



In-depth Briefing

The process of setting Local Housing Allowance rates and the impact of the policy on the social rented sector

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Background

During the Spending Review and Autumn Statement 2015 George Osborne announced an intention to restrict the level of Housing Benefit, or the housing element of Universal Credit, claimed by tenants in social housing (council and housing association stock) to the Local Housing Allowance (LHA) rate. LHA rates currently apply to most Housing Benefit claimants living in the private rented sector and entitlement is related to household size.

This policy will result in shortfalls between the rent due and claimants' entitlement to Housing Benefit for some tenants. This could, in turn, result in rent arrears and impact on landlords' revenue streams, in addition to increasing the risk of homelessness for affected tenants. There are concerns that it will impact people who are over pension age and who are currently exempt from the under-occupation deduction from Housing Benefit ('bedroom tax'/ Spare Room Subsidy).

The introduction of the Shared Accommodation Rate (SAR) into the social rented sector for single childless people under- 35 (apart from those who fall within certain exceptions that are currently set out for private sector tenants in receipt of LHA) is also viewed as a key risk. Further details on these exceptions can be found below.

Applying LHA rates to the social rented sector is likely to have most impact where social sector rents are closer to market levels. Particular concerns have been raised about the impact of the measure on supported housing providers.

Implementation dates have shifted since the original announcement. During the Autumn statement 2016 it was announced that the implementation of the cap on Housing Benefit and LHA rates in the social rented sector will be delayed by 1 year, to April 2019. The cap will be applied to all supported housing tenancies from April 2019, and the government will provide additional funding to Local Authorities, and a devolved fund to Welsh Government, so that they can meet the additional costs of supported housing in their area.

For general needs housing, the cap will now apply from April 2019 for all tenants on Universal Credit, and to Housing Benefit tenants whose tenancies began or were renewed since April 2016. Legislation to implement this measure has not been introduced yet.

For people receiving Housing Benefit the cut will apply to tenants who have signed new or re-let tenancies on or after 1 April 2016 and their social sector rent (including service charges) is higher than the Local Housing Allowance (LHA) rate. Those on Housing Benefit with tenancy start dates prior to April 2016 will not be affected unless they subsequently move or renew a tenancy.



People moved by the Department of Work and Pensions (DWP) from Housing Benefit to Universal Credit after April 2019 whose overall benefit entitlement is lower will be protected, in cash terms, under transitional protection arrangements. On reaching state pension age Universal Credit claimants flowing back on to Housing Benefit with tenancies signed before April 2016 will also continue not to be subject to LHA limits.

The Department for Work and Pensions has not yet published regulations governing this measure and details may be subject to change, but housing associations and tenants should start preparing now to deal with the possible impact of the policy.

What are LHA rates?

The vast majority of Housing Benefit claimants living in privately rented dwellings receive the LHA. The intention is that LHA is paid at a flat rate which is set at the 30th percentile of market rents (i.e. the bottom 30 per cent of the market) for properties of different bedroom sizes (up to a maximum of four bedrooms) within a Broad Rental Market Area (BRMA).

The LHA rate is based on the size of the household and there is no difference in the rates between working age households and those above pension age. This means that a pensioner couple will be entitled to the one bedroom rate of LHA regardless of the actual size of the home unless they qualify for the two bedroom rate due to a need for an overnight carer.

What is a Broad Rental Market Area (BRMA)?

A BRMA is where a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services. A BRMA is also subject to two conditions.

It must contain:

- residential premises of a variety of types, including such premises held on a variety of tenures, and
- sufficient privately rented residential premises, to ensure that, in the rent officer's opinion, the local housing allowance for the categories of dwelling in the area for which the rent officer is required to determine a local housing allowance is representative of the rents that a landlord might reasonably be expected to obtain in that area.

For each BRMA there are five LHA rates as follows:

- Shared accommodation rate
- One bedroom rate
- Two bedroom rate
- Three bedroom rate
- Four bedroom rate

BRMAs do not have the same boundaries as local authority areas. In Wales there are 22 BRMAs and these were reviewed by the rent officers in Welsh Government in 2016 where it was deemed that the boundaries were still relevant. The BRMA boundaries in Wales were last changed in 2009. In order for



BRMA boundaries to be reconsidered there would need to be significant changes to facilities, services, and the residential environment within the area. The introduction of LHA to social rented housing does not provide grounds to alter BRMA boundaries.

