

Scottish Parliament Social Security Committee – Social Security Support for Housing

Written Submission from ARLA PropertyMark

March 2019

Background

1. ARLA PropertyMark is the UK's foremost professional and regulatory body for letting agents; representing over 9,000 members. ARLA PropertyMark agents are professionals working at all levels of letting agency, from business owners to office employees.
2. Our members operate to professional standards far higher than the law demands, hold Client Money Protection and we campaign for greater regulation in this growing and increasingly important sector of the property market. By using an ARLA PropertyMark agent, consumers have the peace of mind that they are protected, and their money is safe.

Executive Summary

- The rise in rents in Scotland and the size of the private rented sector are not being accounted for by the Local Housing Allowance.
- Letting agents often face difficulty in finding landlords willing to accept tenants in receipt of social security benefits to pay housing costs.
- Letting agents and landlords face difficulties in allocating payments to tenants receiving Universal Credit, as they are only identified by National Insurance numbers.
- Scottish Housing Choices and Discretionary Housing Payments for Universal Credit make providing homes to tenants in receipt of Universal Credit a more viable option for landlords in the private rented sector.
- Poor administration of Universal Credit can create delays in applicants receiving payments.
- The Scottish Government and UK Government should work together in order to create a direct payment to landlords' option from the outset of a tenancy.
- Delays in initial payment of Universal Credit to new claimants must be remedied.

Evidence

How have changes to the Local Housing Allowance impacted on the private rented sector, particularly for the affordability of rents for young people?

3. Changes to the Local Housing Allowance (LHA) have made the private rented sector less accessible to many low-income households. This is due to the fact that many private tenants struggle to fund their rent solely through the LHA. Furthermore, LHA differs across Scotland meaning that some tenants may be priced out of their local areas. Both factors contribute to a question of affordability of rent, particularly with 65% of 16-24-year olds in the UK living in the private rented sector¹, and younger people typically being in the lowest income quintile.
4. LHA does not contribute enough towards private rents. LHA is calculated through a formula that takes into account the location where the applicant tenant lives, and the number of bedrooms that are needed. Official guidance from the Scottish Government states that if the amount of LHA a tenant receives is less than their total rent, they will be required to pay the difference themselves or relocate to a property that they can fully fund with the LHA they receive.² In March 2019, ARLA Propertymark surveyed members in Scotland, where 64% of respondents thought that changes to the LHA had impacted the private rented sector. One respondent stated that as rent is not automatically paid directly to the landlord, it can be off putting for landlords to let to tenants in receipt of benefits and as a direct result, rents are being pushed up. This creates a cycle of LHA not covering private rents at current rates, but private rents are still increasing.
5. The disparity between LHA rates in Scotland is diverse. For a three-bed property in Dumfries and Galloway, LHA recipients are entitled to £108.26 per week, whereas in Edinburgh, LHA equates to £187.47.³ To put private rents in Edinburgh into perspective, the average rent for a three-bedroom home in the city centre is £1,356.90, which equates to £313.13 per week on a pro rata basis.⁴ This means that if a tenant in receipt of LHA lived in Central Edinburgh, they would need to fund a further £125.66 per week towards their rent, for many low income families this level of finance is out of reach. Furthermore, single people under the age of 35 with no dependants are limited to the 'shared accommodation rate', meaning that they can only claim enough to cover the average cost of a single room in a shared house, unless they are from a vulnerable group.⁵ In addition to this, 18 to 22 year olds in a full digital service Universal Credit area, making a new claim will not get help toward their rent unless they work at least 16 hours a week, are in a couple,

¹ <http://researchbriefings.files.parliament.uk/documents/CBP-7706/CBP-7706.pdf>

² <https://www.mygov.scot/local-housing-allowance/>

³ <https://www.gov.scot/publications/local-housing-allowance-rates-2018-2019/>

⁴ <https://www.numbeo.com/cost-of-living/in/Edinburgh>

⁵ https://scotland.shelter.org.uk/get_advice/advice_topics/paying_for_a_home/housing_benefit/housing_benefit_for_under_35s

have a dependant or is from a vulnerable group.⁶ The result of a lack of affordability, is that many cannot afford to rent in areas where their family live, their children go to school, or their jobs are, with some tenants needing to relocate elsewhere.

To what extent have UK welfare reform measures impacted on private landlords' willingness to let to those in receipt of benefits? (including for example, the impact of Universal Credit, the benefit freeze and the benefit cap).

6. The rollout of Universal Credit in Scotland has drastically impacted on private landlords' willingness to let to those in receipt of the benefit. Agents would like to offer tenancies to those receiving Universal Credit, but they find it difficult, as they are concerned that as a result of the benefit being paid in arrears, the tenant will automatically default in paying their rent. Rent arrears particularly cause issues where the landlord has an existing buy-to-let mortgage on their property. If the landlord relies on rent payments to pay the mortgage, this can leave the landlord vulnerable to defaulting whereby the property may be repossessed by the lender.

