



**CORPORATE & ENVIRONMENTAL
OVERVIEW & SCRUTINY
COMMITTEE**

**MEMBERS UPDATE: 2017/18
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Article of: Director of Housing and Inclusion

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**SUBJECT: Local Housing Allowance (LHA) and Welfare Reforms - Potential
Impact On Housing Revenue Account (HRA).**

Wards affected: Borough wide

1.0 PURPOSE OF ARTICLE

- 1.1 To advise Members of the LHA restrictions to housing benefit and Universal Credit housing costs in the social rented sector programmed from 1st April 2019.
 - 1.2 To refresh Members of other Government legislation and highlight the potential impacts that they will have on the HRA.
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2.0 BACKGROUND

- 2.1 LHA - The Government Spending Review and Autumn Statement 2015 announced an intention to cap the amount of rent that housing benefit will cover in the social rented sector, to the relevant LHA level. LHA rates are already applied to people who live in the private rented sector and the level the rate is set at is payable for rent and eligible service charges.
- 2.2 Rent Reduction - The Governments desire to manage the cost of the housing benefit bill resulted in an announcement in the 2015 budget to reduce rents in the social housing sector by 1% p.a for 4 years. For the purposes of the HRA Business Plan we have assumed the Government will reinstate the rent formula of CPI plus 1% after the four years.
- 2.3 Universal Credit (UC) - was introduced in West Lancashire by the Department of Works and Pensions (DWP) in September 2014. It replaces the six benefits listed below and puts them into one single monthly payment.
 - Income based job seekers allowance
 - Income related employment support allowance
 - Income support
 - Child tax credit
 - Working tax credit

- Housing benefit
- 2.4 UC claimants no longer receive housing benefit to cover their rent liability but receive housing costs as part of their UC payment and are expected to use this to pay their rent. UC does not apply to people of pensionable age.
 - 2.5 Benefit Cap - A cap has been put on the amount of benefits that can be claimed for non-working households. The most these households can now claim is £13,400 a year or £257.69 a week for a single claimant and £20,000 a year or £384.62 for couples or where children are in the household. Any benefit income above these levels will be reduced from housing benefit or Universal Credit entitlement meaning tenants will have to make payment towards their rent. The benefit cap is aimed at encouraging those not working to look for work by ensuring no benefit claimant receives more in benefits than the average working household.
 - 2.6 Under Occupation charge - Those tenants under pensionable age who live in social housing that is bigger than their needs have had their housing benefit restricted since July 2013 in West Lancashire, this is the under occupancy charge. The 1 and 2 bedroom benefit restrictions are 14% and 25% respectively. Those tenants affected will need to either make up the shortfall in their rent themselves or apply for a Discretionary Housing Payment (DHP) from their Local Authority for temporary financial assistance.

3.0 CURRENT POSITION

3.1 Local Housing Allowance (LHA)

- 3.1.1 The Government's current proposals are that LHA will affect all social housing tenants who took a tenancy or renewed a tenancy since 1st April 2016. From 1st April 2019, housing benefit or housing costs (for those tenants claiming UC) will be restricted to the relevant LHA rate for the postcode area that the tenant lives in. This will bring payments in line with the rate which is payable for tenants of private landlords. Any claimants claiming UC will be restricted to housing costs at the LHA rate regardless of when their tenancy started. See Appendix A.
- 3.1.2 Single tenants who have no dependants and who are under 35 years of age will only receive the equivalent of the shared room rate from April 2019, see Appendix A for current rates. A snapshot of one bedroom property shows 132 single tenants under the age of 35 currently have a tenancy, and of these 85 took a tenancy after April 2016 and so could potentially be affected by the shared room rate. Whilst 20% of occupied properties have a primary tenant under 35 further analysis is required to understand any impact given that the tenant base and personal circumstances change over time. Based on a number of assumptions on occupation of one bedroomed properties early indications are that there is the potential that 11% of tenants who are under the age of 35 and occupying a one bedroomed property may be affected as the average current rents charged by the Council for one bedroomed property or bedsit is higher than the shared room rates. Tenants will need to consider how they are going pay the shortfall in housing benefit or housing costs to cover the rent due.

