PE1638/C
Scottish Government submission of 19 May 2017

Thank you for your letter seeking the Scottish Government's views on the action called for in the petition above, namely to bring forward a debate on the introduction of the Local Housing Allowance (LHA) rates to the calculation of housing support for those in the social rented sector.

The Committee will be aware, as set out in the Petition, that the UK Government intend that, from April 2019, LHA rates currently in place in the private rented sector will begin to apply to the social rented sector. This move has raised a number of concerns among stakeholders, especially in relation to the impact on those in supported accommodation and on single people under the age of 35. This petition reflects these concerns. At present, the full details of how the policy will be implemented are not currently known, for instance the DWP has not at this time confirmed whether the exemptions and eligibility within LHA rates in the social sector will directly mirror that of the private sector. This creates a degree of additional uncertainty for tenants and landlords and prevents the Scottish Government from making a robust assessment of either the financial impact of the policy overall, or the impact on specific groups.

The Scottish Government shares many of the concerns of landlords, tenants and campaign groups about the potential impact of these policies and would welcome further parliamentary and wider discussion of the implications of the extension of LHA to the social rented sector. At the same time, further information on the detail of implementation is required in order for the Scottish Government to be able to make a considered response to this policy and determine the best way forward.

Extent and limitations of SG powers

The Committee also asked for further information on what the Scottish Government can do, and what it is restricted in doing, in terms of this UK Government policy. It is not possible to provide a detailed assessment of the Scottish Government's options without further detail on the UK Government policy and how they intend to implement it legislatively.The Committee will be aware that the Scotland Act 2016 extended devolution over a range of areas of Social Security policy, but that there are nonetheless a number of practical and statutory limits on these powers. The extent or way in which the Scottish Government can respond to any UK Government policy will depend on the powers under which any regulations are made and the degree to which they engage the concurrent powers over Universal Credit, or interact with elements of reserved policy, for instance in relation to the benefit cap. The nature of the Scottish Government response will also depend on an assessment of the potential costs, dependent on an understanding of the financial impact of the DWP policy. In addition to the Scotland Act powers an assessment will be made of whether any negative consequences of the DWP policy can be mitigated through alternative action to support those affected. Practical considerations will be a function of the approach or approaches taken.

The UK Government has indicated that the current level of funding for supported accommodation will be maintained when LHA is introduced into the social rented sector. As such it will devolve 'top-up' funding to Scotland to support the sector. This will allow Scottish Ministers to put in place their own funding arrangements to support those who provide and live in this vital accommodation. Again further information is required from the DWP on the implementation of the LHA policy, as well as the level of funding and required scope for any Scottish Government scheme. Whilst Ministers welcomed the announcement that funding for supported accommodation would not be capped at the LHA rate as originally proposed, they are increasingly concerned that the current lack of detail means that there is very limited time to put in place a system of funding to support some of the most vulnerable people in Scottish society. Ministers will be raising these concerns directly with the UK Government after the general election.

CIH research

The Committee also requested additional information regarding research being undertaken by the Scottish Government in partnership with the Chartered Institute of Housing. This research is focused on the impact of the policy, as far as it is currently known, on under 35s, and the impact that will have on landlords, a key concern raised by stakeholders. This research is ongoing, however the researchers have provided a short summary of their findings to date, which I have included alongside this letter for the Committee's consideration. The final report is expected in the summer, and we would be happy to share this report with the Committee once it is completed.

I trust that this information is helpful, and serves to answer the Committee's questions. We are aware that the Committee has also sought the views of ALACHO and the SFHA. The Scottish Government will continue to work with these organisations, and other bodies, as it considers further its response to the extension of LHA to the social rented sector.

INTERIM REPORT

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

Chartered Institute of Housing Scotland
Scottish Government

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1. This research seeks to improve understanding of the impact that the introduction of Local Housing Allowance (LHA) caps will have on the social rented sector. The research is at interim report stage which has estimated the likely financial impact of the LHA cap on social landlords and gives an indication of the geographical spread of impacts across Scotland. Ongoing work is exploring the potential to mitigate against the impact of the LHA restrictions, for example through information and advice, rent restructuring, shared social tenancies, discretionary housing payments, exemption or other measures. The study will be completed by end of July 2017.

2. 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[1].

   - 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 housing fund' will be disbursed to local authorities (LAs) in England and devolved administrations in Scotland and Wales.

3. Based on experience 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 '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.

4. Across Scotland, between September and November 2016 there were an estimated 24,400 social renters under 35 years claiming Housing Benefit. 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 claimants live in each of the Island authorities.

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[1] Exemptions are not yet known but based on private rented sector experience may include those with disabilities, care leavers, those with care and support, an ex-offender, or are 25 and have lived in a homeless hostel for at least 3 months.

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

- Using DWP claimant data by LA on average awards received by young Housing Benefit recipients compared to the SAR – this produces an **annual estimated rent gap across Scotland of £22.8m.**
- Calculating the difference between average rents by property size by individual landlord from the ARC[2] and comparing this with the SAR rate for the estimated tenants that are aged under 35 for that area. This produces **an annual estimated rent gap of £8.6mn**. This covers all social tenants under 35 years in lettable, self-contained accommodation as recorded in the ARC.
- The reason for the **considerable difference between £22.6m and £8.6m** is that the £22.6m estimate will include some supported or temporary accommodation not recorded on ARC. Temporary/supported accommodation rents in stock not covered by ARC (e.g. hostels) may be higher than the average, and/or service charges are applied which are covered by Housing Benefit and will be included in the £22.6m. We would expect that some of these costs will be covered by exemptions or the supported accommodation fund. There is no certainty about this fund, and the extent to which it will cover temporary accommodation.

6. Using data from DWP awards and the recent supported accommodation review suggests that **around 14,000, or 65% of mainstream young social tenants might be affected**. This excludes an estimated 7,000 young people in supported accommodation for whom additional support or exemptions *may* be available.

7. There is a considerable range in the SAR for under 35s Scotland depending on the local market from £56.96 per week in the lowest priced areas to £75.63 in the highest. Landlords 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.

8. Comparing average rents for all property sizes and LHA Shared Accommodation Rate, it is estimated that:

- 1 in 3 social landlords in Scotland have 1-apartment stock (bedsits/studios) with a rent that is above the SAR; 2 in 3 social landlords in Scotland with 2-apartment (1 bed) stock have with a rent that is above the SAR, and 4 out of 5 landlords has an average 3-apartment (2 bed) stock with rent that is above the SAR.
- Housing Associations typically have higher rents than LAs and will be affected more. Across both sectors, the average rent of a 1-apartment property is below the SAR (by £2.03 a week) **but** housing association rents are much closer to the SAR (just £0.80 below the SAR), compared with LAs (with an average 1-apartment rent of £6.51 less than the SAR).
- On average, LA 2-apartment rents are £1.15 lower than the SAR, while housing association 2-apartment properties are £7.87 a week higher than the SAR. The gap is even wider for the 3-apartment 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 housing associations.

9. The analysis has so far relied on average data on rents by individual landlord and Housing Benefit awards. The next stage of the analysis will involve case study work which we hope will allow case-level analysis based on individual rents. It is also hoped that DWP will allow access to case study level awards information to allow further refinement of the estimates.

[2] Annual Return on the Charter published by the Scottish Housing Regulator