affected but a recognition that single tenants who let these properties would be 'setting up for failure'.

Landlord 8 – Large RSL

This landlord has identified 181 mainstream tenancies with the lead tenant under 34 years of age. Of these, only nine (5%) are currently paying rent above the LHA cap and will be the focus of advice and support. They are conscious that some of the 172 other young tenants may be affected in the event of a relationship breakdown or other changes in circumstances. Their ongoing rent restructure may bring some of the rents below the cap.

Landlord 9 – Local authority

This landlord estimates that 17% of current tenants and 43% of new tenants are under 35 years. They estimate that 4.2% of young, single tenants are on Housing Benefit and may be affected by the proposed LHA cap.

These examples show a wide variety in the level of intelligence that landlords have about their tenant body and also a wide variation in the levels of impact, from minimal/no impact to rent gaps of around £6-£7, around £16 and up to over £28 per week.

5.4 Supported accommodation

For those RSLs with supported accommodation, the impacts for them, like local authority temporary accommodation will be much greater. For many of these landlords, the barriers appear to be insurmountable without some form of mitigation and hopes are mainly resting on the prospect of the Supported Accommodation Fund. Supported housing providers do not know the extent to which financial mitigation will cover shortfalls and so many are assessing the potential worst case scenario.

This RSL provides accommodation for people experiencing the extreme end of homelessness; those with complex needs that often cannot sustain homes with other providers. It provides 300 supported accommodation bed spaces. The supported accommodation is commissioned through local authority social work and homeless services and clients cover a full range of ages with about 20% of its clients aged under 35 years. The vast majority of the RSL's clients stay very short term, three to six months, and have occupancy agreements. Rents and service charges are combined with an average cost of £305 per week. Funding for these charges come through Supporting People funding and Housing Benefit. 100% of occupants cover their rent through Housing Benefit or Universal Credit.

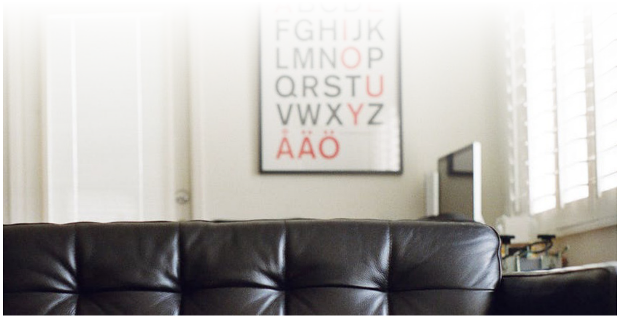
The RSL's business plan is based around tendering for commissioned services. The tendering environment is very difficult - requiring comprehensive services and quality, and commitments to the Living Wage. This means savings are very difficult to achieve where 90% of costs are driven by staffing costs. Typically, three year contracts will have no inflation factor, and so means real term decreases in income and savings over the contract periods.

The RSL has been tracking the potential impacts of welfare reform constantly and when the LHA cap on social housing was announced, updated its risk assessment accordingly. Its impact assessment is based on comparing the amounts currently covered by Housing Benefit with the amount projected to be covered by the LHA caps. It has not initially included the SAR, but has assumed the one bedroom rate in its impact assessment. This has created a massive shortfall of £3m against an £8m turnover – about 40% drop in revenue. This is an under-estimate given than around 20% of its clients are under 35 years and could be subject to the SAR.

This level of fall in revenue is unmanageable. Although some options have been considered, the RSL considers that 'when faced with a gigantic cliff edge there is very little that can be done'. The options considered so far have been:

- Closure of some of its accommodation and redundancy but this would also incur additional costs which the RSL could not afford.
- Sale of properties to generate cash to sustain some of the other services – however many of the property values are lower than the Housing Association Grant (HAG) outstanding on the properties which would have to be paid to Scottish Government.

Its only real option is to wait to find out what might be forthcoming through the Supported Accommodation Fund, potential exemptions or any other mitigation through Scottish Government. Until such time as that is clarified, the RSL cannot make any firm mitigation plans. As the supported accommodation is a commissioned service and has specific quality requirements there is very little, if any scope for rent restructuring or savings on support costs. Should mitigation funds not be forthcoming, then more radical organisational change may have to be considered.



5.5 Planned mitigation activities

The discussions with landlords have found little evidence of comprehensive mitigation plans in place specifically designed around the LHA cap, with landlords focusing on their overall approaches to mitigation against welfare reform. Most consultees talked about working up approaches through welfare reform groups and structures.

In terms of expectations around **Scottish Government mitigation**, few of the landlords consulted held out much hope for additional DHP to fully cover any rent gaps created by the LHA cap, although many RSLs stated that the sector should make clear that this would be desirable solution. Most landlords spoke about demand already outstripping supply of DHP funding, even before the LHA cap comes into force and some felt there was a point at which the Scottish Government could not be expected to continue to mitigate the decisions of another Government. There was one exception where one local authority stated there were adequate DHP funds for their social and PRS tenants, and envisaged that the DWP may also assist in the LHA cap rent gaps.

One RSL with supported accommodation and local authorities with temporary accommodation are anticipating the scope and terms of the **Supported Accommodation Fund**. As noted above, local authorities have already received some mitigation through UK and Scottish Governments around the loss of the LHA management fee for temporary accommodation. There was a clear wish for the Scottish Government to provide certainty as soon as possible on any potential mitigation resources.

Apart from Scottish Government mitigation, the key mitigation strategies in place, or being considered, are around stock profile or redesignation, internal financial mitigation and Housing Options, information and advice. The following lists the key mitigation approaches being taken and others considered and discarded.

Increasing the supply of small accommodation - This was raised by a number of local authorities and RSLs. However, it was noted that there are tensions between demand from tenants, welfare reform drivers for small accommodation and providers' and funders' (including Scottish Government) common preference for two bedroom accommodation to provide flexibility.

