



Local Housing Allowance: One Year On

April 2009

Executive Summary

“It was near impossible for some claimants to access PRS accommodation before LHA, now it’s worse.”

“If the government wants to get private landlords on board in reducing homelessness, this is a great deterrent.”¹

The Government stated that the fundamental aim of Local Housing Allowance (LHA) was to promote fairness, choice, transparency, personal responsibility, financial inclusion, improved administration and reduced barriers to work.² One year on from the introduction of LHA, Crisis has conducted a survey of local authorities and voluntary sector agencies who deliver private rented sector (PRS) access schemes across Great Britain to find out how LHA is affecting tenants, landlords and the schemes themselves.

Key Findings

- **The PRS is now less accessible under LHA, with landlords increasingly reluctant to let their properties to claimants.**
- **Direct payments of LHA to tenants are leading to an increase in rent arrears and tenancies being terminated as a result.**
- **In some areas, landlords are raising their rents to the level of LHA, leaving claimants without the option of finding a property below the LHA rate.**
- **The system of establishing vulnerability so that LHA can be paid direct to the landlord is causing huge problems as the criteria and process varies from local authority to local authority. There is often very little clarity and transparency as to what evidence is required to establish vulnerability and many applications are being refused with little explanation.**
- **Agencies are providing extra help and support to vulnerable LHA claimants, particularly around managing their finances which, in many cases, is what is making the system work. No extra funding is being provided for these services.**

These findings raise some major concerns about the way in which LHA currently operates. It appears that LHA may be working against the Government’s fundamental aims for the scheme along with Government policy to prevent and reduce homelessness through making greater use of the PRS.

¹ Comments from survey respondents.

² DWP, LHA Background (accessed 01/04/2009) URL: <http://www.dwp.gov.uk/housingbenefit/claims-processing/lha/background.asp>

Recommendations

1. All LHA claimants should be given the choice over who their payments are made to.
2. If claimants are not to be given choice over who LHA is paid to then vulnerability must be assessed in a clear, transparent and straightforward way with clearer national guidance to ensure that those in danger of falling into arrears are identified and protected from becoming homeless. Local authorities should be required to consult with local agencies that work with homeless people and other vulnerable groups when determining their vulnerability criteria and this must be made public to ensure clarity as to who qualifies and what evidence is required to establish vulnerability.
3. Specific funding should be made available, both nationally and locally, for those advice services and other agencies that are providing help and support for vulnerable clients receiving LHA payments.
4. The Government should give careful consideration to what can be done about landlords raising their rents to the LHA level, particularly where no change or improvement has been made to the property.

Who we surveyed

The survey was sent to Crisis' mailing list of PRS access schemes, built up through training and best practice sharing events and requests for information. In total 736 people were contacted and 180 completed the survey. Respondents were evenly spread across the whole of Great Britain with every nation and region well represented. Over 60% of respondents offer a rent deposit or deposit guarantee scheme whilst others offer a range of services including housing options and lettings/property leasing. For further details please see Annex 1 - Crisis and PRS Access Schemes.

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1 Background: Local Housing Allowance

“The LHA is a central part of the Government’s wider programme of benefit reform. It’s a radical change to the way Housing Benefit is paid in the private rented sector and will help people take action towards managing their own bank accounts, making it easier for them to move off benefits and in to work.”³

Housing Benefit (HB) was introduced in April 1983 to help people on low incomes pay for rented accommodation whether in or out of work. In 2007/8 the Government spent £15.7 billion on HB with £4.5 billion of that in the Private Rented Sector (PRS).

April 2008 saw the national roll out of Local Housing Allowance (LHA), the new form of Housing Benefit for claimants living in the PRS. There are two main differences between LHA and the old system of HB: how the level of the payment is calculated and how the payment is made. LHA is still tapered and means tested in the same way as HB.

The rate at which LHA payments are made is calculated by using the size, composition and location of the household. The LHA rate takes account of the size of the property, is set at the median level of rents within a Broad Rental Market Area (BRMA) and is publicised each month for both claimants and landlords. This replaces the old system of Pre-Tenancy Determination, where the Rent Officer decided on the level of HB for each individual case, after a property had been found. This could often mean that claimants found they were not able to afford the property and so would have to start the whole process again.