Welsh Government are planning to upload the precis for each BRMA on their website in due course.

What information is used to calculate LHA rates?

The UK Government Department for Work and Pensions (DWP) is responsible for setting the LHA policy framework and Welsh Government rent officers collect rental data and calculates the LHA rate in line with this policy. Rent Officers are currently relying on the goodwill of letting agents and individual landlords to provide rental data to determine LHA. The Rent Officer only collects data on properties that have been let and do not house tenants in receipt of housing benefit.

Welsh Government cannot currently use data collected through Rent Smart Wales (RSW). They are therefore in the process of contacting all registered landlords to request them to volunteer data to the rent officer. This will hopefully increase the size of the sample used to determine the LHA rate.

How are LHA rates set?

The Welsh Government Rent Officer sets the LHA rates across all BRMAs in compliance with DWP Guidance. Rent Officers collect the rental data on properties from letting agents, landlords and tenants. The data only includes properties that have been let and does not include properties that have been let to tenants in receipt of housing benefit. The Rent Officer must collect data to represent a minimum sample of 10-15% of all landlords within the area.

The LHA rates are set each year in April and are fixed for a year. The rent office calculates the 30th percentile rent for each category of dwelling using data for year ending on the preceding 30th September. The rents for each property category in each BRMA are sorted in ascending order. The 30th percentile rent is the figure that corresponds to the rent in the position 30 per cent along the line starting with the lowest rent first.

The LHA rates for Wales applicable from April 2019 can be found on the [Welsh Government Website](#).

Freeze on LHA rates

In order to make savings in welfare payments, from April 2016 for the next four years the LHA rate is frozen at the 2015/2016 figure. During this period if the 30th percentile figure calculated in April has fallen below that of the previous year then that is used for the new LHA rate instead. This means that between now and 2020 the LHA rate can fall but not rise above the 2015/16 rate. This means that LHA rates are receding whilst market rents continue to rise.

This disparity will result in less properties being affordable to tenants in receipt of housing benefit. CHC is concerned about the impact of the freeze and is calling for UK Government to consider withdrawing this freeze a year earlier in April 2019 when LHA rates are extended to social rented housing.



CHC are undertaking analysis to identify how far below the 30th percentile LHA rates are currently falling to in order to inform our lobbying on this issue. We will be in a position to share our findings during the Autumn.

Targeted Affordability Funding

To help ensure that the relative value of the LHA remains reasonably aligned with the 30th percentile the UK Government has made available Targeted Affordability Funding (TAF). This fund is used to increase some rates by 3%. For the 2017/2018 LHA rates in Wales this was applied to the shared accommodation rates in Pembrokeshire, Neath Port Talbot, Flintshire and the Vale of Glamorgan. UK Government determines what rates will receive the uplift using data collected by the Welsh Government rent officer.

Impact on tenants and communities

In terms of how the LHA rate for the household will be calculated, if the difference between the eligible rent and the relevant LHA rate for the household is higher than the reduction for under-occupied bedrooms, only the LHA cap will apply. Similarly, if the reduction for under-occupied bedrooms is higher than the relevant Local Housing Allowance rate for your household, only the reduction for under-occupied bedrooms will apply.

This will particularly impact on pensioners who are in receipt of housing benefit and have a tenancy commencing after 1 April 2016 who have so far been exempted from the removal of their 'spare room subsidy', also known as the bedroom tax. The LHA cap has therefore been dubbed 'the bedroom tax for pensioners'.

We are concerned that the policy will create inequity in society, as social housing tenants in some areas will have their rent fully covered by housing benefit, but in other areas they will face a shortfall. The impact will be severe in deprived areas like the South Wales Valleys because of their very low LHA rates. This will result in social rents being higher than the LHA rates in these areas, meaning that tenants' housing allowance will not cover rents when the cap is introduced. This will put further pressure on the most vulnerable members of society as they struggle to make up the shortfall to make ends meet. This will undoubtedly lead to an increase in rent arrears across the sector.

