

# **North Ayrshire Council - A guide to the Local Housing Allowance**

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## **Foreword**

The purpose of this document is to provide a guide to the Local Housing Allowance to help explain what the allowance is, why it is being introduced and how it works in practice. It is not meant as a definitive guide to every technical and legislative aspect of the new allowance. The Benefits Service should be contacted for further information regarding the allowance.

## **Background to the introduction of the local housing allowance (LHA)**

In November 2002 the Government published its proposals for a major reform of the housing benefit scheme in its paper Building choice and responsibility: a radical agenda for housing benefit. The Local Housing Allowance (LHA) is central to the government's reform of Housing Benefit and its wider welfare reforms agenda. The LHA replaces the previous rent allowance given to deregulated private tenants to help them meet their rent charges.

## **When does the local housing allowance come into force?**

The local housing allowance comes into force on the 7 April 2008.

## **What is the local housing allowance (LHA)?**

The local housing allowance (LHA) is a new way of paying out Housing Benefit for people on low income who rent accommodation from private landlords.

The current rent allowance is calculated by taking into account the maximum eligible rent of a property, as determined by the rent registration service, whereas the new LHA is a flat rate allowance based on household size.

It will replace the current scheme of awarding rent allowance to those private tenants affected by the change. (See section on “who is affected” below)

This means that the Benefits Service will no longer need to refer each claim to the Rent Registration Service to establish the maximum rent. This will make it easier for the Benefits Service to administer and speed up the processing of claims and the payment of benefit.

## **Who is affected?**

It will apply to housing benefit claimants in the deregulated private sector only. That is, those claimants who may be subject to rent restrictions under current benefit rules.

However not every tenant will convert to the new LHA from the 7 April 2008. Instead the LHA will only apply to private tenants in the following cases:

1. New benefit claim received for the first time
2. There has been a break in a claim of one week or more
3. A change of address

This will phase the number of tenants converting to the new LHA.

This means that all other private tenants will continue to receive their current rent allowance until they fall into one of the three groups mentioned above.

The Benefits Service will therefore be operating two benefit schemes with two different sets of rules at the same time from the 7 April 2008.

Tenancies in the Social Sector are exempt from the LHA for example council tenants and tenants of Registered Social Landlords i.e. housing associations.

## **What are the aims of the LHA?**

The aims of the Government's LHA scheme are to promote:

**Fairness:** The new scheme has been designed to pay the same amount of LHA to tenants with similar circumstances living in the same area. This differs from the existing rent allowance scheme, which ties the level of benefit to the rent actually paid, subject to a range of restrictions applied by the rent officer.

**Choice:** The intention of the LHA is to allow tenants to trade between the quality and price of their accommodation. Tenants would be able to choose between paying more to stay in a property that is larger than they qualify for under the size criteria or increasing their after-housing-costs income by living in a smaller property.

**Transparency:** As the LHA for each size of dwelling in a broad rental market area are set and published monthly this will make it easier for tenants to find out in advance how much rent could be covered by housing benefit.

**Personal responsibility:** The LHA will generally be paid to a private tenant instead of the landlord and it is hoped that this will encourage them to take responsibility for budgeting and paying their rent themselves and to manage the transition back into work.

**Improved administration:** The current system of referring eligible rent decisions for benefit purposes to the rent registration service has been removed (excludes board and attendance cases) with the aim of simplifying the claim process and improving the processing time for benefit claims.

### **How is the local housing allowance set?**

The Rent Registration Service is responsible for setting the LHA or maximum rent for private rented properties and will take into account the following criteria:

- The Broad Rental Market Area (BRMA) where the property is located
- The 30th percentile rent for each type of property after taking into consideration all available market evidence of rents charged for similar sized bedroom properties in a BRMA.

### **What is a Broad Rental Market Area?**

A BRMA is an area:

- a. made up of two or more distinct areas of residential accommodation, each distinct area of residential accommodation adjoining at least one other in the area
- b. 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 facilities and services of the same type and similar standard
- c. containing residential premises of a variety of types, and including such premises held on a variety of tenancies

The Rent Registration Service has created **one BRMA for the whole of Ayrshire.** This means that the LHA rates set for a similar sized property will be exactly the same across Ayrshire regardless of its location.

## How is the 30th percentile rent calculated?

The Rent Registration Service takes into consideration all forms of market evidence available to determine the 30th percentile rent for each type of private rented accommodation located in a BRMA. The amount of market evidence available is crucial in setting robust rent levels. 30th percentile rent calculated depends on the number of rent levels for a similar sized property. This means that about 3 in 10 properties should be affordable to people on Housing Benefit. The example in the table below shows the 3 rents in bold that LHA would cover (these are £50, £60 and £90).

30 <sup>th</sup> Percentile
<b>£50</b>
<b>£60</b>
<b>£90</b>
£95
£105
£130
£150
£175
£200
£260

The LHA set by the Rent Registration Service will be the maximum eligible rent for that size of property in an area regardless of its location.

