

Local Housing Allowance Briefing Paper March 2017



Introduction

During the Spending Review and Autumn Statement 2015, the then Chancellor George Osborne announced an intention to restrict the level of Housing Benefit 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 rather than the size of the property. However, there are now concerns that it will impact on hundreds of thousands of pensioners who are currently exempt from the under-occupation deduction from Housing Benefit (known as the bedroom tax). This briefing explains the issue further.

How does the LHA work?

The vast majority of Housing Benefit claimants living in privately rented dwellings receive the LHA. LHA is paid at a flat rate which is set at the 30th percentile of market rents for properties of different bedroom sizes (up to a maximum of four bedrooms) within a Broad Market Rental Area (BMRA) and weekly LHA rates are published for each BMRA.

Weekly LHA rates are also subject to national caps which are currently:

- £260.64 for a room in shared accommodation
- £260.64 for 1 bedroom accommodation
- £302.33 for 2 bedroom accommodation
- £354.46 for 3 bedroom accommodation
- £417.02 for 4 bedroom accommodation

A bedroom tax for pensioners

Currently, Housing Benefit claimants in social rented housing do not experience a reduction in their entitlement if they occupy a home that is deemed to be larger than they need and have reached the qualifying age for State Pension Credit. LHA rates base entitlement to Housing Benefit on household size, so a single person or couple living in a 2-bed property may receive the maximum of the one-bedroom LHA rate within the local area.

In London and the South-east, the impact may not be severe, because the one-bedroom LHA rate is likely to be higher than the existing social housing rent charge, but across the rest of the country – where private rents are cheaper – the LHA cap is set much lower, in line with private rents, threatening tenants with big benefit cuts.

Housing Benefit restrictions based on the size of the property occupied have applied to tenants in the private rented sector since 1989. Therefore, once the measure is introduced to the social sector in 2019, it raises the possibility of some pensioners who are 'under-occupying' their homes, experiencing a shortfall in their Housing Benefit entitlement. This has led to the suggestion that the measure amounts to a 'new bedroom tax.'

Furthermore, if as will be the case in some areas, the maximum HB/LHA even for a one bedroom property is below the level of rent (as judged by the BMRA), older people could find themselves in rent arrears, or being forced to move and potentially being homeless. However, smaller properties are in scarce supply and those that do exist, such as upper-floor flats without lifts, are completely unsuitable for pensioners.

The measure will affect new tenancies entered into after 2016, and will only affect claimants whose rent is higher than the appropriate LHA rate. The LHA caps will apply from April 2019, but legislation to implement this measure has not yet been introduced.

The Department for Work and Pensions has said they are taking this action to “stabilise the economy and bring down the spiralling Housing Benefit bill. The reality is private renters have been paid at the LHA rate since 2008, so this change restores fairness to the system for those who use it as well as those who pay for it.”

The impact of capping HB at LHA rates for social housing tenants

An analysis by the Institute for Fiscal Studies (IFS) concluded that the savings arising out of this measure would be “small in the short-run, cutting Housing Benefit expenditure by £255 million in 2020-21.” The longer-term impact was expected to be more significant. For example, if applied to all social tenants now:

- HB would be cut by £1.1 billion (from base of around £25bn)
- 800,000 households would lose an average of £1,300 per year
- In 2015, the IFS estimated that there were around 750,000 households in the social rented sector with a rent level greater than the LHA rate that would be affected
- There are an estimated 500,000 pensioner households in social housing that under-occupy their property
- The long-term effects could be even larger if social rents grow faster than HB caps (which are only linked to the lower Consumer Price Index (CPI))

Next steps

The NPC will be submitting these concerns to the Local Communities and Government committee inquiry into older people’s housing, and raising the issue with ministers, but you can also help by using this briefing to contact your MP (use this link to find them) <http://www.parliament.uk/get-involved/contact-your-mp/> outlining your concerns and asking them to raise this issue with relevant Ministers. You may also wish to raise this issue with Ministers directly:

- Rt Hon Sajid Javid MP (Secretary of State for Communities and Local Government) sajid.javid.mp@parliament.uk
- Rt Hon Damian Green MP (Secretary of State for Work and Pensions) ministers@dwp.gsi.gov.uk

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