

Housing Benefit controls on temporary accommodation

The research was commissioned by the Department for Work and Pensions to assess the merits of applying a single housing benefit control measure to temporary accommodation that is leased or licensed from the private rented sector, as well as bed and breakfast accommodation.

Currently there are two systems that apply to housing benefit subsidy where property is leased or licensed from the private rented sector. Local authorities have a system of caps and thresholds that determines how much housing benefit subsidy can be claimed. Housing associations leasing schemes are governed by the rules relating to rent allowances. In summary this means that the local authority has to refer the rent to the Rent Officer if it is thought to be unreasonable.

The option explored in the research focuses on a system which applies to both local authority and housing association leasing schemes and makes use of rent officer determinations enhanced to take account of the extra management and maintenance costs that temporary accommodation attracts. The starting point for this option is that the Rent Service determines what the core rent should be. This assessment would be based upon local market rents but with adjustments to take into account discounts that leasing schemes often attract and the fact that the original landlord does not have to include an element within the rent for management and maintenance as this is usually done by the local authority or housing association.

Once the rental element has been assessed an allowance for management and maintenance would be added to it to form the total rent assessed for housing benefit purposes.

Through a series of stakeholder and case study interviews with local authorities, housing associations, rent officers and others in eight local authority areas in England, Scotland and Wales the research assessed the feasibility of the proposed system and discussed how it might operate.

Key findings

- There is an acceptance by local authorities of the need to move towards a single system but this is primarily because presentationally it would be better to have one. The current two tier system is not viewed as particularly complex or an administrative burden and has grown into a workable system.
- Local authorities and housing associations argued strongly that the new system should give certainty from the start of the process. It was argued that they need to know exactly how much they can offer landlords before they start negotiations.
- There is concern, particularly among local authorities and housing associations in London and the South East over the role of the Rent Officer. The perception is that the Rent Officer is seen as a tool for rent restriction and will hold up the process or lead to unrealistic rent determinations.
- London local authorities and housing associations would prefer a system that is based upon the current practice used by many local authorities of devising a rental grid that gives maximum rents payable to a landlord through housing benefit by postcode and number of bedrooms. Valuation on a property specific, local authority or locality basis is not favoured.

- Local authorities and housing associations do not want the new system to be applied retrospectively to stock already leased. It is believed that this might jeopardise relationships with landlords especially if the rent was to be reassessed by a Rent Officer.
- Housing associations seem to have more of a grasp on what it costs to manage leased or licensed properties than local authorities. This is probably a reflection of their longer involvement in the field. When working out management costs housing associations take into account the number of visits to the property they are required to make, the likely level of void periods, turnover, repairs and the need to make good properties.
- Fee levels do not vary to any large extent by size of property. Instead the most significant factors are arrears, void levels and the time taken by local authorities to pay benefit claims. Where local authorities fast track benefit claims fee levels are lower. A typical fee for a housing association ranges from £70 per week to £85. One local authority calculated that it costs them £47 per week to manage their leased stock but they were not responsible for repairs.
- There was strong concern that the very high rents charged on leased properties represented a disincentive to work and consigned homeless households to benefit dependency.
- It was believed by most interviewed that Bed and Breakfast funding should be kept out of any proposed new system. To integrate it might give out the wrong signal and have the effect of formalising it as an alternative option to leasing.

Recommendations

- The report recommends that the new system is based upon a grid with Rent Officers determining the maximum rent levels by postcode sector and number of bedrooms for each local authority area. The grid should be updated on an annual basis with the updated values applying to new leases only. To do this,

Rent Officers would need a good understanding of the 'homelessness market'.

- Inflation related increases should be built into the lease with review periods built in to longer leases. So for example a five year lease would have a review after three years.
- The management costs should not be calculated as a proportion of the rent paid to the landlord. Instead the management fee should be decided on an individual local authority basis taking into account performance on housing benefit and the deprivation experienced in the area. A national average fee of £70 per week should be sufficient to meet the costs of managing accommodation and encourage competition among providers.
- The new system should not apply retrospectively to existing leased or licensed accommodation.

The role of the Rent Service

Views among stakeholders varied on the role the rent officer would play in the new system. Among local authorities in London, the overriding attitude towards the involvement of the Rent Service was that it is a mechanism for keeping rents down, irrespective of what the market place reality may be. This in turn impacts on the property which the local authority or housing association is able to procure, potentially limiting their choice, and therefore their options for temporarily housing homeless households.