- 3.1.3 It is not yet clear if all UC claimants will be affected by LHA irrespective of when they took their tenancy unlike tenants on other benefits who will only be affected if their tenancy started after April 2016. However there has been indication that those moving from housing benefits to Universal credit after 2019 will be given some protection with transitional arrangements but this is yet to be detailed.
- 3.1.4 In September 2016 the Secretary of State announced a delay in applying LHA rates in supported housing to 2019/20. The Government then held a 12 week consultation exercise in November 2016 on a proposed new funding model which will be introduced to coincide with this date and local authorities in England will receive ring-fenced funding to meet the shortfall between the LHA rates and the cost of provision of supported housing. How this funding will be administered was part of the consultation exercise and in relation to West Lancashire may result in the funding sitting with Lancashire County Council. The rates will apply to all supported housing tenants in receipt of housing benefit which includes tenants living in sheltered accommodation. However those single occupants living in supported housing will not be subjected to the shared room rate of LHA.
- 3.1.5 The details of the model to assist with the shortfall have yet to be agreed and therefore any transitional arrangements for tenants living in sheltered accommodation has yet to be finalised. Of the 1113 Council sheltered tenancies in West Lancashire 865 tenants currently receive full or partial housing benefit.
- 3.1.6 At this time it is difficult to anticipate the full impact of these changes. However some early modelling and assumptions indicate that if LHA was payable today, based on the current rental charges, 12% of the stock or approximately 720 properties have rent and service charges that would exceed the amount payable under LHA rates. This includes a range of property types including sheltered property, and property with affordable rent charges. This would be the minimum impact based on rent and services charges only. Further analysis is being carried out to understand the potential affect based on family size, occupancy and ages of tenants.

3.2 1% Rent Reduction

- 3.2.1 The 2015 budget saw the announcement of an introduction of rent reductions for social housing landlords. This required social landlords to reduce their rents by 1% in each year for four years from April 2016. The Government however subsequently announced a one-year exemption for supported housing, including sheltered accommodation from the 1% rent reduction. From April 2017 a 1% rent reduction has therefore been applied to those tenants living in sheltered accommodation. There has been no decision on what the Government's position will be in relation to rent setting from April 2020.

3.3 Universal Credit (UC)

- 3.3.1 The agreed date for UC Digital Roll out or what is referred to as UC Full Service is due in December 2017 for West Lancashire. At present, in most UC areas only single job seekers, employment and support allowance claimants and income support claimants are accepted for UC.

3.3.2 The move to Full Service means that from December 2017 those tenants claiming;

- Income Support
- Income Based Jobseekers
- Income Based Employment and Support Allowance
- Child Tax Credit
- Working Tax Credit
- Housing Benefit

must make a claim 'online' using the Government's UC application pages on GOV.UK.

3.3.3 This means that all new benefit claims from working age customers looking for help with their housing costs can only be made through UC. This is a significant change for many tenants who have had their rent automatically paid by housing benefit direct to their landlord. UC housing costs payments are made to the claimant not the Landlord, it is only if the claimant falls into arrears or has significant issues with their capacity to manage these payments that a housing costs payment will be made direct to the Landlord. There is also a 6 week delay in payments being processed and payments are made monthly in arrears unlike housing benefit which is received weekly. These factors will have a negative impact on the HRA budget

3.3.4 Current UC position statement for Council Tenants
At 31st March 2017 there were 348 Council tenants claiming UC.

The Council receive direct payments from the DWP for 179 tenants; of these 115 also have an agreed deduction to reduce outstanding rent arrears.

Snapshot at 31st March 2017		Tenants claiming UC
Number of Council tenants	5876	348
Number of tenants in rent arrears	2108	292
% of tenants in rent arrears	35.92%	83.9%

3.4 Benefit Cap

3.4.1 Benefit Cap was initially introduced in April 2013 and was then amended bringing in further reductions which applied from November 2016. There are currently 40 council tenants affected by the Benefit Cap in West Lancashire. The Council have endeavoured to support all tenants by offering money advice services through the Financial Inclusion team.

