Measuring the impact on housing associations of applying Local Housing Allowances to the social rented sector in Northern Ireland

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About NIFHA

The Northern Ireland Federation of Housing Associations (NIFHA) represents 22 registered housing associations in Northern Ireland. Collectively our members provide 47,000 homes comprising general needs, specialist and supported accommodation, as well as shared ownership.

Housing associations are not-for-profit social businesses which increasingly borrow significant amounts of private finance to deliver public benefit in meeting housing need, supporting their tenants and investing in communities.

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Introduction

In November 2015 the Chancellor announced in the *Spending Review and Autumn Statement*[1] that the amount of rent housing benefit will cover in the social rented sector would be capped at the relevant Local Housing Allowance (LHA) rate.

NIFHA has carried out a comprehensive evaluation of our members' rents in order to establish the housing groups and areas that will be most affected by the implementation of the LHA cap in Northern Ireland. This briefing aims to provide housing associations with a better understanding of the LHA cap and how it will affect their tenants and future development.

Local Housing Allowance

LHA was introduced for people living in private rented accommodation in April 2008. It is a rent assessment scheme which sets the amount of housing benefit that tenants are entitled to. It is calculated by taking into account local private market rents, local facilities and services, whether the renter is in shared accommodation and how many bedrooms are needed.

Single claimants under the age of 35 years who do not have dependent children are awarded a "shared accommodation rate" regardless of the number of bedrooms they have, or whether they are actually sharing. For families that have separated due to relationship breakdown, only one parent can claim 'bedroom allowance' for any children they may have. The other parent will be regarded as single. If the amount of rent charged is higher than the LHA, the tenant will have to fund the shortfall from a source other than housing benefit.

From 1st April 2011 LHA rates were capped at the four-bed level. Prior to this it was possible to access LHA rates for properties with up to seven bedrooms. In October 2011 the calculation of LHA rates was changed from the median level of private sector rents to the 30th percentile.

As we currently understand it, the LHA cap will apply from 1st April 2018 for new general needs tenancies created after 1st April 2016. This will provide a two year period in which households taking up tenancies from 1st April 2016 will be made aware that their housing benefit entitlement will change.

The LHA rates for 2016/17 are the same as those set in 2015/16 or the 30th percentile of local market rents, whichever results in the lowest value[2], this has resulted in a reduction of LHA rates in some areas. LHA rates have been frozen for the next four years which will place housing association income under significant pressure. With over 70% of housing association tenants in Northern Ireland dependent on some level of housing benefit, the introduction of the LHA cap to social housing tenancies has the potential to adversely affect a large proportion of new social housing tenants.

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[1] HM Government Spending Review and Autumn Statement November 2015
[2] Northern Ireland Housing Executive: LHA rates - how we calculate them

Broad Market Rental Areas

LHA rates are set for different property sizes within eight Broad Market Rental Areas (BRMAs) in Northern Ireland. A BRMA is defined as *"an area within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services."*[3]

BRMA	Key Areas
South	Armagh, Banbridge, Newry, Warrenpoint
North	Ballycastle, Ballymoney, Bushmills, Coleraine, Portrush Portstewart
Lough Neagh Lower	Craigavon, Dromore, Dungannon, Lurgan, Portadown
North West	Derry, Limavady, Strabane
South West	Augher, Clogher, Enniskillen, Fivemiletown, Lisnaskea, Omagh
South East	Ards, Ballynahinch, Bangor, Downpatrick, Holywood, Lisburn, Newcastle
Lough Neagh Upper	Ballymena, Carrickfergus, Cookstown, Crumlin, Larne, Maghera, Newtownabbey
Belfast	Central Belfast, East Belfast, North Belfast, South Belfast, West Belfast

A BRMA must contain *"residential premises of a variety of types, including such premises held on a variety of tenures"*, and *"sufficient privately rented residential premises to ensure that, in the Executive's opinion, the local housing allowance for the categories of dwelling in the area for which the Executive is required to determine a local housing allowance is representative of the rents that a landlord might reasonably be expected to obtain in that area".*[4]

[3] The Housing Benefit (Executive Determinations) (Amendment) Regulations (Northern Ireland) 2008
[4] The Housing Benefit (Executive Determinations) (Amendment) Regulations (Northern Ireland) 2008

Shared Accommodation Rate

The proposed cap on housing benefit will limit single tenants who are under 35 to the shared accommodation rate regardless of accommodation size and will be applied to new tenancies created after 1st April 2016.

BRMA	Shared Accommodation Rate (2016/17)
South	£45.80
North	£37.90
Lough Neagh Lower	£43.63
North West	£50.52
South West	£45.70
South East	£52.09
Lough Neagh Upper	£48.45
Belfast	£42.15

The median LHA rate in 2016/17 for shared accommodation within Northern Ireland is £45.75. This is significantly lower than in Wales (£55.05), Scotland (£60.70) or England (£65.99).