There was an element of doubt among some stakeholders as to whether rent officers actually had the capacity to be proactive and collect all the evidence needed to make a fair assessment of the market rent.

Some representatives of the Rent Service however felt that the proposed changes did not represent a great departure from their existing role. It was added that the new system would alter the relationship between the Rent Service and the Local Authority by bringing them closer together.

Valuing the rent

Valuation on a property specific basis was seen by many organisations in London as cumbersome and unrealistic process. The worry was that it would slow the process down and add a layer of uncertainty because once a rent had been agreed with the landlord it then had to be valued by the Rent Officer. It was a strong belief, particularly among London housing associations and local authorities, that they would be forced to go back to the landlord and renegotiate the agreed rent.

The geographical area to which the Rent Service should refer when making an assessment was also an issue of contention within the case study areas. It was thought overall that postcode sector level would be more sensitive to intra-borough market variations than the current use of locality when determining local reference rents. In some areas locality can span two local authority areas.

Most providers of leased accommodation argued against the rent being assessed annually or with each new tenancy. The argument was that providers needed certainty on what it was they can offer landlords throughout the period of the lease. Additionally, housing associations believed it was essential that they knew what their income was likely to be over the course of the lease. A strong message from London based housing associations was that any uncertainty over income would add to their risk and might make leasing not viable for them.

It was, however, suggested by rent officers that a re-assessment of rent may be required on each letting, depending on the type of household moving into the accommodation, and the risk they posed in terms of management and maintenance.

Some local authorities were concerned that changing the rules and applying the new scheme retrospectively to existing leases would impact negatively on the good relationships they had built up with the landlords who had opted into an existing scheme.

Management costs

There are a number of factors that govern the costs of managing leased or licensed accommodation. These were identified as, the cost of procuring properties, the number of times a property comes up for letting during a year, the likely number of weeks the property will be void, a provision for bad debt, how quickly local authorities can pay housing benefit and the number of visits the housing provider is likely to have to make to the property – this in turn is determined to some extent by the nature of the client group, the more vulnerable the clients the more frequent are visits to the property.

Financial information derived from local authorities and housing associations on the cost of managing accommodation shows that there is very little variation in management costs according to the number of bedrooms in a property. While property size is the single most important determinant of rent level it is almost negligible in its impact upon management fees. This is important because it means that factoring in a management fee as a proportion of the rent would not be meaningful.

Data derived from housing associations suggests that the average weekly cost of managing a leased property is between £70 and £85 per week. A local authority supplying data returned a management cost of £47 per week but this excluded repairs and maintenance which was not part of the contract with the landlord.

Wider policy context

Reaction to the proposal to introduce a single Housing Benefit control for temporary accommodation among local authorities, housing associations, stakeholder groups and local government organisations focused primarily on the concern that the new housing benefit control would continue to fail to address the problems of dependency on benefit and worklessness among homeless households.

Many of those consulted throughout the course of the research struggled to grasp what real impact the proposed changes would have on the day to day administration of temporary accommodation or how it may impact on the planning and provision of temporary accommodation in the longer term. Only London boroughs felt that the proposed changes had the potential to improve the process of planning for and acquiring temporary accommodation. Outside of London, there was a prevailing view that the proposals were somewhat London-centric and that there were other pressures on temporary accommodation that needed addressing in order to effectively deliver in this area.

Some stakeholder groups and local government organisations raised the case for a grants based system for temporary accommodation as an alternative to the current reliance upon housing benefit funding. Advocates of such a scheme have argued that it would be cost-neutral to central Government but would allow local authorities to meet their targets better through leasing better quality temporary accommodation on a stable, long-term basis. It would also reduce the rents faced by tenants, which could provide a possible positive effect on work incentives.

Further copies of this summary can be downloaded from www.dwp.gov.uk/asd/asd5/IH147summ.pdf.

The full report "*A single Housing Benefit control for temporary accommodation*" is published as part of the Department for Work and Pension's in-house series.

Copies can be downloaded from www.dwp.gov.uk/asd/asd5/ih2003-2004/IH147.pdf.

Both reports are also available from the Research Support Team on 020 7962 8981