Making the best use of existing stock - Some local authorities and RSLs are taking more strategic approaches through common housing registers and ensuring alignment where possible between all social landlords to get consistency in allocations policies where possible.

Increasing the supply of specified accommodation – Three local authorities raised the prospect of increasing the supply of **specified accommodation** by increasing the levels of support provided and designating some existing temporary accommodation as refuges. This is justified based on increasing levels of support required for homeless people. Specified accommodation is defined in the Housing Benefit and Universal Credit (Supported Accommodation) (Amendment) Regulations 2014[44] which sets out four different types of supported accommodation which are exempt from some welfare reform measures.

Creation of internal mitigation funds - One local authority suggested establishing an HRA resourced mitigation fund. Others consider increasing bad debt allowances as internal financial mitigation.

Changing allocation policies - None of the consultees were considering any review of allocation policies as a result of the LHA cap, although one landlord is in the process of a policy review which will consider welfare reform impacts. In fact, a number of local authority landlords discussed recent or pending reviews to broaden entitlement to two bedroom properties even

44 http://www.legislation.gov.uk/uksi/2014/771/made

though the strict requirement is one bedroom. This is due to the shortage of one bedroom homes and local authorities' and other landlords' desire to ensure people in most housing need are housed as quickly as possible and to alleviate bottle necks in temporary accommodation and waiting lists.

It was emphasized that tenants are advised of potential rent gaps but many consultees also stressed applicants' choice to take offers and pay for larger properties than they strictly need. In this sense, no landlords in the local authority sector considered that it would be unreasonable to offer applicants a home than is larger than welfare benefits will cover. RSL consultees were not found to take this approach and were concerned that allocating larger properties than needed would present risks to long term affordability.

One RSL, part of a common housing register for their area, acknowledged that their local authority's lower rents meant that all the under 35s potentially affected could be housed in properties inexpensive enough to avoid any rent gap. But it is felt that this went against the whole purpose of the common housing register and would cut across attempts to build and sustain mixed communities.

Landlords are clear about the limitations on their freedom to change allocations policies to reflect the affordability challenges created by the LHA cap. Legislation prevents social landlords from refusing to make offers to potential tenants on the grounds of affordability. Their focus was therefore on advising tenants on options and potential rent gaps.

Rent restructuring - None of the consultees are considering rent restructuring as a result of the proposed LHA cap. A number of landlords have recently restructured or harmonised rents and emphasised the considerable effort involved and would not want to revisit the exercise on the basis of external drivers. Although rent restructuring in his Association had not been carried out with the LHA cap in mind, one landlord representative was grateful that the result had been to bring some properties under the LHA level for under 35s. There was little enthusiasm for the idea of charging lower rents to younger, single tenants. There were concerns from some RSLs about equity, legality, and about how other tenants may react to potentially 'subsidise' others.

All but one of the eight local authorities consulted are looking closely at their **local authority temporary accommodation charges**, with the aim of reducing charges where possible. One local authority consulted adopts a no eviction policy for rent arrears in temporary accommodation. None of the other local authorities or RSLs adopt a no eviction policy for rent arrears, although as outlined above, some are considering mitigation funds where arrears are caused by welfare reform impacts.

Information and advice – This is the greatest focus from landlords which has intensified with welfare reform. This approach includes more pre-tenancy affordability and tenancy readiness advice, identifying risks and vulnerabilities earlier and more proactive household budgeting, income maximisation and employability advice. This is discussed further below under Housing Options.

A small minority of landlords consulted are considering **shared accommodation models.** No existing models were found amongst the sample for mainstream housing, one was found in the PRS promoted by the local authority and three are being explored at pilot stage by local authorities for temporary accommodation. Shared accommodation is discussed further below.

Local authority landlord internal mitigation

This local authority has over 10,000 homes in an area where the SAR is mid range at £63.46 per week. Local authority rents are almost £3 above SAR and RSL rents are on average £7 above the SAR. There is a small supply of 2-apartment (1 bed) stock and the difference between 3-apartment (2 bed) rents and the SAR is £8 per week for local authority homes and greater for RSL homes. Temporary accommodation is almost exclusively local authority self-contained accommodation charged at around £350 per week. The resources within the DHP fund are already stretched and the local authority does not hold out much hope for more funding from the Scottish Government.

For the mainstream tenants, the local authority's mitigation plans are around consideration of a local authority led Welfare Reform Housing Fund, resourced through the HRA which would operate in a similar way to DHP. The detailed criteria and application of such a fund are still to be worked through with Councillors and the Tenants' Federation.

A separate exercise is ongoing in relation to temporary accommodation to consider the scope of the service and how rents may be reduced. Because 75% of homeless tenants in temporary accommodation have support requirements, other mitigation will be moving more of the temporary accommodation stock to supported accommodation, particularly for under 21s, working with specialist supported providers and designating more stock as specified refuge accommodation which is expected to be exempt from the cap. Out of 215 temporary accommodation units, at least 50 will be designated refuge accommodation.

Housing Revenue Account Budget Strategy and mitigation measures

The City of Edinburgh Council's (CEC's) Housing Revenue Account budget strategy for 2017-2022 highlighted the economic and social hardship experienced by many of CEC's housing customers. This is in the context of housing costs in the private market continuing to rise. Average private rents are now around £1,000 a month in the city and are the highest by a significant margin of any city in Scotland. Average private rents are around double Council rents in Edinburgh. The budget report proposed additional measures to improve the quality of life for current and future tenants. These included:

- Measures to secure a robust pipeline of development projects to deliver, with partners, 20,000 affordable and low cost market homes over the next ten years. The strategy aims to deliver at least 10,000 homes by 2021-22.
- Further acceleration of replacement heating programmes and insulation measures to make homes easier and cheaper to heat. This includes partnering with Our Power to provide lower cost energy, and excellent customer service.

