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*The Collaborative Consultancy*

## 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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## Interim Report Executive Summary

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<sup>1</sup>.
  - 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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<sup>1</sup> 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 £22.6m**.
  - Calculating the difference between average rents by property size by individual landlord from the ARC<sup>2</sup> 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 £8.6m**. 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.

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<sup>2</sup> Annual Return on the Charter published by the Scottish Housing Regulator