7. Of the surveyed members in March 2019, 100 per cent of participants stated that UK welfare reform measures had negatively impacted willingness to take on tenants receiving benefits. In a UK-wide survey of ARLA Propertymark members in February 2017, 60 per cent of respondents in Scotland indicated that they had seen a reduction in landlords renting to Universal Credit claimants. This percentage stood at 36 per cent in January 2019. To combat this, one letting agent cited that they would only accept tenants in receipt of Universal Credit if they provided a guarantor. One respondent stated that their agency felt that they could not accept tenants on Universal Credit, as backdated rent payments reflected badly on the agent where they had sourced the tenant for the landlord. Another agent reported that in the last 12 months they had witnessed an increase in landlords requesting tenants not on benefits.

How does the administration of Universal Credit Housing Costs impact on the ability of tenants to pay their rent and landlords to administer rent payments? (for example, the impact on rent arrears, communication between landlords and the DWP).

8. ARLA Propertymark members report that the administration of Universal Credit Housing Costs is largely the reason as to why landlords are deterred from accepting tenants in receipt of Universal

⁶ https://scotland.shelter.org.uk/get_advice/advice_topics/paying_for_a_home/housing_benefit/universal_credit

Credit. Tenants can be left waiting four weeks and upwards to receive their first payment, and even where they choose alternative payment arrangements, they must be paid their first month of Universal Credit before these can apply. Inevitably the benefit being paid in arrears, and also directly to the tenant, has resulted in an increase of rent arrears. However, ARLA Propertymark believes that both the Scottish Government and UK Government are taking positive steps towards addressing issues with the new benefit system. To ensure the longevity of the new benefit system, the Scottish Government should continue communicating with private rented sector stakeholders, but also ensure it is interacting directly with landlords on individual cases.

9. Where tenants have been used to having their housing benefit paid directly to their landlord, and that money is now being paid directly to the tenant instead, issues have arisen regarding the payment of rent. In February 2017, 30 per cent of Scottish ARLA Propertymark surveyed members stated that rent arrears had increased since the introduction of Universal Credit. This figure has remained relatively stable, with 29 per cent of respondents in January 2019. One member who participated in our March 2019 survey stated that a tenant had been awaiting on a backdated payment of Universal Credit, and when they received it, they spent it on Christmas presents rather than their rent. Although not the case for all tenants, some struggle with managing finances, and being paid housing element directly can cause them to come into problems whereby they spend rent money elsewhere. Inevitably, this has created a rise in rent arrears. Research conducted by Citizens Advice Scotland in October 2018 found that rent arrears in Scotland had increased by 47 per cent over a five-year period.⁷ Over an eighteen-month period, these arrears were largely attributed to the rollout of Universal Credit, with all of Scotland operating in full service for new claimants since December 2018.
10. We would suggest that communication between the DWP and stakeholders is at an adequate level. This has been evidenced through the DWP's acknowledgement of the press attention towards Universal Credit, with the Understanding Universal Credit campaign⁸, including 'Top tips for landlords.'⁹ The DWP engaged with membership bodies representing landlords and letting agents in the private rented sector, including ARLA Propertymark, to ensure that unbiased and informed messaging was being disseminated to landlords, letting agents and tenants. Moving

⁷ https://www.cas.org.uk/system/files/publications/rent_arrears_oct_2018.pdf

⁸ <https://www.understandinguniversalcredit.gov.uk/universal-credit-and-landlords/what-universal-credit-means-for-landlords/>

⁹ <http://www.arla.co.uk/news/december-2018/universal-credit-top-tips-for-landlords.aspx>

forward, this should continue so that changes to Universal Credit can be communicated effectively.

11. ARLA Propertymark members have reported that when they have a query regarding individual cases, they are often faced with unanswered questions. To improve direct engagement with landlords and tenants, the Scottish Government must seek to find ways in which individual cases can be better discussed and disseminated to landlords and agents. An ARLA Propertymark member stated that their office is unable to allocate payments, as they are detailed as National Insurance numbers, without sufficient details on full names, addresses or payment dates. Although the member has set-up a database, with over a thousand tenants this is difficult to manage. Furthermore, landlords and agents are not provided with a breakdown of payments or notification that monies will be sent for an individual. The result of this is landlords and agents are often confused as to which tenant has been allocated payment, creating uncertainty.

How do Universal Credit Scottish Choices and Discretionary Housing Payments impact on the way landlords and tenants handle Universal Credit housing costs?