The Council is also introducing and expanding services aimed at reducing living costs. This includes a pilot project to supply high speed broadband to Council Tenants, an energy advice service, expansion of community food growing initiatives and a tenant discount scheme. Measures are also being introduced to help increase tenants' income by supporting them into employment. This includes early intervention support from the network of Edinburgh's employability providers, but also increasing affordable access to the internet to help with employability.

5.6 Housing Options, information and advice, support and employability

Consultation with landlords considered how information and advice for tenants on housing options and affordability, income maximisation and employability has been or may be changed as a result of the proposed LHA cap.

Most landlords stated that they were trying to be as transparent as possible about the future affordability issues and information, **telling tenants about the LHA cap,** through a range of methods - Housing Options interviews, pre-allocation, pre-tenancy, settling in advice, newsletters, a range of correspondence and communication routes and ongoing welfare rights advice. Some describe affordability assessments as now being included in pre sign up meetings. A minority have not begun this process yet. Some local authorities are not yet telling temporary accommodation tenants where the tenancy/ occupancy is expected to be short-term.

Advice is being given around the rent gap that may occur and tenants' responsibilities to pay the full rent. One RSL operating across the UK is asking its English tenants to sign a waiver indicating that they have understood the future risk to their affordability.

There was a strong theme from all consultees that despite their best efforts to inform and advise tenants, their experience of welfare reform so far suggested that **tenants will not appreciate the change** until it 'hits their pockets'. The change seems too far away to many tenants for them to take it seriously as a prospect.

Advice to tenants is being accompanied by **training and awareness sessions** for staff. A number of local authorities mentioned new Housing Options training and the move to greater integration and synergy between general Housing Options and homelessness advice teams to ensure consistency. No examples were found of adopting different or specialist Housing Options approaches for under 35s, other than staff being trained and aware of the welfare reform impacts.

Landlords commonly spoke about 'more of the same' in terms of the welfare reform approaches already adopted. As noted above, this means more **proactive advice** to tenants, income maximisation, linking to networks of advice and support and **employability advice**, with earlier pre-emptive support and identification of higher risk tenants with pre-tenancy support put in place to make applicants tenancy ready. A number of landlords felt they have already exhausted all initiatives; 'cannot think of anything more we can do'.

A number of RSLs have funded **welfare rights or money advice officers** through their business plans, rather than through external grant funding for a number of years. Others had such workers funded externally as part of a number of Scotland wide investments of resources to support social landlords to mitigate the impact of welfare reform and Universal Credit in particular. The later implementation of Universal Credit and the coming of LHA caps have left the latter RSLs considering whether they should also mainstream such provision.

RSLs also discussed the potential benefits of helping tenants to reduce their household costs. A number mentioned encouraging access to cheaper fuel deals through Citrus Energy, a fuel switching social enterprise that is part of Cunninghame Housing Association. Others acknowledged the particular financial challenges faced by new tenants and the inability of the Scottish Welfare Fund to deal with these fully, looking at engaging with furniture projects and striking deals with local suppliers to help meet them. Alongside this, RSLs continue to invest in other wider role activities or establish new wider role posts, allowing staff to focus on creating new projects which may help mitigate the impacts of welfare reform.

Local authorities and RSLs alike have reviewed income collection activities, accompanied by intense income maximisation advice. Sharpening of practice involves greater emphasis on personal contact and early intervention, with varying approaches being taken in terms of putting in place specialist teams, reducing patch sizes for generalists, or in the case of one national RSL, using a call centre more effectively. Such efforts had enabled some RSLs to hold arrears steady or drive them down. Others had seen some, generally small, increases.

RSL information and advice, and mitigation measures

Parkhead Housing Association has 1,600 properties in the East End of Glasgow. The Association has calculated that one in 12 of its tenants would be affected by the SAR if the LHA caps were introduced this year. The Association has quantified the financial impact and how it might grow, from £70 a month on a one bed property if the cap came into place now, to £106 in the final year of the LHA freeze. The Association has concerns about the affordability of its new build, and former Scottish Homes stock. They have begun the process of assessing the impact of the LHA caps on their business plan five, 10 and 30 years in advance.

The Association has a welfare rights service and its welfare rights officer, in conjunction with a senior colleague with a welfare rights background, has been instrumental in keeping staff and the committee up to date on changes.

In addition the Association is/ has:

- Kickstarted its welfare reform group in response to the LHA caps.
- Increasingly building affordability into conversations with tenants and potential tenants.
- Reduced the patch sizes for its generalist officers, with an increased focus on identifying vulnerable tenants. This has resulted in a two to three fold increase in the number of tenants identified as having various vulnerabilities including learning disabilities, mental health problems, addictions, or physical health conditions. One in five are thought to be vulnerable in at least one of these ways.
- Increased partnerships with external support agencies to which vulnerable tenants can be referred. A wider role officer has been appointed to focus on accessing external resources to create education, employment and health projects.

The Association is also looking to participate in a pilot of shared housing approaches with Glasgow Simon Community and three to four other RSLs. It believes that shared housing, whilst not being suitable for all, and presenting its own set of management challenges, may be a useful, if small, part of the mix of mitigation policies and may help deal with the current mismatch between demand for housing from single people and greater supply of two bedroomed properties.

5.7 Homelessness and temporary accommodation

Consultation with eight local authorities suggests that the key issue for the LHA cap is loss of income and significant increasing costs as most local authority temporary accommodation is priced well above LHA. As discussed above, the recent removal of the management fee has been mitigated to a greater or lesser extent for individual local authorities. With the exception of one local authority with lower priced temporary accommodation, all the local authorities consulted are looking at service review and charge restructuring.