Unlike the old system, LHA allows tenants (and landlords) to know exactly how much their payments will be *before* they start looking for a property, this, it was hoped, would make the system fairer and more transparent whilst also cutting down and speeding up administration. It was also designed to introduce an element of choice about the size, style and location of their home that was previously only available to those not claiming benefits.

Under the old system of HB only around 40% of payments in the PRS went to claimants⁴ with the other 60% going to landlords. Under the new system of LHA, claimants can no longer decide to have their benefits paid directly to their landlord. Instead, LHA payments go directly to the claimant. Only if the claimant can be proved to be vulnerable will payments go directly to the landlord. It was hoped that this would empower claimants by encouraging them to take more responsibility for their finances, compelling them to open bank accounts and so enabling them to develop new skills and confidence which could be crucial when making the transition into work.

Added to this, if the LHA claimant finds a property for rent that is lower than the LHA rate, then they can keep the difference of up to £15 per week. If the rent on the property they find is higher than the LHA rate then they can top-up their payments themselves. This, it was hoped, would give LHA claimants an extra incentive to shop around for a property.

Taken together, the Government hoped these changes would deliver fairness, choice, transparency, personal responsibility, financial inclusion, improved administration and reduced barriers to work.

³ Stephen Timms, Minister for Employment and Welfare Reform, Launch of the national roll out of LHA, 7 April 2008.

⁴ DWP, LHA Background (accessed 01/04/2009) URL: <http://www.dwp.gov.uk/housingbenefit/claims-processing/lha/background.asp>

2 Survey Findings

The survey's 180 respondents were asked to answer multiple choice questions and to add their own comments, some of which are shown below in inverted commas.

2.1 Direct Payments, Rent Arrears and PRS Accessibility

Despite assurances that safeguards would be in place for those who were unable to manage their financial affairs or who fell into rent arrears, **there seems to be a clear pattern emerging of vulnerable claimants receiving direct payments, failing to manage their finances properly, falling into rent arrears and landlords terminating their tenancies.**

82% of respondents have noticed claimants falling behind with their rent payments some or most of the time and a further **11%** said LHA claimants always fall behind with their rent.

"We have seen a huge increase in rent arrears."

82% of respondents said that under LHA, in their experience, more tenancies are being terminated as a result of rent arrears.

"At the moment we have seven section 8 notices issued and two court hearing dates to attend, that is in this financial year. The previous five years I can only recollect two section 8 notices and one court case."

"There is a big increase in possession proceedings under Section 8."

However, the number of Section 8 notices may not show the full extent of the problem, as some claimants appear to have simply abandoned properties before legal proceedings can begin.

"More tenants are being threatened with eviction as a result of rent arrears and more are abandoning the properties before proceedings are underway."

"Our claim rate for rent arrears has increased. It is more difficult to investigate claims as tenants often leave with no notice and no forwarding address."

In some areas, this is seriously undermining LHA claimants' ability to access the PRS as more landlords appear to be unwilling to accept them as tenants.

"Landlords are in despair, there's loads of empty properties out there but they would prefer to leave them empty rather than risk it on an LHA client."

67% of respondents reported landlords stipulating conditions over and above those requested for working tenants. **62%** of respondents said paying LHA directly to the claimant made it

either more or far more difficult for them to access PRS accommodation and an additional **38%** said that fewer landlords will accept LHA claimants as tenants since the introduction of LHA.

“This has caused a lot of problems. Even when landlords have initially been OK with it, we have had tenants not paying over the rent which makes landlords think twice about taking another tenant who is on benefits.”

“[LHA] has led to the loss of several landlords who have walked away with lighter pockets. If the government wants to get private landlords on board in reducing homelessness, this is a great deterrent.”

“I feel it has had a detrimental effect on the most disadvantaged as landlords have turned their backs on these clients due to being scared of losing their rent money.”

The problem seems to have its roots in landlords disliking payments going direct to the claimant. **48%** of respondents said it was not very often that landlords liked being paid direct by the claimant, with another **32%** saying that landlords never did.

