
Evidencing the link between the Local Housing Allowance freeze and homelessness: Summary report

Policy in Practice has been commissioned by the Local Government Association to examine the relationship between the freeze in Local Housing Allowance (LHA) rates and the costs of homelessness to local authorities. The project is driven by the four-year freeze on LHA rates that will end in 2020. It gives an evidence base for the robust correlation of the LHA rate and homelessness costs and the model developed will provide the basis of an interactive modelling tool, allowing the LGA and policymakers to explore the effects of varying the LHA and its impact on homelessness and costs.

What you need to know

1. Housing benefit doesn't cover the rent of most private sector tenants who get it
2. The gap between LHA and rent is proven to drive homelessness
3. Restoring the LHA rate to 2016 levels would reduce homelessness
4. Spending savings from reduced temporary accommodation costs on prevention would see nearly 1,000 families avoid homelessness

Background

The Local Housing Allowance (LHA) is a limit set for means-tested housing support for tenants in the private rented sector through either Housing Benefit or Universal Credit. Prior to 2016, these referenced average local rents and were set at the 30th percentile of local rental costs. Since 2016, LHA rates have been frozen as rents have increased. This has resulted in LHA rates becoming divorced from actual housing costs. The

Government's stated intent is that from 2020 the current LHA rate (based on pre-2016 rents) will be increased each year with inflation.

The growing gap between benefit support for housing costs and actual rents has coincided with an increase in homelessness. Although there is little current evidence of causation between the LHA gap and homelessness, there is anecdotal evidence from councils linking the two.

It has been difficult to establish causation between the LHA-rent gap and homelessness because it sits within a wider framework of social and structural pressures on housing and financial resilience. These include the availability of support and preventative services, differences in council approaches to mitigating the LHA-rent gap, regional variation in living standards, employment and the supply of affordable accommodation and social housing. The LHA-rent gap interacts with these other pressures leading to local variations in impact. Even so, in most areas of the country, the demand for genuinely affordable housing has outstripped supply, leaving many households with little choice but to find accommodation within the Private Rented Sector. For households reliant on means-tested benefits, the LHA cap on housing support means that the vast majority of properties within this tenure are unaffordable.

The lack of affordable housing leaves councils bridging the gap. Many households who are unable to meet their housing costs in the private rented sector will be provided with advice, intervention, support, and housing by the council. The Government recognises the related financial pressure on councils and has provided additional funding in the form of Discretionary Housing Payments (DHPs) and Targeted Affordability Funding. Where council interventions, such as DHP support, are insufficient to prevent homelessness, and alternative housing is not available, the council may be required to resort to housing those unable to afford rental costs in expensive Temporary Accommodation (TA).

This research attempts to establish a strong line of evidence between the LHA-rent gap and the costs of homelessness to councils.

Findings

1. Housing benefit doesn't cover the rent of most private sector renters who receive it

The current LHA effectively sits at the 13th percentile of market rents (compared to the 30th percentile it was set at in 2016). This means that the vast majority of privately-rented households in receipt of means-tested benefit support will not receive full housing support and will need to supplement rent costs from income intended for day-to-day-living. This will have an impact on financial resilience and strongly suggests a link to homelessness. Six local authorities showed 100% of private rented dwellings with rents above the LHA. Even so, the vast majority of local authorities had less than 1% of the population in temporary accommodation and prevention and relief duties were generally provided to about 1% of households, with the maximum proportion being just over 3% of households.

2. The gap between LHA and rent is proven to drive homelessness

There is a robust correlation between both numbers and proportions of households with an LHA-rent gap and homelessness. Increases in the number of households with an LHA-rent gap is positively associated with a higher number of households in temporary accommodation.

It is estimated that for every 1,000 households experiencing a shortfall between their LHA rate and rent, 44 households will require temporary accommodation.

It is worth noting that the research found that the relationship between the LHA-rent gap and temporary accommodation is non-linear which may suggest that there is a threshold to the financial pressure created by the LHA-rent gap. The findings also indicate that the impact of the LHA-rent gap is affected by a separate moderator (such as the level of social housing).