One stock transfer local authority provided insight to its previous experience of the impact of the LHA cap on the PRS and RSL stock which is leased for temporary accommodation and where there is no local authority owned temporary accommodation. Here, the financial impact on the local authority ran into many millions and the temporary accommodation service had to be redefined to 'the bare minimum' with furnishing including a bed, cooker, washing machine and towels. Void management was also reviewed to ensure it was as efficient as possible. This local authority will now have to revisit the temporary accommodation model again to cater for the under 35 cap. At this stage it has not considered the options as it has more pressing issues to deal with in Universal Credit.

In terms of ability to discharge duty, the sample local authorities did not differentiate the LHA cap in their ability to discharge duty – other than adding to their already constrained ability to permanently rehouse. These constraints are more considerable in pressured markets, where there is little scope to draw on the PRS (as prices are so much higher than the LHA). In these markets PSL schemes are becoming more difficult to use due to lack of supply of PRS stock to the schemes as landlords can secure much higher rates in the open market and are said to be put off by Universal Credit. All the local authorities were calling for more supply and a range of different affordable housing options.

5.8 Shared accommodation options

Local authorities and RSLs were asked about their opinion and experience of shared accommodation models. Only a small number of examples of deliberately using shared accommodation in the SRS were found and these were focused in local authority temporary accommodation. There was one PRS example.

A number of RSLs reported that they were already open to allowing shared tenancies and responded positively to the small number of requests for such tenancies from siblings and occasionally friends, unless they had specific reasons not to. Two RSLs indicated that they were actively exploring shared tenancy models, one being part of a group looking to pilot approaches, another engaging with webinars run by Crisis.

However, landlords expressed a number of concerns about the challenges and business risks involved in managing shared tenancies, although these were not generally based on extensive experience of doing so. It is clear from this work that there are strong perceptions around sharing in the SRS, but not a great amount of experience. The following themes emerged through conversations with local authorities and RSLs:

- **There are risks** associated with shared accommodation – perceptions around difficulties in matching tenants and potential anti-social behavior. This included problems that may occur if one of the tenants left, the need to find a replacement tenant and increased risks of not being able to let the spare room.
- Sharing should be a **choice** and specifically **targeted** to those that may be best suited to this housing option. Risk assessments and well thought through **matching processes** would have to be in place.

- There are concerns about **support requirements**, particularly for homeless tenants, with the conclusion from some being that sharing could only be for those with no, or light support needs.
- Even with low support needs, it is envisaged there may be more intense housing management required, with suggestions that it would be better to work with **specialist supported housing providers** to lease or purchase property to develop this housing option.
- In areas outwith cities, it was suggested the lack of **culture around sharing** would mean a lack of demand for this option.
- There are concerns or a lack of understanding relating to the **legal issues** around the appropriate form of tenancy to use.

Landlords also highlighted some positive potential from encouraging sharing:

- Advantages envisaged were around **improving affordability** and introducing potential tenants to a home sharing environment which could give **mutual support** and therefore help sustain tenancies.
- Sharing may provide an **additional housing option** for a relatively small number of people but it not envisaged to be a wholescale solution to the problem of a lack of smaller accommodation, or the answer to welfare reform.
- The possibility of **dealing with mismatches between high demand from single people and low demand** relating to homes with two or more bedrooms (though some felt investment grant policies had taken landlords away from having many such properties available).
- Where advantages were seen, it was also noted that sharing should be a **choice** and promotion **targeted** to those that may be best suited to this housing option.

Three examples are provided below of shared accommodation models. Two of these are recent pilots, with one a more long running scheme in use as a PRS access scheme.

Shared tenancies for temporary accommodation pilot

This local authority ran a six month shared accommodation pilot between autumn 2016 and spring 2017. It wanted to test a shared housing option and to give tenants the opportunity to experience the life skill of sharing. The sharing flats were offered to homeless clients, under the age of 35 in temporary accommodation. The local authority had training from Crisis to set up the pilot.

The pilot involved two sharing properties, each two bedroom flats. The flats had to be adapted for this purpose which involved:

- Fitting fire doors with locks on each of the bedroom doors.
- Providing two fridges which the tenants could choose to have in their own bedroom or in the kitchen.
- Providing a sharing kitchen with white goods with a dining table and chairs.
- Providing two sofas which again tenants could choose to have in their own rooms.

The tenancy used was a Scottish Short Assured tenancy on the basis that these were temporary accommodation. The flats were let for six months with tenants assisted to move on to permanent accommodation at the end of six months. Rent levels were at the normal local authority rent plus a service charge in line with the rest of the temporary accommodation stock. In this sense, this project was not testing affordability of the SAR, but was rather testing whether younger tenants were interested and able to share accommodation.

The selection and matching of tenants worked in the following way:

- Case officers at the point of Housing Options interview established whether the prospective tenant might be suitable for sharing, having discussed this option with the applicant.
- A referral was made to the Support Service, which then met the prospective tenant and went through a questionnaire with the person to establish their likes and dislikes, support needs and to discuss in depth with the person whether they thought this would be a suitable option. They would talk through the sharing accommodation set up, and what would be expected of the tenant.
- The Support Service would then consider which tenants might be a suitable match and a meeting was arranged between the prospective tenants, with both of their individual support officers. Up to this point names of the tenants had not been shared, but if the tenants agreed to a meeting then at this point the names were shared. The tenants also discussed what they would like from sharing – they discussed their likes and dislikes and established 'house' rules together.

Having established the tenancy and house rules, the tenants settled in. The tenants established a cleaning rota, were responsible for paying joint utility bills (with accounts in joint names) and had their own TV licences. Individual tenants continued with their individual weekly support with their own support officers. Once a month there was a joint meeting between the housing officer, support officers and both sharing tenants. There was also a more in depth review meeting at three months. There were no tenancy issues or antisocial behaviour experienced with the four tenants involved in the pilot.