“This is the biggest flaw in the LHA.”

92% of respondents said claimants should be able to choose whether they wish to pay rent directly to the landlord or not.

All of this is despite the fact that there also seems to have been an increase in the numbers of properties that are affordable for LHA claimants in many areas.

“Pre LHA the max we could budget for a one bed was £400 and it was nearly impossible to house in self contained. Now the rate is £535, a substantial difference.”

Thus, setting the LHA rates at the median level of rents within BRMAs seems to have made more properties affordable to claimants. Although, the current economic climate could also be a contributory factor here as, in some areas, more owners appear to be making their properties available for rent as they are unable to sell⁵. It must be noted however that there are still problems of affordability with the Shared Room Rate (SRR) for those under the age of 25.

“The LHA rate is about right for adults however the shared room rate is disproportionately low.”

Nevertheless, **50%** of respondents said claimants are now more likely to find an affordable property and **64%** described the level at which the LHA is set in their BRMA as ‘about right’ (though **52%** did say that the Government should draw smaller, more localised BRMAs). However, because of landlords’ fears surrounding direct payments, for an LHA claimant, **an affordable property is not necessarily an accessible property.**

⁵ Association of Residential Letting Agents (ARLA), *Research Reveals Britain’s ‘Reluctant Landlords’* (accessed 10/04/2009) URL: http://www.arla.co.uk/events/news_details.aspx?id=82

2.2 Difficulties Establishing Vulnerability

If it can be established that a claimant is vulnerable then payments will be made to the landlord until such a time as the tenant is deemed able to manage their finances. However, respondents to our survey, many of whom help vulnerable people to find housing in the PRS across the country on a daily basis, are finding **there is too much inconsistency in how decisions on vulnerability are made** with too many applications for vulnerability being refused without clarity as to what constitutes vulnerability or what evidence needs to be provided. This wastes valuable resources that could otherwise be spent helping people to secure and sustain housing.

“Not only do [difficulties establishing vulnerability] lead to arrears and eviction but it has cost us as a charity a lot of money.”

81% of respondents said they had made a vulnerability application on behalf of a claimant, **48%** of those said that the process of establishing vulnerability is either never clear and straight forward or can be but not very often.

“Since there is no standard for vulnerability it’s not uncommon for the assessing officer to not regard the reasons given as sufficient.”

“Depends who assesses you on what day, [there] needs to be more consistency and accountability”

“Depends on which local authority – we work across three. Two are excellent, one is very hard work.”

“We do have issues on benefit processors being the ones who assess vulnerability – what is their experience exactly?”

49% either said the vulnerability application rarely resulted in payment to the landlord being established or that it only happens some of the time. Just **16%** said that the vulnerability applications they made were always successful.

“Only one application resulted in direct payment to the landlord. This claimant has maintained her tenancy. Some of the others have been evicted.”

“This varies between LAs. The majority of requests I have made have not been acknowledged or have met with a generic response that fails to take into consideration the individual support needs of the claimant.”

2.3 Supporting Financial Inclusion and Personal Responsibility

The Government's intention was that paying LHA directly to the claimant would empower them to budget for themselves, establish bank accounts and give unemployed claimants the skills they need as they move back into employment. Whilst additional funding for support around financial inclusion was provided for advice agencies during the pilot stage of the LHA, none was provided for the national roll out.

However, when, as in most instances, LHA is paid directly to claimants, it appears that **many claimants are struggling to budget effectively**. It is clear that some claimants require a lot of support and assistance to manage their finances and many of the agencies we contacted in this survey are now spending a lot of their resources on assisting their clients to do this. This is despite the fact that the majority are not receiving any extra funding for providing such services.

When asked, **80%** of respondents said that, in general, direct payments to claimants have hindered their ability to manage their finances effectively. **49%** of respondents said that it was not often that claimants liked paying the rent to the landlord themselves and another **17%** said claimants never liked doing this.

"It is unfair to give these poor people living on very limited budgets regular payments of large sums of money and expect them to manage without robbing Peter to pay Paul."

"Tenants with no previous history of financial troubles have got themselves into trouble with this extra money being paid to them."