Region	Median Shared Accommodation Rate (2016/17)
Northern Ireland	£45.75
England	£65.99
Scotland	£60.70
Wales	£55.05

NICORE data suggests that over the last five years (2010-2015), nearly 13% of mainstream self-contained stock has been newly let to single tenants under 35 years old. In total this means that just under 1,800 tenancies (over 350 a year) were given to this tenant group.

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
All New Mainstream Lettings	2,375	2,488	3,098	3,468	2,628	**14,057**
Lettings to Single Adults Under 35	363	348	382	368	326	**1,787**
% of Single Adults Under 35	15.3%	14.0%	12.3%	10.6%	12.4%	**12.7%**

Further analysis of NICORE data shows that over 50% of these tenancies were in Belfast (compared to 38% of all mainstream lettings being in Belfast) and 15% in Derry/Londonderry. Housing associations with a significant proportion of mainstream property based in Belfast will be particularly vulnerable to the single person cap.

Top Locations of Tenancies to Single Tenants Under 35	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**Total**
1. Belfast	51.2%	48.3%	56.5%	48.0%	49.4%	**50.8%**
2. Derry & Strabane	14.9%	18.2%	13.8%	16.1%	14.2%	**15.4%**
3. Armagh, Banbridge & Craigavon	6.9%	8.4%	5.3%	6.8%	5.2%	**6.5%**
4. Lisburn & Castlereagh	7.2%	5.8%	5.6%	4.4%	4.6%	**5.5%**
5. Newry, Mourne & Down	3.3%	5.8%	2.4%	4.6%	5.2%	**4.2%**
Total	**83.5%**	**86.4%**	**83.6%**	**79.8%**	**78.7%**	**82.4%**

NICORE data provides a useful snapshot of how vulnerable single tenants under 35 are:

- 65% male, 35% female;
- 15% worked either full time or part time but 58% were unemployed and 22% were permanently sick/disabled;
- 56% were statutorily homeless;
- The vast majority (87%) of these single adults under 35 were eligible for full or partial housing benefit. This compares with 73% of tenants overall. Therefore, of the 1,787 single adults housed in the last five years, 1,550 were eligible for full or partial housing benefit.

Single Tenants Under 35	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**Total**
Male	67.2%	64.1%	64.1%	65.8%	66.6%	**65.5%**
Female	32.8%	35.9%	35.9%	34.2%	33.4%	**34.5%**
Works Full Time	13.5%	10.6%	8.4%	12.0%	9.8%	**10.9%**
Works Part Time	4.7%	4.3%	6.5%	4.9%	6.1%	**5.3%**
Government Training	1.1%	1.4%	0.5%	1.6%	2.5%	**1.4%**
Registered Unemployed	57.0%	61.5%	63.6%	59.5%	48.8%	**58.3%**
Full-time Student	4.4%	2.3%	0.5%	1.9%	1.5%	**2.1%**
Permanently Sick/Disabled	18.7%	19.5%	20.2%	20.1%	30.7%	**21.7%**
Other	0.6%	0.3%	0.3%	0.0%	0.6%	**0.3%**
Head of Household has Disability	24.5%	19.0%	25.9%	26.9%	36.5%	**26.4%**
Statutorily Homeless	44.4%	55.2%	58.1%	59.8%	66.0%	**56.5%**
Eligible for Housing Benefit	84.1%	91.1%	92.5%	90.9%	90.2%	**86.9%**

Of properties allocated to new tenants in the last five years, 42% were one bed properties but 52% were two bed properties. Even if all the single under 35 year olds who were working (16%) were allocated the two bed accommodation there is still a considerable proportion of new tenants whose sole source of income was derived from benefits including housing benefit being allocated two bed properties.

Potential Challenges

From April 2016 single tenants under 35 might be assessed as eligible for two bedrooms (because for instance, they have children who do not live with them full time because of a relationship breakup) but will only be eligible for housing benefit at the shared room rate after April 2018.

The dilemma for housing associations will be whether to continue to allocate this type of accommodation, whether one or two bed, to single adults under 35 knowing that they might not be able to afford to pay the shortfall after April 2018. Do housing associations start to 'income check' tenants to ensure they can afford to pay any shortfall before allocating a property?

If housing associations do start to check a tenant's income, this group which is already vulnerable will find that the pool of accommodation suitable for allocation to them will diminish substantially, adding further pressures to the waiting list.