In general the pilot worked well – two of the tenants bonded well and had a very positive experience from sharing. The other two did not bond so well, with one moving on and the other tenant still obtaining support – but there were no negative issues in this case. This demonstrates the risk if one tenant moves on, where it is more difficult to find a match with a tenant already in a property, rather than matching tenants together for a new tenancy. The experience suggests the most difficult element is the matching process - this is time consuming and landlords have to realise and plan for the time commitment involved. The project is currently on hold while a review is undertaken, but it is hoped by the officers involved that the model will be re-established.

Aberdeenshire Council shared accommodation pilot

Aberdeenshire Council has just started a shared accommodation pilot for temporary accommodation, with the first two tenants moving into their home in June 2017.
The Council looked at a range of options including sharing in mainstream, temporary accommodation, and using PRS stock. Following long discussions the Council is piloting temporary accommodation using the Council's stock, rather than permanent accommodation, on the basis that it wanted to provide more affordable temporary accommodation for working people. The Council officer leading the pilot attended practice forums and meetings on the topic and met with Crisis to receive guidance on how best to implement the project.

Only two bedroom properties are being used to avoid HMO legislation. Currently one property has been identified in the centre of Inverurie, close to amenities and another property is being identified in the Stonehaven area. Tenants are selected following a risk assessment, as with anyone being placed in temporary accommodation. Clients will be offered the shared accommodation as a reasonable offer of temporary accommodation as they would if they are placed in any other form of temporary accommodation. Individual circumstances will be taken into account if there are genuine reasons for not being able to share accommodation with another tenant.

The Council has tried to highlight the benefits of the concept, offering a reasonable cost, good location, size of rooms, and much better alternative to B&B. But the Council has found it difficult to find clients that are willing to share as they would rather have their own accommodation. The Council is using individual occupancy agreements (as with all its temporary accommodation) which means that each tenant is only liable for their half of the property and will not be liable for any rental costs if one room is empty.

The pilot is at a very early stage. The Council does see possible risks with sharing but it has used a comprehensive risk assessment, and has established regular contact with the tenants involved and visits to the accommodation to mitigate these risks. This involves the Tenancy Support staff helping to resolve any conflicts or neighbour issues. So far no significant problems have occurred, with only very minor parking issues that have been dealt with easily.

The criteria used in selecting properties and making them ready for sharing were:

- Two bedroom properties – each with lockable doors.
- Similar size rooms.
- Communal areas of kitchen, bathroom and living room – no lockable cupboards in the kitchen.
- Garden which will be maintained by the Council.
- Fully furnished with everything required to live in the property provided.
- Good standard to include decoration, repairs, gas and electric checks.
- Costs to furnish the property are as per normal temporary accommodation costs.

The rent is £58.77 per week which is within SAR. Tenants will also have to pay £13.64 per week for utilities and £3.22 for water and sewerage making the total charge £75.63 per week. If a tenant is claiming Housing Benefit, they will have to cover the cost of the utilities, water and sewerage as this will not be covered by Housing Benefit.

It is too early to evaluate lessons learned from the project, but so far the Council is content that it has achieved the principle of providing good quality accommodation for an affordable rent.

Perth and Kinross Council – shared tenancies in the private sector

Through its Empty Homes and Rent Bond Guarantee Scheme (RBGS) Perth and Kinross Council (PKC) provides owners and landlords with incentives to refurbish and bring properties back into use. As a condition of the grant, PKC has nomination rights for homeless households to these private rented properties for five years. Originally PKC ran a social letting agency service associated with the RBGS and through this service it identified 14 HMOs, and some two bedroom properties that have been used for sharing. There have been approximately 150 lets in the two bedroom rented properties over three to four years. The only adjustments made to properties were the provision of locks on bedroom doors.

Properties are advertised as suitable for sharing and PKC, as letting agent, facilitated a matching service. This involved the normal application process and checks, but included an additional form to identify lifestyle choices, whether the tenant was sociable or introverted, working or not. PKC then facilitated a meeting between the prospective tenants, usually around viewing of the property. No support is provided to tenants, other than a regular tenancy check which PKC provides through its letting service, unless individuals require visiting support determined through their own support assessment.

Two separate short assured tenancies are set up (e.g. A and B) with the rent charge split in two. This means if one of the tenants leaves then the other is not liable for the whole rent charge. It was noted that this arrangement can get more complex where Housing Benefit is involved.

The initiative has provided good options for some people and has provided a useful first experience of flat sharing but there have been some bad experiences too. The advantages are identified as being affordable and providing potentially good and supportive flat sharing experiences. The disadvantages are the difficulties that arise when the flat share relationship does not work and finding a suitable match to move into a flat with an existing tenant.

Overall PKC emphasises that this is a relatively small initiative and it not seen as mainstream in their suite of housing options – this is because demand for shared housing is very small, where most homeless or potentially homeless people want their own tenancies. PKC pointed to the fact that there is less of a culture around sharing in mixed urban and rural areas compared to the larger cities. PKC no longer provides the social letting agency service which makes the promotion of this type of housing less likely from mainstream letting agents.

Wheatley Group consideration of sharing

In 2016, the Wheatley Group considered the range of benefits and costs that could come through sharing accommodation models. Based on comparative research it identified the potential benefits as:

- An affordable housing option for people under the age of 35 on low income or who are subject to the SAR.
- Over 3,000 single people under the age of 35 years on the waiting list where shared accommodation could provide a solution to their housing situation.
- Sharing can reduce social isolation if tenants are appropriately matched.

Wheatley Group identified the potential risks, downsides and costs as:

- No culture of shared accommodation in social housing.

- Possible high termination or turnover rate and costs.
- Shared tenancies are not considered a long term or permanent housing solution by Wheatley Group.
- Needs of vulnerable groups would have to be carefully considered to ensure that they are appropriately matched.
- Risk of antisocial behaviour and violent incidents between sharers.
- No capacity within existing resources to manage shared tenancy scheme.