"Generally my clients find the immediate pressure of rental responsibility very difficult."

There are a range of issues that can have a negative impact on claimants' ability to manage their finances properly. These include LHA being paid in arrears (meaning the claimant starts off in arrears) and then payments being made every four weeks, instead of per calendar month (when rent is usually due).

"[LHA] is always paid in arrears, which puts the tenant in arrears, which inevitably causes trouble."

"Rent being due monthly and LHA being paid 4 weekly makes budgeting for even the most capable individuals extremely difficult."

Other factors may include the pressures of having other debts, bills and overdrafts or struggling with dependency issues.

"Many of my client base are struggling with drug and alcohol addiction and large monthly payments into their own accounts may contribute to an increased risk to relapse."

"Most [tenants] prefer not to have the cash in hand because the temptation to pay off other debts first is too great."

"It is not uncommon for LHA to be paid into their accounts then it gets swallowed up by their overdraft."

Difficulties and delays in setting up a bank account can also be a factor here and **23%** of respondents said claimants often did not have a bank account when they first contacted the agency, **47%** said only some of them did and a mere **1%** said claimants always did.

“Many banks ask for ID which claimants do not have. This is often the case when working with clients who have a history of homelessness. This results in arrears mounting up and added pressure for the landlord.”

“Very difficult to open a bank account and not all have the identity proof or can afford to buy a copy of a birth certificate for instance.”

“Banks are not enthusiastic to open accounts. Claimants frequently have had bad experiences of banks and accrued debts on interest payments and administration fees.”

“It is a nightmare trying to organise a bank account for a homeless 16-25 year old with little history/documentation who is living on benefits. Often they may have had accounts when younger which they have got into difficulty with, preventing them from accessing bank accounts.”

“LHA must be paid into bank accounts [but] most young vulnerable tenants have a post office account on suggestion from income benefits departments.”

73% of respondents have had to provide claimants with help and support to open a bank account and a staggering **98%** have had to provide extra support to claimants so they can budget and manage their finances. Whilst this kind of work is clearly important, it is not always within the remit of those surveyed here.

“This is time consuming and only happens when individuals/staff go the extra mile for clients.”

“It has had a very negative impact on our project as it has increased our workload immensely.”

70% of respondents do not receive extra funding for providing this kind of help and support.

2.4 Landlords Raising Rents

Publishing LHA rates each month and then allowing claimants to keep the difference of up to £15 per week was designed to make the system transparent whilst encouraging the claimant to shop around.

However, **in many areas, landlords appear to be raising rents to the LHA level.** Indeed, **50%** of respondents said that landlords have raised rent levels to match LHA rates and **10%** said landlords have raised rents *above* the LHA rates.

“It has made a huge difference. Whilst some landlords have increased their rental charges in line with LHA, few have reduced their rents to LHA levels, thus most houses are at LHA rates.”

“Landlords are aware of the LHA rates and ask for the maximum amount.”

It is perfectly reasonable for landlords to raise their rents after making significant investments in or improvements to their properties. However, LHA is effectively enabling some landlords to make extra profits for no extra investment in the property.

“Landlords with poor accommodation are getting higher rents from the most vulnerable families and are still not doing repairs.”

All of this leaves many claimants without the option of choosing a property below the LHA level (based on size, style and location as the Government had hoped) and so keeping the difference. **53%** of respondents said LHA claimants were often unable to save money by renting a cheaper property and saving the difference. **17%** said they never could. Added to this, as the rates are calculated every month using a median level of rents within the BRMA, there have also been reports of a spiralling upwards of LHA rates.

“I find most landlords set their rent levels to match LHA which leaves little margin for savings.”

“Landlords have wised up to this and are charging above the amount so that the tenant still has to pay a ‘top up’.”

“The [LHA] rates are very high. This is due at least in part to landlords hearing about the rates and then raising their rents to match these rates. Consequently, next month the LHA rates are higher.”