Impact on housing associations

Housing associations operating in areas where social rents are already above or close to LHA rates are likely to face the strain of increasing rent arrears as tenants struggle to make up the shortfall. Even in areas with higher LHA rates there are growing worries about the long-term impact of this policy on the viability of new development.

CHC is calling for Welsh Government to support a new approach to rent setting to assist housing associations with mitigating the impact of the LHA cap. You can find out more in our rent setting briefing [here](#).

Impact on Under 35s

A key group who will be significantly affected by the LHA cap are single people aged under 35 who are living in self-contained social housing (such as one bedroom flats). This group will only be entitled to the LHA for shared housing, known as the Shared Accommodation Rate (SAR). The LHA limits for shared housing are considerably lower than social rents for one bedroom flats in most of the UK, including in



Wales. Young people on Housing Benefit will have to make up the shortfall in their rent, but are likely to struggle to do so.

The DWP has stated that the exceptions to the SAR for private sector tenants will apply to the social sector rules. The exceptions are set out below. There are some differences between the rules for Housing Benefit and for Universal Credit.

The tenant can claim the one bedroom rate if he or she:

- gets the severe disability premium (under Housing Benefit)
- is in receipt of Attendance Allowance, middle or higher rate of DLA care component or daily living component of PIP
- is under age of 22 and was looked after or under supervision of the local authority under specific legal conditions after he/she turned 16
- is under 22 and provided with accommodation by the local authority under specified provisions (rules are complicated)
- requires overnight care (same rules as spare room subsidy)
- is at least 25 and been living in a homeless hostel for three months or more (this does not have to be continuous) and received support
- For Housing Benefit - is at least 25 and is an offender subject to specific MAPPA arrangements. (There is no lower age limit for Universal Credit claims)

In addition, from 1 April 2017, some 18 to 21 year olds claiming Universal Credit will not be entitled to help with housing costs. The change will only apply in Universal Credit full service areas. The Welsh Government's Knowledge and Analytical Service has produced a briefing¹ on the issue of 18-21 year olds, providing some data as to how many young people are likely to be affected by the issue. Llamau, in partnership with a number of charities in England and Wales have launched a joint legal challenge on the decision to withdraw HB to 18-21year olds.

The Welsh Government working group that has been examining the impact on this policy on under 35s is being altered to a wider-ranging welfare reform group, to ensure that the full breadth of issues raised by UK welfare changes are tackled. This will include continued work on the issues presented by reform to under 35s' access to housing costs. We'll ensure that a strong housing association presence is maintained on this group.

The work of that group, to date, has included development of a survey, tested and amended by young people, to be shared via social media to determine the level of awareness of the forthcoming changes and to develop a better picture of the type of housing young people want to live in. Early trials indicate that young people are broadly unaware of the changes and how they will be impacted. Further, they have demonstrated little awareness of shared housing models and its possible benefits. Funding is being sought to run this research and Welsh Government will confirm whether the application submitted (by Bron Afon, as reps on the group) was successful in the Autumn.

¹ [https://chcymru.org.uk/uploads/events_attachments/Welfare Reform - Briefing - Changes to housing support under Universal Credit for 18 to 21 year olds PDF.pdf](https://chcymru.org.uk/uploads/events_attachments/Welfare_Reform_-_Briefing_-_Changes_to_housing_support_under_Universal_Credit_for_18_to_21_year_old.pdf)



The innovative housing programme is open for applications now and a strong theme of this fund is the role that new designs can have in mitigating the issues faced by under-35s.

Shared housing

Housing associations across Wales are piloting shared housing projects to provide affordable accommodation to those under the age of 35 who will be impacted by this policy. A few examples of which are noted in Appendix 1.

CHC is contributing, along with the WLGA to a Welsh version of a Crisis document: **Sharing Solutions**, a toolkit, demonstrating good practice in delivery of shared accommodation. This will be released in the Autumn.

CHC's [Health, Housing and Social Care conference](#) on September 21st will feature a session run by Bill Dunster, whose Zedpods are considered as a potential built-solution for some under-35s. The [One Big Housing Conference](#) on 5th/6th October will feature a presentation from Town and Country Housing from Kent, who've begun developing purpose built shared housing for under 35s.