Type of Property Allocated to Single Tenants Under 35	2010/11	2011/12	2012/13	2013/14	2014/15	Total
1 bed flat	45.5%	39.9%	40.6%	33.7%	33.4%	**38.7%**
2 bed flat	24.8%	28.4%	27.2%	32.6%	30.0%	**28.6%**
3 bed flat	0.6%	0.3%	0.3%	0.3%	0.0%	**0.3%**
1 bed bungalow	0.3%	0.3%	0.5%	0.5%	1.2%	**0.6%**
2 bed bungalow	3.0%	2.9%	2.1%	2.2%	1.5%	**2.4%**
3 bed bungalow	1.4%	0.0%	0.0%	0.0%	0.3%	**0.3%**
1 bed house	0.8%	3.7%	3.4%	0.8%	3.7%	**2.5%**
2 bed house	17.4%	17.2%	22.3%	23.3%	22.9%	**20.6%**
3 bed house	6.1%	5.2%	3.4%	6.0%	5.9%	**5.3%**
Other - bedsit, maisonette	0.3%	2.0%	0.3%	0.5%	0.9%	**0.8%**

The table below highlights what would have been the difference between the average LHA and the actual average rent of accommodation allocated to single people over 35 if the cap had been in operation between 2010 and 2015. The average shortfall for a one bed flat was £18.85 a week (£980 a year). This is a substantial figure, even for single person who is earning, let alone someone on benefits.

	2010/11	2011/12	2012/13	2013/14	2014/15
Average LHA Shared Room Rate	**£44.83**	**£44.98**	**£45.17**	**£44.82**	**£44.88**

Average Weekly Rent & Service Charge to Single Tenants Under 35	2010/11	2011/12	2012/13	2013/14	2014/15	Average Difference
1 bed flat	£58.96	£58.85	£66.84	£67.74	£66.55	**£18.85**
2 bed flat	£69.66	£74.03	£80.36	£81.05	£79.27	**£31.94**
3 bed flat	£75.17	£90.82	£81.77	£75.00	-	**£35.74**
1 bed bungalow	£56.53	£55.98	£63.82	£53.43	£61.25	**£13.27**
2 bed bungalow	£65.87	£70.14	£70.30	£66.63	£77.19	**£25.09**
3 bed bungalow	£75.69	-	-	-	£111.08	**-**
1 bed house	£52.47	£50.72	£50.58	£56.61	-	**£7.65**
2 bed house	£60.40	£67.48	£68.52	£70.62	£76.91	**£23.85**
3 bed house	£71.70	£80.57	£82.96	£82.74	£82.15	**£35.09**
Other - bedsit, maisonette	£41.92	£51.33	£52.71	£59.50	£51.92	**£6.54**
Average Rent & Service Charge	**£63.08**	**£66.13**	**£70.96**	**£73.43**	**£75.24**	**£26.93**

To show the overall risk in rent arrears the table below highlights the possible annual shortfall in rents that housing associations would have faced had the cap been applied from 2010 to 2015. It shows that just under £300,000 of rent would have potentially been at risk in 2010/11 but this rises to £2.10 million of rent by 2014/15. Total arrears *(Benchmarking Report 2015)* was £6.23 million in 2014/15, meaning that the LHA cap on single people under 35 could have potentially increased arrears in the sector by 25%.

	2010/11	2011/12	2012/13	2013/14	2014/15
Annual potential full HB	£1,035,907	£2,092,565	£3,350,261	£4,613,036	£5,71,677
Annual potential HB if capped	£736,204	£1,466,433	£2,291,040	£3,099,866	£3,848,672
Annual shortfall	**£299,704**	**£641,670**	**£1,106,615**	**£1,612,239**	**£2,104,242**

Note - assuming 87% of single tenants under 35 on full/partial HB and a 1.5% annual rent increase

Possible Mitigations

Some single tenants under 35 may be entitled to the one bed LHA rate if they:

- Receive a severe disability premium (SDP). This premium will be abolished with the introduction of Universal Credit (UC) meaning that only those with a protected SDP claim will apply for this exemption;
- Have a proven need for overnight care and have a spare bedroom that a non-resident carer regularly stays overnight in;
- Are registered foster carers;
- Are aged under 22 and were formerly in social services care subject to a court order on or after their 16th birthday or had formerly been provided with accommodation by Social Services.