As part of its consideration of sharing as a housing option, Wheatley Group undertook customer research with 100 young people to explore whether they would consider sharing. It was found that views of customers in relation to shared tenancies are generally negative. 65% of participants said "no" to sharing, 25% indicated that they would share and 10% said they would consider sharing if there was no other option available. Participants who responded positively did not object to sharing but would prefer to share with family or friends.

In conclusion, the Wheatley Group has decided not to proceed with sharing accommodation models at scale, at this stage.

The key lessons from these case studies are:

- **Tenant demand** – In general, consultees suggest there is not great demand for sharing in the SRS, or in the PRS outwith cities. It will take some time and effort to turn around that culture through proactive marketing and promotion of good quality and well managed shared accommodation.
- **Stock** – The type of accommodation and location has to be carefully selected to suit the potential client group. Typically this will be in a city or town centre location close to amenities and landlords will need to carefully work through the standard of accommodation and amenities for the accommodation. This would include, as a minimum, locked bedroom doors and options for sharing a kitchen and living space.
- **Management issues** – Risks are associated with sharing, particularly when there are support needs or a background of homelessness. These can be mitigated through support and hands-on management, but it should be assumed that more resources will be required than in mainstream housing.
- **Outcomes** – From the limited evidence available for this study, there is some evidence of positive outcomes for some people, where strong bonds are made with flat mates who then continue to have 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.

6. Conclusions

This research has shown the considerable impact that the LHA cap on under 35s may have on tenants claiming Housing Benefit or on Universal Credit in the SRS.

The potential estimated range of the impact on mainstream tenants aged under 35 years (excluding temporary accommodation) is likely to be between £5.3m and £8.6m, based on current rents and the full impact of the policy.

This estimate excludes temporary accommodation costs (where the current award is more than £120 per week) on the basis that these may be subject to some degree of exemption. The extent to which temporary accommodation will be covered by exemptions remains to be seen, of course.

Total current Housing Benefit awards to young, single social renters aged under 35 years are in the region of £28.6m, which means that temporary accommodation currently accounts for around 81% of the total awards, received by just 11% of recipients.

DWP awards data indicates that around 59% of young tenants aged under 35 years might have their award affected by the SAR cap, an estimated 14,400 young people from the typical pool of 24,400 Housing Benefit recipients.

Some of these young people will be exempt due to being in temporary accommodation, with around 2,580 young people aged under 35 years currently receiving a higher award that might indicate likely exemption in future.

This means around 12,000 young people are expected to see a reduction in their Housing Benefit award, over time.

Arrangements to mitigate against the impacts of welfare reform in Scotland to date have included 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. 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 it is interesting to note some realism amongst most landlords that this unlikely to materialise in the public finance context.

The research has found there to be generally poor intelligence on the number of likely tenants affected known by individual landlord. 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 SRS. 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. 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 is evidence 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 SRS.
- **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. Consideration should be given to how lessons learned from these pilots can 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 to 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 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.

Annex 1.
Detailed methods for estimating the potential rent gap

The estimates based on the ARC data

In the analysis of the 2015-2016 ARC data, the target LHA rent rates were applied to every landlord in the ARC dataset based on their main local authority of operation (derived from the 2012-2013 APSR dataset, when this indicator was still reported).

The approach of linking landlords to their main BRMA does lead to analytical gaps, with 10 landlords described as 'national operators' that are not linked to a single local authority. In the analysis of rents, we have compared these landlord's rents to the average LHA rate across all the BRMAs (i.e. £62.34 for the SAR and £88.66 for the 1 bed rate).

The LHA rate that is most important in considering the potential Housing Benefit gap for young, single people is the SAR – the 1 bed rate and the 2 bed rate. There may be young, single people in 3 bed or 4 bed (4 or 5-apartment) properties but this would be relatively unusual.

Table 4 above shows a range in the SAR between £56.96 in the Scottish Borders and £75.63 in Aberdeen and Shire, with the 1 bed rate ranging from £72.00 per week to £127.25 and the 2 bed varying from a minimum of £92.05 to a maximum of £162.24 (also between these two local authorities).

It follows that the landlords most at risk under the LHA cap in social renting are the local authorities where the distance between social rents and private rents is smallest and so social rents have less room to increase within the gap between social rents and the LHA. Landlords with fewer smaller properties will also be at a greater financial risk if they are accommodating young, single people in 3-apartment (2 bed) properties.

Table A1: Number of landlords with average rents above the SAR, by property size

	1-Apt (bedsit/ studio)	2-Apt (1 bed) v SAR	3-Apt (2 bed) v SAR	4-Apt (3 bed) v SAR	5-Apt (4 bed) v SAR
Landlords where the average rent is above the SAR	36	121	154	178	173
Landlords where the average rent is at or below the SAR	76	64	31	3	2
Landlords with no stock of this size	80	7	7	11	17
Total ARC	192	192	192	192	192

Source: ARC data 2015-2016

Around one in three landlords with 1-apartment (bedsit/studio) stock (36 of 116 landlords) have an average 1-apartment (bedsit/studio) rent that is above the SAR. Around two-thirds of landlords with 2-apartment (1 bed) stock have an average 2-apartment (1 bed) rent that is above the SAR and four out of five landlords has an average 3-apartment (2 bed) rent that is above the SAR.

While rents for 2-apartment (1 bed) and 3-apartment (2 bed) properties are generally well above the SAR applicable to single young renters, rents for 2-apartment (1 bed) sized properties and above are generally within the range of the LHA for 1 bed properties and above.

Table A2 below shows that only nine landlords had 2-apartment (1 bed) rents above the 1 bed LHA rate and only two landlords had 3-apartment (2 bed) rents above the 2 bed LHA rates. These landlords are all providers of specialist supported accommodation, or have large proportion of amenity or sheltered housing[45]. The level of funding available to fill these rent gaps is not yet known but there is certainly a DWP budget set aside for this.

