



## **LHA arrears: the case for change**

### **Summary**

- **The NLA surveyed 949 individual landlords from across the UK. These landlords account for 12,869 Local Housing Allowance (LHA) tenancies (0.02% of the total LHA tenancies in the UK).**
- **The total rent arrears for this group of landlords due directly to the introduction and administration of LHA was £4.229 million.**
- **Assuming that this sample is representative of the whole of the LHA market, the projected arrears equates to £222.4 million since its introduction in April 2008.**

# Introduction

Local Housing Allowance (LHA) was introduced across the United Kingdom in April 2008 and has generated enormous controversy. The main feature of the new housing benefit scheme is the automatic direct payment of the benefit to the tenant who is then responsible for paying the rent to their landlord.

Since its introduction the NLA has been inundated with concerns from landlords across the whole of the UK about how LHA is working out in practice. For the majority of landlords letting in this market it is rent arrears accumulated by LHA tenants which is their primary concern.<sup>1</sup> The estimated Government expenditure for LHA in 2009-2010 is £2.6 billion. With the economic difficulties continuing, the pressure on landlords to manage rent arrears, and more tenants being transported from the 'old' housing benefit system to LHA, there was a significant worry that the 'true cost' of LHA to landlords was being ignored. Successive parliamentary questions by Members of Parliament have failed to ascertain the amount of housing benefit that is failing to reach landlords in respect of overdue rent.

Following previous research exploring landlords' attitudes to LHA, the NLA conducted further research identifying the true cost of LHA rent arrears since its introduction. In May 2009 NLA members (and other landlords) were individually sent a postcard asking them how many LHA tenancies they had, their postcode and the total amount of arrears they had experienced from LHA. Subsequently non-members of the NLA were also given the opportunity to add their details via an online form on the NLA's website. Data was collected until 19 October 2009.

## The Results

949 landlords from around the whole of UK responded to our survey. The total number of LHA tenancies covered by these landlords totalled 12,869. The Department for Work and Pensions published figure for the total number of LHA tenants to date is 674,930, therefore our research sample represents 0.02 per cent of the total tenancies in the LHA market.<sup>2</sup>

Landlords told us that the total amount of rent arrears accumulated by these LHA tenancies was £4,229,638.82, which is an average of £4,442.90 per landlord. The range of amounts identified by landlords was incredibly large, the smallest arrears identified by landlords was £10 whilst the largest was £80,000.<sup>3</sup> This wide range was understandable given the size of some landlords' LHA portfolios (the largest being 500 LHA tenancies).<sup>4</sup>

The sample data does indicate a sizable rent arrears problem in the LHA market. Assuming the sample is representative of the LHA market as a whole and ignoring regional variations, we were able to use the sample findings to gain an estimate for the LHA market as a whole.

Since Government figures do not identify the total number of landlords operating in the LHA market there is no way of identifying just how many landlords are affected by arrears in the LHA market. Assuming that the

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<sup>1</sup> 54 per cent of landlords who responded to the survey said that 'rent arrears' was their main concern, NLA research, April 2009.

<sup>2</sup> Based on DWP statistics identifying 674,930 Local Housing Allowance recipients  
[http://research.dwp.gov.uk/asd/asd1/hb\\_ctb/FirstRelease\\_19082009.pdf](http://research.dwp.gov.uk/asd/asd1/hb_ctb/FirstRelease_19082009.pdf)

<sup>3</sup> Landlords were not asked to breakdown the arrears per tenancy but to simply aggregate the arrears over the total number of LHA tenancies they had. Similarly no weighting in the data was possible to take account of the length of the tenancy.

<sup>4</sup> No distinction was made for landlords operating as letting agents and therefore managing LHA tenancies on behalf of other property owners

research sample is representative of the LHA market as a whole then our sample represents the arrears generated by a fiftieth of the total LHA tenancies in the UK. Extrapolating the rent arrears for this sample based on that proportion across the whole of the LHA market gave an estimate of £222.4 million for the LHA rent arrears since its introduction. Given budget for LHA for 2009-2010 is £2.6 billion, these rent arrears represents 10 per cent of the total LHA budget.

Given the complexity of the market and the lack of official data, this is likely to be an under-estimate for the rent arrears experienced by landlords. The landlords who responded to our survey are more likely to be experienced landlords and proactively seek to manage their rent arrears, this means that proportionately their rent arrears might actually be lower than other, less experienced landlords.