For further information on the impact of the LHA on under-35s please contact Hugh Russell at hugh-russell@chcymru.org.uk

Impact on supported and sheltered housing tenants

From April 2019, residents in supported accommodation will be individually entitled to the applicable LHA rate through the benefit system. This will be delivered either through Housing Benefit or through Universal Credit. It is proposed that the shortfall between the LHA and the full rent and eligible service charge will be made up by a top-up fund, which will be devolved to Wales. Further information on this proposals and CHC's work on this can be found [here](#).

September 2017 update

Welsh Government has convened two meetings over the summer period with landlords and representative bodies to discuss these issues and to identify opportunities to challenge this policy and mitigate the impact.

During the meeting of the task group held on 30th August Welsh Government committed to the following:

- develop a research proposal that will explore the impact that the LHA cap will have on RSL business plans, including their capacity to develop new affordable housing, maintain existing stock and continue to deliver services. This will also consider the affordability of social rented housing. It was raised that service charges should be considered as part of this work.
- explore with colleagues in Scotland how they are approaching this issue.
- begin discussions with the Cabinet Secretary to ensure that he understand the various issues at play.

Welsh Government has provided the task group with the list of market rents used to calculate the LHA rates in each BRMA for 2017/18. CHC will use this data to undertake our own internal analysis to identify



how the freeze on welfare benefits is impacting on the LHA rate. Particularly, to what percentile the LHA rates are being set. We will use this analysis to support our lobbying activity to call for an end to the freeze from April 2019.

CHC is also working closely with colleagues at CIH, JRF and our sister housing federations to identify further opportunities for lobbying and mitigation. Fundamentally, we would like to see changes made to the policy so that those in need of affordable housing can still afford to live in social housing.

We understand that many of our members have undertaken analysis on the likely impact of this policy on tenants and housing association business plans. This information would be very helpful for us to build up a picture of the true scale of the likely impact on the sector in Wales. We would therefore appreciate it if you could share this analysis with CHC. Please forward this to hayley-macnamara@chcymru.org.uk



Appendix 1- examples of shared housing within Wales

Monmouthshire Housing Association are piloting a shared housing project over the next 12 months in six 2-bed apartments in Caldicot and Abergavenny. The pilot will see the HA offering part-furnished flats to single 22-35 year olds who are unemployed and actively looking for work, or who are on low incomes. Applicants can apply as a pair of sharers, or apply individually and be matched through a new process, which is currently being developed. The aim is to have a mix of individual and joint tenancies and measure outcomes to help identify and evaluate the successes and emerging issues during the pilot.

Wales and West Housing, working with Cardiff Council, have converted a 3-storey property in Grangetown to a 5 bed HMO in order to trial shared housing. This property features individual bedrooms plus a communal kitchen, bathroom, lounge and garden/courtyard. Wales and West are operating a separate tenancy for individual rooms.

In terms of allocation, Cardiff Council operates a common waiting list. The Council wrote to 300 people on the waiting list for 1 bed properties in the area to establish interest. Approximately 10% of those written to expressed an interest and Wales and West filtered this list further in order to make offers to those who would be affected by the future changes. Wales and West had in-depth conversations with all tenants, outlining that the aim is to use the property as a temporary housing solution as they seek employment or develop the skills necessary to access work. Residents are advised that training opportunities are available if needed and those who are successful in accessing work will progress to their own property.

Cardiff Council are now asking new applicants to the CHR if they are interested in sharing a house and collating this data for future projects like the Wales and West pilot.

Pobl have worked with Gwalia Care and Support, their support provider arm, which has enabled them to house people together in shared housing as a move-on from supported housing (with the obvious impact that they have some foreknowledge as to how these people will get on). Their research showed a reluctance to engage in shared housing from young people, but that the same young people were much more interested in sharing with people they know. Pobl are focussing on small, 2-bed shares, at first, with individuals on separated assured shorthold tenancies. Of note, they found that the DWP were willing to accept furnishing for their first property as essential housing cost under Universal Credit.

Elsewhere **Newydd** continue with their work on the [Rooms 4 U project](#) and **Bron Afon's** pilot of a 'menu' of different options for prospective tenants aged under 35, was successful and their board has agreed to adopt it as practice.