Key Considerations

- Housing associations that have a large proportion of one or two bedroom properties, especially in Belfast, will have the most potential risk of ever-increasing arrears, as these properties have traditionally been allocated to a significant proportion of single tenants under 35;
- If housing associations do not want significant numbers of void one or two bedroom properties because single people cannot afford them, they will have to address the issue quickly and creatively with measures such as shared tenancies;
- The issue of the shared room rate covers not only one bed, but a significant proportion of two bedroom properties. This two bed accommodation has presumably been allocated because the tenant has been assessed as requiring a two bedroom property. However the shared room rate will still apply;
- Housing associations may start to 'income check' prospective tenants, whether they are allocated one or two bedroom property, to ensure that they will be able to afford the rent once the cap is applied in 2018;
- The issue of arrears due to the shared room rate will be exacerbated by the proposed four year freeze in LHA increases; analysis of data from 2010 – 2015 shows that possible arrears could increase rapidly year on year. If the LHA cap had been applied from 2010/11 arrears would have risen from just under £350,000 in the first year to over £2.4 million in year five. Although housing associations will try to alleviate possible arrears through such measures as 'income checking' and shared licensed tenancies, single under 35 year olds are a group of tenants that will move more frequently than other tenants and so are much more likely to be caught by the LHA cap sooner rather than later.

General Needs Housing

NIFHA analysed a total of 25,582 general needs property rents against the applicable LHA rate. The table below shows the breakdown of the number of bedrooms within this sample.

	1 Bed	2 Bed	3 Bed	4 Bed	4+ Bed	Total
Number of Properties	2,975	11,135	10,013	1,269	190	25,582
% of General Needs Stock	12%	44%	39%	5%	1%	

LHA rates are based on the number of bedrooms that a tenant and their household needs, not the size of the property occupied; this is called the size criteria. For most households, the applicable LHA rate depends on the number of bedrooms required and does not take account of any other rooms in a property (for example kitchens, bathrooms and living rooms).

One bedroom is allocated for:

- Every adult couple;
- Every other adult aged 16 or over;
- Any two children of the same sex;
- Any two children regardless of sex under age 10;
- Any other child.

BRMA	LHA - 1 Bed	LHA - 2 Bed	LHA - 3 Bed	LHA - 4 Bed
South	£58.72	£79.99	£88.44	£99.58
North	£65.47	£83.17	£89.42	£97.66
Lough Neagh Lower	£66.94	£77.92	£89.43	£106.83
North West	£74.31	£89.53	£99.60	£108.13
South West	£59.40	£76.07	£87.10	£96.79
South East	£77.96	£93.09	£102.92	£120.93
Lough Neagh Upper	£69.85	£85.70	£93.27	£104.48
Belfast	£83.65	£92.44	£101.90	£118.51

The median LHA rates in 2016/17 in Northern Ireland are the lowest in the UK. Although the housing market in some parts of England (especially the South East) would be much more buoyant, market conditions in Scotland and Wales are broadly similar to Northern Ireland, making it difficult to understand the difference in median LHA levels, and we believe that further research is required in this area.

Region	Median 1 Bed LHA	Median 2 Bed LHA	Median 3 Bed LHA	Median 4 Bed LHA
Northern Ireland	£68.40	£84.44	£91.35	£105.66
England	£97.39	£122.36	£148.36	£186.81
Scotland	£83.16	£103.56	£126.75	£180.23
Wales	£79.78	£97.81	£115.06	£138.08

The table below shows the average general needs housing association rent for 2016/17 in each BRMA.

BRMA	Average 1 Bed Rent	Average 2 Bed Rent	Average 3 Bed Rent	Average 4 Bed Rent	Average 4+ Bed Rent
South	£64.05	£85.33	£99.28	£105.03	£116.67
North	£70.30	£80.74	£91.29	£99.16	£127.74
Lough Neagh Lower	£66.78	£73.91	£95.02	£109.28	£112.09
North West	£63.57	£81.99	£92.78	£100.81	£109.20
South West	£75.10	£83.03	£97.08	£105.72	£136.07
South East	£69.49	£87.18	£97.58	£102.12	£102.99
Lough Neagh Upper	£67.15	£82.92	£92.85	£98.37	£108.73
Belfast	£66.85	£81.51	£92.35	£96.94	£103.77
NI Median	**£67.00**	**£82.46**	**£93.93**	**£101.46**	**£110.65**

An analysis of LHA rates and the average rent of general needs accommodation in 2016/17 shows that tenancies in the South and South West BRMAs will be particularly vulnerable to the LHA cap. However, in Belfast and South East BRMAs the average housing association rents are at least 5% lower than the LHA rate. Although Belfast, in general, has rents below LHA levels the lack of land (and therefore the high cost) in certain neighbourhoods will make it increasingly difficult to develop in those areas, however great the housing need. This may lead some communities to feel excluded from access to new social housing developments. For NIFHA to assess the effect the of LHA cap on specific communities, data would need to be analysed at ward level.

The LHA cap will disproportionately affect rural areas compared to Belfast and South East BRMAs which consist of mainly urban areas. This may be due a more developed and buoyant private rented sector in these areas which will give a better and more reflective sample in which to the set the LHA.