3. Restoring the LHA rate to 2016 levels would reduce homelessness

If the LHA rate were reset to the 30th percentile of market rent (rather than being merely adjusted for inflation), our model estimates that this would have a significant impact on homelessness and the costs of homelessness that is met by local authorities:

- The average council would see 650 fewer households with rent below the LHA and 300 fewer households in temporary accommodation.
- The average gross cost of temporary accommodation for a council would reduce by between £1.4m and by £3m.

If the LHA rate was set above the 30th percentile of market rent, our model estimates that this would effectively remove the gap between LHA and rent as one of the major factors leading to homelessness.

4. Spending savings from reduced TA cost on prevention would see nearly 1,000 families avoid homelessness

If any cost savings that were generated through increases to the LHA were redirected to preventative work, the impact on homelessness would be even greater.

As part of this research Policy in Practice held a round table with council homelessness experts. A key message from the round table was that local authorities could clearly see the advantages of early preventative work, but funding restrictions limited their work in this area.

“There is an aim to shift more focus into early intervention methods to reduce the risk of homelessness, such as debt advice, tenancy training etc, as opposed to reactionary methods via temporary accommodation.”
Council D (London)

The model developed can be used to estimate how cost savings that arose in response to changes in the LHA rate could be used to reduce homelessness through prevention and relief. We estimate that if the LHA rate was raised to the 30th percentile, the cost savings through lower temporary accommodation spending could support around 2,500 additional prevention and relief cases and could prevent an additional 975 households

becoming homeless. This is based on MHCLG's estimate for the conversion rate (39%) of prevention and relief into avoided homelessness acceptances.

What these findings mean

This research indicates that the LHA freeze brings with it consequences for both homelessness and for councils' budgets. The costs of the LHA freeze cannot indefinitely be met by councils and a long-term solution is required.

To date, the Government response has been focused on reducing the gap in areas where it is identified as being the largest. In particular through funding of Discretionary Housing Payments and through Targeted Affordability Funding. In both cases, funding is allocated on the basis of the *depth* of the LHA gap. This research indicates that the strongest correlation between the LHA-gap and homelessness is with *number* of households facing an LHA-gap, rather than the depth of that gap. It may therefore be worth exploring whether the current method of allocating funding is the most effective. In the long-term, an increase in the LHA rate across the board may be a more effective response.

There have been many calls for an increase in the LHA rate.¹ These calls cite not just the financial implications but also the impact on affected households (including the impact on health and wellbeing of those households). It is hoped that review of the LHA rate will be a matter of priority for the new Government.

The LGA recognises that Government needs to be able to manage benefits expenditure. Restoration of the LHA rate to the 30th percentile therefore needs to be seen as part of wider measures to increase housing affordability and financial inclusion, to reduce upward pressure on benefits. Councils that participated in this research point to the availability of social housing as being essential to tackling homelessness while controlling cost. They also stressed the relationship between the local mix of tenure and the proportion of households with an LHA-rent gap. This indicates that to effectively

¹ E.g. <https://www.crisis.org.uk/media/240986/crisis-cover-the-cost-solutions-report.pdf>

tackle housing affordability, there needs to be a coherent strategy involving both affordable housing supply, in particular social housing, and benefit support.

Any long-term solution to housing affordability, whether through increased housing supply or through increased benefit support, will come with an initial cost to government. However, this research, and that of other organisations, indicates that much of the cost could be offset by savings to councils in the cost of homelessness services and improved outcomes for low income households, which in turn may deliver savings across other public services. Furthermore, if council savings from homelessness are redirected to preventative work, there could be a significant impact on homelessness numbers.

In the meantime, whilst the new Government formulates a long term solution, councils are playing a significant role in both prevention of homelessness and in supporting homeless households. Many councils are actively identifying, targeting, and engaging with households at risk of homelessness and utilising effective cross-departmental working to understand both housing need and housing supply. These councils seek to implement and evaluate the most effective local solutions. However, despite some funding for homelessness support and discretionary benefits, this comes at a cost to the councils. Given the ongoing reduction in council budgets, this pro-active approach may not be realistic for all councils and is unlikely to be sustainable in the long term.

About this project

This summary is based on research from the report Evidencing the link between the Local Housing Allowance freeze and homelessness by Zoe Charlesworth, Dr Benjamin Fell, Fabiana Macor, Policy in Practice, published February 2020. The full report, including methodology, can found at www.policyinpractice.co.uk/publications

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