The impact of freezing Local Housing Allowance

The Autumn Statement must address the **hidden housing tax**

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October 2023

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Summary

Local Housing Allowance (LHA) determines the amount of Housing Benefit and Universal Credit claimants can receive to cover their housing costs. In 2008, LHA was linked to the 50th percentile of rents within the 'broad rental market area' where a claimant lives.

But this was reduced in 2011 to the 30th percentile, and from 2013 annual uprating was linked to CPI not rents. At the start of the pandemic LHA received a one-off uplift back to the 30th percentile but has been frozen ever since. In combination with other reforms, such as the introduction of a national limit on LHA rates in 2010 and the extension of the shared accommodation rate (SAR) to people aged under 35 in 2012, the freezing of LHA has led to significant shortfalls between housing cost support and actual rent costs for many of the people we help.

We know that the average gap between LHA and rent costs across Britain is £62.13 per month. But this masks a great deal of variation, and is based on out-dated assessments of rent costs. According to our cost of living survey, the vast majority of Housing Benefit and Universal Credit claimants renting privately now report a shortfall between benefit income and rent of more than £100 per month. And our debt clients on Universal Credit in the private rented sector report an average shortfall of almost £145 per month.

As rent increases accelerate, this situation has become untenable; we are advising thousands of people each month experiencing or threatened with homelessness. More generally, LHA inadequacy (and its complexity) is causing hardship as people use other benefit income to cover their rent, or cut back on daily essentials - or are forced to leave properties but cannot find affordable alternatives in the same area. The mental health of many people in these situations is affected.

Increasing income from work is not necessarily the solution: many of those most affected are already in full-time work, and gaps in support often mean people are forced to live far from employment opportunities. And nor can people rely on alternative financial support such as discretionary housing payments (DHPs).

The impact of this hidden housing tax on low-income households must be addressed. 4 immediate steps are needed to ease the pressure on low income households:

- Restoring the link between LHA and the 30th percentile of local rent costs
- Reforming the national limits on LHA rates
- Returning the SAR upper age limit to 25
- Increasing funding for DHPs

These measures should form part of a programme of housing market reform that reduces private tenants' exposure to unaffordable rent rises.

Introduction

Local Housing Allowance (LHA) is the most important social security benefit you have probably never heard of. As Box 1 explains, it is not a benefit in its own right, rather the way in which the maximum amounts of Housing Benefit and Universal Credit's housing element are calculated.[1]

The freezing of LHA since 2020 (and other reforms since 2010) mean support for housing costs within the benefits system has decreased, causing significant hardship among many of the people Citizens Advice supports.

This report first details the housing cost shortfalls that have arisen as a result of LHA being frozen. It then presents evidence on the impact that LHA policy has had had on benefit claimants, before outlining the reforms that are now necessary.

Box 1. What is Local Housing Allowance?

LHA is the mechanism by which Housing Benefit or Universal Credit housing element awards are calculated for private renters. If you receive income-related benefits, LHA determines how much support with rent you will receive. The calculation is based on rental costs in the area where a person lives, for the type of property (ie number of bedrooms) they need.

When rolled out in 2008, LHA was set at the median (or 50th percentile) rent for the property needed within a given 'broad rental market area' (BRMA), as surveyed by local valuation offices. In 2011, the reference point was reduced to the 30th percentile.

The history of LHA

LHA was introduced in 2008 in order to provide a limit – albeit linked to actual rent costs, and regularly uprated – to how much Housing Benefit could be claimed. With the subsequent introduction of Universal Credit it also became

[1] The author is grateful to Maddy Rose, Rebecca Rennison, Thomas Hunter, India Walden and Jonny Tatam-Hall for their support with this analysis, and to the many local advisers who shared their insights.

how Universal Credit's housing element is calculated. There have been 2 main sets of LHA policy developments since 2008:

- First, a series of changes after 2010 reducing the amount of financial support available, including:
    - The government's 2010 decision (implemented from 2011) to set LHA at the 30th rather than 50th percentile of local rents. This significantly reduced the amount benefit recipients in the private rented sector could claim for housing costs.
    - The introduction at the same time of national limits on LHA rates, capping how much financial support for housing costs households could receive, irrespective of the 30th percentile rate for their area (mainly affecting London, where rents are higher). There were limits for each category of property size, as well as an overall limit meaning no household can claim for a property of more than 4 bedrooms, regardless of family size. Housing Benefit and Universal Credit housing element awards are also subject to the general 'benefit cap'.
    - The Shared Accommodation Rate (SAR) was extended from 25 to 35 year-olds from 2012. Single people below this age qualify for a lower LHA rate on the assumption they are able to share a tenancy with people they are not related to.
- Second, not allowing the benefit to rise in line with rents, both through linking uprating to inflation rather than rents, and repeated freezes and caps. LHA rates were decoupled from actual rent costs in 2013/14, when they were instead tied to the Consumer Prices Index (CPI). They were then uprated by only 1% (ie below inflation) for the next two years, before being frozen altogether for the next four (with exceptions[2] for some areas).

[2] See Department for Work and Pensions (2013) 'Local Housing Allowance Targeted Affordability Funding', available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/262080/lha-call-for-evidence-response.pdf

A hidden housing tax

As this report will show, the freezing of LHA was already creating unsustainable financial pressures on many of the people Citizens Advice supports before the current surge in rents. Recent uprating decisions, in particular, amount to a hidden housing tax.

Many people are unable to avoid paying higher rent costs – under threat of homelessness – but the state is no longer providing support to cover assessed housing needs. Instead they are forced to find additional sources of income, such as other benefits, or cut back on essential spending such as food and energy.

The situation is likely to get worse. Rent increases are now accelerating, due firstly to the impact of higher interest rates on landlords' buy-to-let mortgages, and secondly to the under-supply of private rental properties in many areas.[3] Rents are rising faster in more deprived areas.[4] It is essential that the link between LHA and actual rent costs is restored. But it is also time to rethink LHA more widely, to reduce the likelihood of these circumstances reoccurring.

[3] Vicky Leigh (2023) 'Mortgage holders are deep in the red – and this is driving up private renter evictions', We Are Citizens Advice, 24 July, available at: https://wearecitizensadvice.org.uk/mortgage-holders-are-deep-in-the-red-and-this-is-driving-up-private-renter-evictions-68b5f90bab3; Joshua Oliver (2023) 'How long can the UK rental crisis last?', Financial Times, 16 June, available at: https://www.ft.com/content/c163058e-6423-4d14-bb86-374bbb679989.

[4] Sian Norris (2023) 'UK rents rise fastest in deprived areas – and drag more people into poverty', The Guardian, available at: https://www.theguardian.com/money/2023/sep/03/uk-rents-rise-faster-in-deprived-areas-and-drag-more-people-into-poverty.

The shortfall in housing support

The average shortfalls being experienced by private renters dependent on Housing Benefit or Universal Credit housing element are now comparable to shortfalls in 2019/20, before LHA was last uprated.

The general picture

The average LHA maximum available (for all property types) was 9% lower than the average cost of renting at the 30th percentile in April 2023 (across all BRMAs, excluding Northern Ireland). This seemingly small number equates to £745.60 each year (£62.13 per month): similar to the median monthly cost of renting a one- (£725) or two-bedroom (£800) property privately in England.[5]

In other words, people reliant on LHA now need to find a whole month's rent to make up for LHA shortfalls: 12 months' accommodation for the price of 13.

Many people are seeing shortfalls a great deal higher. Citizens Advice's cost of living survey, conducted in June 2023, found that, of private renters on Universal Credit or Housing Benefit experiencing a shortfall between their benefit income and rent payments, 25% have a shortfall of more than £300 per month (or more than £3,600 per year). Only 6% have no shortfall. See Figure 1 for more details.

We should not assume that, even if there are cheaper properties available, that all families are able to move when their rent becomes unaffordable. Access to services and support networks may be lost, and they may be unable to cover moving costs.