BRMA	1 Bed Difference	2 Bed Difference	3 Bed Difference	4 Bed Difference	4+ Bed Difference
South	8.32%	6.26%	10.92%	5.19%	14.65%
North	6.87%	-3.01%	2.05%	1.51%	23.55%
Lough Neagh Lower	-0.24%	-5.42%	5.88%	2.24%	4.69%
North West	-16.90%	-9.19%	-7.35%	-7.26%	0.98%
South West	20.91%	8.39%	10.28%	8.44%	28.87%
South East	-12.18%	-6.78%	-5.48%	-18.42%	-17.42%
Lough Neagh Upper	-4.03%	-3.35%	-0.46%	-6.21%	3.91%
Belfast	-25.14%	-13.41%	-10.35%	-22.26%	-14.20%
NI Median	**-2.10%**	**-2.41%**	**2.75%**	**-4.14%**	**4.51%**

The NIHE provides information in respect of locations where there is unmet housing need in the Social Housing Development Programme (SHDP). Outside of Belfast, the area with the highest unmet housing need is Newry City, with a total of 467 additional units required in the next five years[5]. Newry City sits within the South BRMA, one of those most vulnerable to the LHA cap. Additionally Warrenpoint and Enniskillen are also within the top 20 areas of unmet housing need and the top two BRMAs most affected by the LHA cap.

BRMA	Area	Total Unmet Need (Nov 2015)
Belfast	Greater West / Shankill Belfast	2,064
Belfast	South / East Belfast	1,360
Belfast	North Belfast	1,010
South	**Newry City**	**467**
South East	Bangor Urban	391

The Newry, Mourne & Down area is also within the top five areas for new social housing development for the next three years (self-contained accommodation only). The low LHA rates for Newry and the surrounding areas will undoubtedly affect the long term viability of some these new developments. If rent that is realistic to the cost of the build is charged, the risk of unsustainably high levels of arrears and/or voids is increased. The data from the NIHE on new social housing development also illustrates the pressure on development from another standpoint. There is no new self-contained social housing in Fermanagh & Omagh planned within the next three years, even though they are within the top 20 areas of unmet housing need. It is, therefore, already difficult for housing associations to find suitable sites to develop in this region. The LHA cap on social housing rents may create a further obstacle to the development of social housing within these areas.

Area	No. of new starts	% new starts
Belfast	1,690	29.4%
Derry & Strabane	1,267	23.2%
Antrim & Newtownabbey	479	8.3%
Lisburn & Castlereagh	454	7.8%
Newry Mourne & Down	**417**	**7.6%**

The pressure that capping housing benefit to LHA levels will put on housing associations can again be analysed through the NICORE data which shows that over that last five years around 45% of lettings has been of newly built properties, housing over 6,300 tenants. This accounted for just under 30% of all mainstream self-contained stock in 2014/15. This means that a significant proportion of housing association general needs stock has been built in the last five years with consequently higher rents.

Lettings in self-contained accommodation	2010/11	2011/12	2012/13	2013/14	2014/15	Total *(5 years)*
Mainstream - All Lettings	2,375	2,488	3,098	3,468	2,628	**14,057**
New Build Lettings	1,063	1,088	1,483	1,579	1,122	**6,335**
% Mainstream Lets New Build	44.8%	43.7%	47.9%	45.5%	42.7%	**45.1%**

[5] NIHE Unmet Social Housing Need Prospectus, January 2016

The issue of the high proportion of relatively new stock and consequently higher rents within the housing association sector is exacerbated by the concentration of new build in four regions, Belfast, Derry, Lisburn & Castlereagh and Newry, Mourne & Down. The proportion of stock built in the last five years compared to older stock will be proportionately higher in these areas than elsewhere. The issue is particularly stark in Newry, Mourne and Down because the LHA rates are low compared to other regions.

More detailed analysis is needed in this area but generally housing associations with a high proportion of newly built property (i.e. built within the last five years) will be under greater pressure of having housing benefit capped, especially if they are in rural areas like Newry, Mourne & Down and/or have one or two bedrooms (because these tenants are more likely to move).

Top New Let Locations	2010/11	2011/12	2012/13	2013/14	2014/15	Total *(5 years)*
1. Belfast	40.3%	28.8%	38.6%	29.6%	31.1%	**33.6%**
2. Derry & Strabane	15.1%	19.1%	12.5%	20.7%	16.0%	**16.7%**
3. Lisburn & Castlereagh	15.1%	1.1%	13.5%	11.9%	10.6%	**10.7%**
4. Newry , Mourne & Down	4.8%	20.2%	6.9%	10.2%	7.8%	**9.8%**
Sub total	**75.3%**	**69.1%**	**71.6%**	**72.4%**	**65.5%**	**70.8%**

To show the overall risk in rent arrears the table below highlights the potential annual shortfall in rents that housing associations may face due to the LHA cap. It shows that over £3 million of rent will potentially be at risk in 2016/17. Assuming an annual rent increase of 1.5%, the potential shortfall in rents will rise to over £5.2 million by 2019/20. Total arrears (Benchmarking Report 2015) was £6.2 million in 2014/15. Using data from the 2014/15 Annual Regulatory Return (ARR), 73% of housing association tenants were eligible for full or partial housing benefit. Using this data the LHA cap risks an increase of rent arrears by 38% within the first year. Faced with the increase in potential arrears, housing associations may find it more difficult to obtain private finance to meet unmet housing need in Northern Ireland.

