

PE1638/B

Association of Local Authority Chief Housing Officers (ALACHO) submission of 19 May 2017

Introduction

As the representative body for Scotland's Local Authority chief housing officers ALACHO welcomes the opportunity to provide evidence in relation to petition PE1638 on the impact of the introduction of the Local Housing Allowance as the basis of paying housing cost in the social rented sector.

Scotland's councils have a significant interest in this issue arising from:

- Our role as landlords providing accommodation to many of the poorest households in Scotland;
- Our role in providing supported accommodation;
- Our statutory duties in relation to homelessness;
- our contribution to the delivery of integrated health and social care services, including support for those vulnerable individuals and households facing "multiple exclusion" and at risk of homelessness: and
- our strategic responsibilities in relation to the supply of affordable housing and the functioning of local housing markets.

The Committee has specifically asked for comments on a petition that calls for:

"...the Scottish Parliament to urge the Scottish Government to bring forward a debate on the issue of the bedroom tax in particular the planned Local Housing Allowance cap (bedroom tax2)."

This is one of the more complex changes being made to the welfare system and its phased introduction and restriction to those claiming universal credit combined with the variations in rent levels across the social housing sector has made measuring the likely impact very difficult.

The measure is being applied to all social housing including supported housing and temporary accommodation for the homeless. However other adjustments are being made to funding that are intended to mitigate the impact of the LHA cap in these areas.

For this reason, we have opted to restrict our comments to the likely impact of the measure on mainstream tenants and young single homeless people in particular.

Problems in assessing the impact of the LHA cap on mainstream tenants

The SPICe briefing already provided to the Committee sets out as clearly as is possible the nature of the LHA cap and the way it is to be implemented. There is no need to repeat this information here, however the key points to note are that:

- the LHA cap varies across 18 “Broad Rental Market Areas” (BRMA) and by size, but not type of accommodation;
- Most BRMAs cover more than one local authority;
- Maximum entitlement is determined according to household size, not property size or rent level;
- The LHA will be used to determine the maximum amount of rent support for rent payable to all working age tenants claiming Universal Credit from April 2019;
- The LHA will apply to tenants on housing benefit who took up their tenancies on or after 1 April 2016;
- Rent support for single people under 35 is set at the “shared accommodation rate” on the assumption that they should be sharing rather than have a home of their own; and
- The application of an across the board 1% increase to LHAs in 2015/16 and a four year freeze from 2016/17 means that the LHA no longer has any connection to real rents in the private or social sector.

This final point is important if only because the original policy rationale for the LHA was to link rent support payments to a particular section of the private market and reduce subsidy to those that occupy “unreasonably expensive” properties. This has now been abandoned. It is a measure intended to reduce expenditure on rent support irrespective of considerations of “fairness”.

Local Authority rents are, on average lower than those of Housing Associations. They are set to ensure that total rental income covers the cost of the service and any investment needs including new build.

The “rent structure”, that is how rents vary from property to property, determines how much is charged for any particular house and are based on a variety of factors including:

- number of bedrooms;
- house type;
- location; and
- in some areas, how recently the property was built. (some councils apply a “new build” premium on rents).

Local authority rent structures tend to be relatively “flat” when compared to Housing Associations and the private sector. That is the range from the lowest to the highest rent will be narrow. One bedroom rents are typically around 80% of four bedroom properties compared to the LHA where the average one bedroom LHA is just over 51% of that for a four-bedroom property. Though the starting point is also important. As things stand around 11 Councils are charging more than the local shared accommodation rate for a one bedroom property. Rent rises and the freeze on the LHA over the next three years, will, all other things being equal, increase this to around 14.

Whilst council houses are generally allocated based on household size, the average length of a Council tenancy (around 20 years) and the changes that take place in

tenant's households over such a long period means that there are many working age tenants living in homes that are considered to be too large for them in the welfare benefits rules.