This analysis suggests that it is the gap between the SAR and mainstream rents that is likely to be of most concern to landlords and tenants. The next stage of the analysis aims to quantify the average rent gap and determine how many tenants are likely to be affected (and at what cost).

45 Abertay Housing Association Ltd, Arklet Housing Association Ltd, Bield Housing & Care, Blue Triangle (Glasgow) Housing Association Ltd, Bridgewater Housing Association Ltd, Caledonia Housing Association Ltd, Hanover (Scotland) Housing Association Ltd, Scottish Veterans Housing Association Ltd, Trust Housing Association Ltd

Table A2: Number of landlords with average rents above the LHA, by property size

	2-Apt v 1 bed LHA	3-Apt v 2 bed LHA	4-Apt v 3 bed LHA	5-Apt v 4 bed LHA
Landlords where the average rent is above the LHA	9	2	0	0
Landlords where the average rent is at or below the LHA	176	183	181	175
Landlords with no stock of this size	7	7	11	17
Total ARC	192	192	192	192

Source: ARC data 2015-2016

What is the 'rent gap' likely to be?

In seeking to quantify the 'rent gap' that would not be funded if Housing Benefit was restricted to the LHA, the rent gap between the SAR and average rents for properties of different sizes was considered.

To estimate the total **potential** rent gap, the average rent gap is calculated by comparing, for every landlord, the difference between the average rent and the SAR. Where the average rent is above the SAR, the rent gap is then multiplied by the total number of properties of that size to arrive at a total potential rent gap for each property size category (i.e. 1-apartment bedsit/studio, 2-apartment 1 bed and 3-apartment 2 bed).

Table A3: Total potential weekly rent gap between each property size and the SAR

	1-Apt (bedsit/ studio)	2-Apt (1 bed) v SAR	3-Apt (2 bed) v SAR	4-Apt (3 bed) v SAR	5-Apt (4 bed) v SAR
Total potential rent gap	£75,230	£1,290,505	£2,308,685	£1,876,802	£386,413

Source: ARC 2015-2016

Table A4 shows the total weekly rent gap, for all properties, between the rent and the SAR, based on the average rent and the total number of properties. This takes no account of the occupant characteristics, so the proportion likely to be young social renters on Housing Benefit needs to be estimated.

Data from the Scottish Household Survey (SHS) is used to estimate what proportion of social renters in each dwelling size category would be expected to be single, young renters on Housing Benefit. Looking across four years of data – from 2012 to 2015 inclusive – provides a sample of over 42,000 cases with over 9,000 social tenants.

Across Scotland, SHS data suggests that an estimated 0.9% of all households are single, social renters who are aged under 35 years and on Housing Benefit. This is an estimated 3.7% of social tenants.

Table A4: Total potential weekly rent gap between each property size and the SAR

	1 bed (2 Apt)	2 bed (3 Apt)	3 bed (4 Apt)	4 bed (5 Apt)	5 bed (6 Apt)	All sizes
Other social renters	27.6%	45.0%	24.4%	2.8%	0.3%	100%
Young social renters on Housing Benefit	56.9%	39.5%	3.3%	0.3%	0%	100%
% of the stock occupied by young social renters on Housing Benefit	7.3%	3.2%	0.5%	0.4%	0%	3.7%

Source: 2012-2015 SHS dataset

The SHS collects information about the number of bedrooms in the surveyed property, so the distribution of these young, social tenants on Housing Benefit across the stock of different sizes can be determined. Table 8 shows that 56.9% of young social renters on Housing Benefit have one bedroom while 39.5% have two bedrooms and the remaining 3.6% have larger properties.

The SHS does not have any cases where the householder stated that they had no bedrooms. For this reason, it must be assumed that the 57% of young, single social renters on Housing Benefit that occupy a one bedroom property include those living in studio or bedsit flats where the living room and bedroom are combined. These have been assigned proportionately to the stock overall, based on ARC data.

Table A5: Total estimated weekly rent gap faced by young, single social renters on Housing Benefit

	1-Apt (bedsit/ studio)	2-Apt (1 bed)	3-Apt (2 bed)	4-Apt (3 bed)	5-Apt (4 bed)
Total potential rent gap across the whole stock (ARC)	£75,230	£1,290,505	£2,308,685	£1,876,802	£386,413
Estimated weekly rent gap by size among stock estimated to be occupied by young SRS	£371.25	£80,325	£72,591	£10,591	£873
Total weekly rent gap estimated for young social renters on Housing Benefit					£164,751
Total annual rent gap estimated for young social renters on Housing Benefit					£8,567,047

Source: ARC data 2015-2016, SHS data 2012-2015

Calculating the potential impact based on the difference between average rents from ARC and the SAR for **the estimated pool of affected tenants produces an estimated rent gap of around £8.6m over the year.** This covers social tenants in lettable, self-contained accommodation.

The estimates based on DWP awards data

An alternative method of estimating the potential gap in benefits due to the restrictions to the SAR is to use an estimate based on the **banded awards received** by young Housing Benefit recipients compared with the SAR. This method calculates the gap between the DWP award received by young, single social renters aged under 35 years and the SAR (see Table A6 below for a summary by local authority).

The number of awards in each £5 Housing Benefit award band is used to calculate the overall estimate, with the mid-point of the band used to calculate the gap between the award and the SAR rate.

There are some cells where the number of awards is not shown in the DWP tables, if there are fewer than five cases in that £5 band. The overall estimates are weighted to take account of the impact of this missing data.

The total weekly gap between the award and the SAR is calculated by adding together the weekly gap between awards and the SAR in each local authority and then multiplying by 52 to get an annual rent gap for Scotland. **This produces an annual estimated gap between current awards and the SAR, across Scotland, of around £28.6m.**

This estimate is considerably higher than the estimate above based on ARC average rents data, as it will include Housing Benefit for tenancies not included in ARC rents data (including temporary accommodation that is not part of the lettable, self-contained stock covered by the ARC return).