12. ARLA Propertymark believes that Universal Credit Scottish Choices and Discretionary Housing Payments positively impact on the way landlords (including letting agents acting on their behalf) and tenants handle Universal Credit housing costs. Both measures have mitigated amounting rent arrears, but due to tenants having to wait till after their first payment of Universal Credit for the Scottish Choices to be applied, there are still issues. We have further concerns regarding the longevity of Discretionary Housing Payments, as ultimately these cannot be administered to tenants on a permanent basis, which could result in displacement.
13. ARLA Propertymark is a member of the Department for Work and Pension's (DWP) Private Rented Sector Strategic Landlord Group. We have actively lobbied the UK Government on issues such as direct payments to landlords and have found that the DWP has acknowledged this through Alternative Payment Arrangements (APAs)¹⁰ and advance payments. Furthermore, we acknowledge the Scottish Government's endeavours to mitigate difficulties with Universal Credit by providing Discretionary Housing Payments and through the allowance of Scottish Choices.

¹⁰ <https://www.gov.uk/government/publications/universal-credit-landlord-request-for-a-managed-payment-or-rent-arrears-deduction>

14. Since the introduction of Universal Credit, we have advocated for the option of housing costs to be paid directly to the landlord (or agent). As Universal Credit Scottish Choices gives tenants the option to be paid twice monthly, and also to have their housing costs paid directly to their private landlord, this offers landlords a more viable option when providing housing for those receiving the benefit. From 31 January 2018, the choices were made available to everyone receiving Universal Credit in Scotland. Survey results from our members in February 2017 indicated that if direct payments to landlord were to be introduced 50 per cent of respondents believed this would help. In January 2019 after direct payments became an option in Scotland, 64 per cent of surveyed Scottish members indicated that direct payments have been helpful. ARLA Propertymark members report that the direct payment to landlord option benefits both the landlord and the tenant, particularly older or more vulnerable tenants who are used to the old system of the money being paid direct. An underlying issue with direct payment to landlords is that claimants must receive their first payment before they can opt to have their housing costs paid directly, or to receive bi-monthly payments. However, Scottish Choices have overall made payments less challenging for both landlords and their tenants.
15. Discretionary Housing Payments have been particularly helpful for landlords and tenants where the housing element of Universal Credit does not fully fund their rate of private rent. However, we acknowledge that the current rate of discretionary payments from the Scottish Government is not sustainable, as was stated in the discussion paper: Housing Beyond 2021.¹¹ Discretionary Housing Payments address the issue that Local Housing Allowance rates are insufficient for the private rented sector, but they are temporary rather than permanent. Local authorities made 100,635 awards under the Discretionary Housing Payment scheme, valued at £56.9 million between 1 April 2018 and 30 September 2018, equating to 93 per cent of the Scottish Government's budget for the payments for 2018/19.¹² ARLA Propertymark members have provided positive feedback on the extra help that is being provided by the Scottish Government. Whilst the Scottish Government is diminishing the impact of UK welfare reforms in this way, more consideration needs to be taken to ensure that tenants in receipt of Universal Credit are not locked out of renting in the private rented sector because LHA rates cannot cover their rent.

¹¹ <https://www.gov.scot/binaries/content/documents/govscot/publications/advice-and-guidance/2018/09/housing-beyond-2021/documents/housing-beyond-2021-discussion-paper/housing-beyond-2021-discussion-paper/govscot%3Adocument>

¹² <https://www.scottishhousingnews.com/article/57m-paid-out-in-discretionary-housing-payments-in-six-months>

In all of the above, what improvements could be made to reserved and devolved systems, including the way they interact with each other?

16. ARLA Propertymark believes that there are two improvements that both the reserved and devolved systems need to make to enhance user experience of Social Security help with housing, and to encourage the private rented sector to accept tenants receiving Universal Credit. Firstly, direct payment to landlords should be available from application with the tenant's permission. Secondly, waiting times for the initial payment of Universal Credit must be limited. We believe that by making these changes, operability of Social Security housing payments will be improved.

17. To incentivise landlords and letting agents The Scottish Government needs to work with the UK Government to develop a payment arrangement that allows the tenant the choice to have the housing element of Universal Credit to be paid directly to the landlord from the outset of the tenancy. This is opposed to only having the option to do so after the first monthly payment of Universal Credit. An ARLA Propertymark member stated that their agency would only feel willing to accept Universal Credit tenants if direct payment was available from the start. By making this option available to tenants as soon as they apply for Universal Credit, we believe that more landlords and letting agents will feel confident in offering tenancies.

18. More needs to be done to speed up processing of Universal Credit payments. The current waiting times are unacceptable and directly contribute to tenants falling into rent arrears, as well as to landlord's unwillingness to let to tenants receiving Universal Credit. This is an issue that is UK-wide and not just specific to Scotland. To this end, the UK Government should work with the Devolved Administrations to seek ways in how to mitigate the discrepancies in payments, and ultimately reduce a new claimant's waiting time for their Universal Credit.