However, where the original "removal of the spare room subsidy" (or "bedroom tax" as it is often called) affected all tenants living in a property deemed to be too large for them, the LHA cap will only impact on tenants living in a property that costs more than the LHA rent for the "appropriate" property size.

However, given the complexity of the factors involved it is simply not possible to produce a precise Scotland wide assessment of impact and difficult in the extreme to do so at local level. That said, we are aware that the Chartered Institute of Housing are leading a study looking at the impacts and in particular the impacts on young single people. The results of this isn't yet available though we understand that some interim findings have been released. We would strongly recommend that the Committee requests further information about this study as part of its consideration of this issue.

As things stand there is no expectation that the Scottish Government will be in a position to fully, or substantially mitigate the impact of the LHA cap. And to the extent that it has the power to do so, it would seem reasonable to ask what landlords can do on their own part to assist.

On this basis, if local authority rents are to continue to be genuinely affordable to our tenants, Councils may have to take account of the impact of the LHA in setting rents and ensure that as few tenants as possible are charged rents in excess of their housing support entitlement.

The impact on rents and investment

The challenge in rent setting will not just be ensuring that rents of a particular property size are lower than the relevant LHA rate, it will be ensuring that all rents are lower than the likely benefit entitlement of tenants that may come to occupy local authority housing.

The challenge will be not just to ensure that bedsits and one bed room rents are lower than the relevant shared accommodation rate but that two bedroom rents remain affordable to couples and that the gap between the rents for larger properties and the LHA rate for smaller ones is kept as narrow as possible.

As with the original "removal of the spare room subsidy", in the absence of any effective mitigation from the Scottish Government, this may require looking at options to move some tenants to smaller properties where they are willing to consider this.

In more general terms however the LHA will become a benchmark controlling rent setting across the sector. Whatever the eventual size of the gap between benefit entitlement and current rent levels, rents will have to reduce in real terms to ensure that gap is minimised.

In the short term this will have little impact on the overall ability of local authority landlords to maintain existing services. All of Scotland's local authority landlords are currently operating with a gross surplus on their Housing Revenue Accounts. Nationally this amounts to a surplus of over £200m on a global account of just over £1.1b. However, the level of surplus varies significantly between Councils with some operating at close to a balanced budget. There are some Councils where reduced rental income could impact directly on current service delivery. Over 90% of the national HRA surplus is reinvested in capital projects including new build.

The most immediate impact of a long-term reduction in rental income that the LHA cap will be the need to review HRA business plans to establish the impact on future investment capacity. Lower rents will, over the longer term reduce the capacity to generate the surpluses needed to support current investment ambitions including energy efficiency work and the provision of new Council housing.

Based on current expenditure estimates, meeting the energy efficiency standards required by the EESSH (Energy Efficiency Standard for Social Housing) will require around £600m of investment by Councils. This doesn't include any additional costs required to meet EESSH 2 currently being discussed with the Scottish government. Current Council new build programmes are estimated to have a capital investment requirement of around £500,000 net of Scottish government grants and other funding.

Ensuring that all Council homes meet the standards set though the EESSH is a mandatory requirement. In the light of this it is very likely that downward pressure on rents will impact first on Council new build programmes.

Without some degree of mitigation, the introduction of the LHA rate to social rented housing presents a direct threat to work currently underway to reduce fuel poverty and to the ability of Councils to assist in meeting the Scottish Government's target for new social rented homes.

Impact on young single homeless people and the ability of Councils to discharge their statutory duties

Local Authorities have a range of statutory duties to households that are threatened with or become homeless unintentionally. The most important of these is to ensure that they are offered suitable alternative accommodation on both a temporary and permanent basis.

Work has been underway to understand the impact of the LHA on temporary accommodation for some time. At present the best estimates of the funding shortfall range from around £20m to £60m a year out of a total income of around £100m pa.