3 Recommendations

One year on from its national roll out, the results of this survey clearly suggest that there are some major concerns surrounding LHA. The Government hoped that establishing the new system of LHA would promote the principles of fairness, choice, transparency, personal responsibility, financial inclusion, improved administration and reduced barriers to work. However, the way in which LHA is currently operating does not appear to be promoting those principles nor Government policy to prevent and reduce homelessness through making greater use of the PRS. Therefore, Crisis makes the following recommendations:

1. All LHA claimants should be given the choice over who their payments are made to.

Allowing all claimants to have a choice over who their LHA payments are made to would stop so many vulnerable claimants falling into rent arrears and being evicted from their homes after failing to manage their finances effectively.

2. If claimants are not to be given choice over who LHA is paid to then vulnerability must be assessed in a clear, transparent and straightforward way. There should be clearer national guidance for local authorities on what constitutes vulnerability to ensure that those in danger of falling into arrears are identified and protected from becoming homeless.

Local authorities should be required to consult with local agencies that work with homeless people and other vulnerable groups when determining their own vulnerability criteria. Furthermore, the criteria must then be made public to ensure that agencies and individuals are clear as to who qualifies and what evidence is required to establish vulnerability.

3. Specific funding should be made available, both nationally and locally, for those advice and other agencies providing help and support for vulnerable clients receiving LHA payments.

The smooth operation of LHA and the more general aims of promoting financial inclusion and personal empowerment rest on the Government making extra funding available to those agencies who are providing the extra help and support needed for claimants to make vulnerability applications, open bank accounts and budget properly.

4. The Government should give careful consideration to what can be done about landlords raising their rents to the LHA level, particularly where no change or improvement has been made to the property.

Landlords should not be able to simply exploit LHA in order to make extra profits. However, any reforms must take account of local circumstances and not be at the expense of some of the more positive aspects of LHA, such as increases in the amount of PRS properties that may now be affordable for claimants. One option could be to link landlords being able to charge a certain level of rent on to them making improvements on their property to meet the Decent Homes Standard.

Annex: Crisis and PRS Access Schemes

Crisis is the national charity for single homeless people. We are dedicated to ending homelessness by delivering life-changing services and campaigning for change. Our innovative education, employment, housing and well-being services address individual needs and help people to transform their lives. We are determined campaigners, working to prevent people from becoming homeless and advocating solutions informed by research and our direct experience. We have ambitious plans for the future and are committed to help more people in more places across the UK. We know we won't end homelessness overnight or on our own. But we take a lead, collaborate with others and, together, make change happen.

PRS access schemes assist homeless and vulnerably housed people with finding and sustaining privately rented accommodation. Typically this involves the provision of:

- Financial security for the landlord against rent loss, damage, theft etc.
- A month's rent in advance and faster processing of housing benefit claims
- Minimum standards for property conditions, management practices and tenancy length to increase attractiveness to potential tenants
- Careful assessment of each tenant's needs to ensure their suitability for independent living
- Support for both landlord and tenants to ensure a successful landlord/tenant relationship

PRS access schemes traditionally assist those without recourse to other housing options, particularly single homeless people. However, the PRS is increasingly seen as a viable option for a range of homeless or vulnerably housed people, including statutory homeless households. PRS access schemes also can and do cater successfully for very vulnerable clients including rough sleepers, people with mental health needs and problematic drug users.

Crisis' involvement with PRS access schemes dates back to 1997 when it launched its best practice model deposit scheme 'SmartMove'. Crisis SmartMove is delivered by a network of 27 partner organisations around the UK and has enabled over 11,000 people to access housing.

Building on the expertise gained through SmartMove, Crisis has taken on a wider remit in recent years as the national advisory body for PRS access schemes across the UK. Crisis has played a key role working with the Scottish and Welsh Assembly Governments to advise on the establishment of schemes and improving their quality and development. Crisis is now working in partnership with the Department of Communities and Local Government and regional and local authorities in England to further support the growth and development of PRS schemes.

For further information on PRS access schemes and to access resources visit Crisis' bespoke PRS website at www.privaterentedsector.org.uk or e-mail Crisis at smart.move@crisis.org.uk

For further information on this report or to discuss Crisis' views on LHA, please contact: Katharine Sacks-Jones, Policy Manager, on 020 7426 5668 or email katharine.sacksjones@crisis.org.uk.



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Homelessness ends here