## **In the regions**

A regional breakdown on the sample shows a surprisingly even result across the country, ignoring the larger size of the private-rented sector in London and the South East (see fig 1). This points to a consistent problem with LHA rent arrears across the UK, rather than the individual administration of LHA by any particular local authority. The Government has not published detailed data on the administration of LHA by local authorities; it is, therefore, difficult to judge their individual performance.<sup>5</sup>

## **Conclusion**

It is obvious that there are significant problems with LHA that are causing severe financial losses to landlords across the UK. As well as other administrative issues, direct payment of LHA to tenants is having the unintended consequence of raising rental arrears in the sector and forcing many landlords to withdraw from the LHA market.<sup>6</sup>

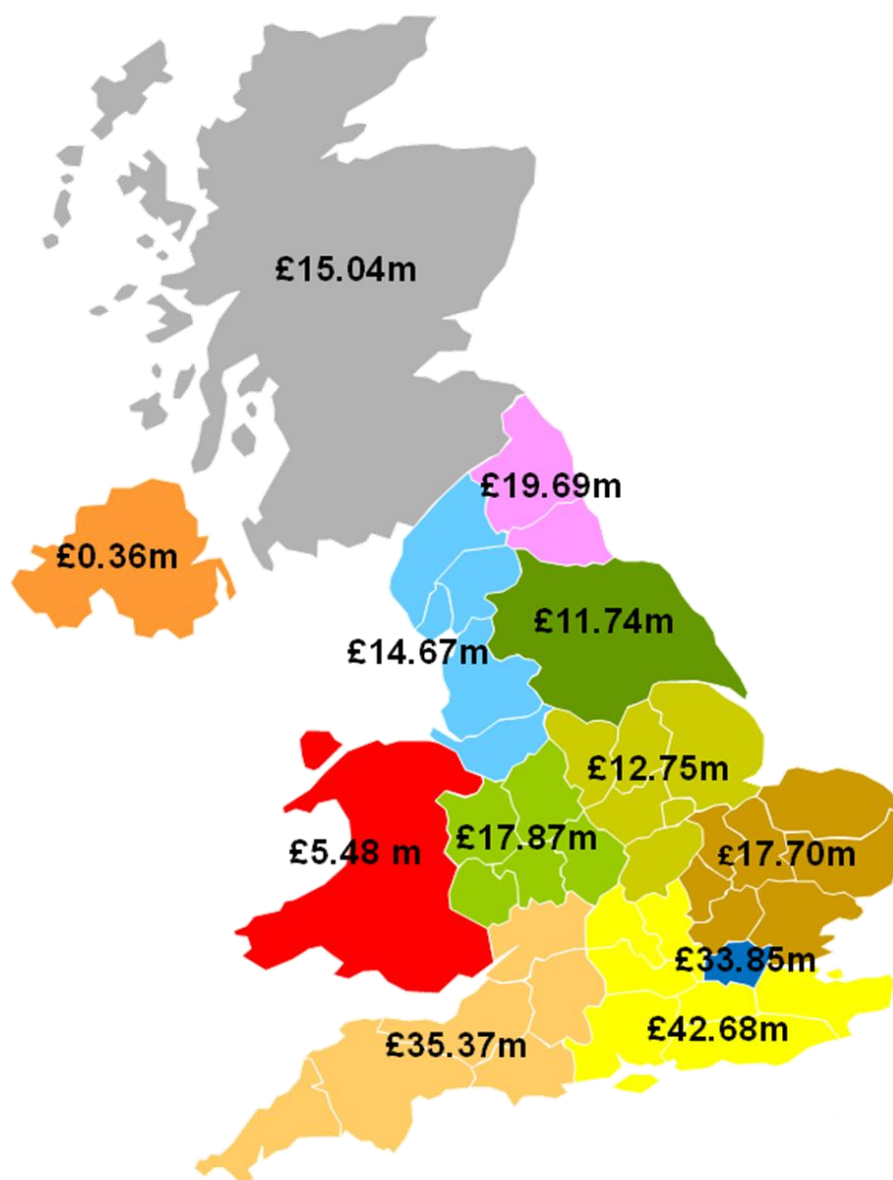
The Government is committed to reviewing the system. This review should be brought forward as a matter of urgency and its remit should cover all aspects of the LHA system, including direct payment to tenants.

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<sup>5</sup> There is anecdotal data from landlords that some local authorities are actively trying to mitigate the negative effects of LHA on landlords, within the Government guidance they have been issued with. However the local picture is very mixed.

<sup>6</sup> 54% of landlords said that they would not rent to LHA tenants, NLA research, April 2009

**Fig.1 - Estimated UK Rent Arrears from LHA tenancies**



UK Region	Proportion of research sample	Projected Rent Arrears from LHA Tenancies
Scotland	6.6%	£15.04 million
North East	8.7%	£19.69 million
North West	6.5%	£14.67 million
Yorkshire and Humber	5.2%	£11.74 million
West Midlands	7.9%	£17.87 million
East Midlands	5.6%	£12.75 million
Wales	2.4%	£5.48 million
South West	15.6%	£35.37 million
South East	18.8%	£42.68 million
East of England	7.8%	£17.70 million
London	14.9%	£33.85 million
Northern Ireland	0.2%	£0.36 million
		Total = £227.2 million <sup>7</sup>

<sup>7</sup> 2.4 per cent of the survey respondents did not provide post code details so the discrepancy in regional estimates for LHA rent arrears is due to a smaller sample base.