3.5 Under Occupation Charge

3.5.1 There are currently 724 tenants who are affected by the under occupation charge. The Council initially contacted all those tenants who were affected in

April 2013 to advise them of the charge and discuss options around moving to smaller accommodation, or if this was not achievable how to make a claim for DHP to cover their housing benefit shortfall. The Council continue to support tenants through the Income Management and Financial Inclusion team.

4.0 ISSUES

- 4.1 All of the changes highlighted may have a financial impact to some degree on the HRA. LHA and the Under Occupation Charge will not only have an impact on a tenants' ability to pay their rent, but also potentially on demand for the Council's housing stock, if our rent levels are no longer affordable due to housing benefit or housing costs being capped to the LHA rate.
- 4.2 The changes to assisting tenants with housing costs has the potential to impact on demand for property. There is the risk that there will be an increase in the number of voids and time taken to allocate accommodation with rents that are higher than the LHA rate and attract younger single tenants such as one bedroomed flats. It could exacerbate an increase in voids and issues re- letting sheltered accommodation as the rent and service charges exceed LHA rates. The demand for sheltered accommodation is currently being reviewed as part of the sheltered option appraisals and these issues will contribute to any future decisions on changes and remodelling schemes.
- 4.3 Whilst the Council have been able to manage the impact of the 1% rent reduction by re-prioritising the investment programme to the housing stock and creating efficiencies by looking at how we can deliver services digitally, there is no certainty yet about what the Government's plans are from 2020 in relation to rent setting policy.
- 4.4 Currently on average 6 tenants a month are claiming UC. The Department for Work and Pensions have estimated this will increase when we move to Full Service in December this year to an average of 48 a month. At present 53% of rental income is covered by weekly housing benefit payments, however as UC rolls out this figure will decrease. The delay in payments being awarded and the fact that payments are made monthly in arrears will affect the income stream to the HRA.
- 4.5 The changes from Universal Credit have already had an impact on resources. The Council appointed an additional money advisor in June 2016 to assist with the additional workload associated with UC. This has greatly supported tenants and assisted in minimising the impact on rent collection and arrears. All new tenants who move onto Universal Credit are contacted by text to establish their payment date which can be any day of the week and they are offered budgeting advice. As the focus to making a claim for Universal credit and assistance with housing costs shifts to digital only applications it will become increasingly important that Council services and information can also be easily accessed by tenants. The Housing and Inclusion tenant mobile self-serve app will assist in making information easily and readily accessible 24 hours a day. The Housing and Inclusion service will also be piloting a paperless direct debit service for tenants which can offer any date, any frequency for rent payments to provide

greater choice and maximise available payment dates which will be beneficial for Universal Credit claimants .

5.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

- 5.1 There are potential issues for sustainability in relation to these changes as they may impact on an individual's ability to both afford and maintain a Council tenancy.

6.0 FINANCIAL AND RESOURCE IMPLICATIONS

- 6.1 Whilst budgeting support and money advice provision will be key to supporting the changes and minimising the financial risks, as more tenants move to Universal credit and start to receive monthly housing cost payments in arrears there will be an impact on the arrears and recovery rate profile. It is unclear how Local Housing Allowance will be paid to the Council. Private Landlords LHA payments are paid monthly in arrears. If this is replicated for Social Landlords then the move from a weekly housing benefit payment file to a monthly LHA payment in arrears will also have an impact on the arrears reporting position.
- 6.2 Although tenant support is in place for budgeting and money advice, this will be monitored carefully over future months.
- 6.3 There is a risk that there will be rental loss due to increased void rates and longer turnaround times if potential new tenants consider the rental charges unaffordable.
- 6.4 Whilst some of the financial and resource implications arising in respect of the changes have been highlighted, any further implications will be modelled and reported as regulation details are confirmed. This report is for information purposes only and makes no recommendations for action.

7.0 RISK ASSESSMENT

- 7.1 Failure to manage the impact of LHA and Welfare Reforms is included as a Key Risk on the Housing and Inclusion Service Risk Register. This report provides an information update on how these reforms are being managed where appropriate to provide assurance to Members that action is being taken.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Article.

Equality Impact Assessment

This Article is for information only and therefore does not require an Equality Impact assessment.

Appendices

Appendix A - Current LHA Rates - West Lancashire