## Publicising local housing allowance rates

The Rent Registration Service will forward the monthly LHA rates to the Council 8-10 days in advance of them coming into effect. The LHA rates will be displayed at the Benefits Service public enquiry counter, at stakeholder locations and on the web site.

## How will the Benefits Service calculate local housing allowance entitlement?

The relevant income and capital of the benefit claimant's household will still be used as the basis to calculate any entitlement to the LHA.

The main change is that the Benefits Service will take into account the number of bedrooms required for the claimant's household to decide the appropriate level of LHA. There are a number of complex rules when deciding the number of bedrooms and these are not covered in this guide.

When counting the number of bedrooms required for the claimant and their family one bedroom will be counted for:

- a. Every adult couple
- b. Any other adult aged 16 or over
- c. Any two children of the same sex
- d. Any two children regardless of sex under age 10
- e. Any other child

**Up to a maximum of 4 bedrooms.**

For example, a couple and their 14-year-old child would be entitled to the LHA rate for a two-bedroom property.

The claimant may actually live in a smaller or larger property, but they can only receive the LHA level based on the number of bedrooms needed for their household, as determined by the Benefits Service. The number of living rooms, kitchens and bathrooms is ignored for the purpose of this calculation, as it is assumed that all tenants are entitled to these.

The amount of LHA paid out will either:

1. Exactly match the full amount of the rent charged by the landlord
2. Be less than the rent charged by the landlord - the tenant is therefore responsible for finding the additional rent required.

If a tenant receives less LHA than the rent they are charged then they might be eligible for a Discretionary Housing Payment (DHP). The DHP scheme provides tenants with financial assistance with their rent charges for a limited period of time. A tenant has to apply to the Benefits Service for a DHP but as the Council receives a set amount of funding from the Department for Work & Pensions for this scheme financial assistance is not guaranteed.

LHA will not be taken into account for Income Support, Jobseekers Allowance or Pension Credit. Nor will it be taken into account for tax credits, as LHA is not taxable. LHA is also not taken into account for the calculation of child support payments.

**How is the local housing allowance paid?**

The LHA is paid direct to the tenant and not the landlord. The LHA can only be paid direct to the landlord if the tenant is considered vulnerable or where the tenant is unlikely to pay his rent or is 8 weeks or more in arrears with their rent. This is at the discretion of the Council in accordance with its LHA Safeguard Policy.

The preferred method of payment is by Bank Automatic Clearing Services (BACS) transfer direct into a tenant's bank account or alternatively payment can be made by cheque.

## **How does the local housing allowance affect landlords and tenants?**

### **Tenants**

- A significant change is that the LHA will in the vast majority of cases be paid direct to the tenant.
- Each tenant who receives the LHA direct will be more aware of the amount of benefit they are being paid.
- Tenants will now need to put in place arrangements for paying their LHA to their landlord to cover their rent charges.
- Tenants will need to open up a bank account to receive the LHA payment by BACS or to cash a cheque.
- As the level of the LHA can in some cases exceed the rent charged it may result in tenants choosing to move to alternative accommodation.

### **Landlords**

- The main change is that landlords will not receive the LHA payment direct from the Council unless the tenant is considered vulnerable or is likely to fall into rent arrears.
- Landlords will need to put arrangements in place with their tenants for payment of their rent charges.

### **Benefits Service contact details**

The Benefits Service is available to answer any questions regarding the local housing allowance. Contact details are as follows:

Benefits Service  
PO Box 7966  
Bridgewater House  
Irvine  
KA12 8EG

The Customer Service Centre at Bridgewater House, Irvine is open:  
Monday to Thursday 9.00am to 4.45pm  
Friday 9.00am to 4.30pm

**E-mail** [benefits@north-ayrshire.gov.uk](mailto:benefits@north-ayrshire.gov.uk)

**Telephone number:** 01294 310000

The telephone line is open Monday to Friday 8.30am to 5.30pm

## Summary of the existing rent allowance scheme and LHA

<b>Rent Allowance scheme (will continue to run for existing tenants)</b>	<b>Local Housing Allowance from 7 April 2008</b>
Existing private tenants will continue to receive payment of their rent allowance based on the rules of the current scheme	LHA will be only paid to new private tenants or where a tenant changes address Exempt from LHA are <ul style="list-style-type: none"> <li>○ Council tenants</li> <li>○ Registered Social Landlord Tenants</li> <li>○ Charities &amp; Voluntary organisations</li> <li>○ Caravans, mobile homes, moorings, site rents, houseboats and hostels</li> <li>○ Tenancies with substantial board and attendance</li> </ul>
Maximum eligible rent of the property determined by the Rent Registration Service	Standard rate allowance based on the 30 <sup>th</sup> percentile rent of properties that are the same size and located in a broad rental market area
Can be paid direct to tenant but in the majority of cases the housing benefit is paid direct to the landlord at the request of the tenant	<u>Can only be paid to the tenant</u> Unless the tenant is considered by the Council to be vulnerable or is unlikely to pay their rent
By cheque	By BACS transfer direct into bank account of tenant or alternatively by cheque