	2016/17	2017/18	2018/19	2019/20	Total
Amount of potential shortfall per year	£3,264,239	£3,841,658	£4,492,160	£5,239,175	**£16,837,232**
Potential HB eligible shortfall per year	£2,382,894	£2,804,410	£3,279,276	£3,824,597	**£12,291,179**

Potential Challenges

In order to address unmet housing need, housing associations must acquire land and build properties, this is achieved through a mix of Housing Association Grant (HAG) and private finance. To obtain private finance housing associations must provide detailed financial data with projected income to give assurances of future viability in order to repay loans. A key factor in housing associations ability to obtain private finance has been the sustainability of rental income, which is put at risk by the introduction of the LHA cap.

Previously we have commented on the effect of the LHA cap on one and two bed properties because of the single room rate imposed on claimants under 35. However, three and four bed properties will also be affected. Analysis of LHA rates and average general needs rents in 2016/17 show that these properties are more at risk of an LHA cap than smaller properties.

Of the 25,582 general needs housing association properties analysed, 45% contained three or more bedrooms. The average rent for three and four bed properties was higher than the LHA cap in half of the BRMAs.

Properties with more than four bedrooms are particularly vulnerable as the LHA only sets rates for properties with up to four bedrooms. In cases where a property has more than four bedrooms the LHA cap for a four bedroom property is applied. In all BRMAs except Belfast and South East, the rent charged for properties with more than four bedrooms was higher than the LHA cap. This has the potential to disproportionately affect large families or those who require extra bedrooms to provide care.

Possible Solutions

In order to support members to deal with the challenges faced by the LHA cap, NIFHA will be producing an LHA eligibility calculator. This tool will enable members to assess housing benefit eligibility for potential tenants.

Due to single claimants aged under 35 being limited to the shared room rate, some landlords may wish to consider reconfiguring existing properties to accommodate more than one occupant. These may be let on a licence agreement specifically for single tenants under 35. This would both address an emerging area of housing need and make use of existing stock that may see demand reduce due to new limits on how much housing benefit can be claimed.

Supported and Sheltered Housing

In March 2016, Department for Work and Pensions (DWP) Minister Lord Freud confirmed in a written statement to Parliament that people living in supported and sheltered housing will be exempted from the LHA cap for a year[6]. This is to allow the Government to carry out a strategic review of how supported housing is funded. Therefore the LHA cap will only apply to new supported and sheltered tenancies from April 2017, rather than April 2016. The purpose of this year-long exception is to carry out a supported accommodation research project and subsequent policy review, to ensure support is focused on the most vulnerable, and appropriate groups are safeguarded.

An analysis of average housing association rents for 2016/17 across all housing groups highlights the greater impact the LHA cap will have on supported and sheltered accommodation compared to general needs housing.

	1 Bed	2 Bed	3 Bed	4 Bed	4+ Bed
Median General Needs Rent	£73.55	£83.15	£93.95	£101.71	£114.38
Difference from LHA (%)	*-2.10%*	*-2.41%*	*2.75%*	*-4.14%*	*4.51%*
Median Supported Rent	£81.54	£95.04	£93.29	£143.56	£193.21
Difference from LHA (%)	*16.12%*	*11.15%*	*2.08%*	*26.40%*	*45.31%*
Median Sheltered Rent	£75.57	£84.89	£95.23	£96.41	
Difference from LHA (%)	*9.48%*	*0.53%*	*4.07%*	*-9.59%*	

Potential Challenges

It is not possible for housing associations to simply lower their rents for supported or sheltered accommodation in line with LHA rates, as the additional costs of accommodating or providing housing related services to people with support needs are directly reflected in higher rents and/or service charges. These additional costs can result from, for example, the need to install and maintain essential physical adaptations to a property and/or to provide additional services required by the tenant to enable them to maintain their tenancy and live independently.

LHA rates are determined by prevailing private rented sector market conditions whereas supported accommodation rents are determined by the cost of provision to support vulnerable people. There is a disconnect between the basis on which the LHA rate is calculated using local private sector rents and the application of these rates to supported accommodation which the private sector does not reflect.