Assuming that awards of £120 a week or more are related to temporary accommodation, the estimate **excluding** temporary accommodation would be £5.3m.

Table A6: Total estimated weekly gap between awards and the SAR faced by young, single social renters on Housing Benefit, based on current award versus LHA SAR, by local authority (continued onto next page)

Local authority	% impacted	LHA SAR	All awards	Exc £120+ pw
Aberdeen City	28%	£75.63	£26,842	£1,380
Aberdeenshire	27%	£75.63	£6,327	£1,860
Angus	38%	£57.69	£4,509	£1,610
Argyll and Bute	80%	£61.36	£4,307	£2,153
City of Edinburgh	87%	£68.27	£112,842	£19,594
Clackmannanshire	64%	£62.38	£15,471	£1,055
Dumfries and Galloway	93%	£59.44	£15,885	£3,591
Dundee City	81%	£57.69	£12,905	£4,833
East Ayrshire	47%	£62.69	£1,471	£1,471
East Dunbartonshire	45%	£66.43	£4,899	£507
East Lothian	52%	£68.27	£12,843	£792
East Renfrewshire	49%	£60.00	£3,938	£791
Falkirk	21%	£62.38	£3,970	£939
Fife	92%	£59.95	£53,346	£4,038
Glasgow City	54%	£68.28	£92,493	£18,794
Highland	44%	£59.04	£8,311	£2,942

Table A6 (continued from previous page)

Local authority	% impacted	LHA SAR	All awards	Exc £120+ pw
Inverclyde	91%	£60.00	£3,941	£2,750
Midlothian	58%	£68.27	£12,774	£1,425
Moray	37%	£59.04	£1,786	£1,786
Na h-Eileanan an Iar	93%	£59.04	£1,887	£316
North Ayrshire	58%	£62.69	£20,922	£2,391
North Lanarkshire	13%	£59.44	£4,068	£2,018
Orkney Islands	79%	£59.04	£2,180	£901
Perth and Kinross	66%	£57.69	£6,934	£2,043
Renfrewshire	83%	£60.00	£26,679	£6,013
Scottish Borders	89%	£56.96	£5,392	£2,221
Shetland Islands	82%	£59.04	£833	£833
South Ayrshire	54%	£62.69	£14,077	£1,334
South Lanarkshire	39%	£63.46	£26,126	£1,947
Stirling	58%	£62.38	£12,273	£540
West Dunbartonshire	68%	£63.46	£23,579	£1,611
West Lothian	47%	£60.03	£6,522	£6,522
Scotland	59%	**Weekly gap**	£550,330	£101,004
		Annual gap	**£28,617,161**	**£5,252,187**

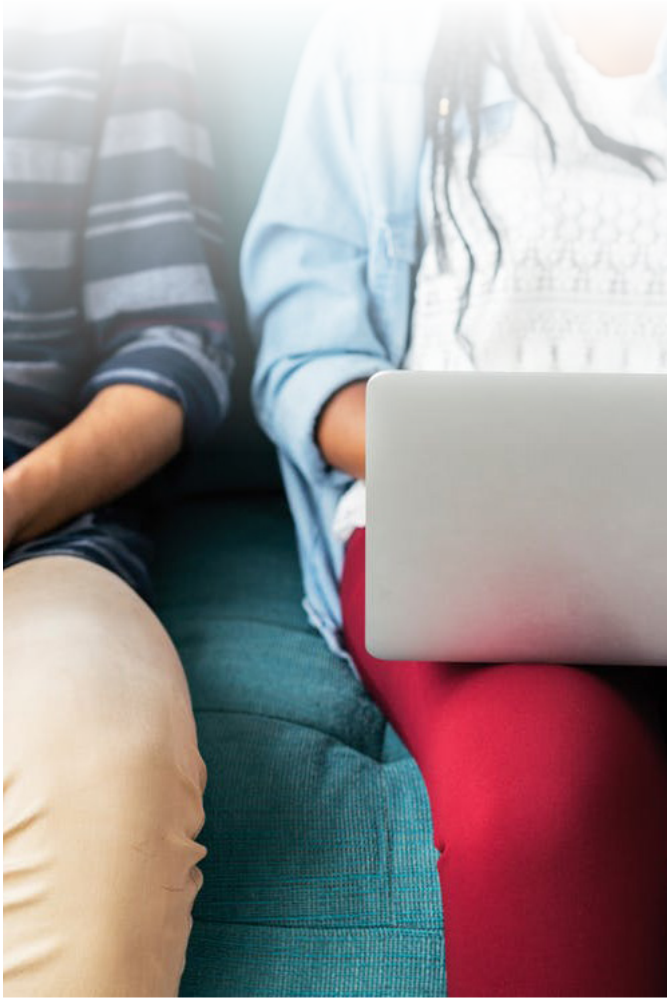
Source: DWP Stat-Xplore average awards and claimant numbers, November 2016

Table A6 shows the estimated annual gap between awards and the SAR based on current Housing Benefit awards, by local authority. Across Scotland, around 59% of Housing Benefit recipients have a gap between their award and the SAR. Of the typical monthly pool of around 24,400 young social renters claiming, that is an estimated 14,400 affected young people.

However, as the table shows, the majority of the gap is among recipients with awards of £120 per week or more. Just £5.3m of the gap in awards is estimated to be in the mainstream stock (just 18% of the total gap).

Of course, we do not know how much of the £23.3m gap between the SAR and the awards received by those with higher awards will be covered by the Supported Accommodation Fund. An estimated 2,578 young people (11% of award recipients) receive an award of £120 or more a week.

This means that the estimated pool of young, mainstream tenants affected by the policy, once fully impacting, would be around 12,000 young people.



About CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world including over 2,000 in Scotland.

Further information is available at: **www.cih.org**

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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**.