This shortfall will be partly mitigated by a transfer of money from the UK government. This year this will amount to just over £20m. A funding agreement has already been agreed for this and work is continuing within local authorities to restructure and develop services to reduce both costs and the use of temporary accommodation. Significant challenges still remain and it is very likely that the current mitigation

budget will be inadequate in the long term. But meeting this challenge is, in part at least, linked to the need to modernise our overall response to homelessness.

ALACHO and others will be presenting evidence on this issue to the Local Government and Communities Committee later this year. In the light of this we have opted not to develop this point further though we will be happy to do so if the Committee needs more information.

The risk in relation to permanent accommodation relate directly to the broader risks in relation to tenants generally as discussed above with the added complication that without clear mitigation or rents for smaller properties below the local Shared Accommodation Rate councils will be unable to discharge their statutory duties to single homeless applicants.

The Guidance and case law on what constitutes an offer of “suitable” accommodation are reasonably clear. Such an offer must be affordable to the applicant. For those that are likely to be claiming Housing Benefit or Universal Credit this is very likely to mean that the rent must be at or below any relevant housing benefit limits applicable to that applicant.

As things stand, and assuming that the Scottish Government isn’t in a position to fund the shortfall, around half of Council landlords are going to have to have to consider fixing or reducing rents for one and two bedroom properties to achieve this. Though this is clearly a matter for Councils to consider individually.

More problematic however, will be the position of those housing associations charging rents for smaller properties above the local Shared Accommodation Rate. We understand that the Scottish Federation of Housing Associations has also been asked to comment on this petition and that in their response they have provided some estimates of the extent of the LHA impact on young single tenants in Housing Association properties.

As in the Local Authority sector, rent setting is a matter for each landlord. There are no direct statutory obligations on Housing Associations to offer accommodation to homeless households. In the absence of any mitigation by the Scottish Government, those associations that chose not to or cannot afford to adjust rents to ensure they remain affordable to young single people are likely to be unable to offer accommodation to them.

The result of this is likely to be longer stays in temporary accommodation for some clients.

Without mitigation or a reduction in rents by housing associations young single homeless households may be excluded from some parts of the Housing Association sector. The likely impact of this is longer waiting times in temporary accommodation, less choice for applicants and increased pressure on local authority housing.

Conclusions and next steps

The introduction of the LHA cap to the social rented sector has implications for:

- rent affordability;
- rent setting;
- investment;
- access;
- choice;
- the management of homeless temporary accommodation; and
- the ability of Councils to discharge their duties to homeless households.

The implications are most significant and potentially damaging for young single people and for those living in areas where social rents are highest.

The three conclusions that we have drawn in this submission are:

- **If local authority rents are to continue to be genuinely affordable to our tenants, Councils may have to take account of the impact of the LHA in setting rents and ensure that as few tenants as possible are charged rents in excess of their housing support entitlement.**
- **Without some degree of mitigation, the introduction of the LHA rate to social rented housing presents a direct threat to work currently underway to reduce fuel poverty and to the ability of Councils to assist in meeting the Scottish Government's target for new social rented homes.**
- **Without mitigation or a reduction in rents by housing associations young single homeless households may be excluded from some parts of the Housing Association sector. The likely impact of this is longer waiting times in temporary accommodation, less choice for applicants and increased pressure on local authority housing.**

We understand that the new power in relation to benefits set out in the Scotland Act includes some options for adjusting Housing Support entitlement for claimants of Universal Credit but not in respect of Housing Benefit.

The petition calls for a debate in the Scottish Parliament on the implications of the LHA cap. We would support this call and suggest that MSPs should be made aware of the evidence that has been submitted to the committee in response to this petition and the results of the CIH lead study into the impact of the LHA cap on young single people.

Such a debate would also provide an opportunity to explore the options to mitigate the LHA cap and the balance that needs to be struck between action by landlords to reduce and restructure rents and other mitigation options.

We hope these comments are of help to the committee. We will, of course be happy to provide further comment if that would be useful.