[6] Housing: Written statement - HCWS563

Key Considerations

Whilst this year-long exception and review are welcome measures, this creates uncertainty for supported and sheltered housing and prospective tenants. This uncertainty is likely to cause reluctance amongst some potential tenants to take up tenancies in supported or sheltered accommodation even though they need the support. They may not seek or accept the type of housing they need because they know they will not be able to afford to pay for it. This will obviously cause distress amongst applicants and new tenants and will have a consequent impact on income for housing associations as properties that would otherwise be let will remain empty. This loss of income and the cost of maintaining those empty properties in turn affects the ability of associations to develop and provide supported (or indeed any) accommodation, thereby creating a particularly vicious cycle.

The alternatives are bleak for a vulnerable person in need of supported accommodation but who cannot access it. Some individuals with complex needs may end up sleeping rough or end up in prison. Some tenants, particularly older and disabled people, may end up in hospital. Neither custodial care nor hospital care is cheaper than supported accommodation. Neither prison nor hospital care will enhance the life chances of the individual.

NIFHA will be undertaking further research into the potential impact of applying the LHA cap to supported and sheltered accommodation on tenants' income and consequently upon housing associations' income.

Discretionary Housing Payments

Discretionary Housing Payments (DHPs) are extra payments to help pay the difference between the rent charged by a landlord and a claimant's entitlement to housing benefit. The difference between the rent and housing benefit entitlement is known as a shortfall, and DHPs may be awarded to cover some or all of this shortfall for six months. When the award ends, the claimant may apply for another DHP award and this will be considered according to their needs and the amount of discretionary budget remaining.

DHPs are awarded from a budget provided by the Department for Communities. This budget is limited, therefore once the budget has been allocated in full, further requests within that year will be unsuccessful, irrespective of the needs of the claimant.

Whilst DHP may relieve financial pressure for some of the most vulnerable tenants, this is not a sustainable measure for both tenants and landlords. DHPs were only ever designed to provide temporary, transitional support; they were never meant to be a permanent solution. As the name makes explicit, they are discretionary, and the discretion rests with the Housing Executive who follow guidance. There will be anxiety for claimants as they may be unsure whether an application will be successful. Even if an application is successful, there is further anxiety that a renewal application will not be so lucky.

The DHP fund is an annual allocation and cash limited, this causes problems for housing associations trying to create viable business plans to provide more housing. This may result in issues for housing associations attempting to borrow in the private markets as discretionary payments cannot provide the security of income that potential lenders require.

Potential Future Impacts

Based upon our analysis to date, there are four main impacts of the LHA cap:

1. Single people under 35 will likely struggle to find suitable accommodation that they can afford. Housing associations will need to consider whether or not a single tenant under 35 can afford the rent for a one-bedroom property if housing benefit is their primary means of meeting housing costs. Although there is no provision for means testing in the allocations process, responsible landlords will not wish to allocate a property they know a tenant will not be able to afford. Void levels could potentially increase in one-bedroom properties as the traditional client group, younger single people are driven towards shared accommodation.

   Between 2010 and 2015 nearly 13% of all mainstream lettings were made to single tenants under 35 years old. The introduction of the shared room rate for this group has the potential to affect a significant proportion of mainstream lettings. A particular group that may be affected are single parents who have children who stay with them part time. The Common Selection Scheme makes provision to accommodate these children; however, this provision is not extended to the LHA, which will apply a shared room rate to these tenants. This inconsistent approach presents challenges for housing associations who may be faced with the prospect of offering a tenancy to someone who will not be able to afford the rent. This may discourage these individuals from applying for social housing despite being in housing need.

2. Parts of Northern Ireland will become unaffordable for social housing tenants as the LHA cap with disproportionally affect some areas. Belfast has reasonably high LHA rates and the majority of housing association rents currently fall below those levels, so areas with the highest levels of housing need – North and West Belfast – will still retain a number of ‘affordable’ homes for tenants in receipt of housing benefit. Whilst Belfast and South East BRMAs remain relatively unaffected, rural areas such as Newry, Armagh and Fermanagh will see the greatest impact. This may be because the private rental market in these rural areas is much less developed, therefore the LHA rate is based upon a small market sample, with relatively low rents. While existing tenants will be unaffected (as the cap currently stands), prospective tenants will not receive sufficient housing benefit to meet housing costs in these areas. Those housing associations with significant levels of stock in the South and South West BRMAs will see an impact on new lettings, with significantly lower rates of LHA that place housing association rents above the level that housing benefit will be paid at.

3. The development of new social housing could fall in certain areas. Many of the areas with the lowest LHA rates also have high land costs, e.g. Newry. New build rents need to be set at a level that can service the debt on development finance and development costs will increase in areas where land is at a premium. The available land in these areas tends to be brownfield and brings with it remediation costs. If rents are set in line with the LHA rate for the area, to ensure affordability for tenants in receipt of housing benefit, this may impact on the economic viability of the development.

4. The potential for LHA rates to decrease also raises concerns for ongoing delivery introducing an element of uncertainty around rental income that will impact on the development model. Even if rates remain the same, they will be frozen over the next four years, building on a previous four year freeze. This will put huge pressure on housing association rents as land and construction costs continue to rise and if capital funding remains the same, the deficit between the cost of development for the association (drawing in increasing private finance) and the rental income to meet those costs is likely to grow.

Increased rent arrears and bad debt seem inevitable as a result of the first of these two measures and housing associations may find themselves having to collect shortfalls in rent directly from tenants and in some cases moving to seek possession of properties from tenants. This would bring with it media and political attention, with associations having to defend the need for such action.

Risk will increase and the rental certainty that housing associations have benefited from will be negatively impacted by the variables of the private rented market. Some housing association boards may wish to manage those risks and that uncertainty by stepping back from activities such as new development. Reduced income streams may also impact on the community investment work that housing associations are currently involved in and have been seeking to develop further.

With welfare changes being introduced in 2016/17, many social housing tenants will be dealing with reduced income. These new constraints on housing benefit will place those tenants under increased pressure, with many facing a shortfall between their rent and the housing benefit they receive. Housing associations will need to provide support for these tenants, consider all new allocations carefully and develop new processes to manage the collection of rent where shortfalls exist and payments are not made directly through housing benefit. Boards will also need to make a strategic assessment of the risks posed by the LHA cap across the business, including where and whether to develop.

One potential political impact could be inequity in new social housing provision, with housing associations building in areas where the LHA rates support development activity.

Conclusion

Following the analysis of nearly 36,000 housing association rents, NIFHA has forecast the potential impact that the introduction of the LHA cap to the social rented sector will have on current and future provision of housing association properties.

The challenges for housing associations will be to ensure that they are able to offer affordable accommodation to those in housing need. This must be done in a way that will ensure that tenants are able to afford the rents set and that the rental income generated is able to service existing loans and attract further investment to meet future housing need across Northern Ireland.

NIFHA will continue to research the impact of the LHA cap and support its members through the various challenges it will present. NIFHA will continue to lobby for meaningful engagement with Government to safeguard affected tenants and landlords.

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Appendix – Housing Associations Rents vs LHA Rates

All Housing Groups

	2016/17	2017/18	2018/19	2019/20
Total properties with rent less than LHA	23905	22735	21471	19515
Number of properties with rent more than LHA	11848	13018	14282	16238
Percentage of properties with rent less than LHA	67%	64%	60%	55%
Percentage of properties with rent more Than LHA	33%	36%	40%	45%
Weekly value of rent above LHA cap	£121,828.19	£139,122.02	£158,325.49	£179,886.29
Annual value of rent above LHA cap	£6,335,065.83	£7,234,345.05	£8,232,925.33	£9,354,086.89

Total of 35,753 properties analysed

General Needs Housing

	2016/17	2017/18	2018/19	2019/20
Total properties with rent less than LHA	18450	17647	16744	15092
Number of properties with rent more than LHA	7132	7935	8838	10490
Percentage of properties with rent less than LHA	72%	69%	65%	59%
Percentage of properties with rent more Than LHA	28%	31%	35%	41%
Weekly value of rent above LHA cap	£62,773.83	£73,878.03	£86,387.70	£100,753.37
Annual value of rent above LHA cap	£3,264,239.17	£3,841,657.58	£4,492,160.21	£5,239,175.04

Total of 25,582 general needs properties analysed

Sheltered Housing

	2016/17	2017/18	2018/19	2019/20
Total properties with rent less than LHA	4619	4266	3922	3646
Number of properties with rent more than LHA	3868	4221	4565	4841
Percentage of properties with rent less than LHA	54%	50%	46%	43%
Percentage of properties with rent more Than LHA	46%	50%	54%	57%
Weekly value of rent above LHA cap	£40,006.29	£44,966.30	£50,398.46	£56,286.05
Annual value of rent above LHA cap	£2,080,327.02	£2,338,247.69	£2,620,719.79	£2,926,874.84

Total of 8,487 sheltered properties analysed

Supported Housing

	2016/17	2017/18	2018/19	2019/20
Total properties with rent less than LHA	836	822	805	777
Number of properties with rent more than LHA	848	862	879	907
Percentage of properties with rent less than LHA	50%	49%	48%	46%
Percentage of properties with rent more Than LHA	50%	51%	52%	54%
Weekly value of rent above LHA cap	£19,048.07	£20,277.69	£21,539.33	£22,846.87
Annual value of rent above LHA cap	£990,499.64	£1,054,439.77	£1,120,045.33	£1,188,037.00

Total of 1,684 supported properties analysed