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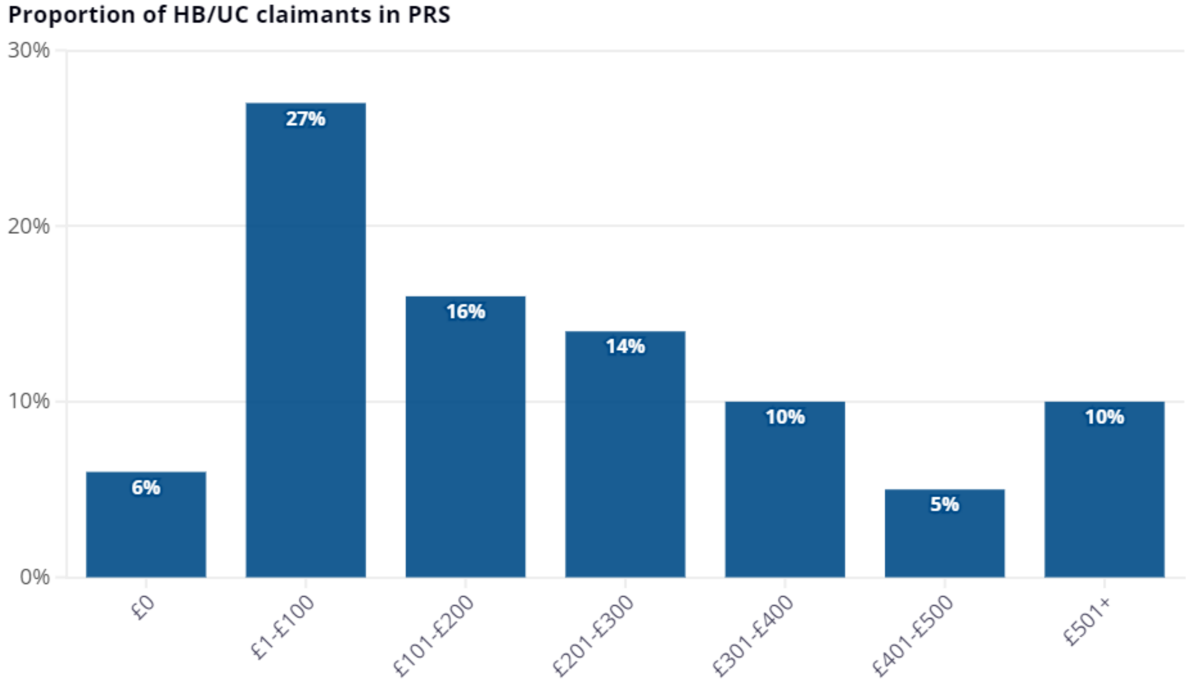
[5] House of Commons Library (2023) 'Local Housing Allowance: help with rent for private tenants', available at: https://researchbriefings.files.parliament.uk/documents/SN04957/SN04957.pdf; Office for National Statistics (2023) 'Private rental market summary statistics in England', June 2023 release, available at: https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/privaterentalmarketsummarystatisticsinengland. Note also there is a significant lag as figures published by local valuation offices in April 2023 are based on research conducted from October 2021 to September 2022.

Figure 1: Proportion of Housing Benefit (HB) and Universal Credit (UC) claimants in private rented sector (PRS) by level of shortfall between rent and benefit income



(Source: Citizens Advice Cost of Living Survey 2023)

Furthermore, rents being paid in properties already occupied (on which basis LHA is set) may well be much lower than rents being demanded for properties actually available to move into. The cost of new lets can rise quickly and we know, for instance, the annual inflation rate for new lets exceeded 10% for every month from January 2022 to February 2023.[6]

Geographical variation

The average shortfall figures mask a great deal of variation. There are more than 150 BRMAs in England alone, and some will have experienced higher rent increases than others, and more generally rental market conditions for low-income households will vary considerably across different BRMAs even if average rent increases are similar.

[6] Tom Waters and Tom Wernham (2023) 'Housing quality and affordability for low income households', Institute for Fiscal Studies, available at: https://ifs.org.uk/publications/housing-quality-and-affordability-lower-income-households.

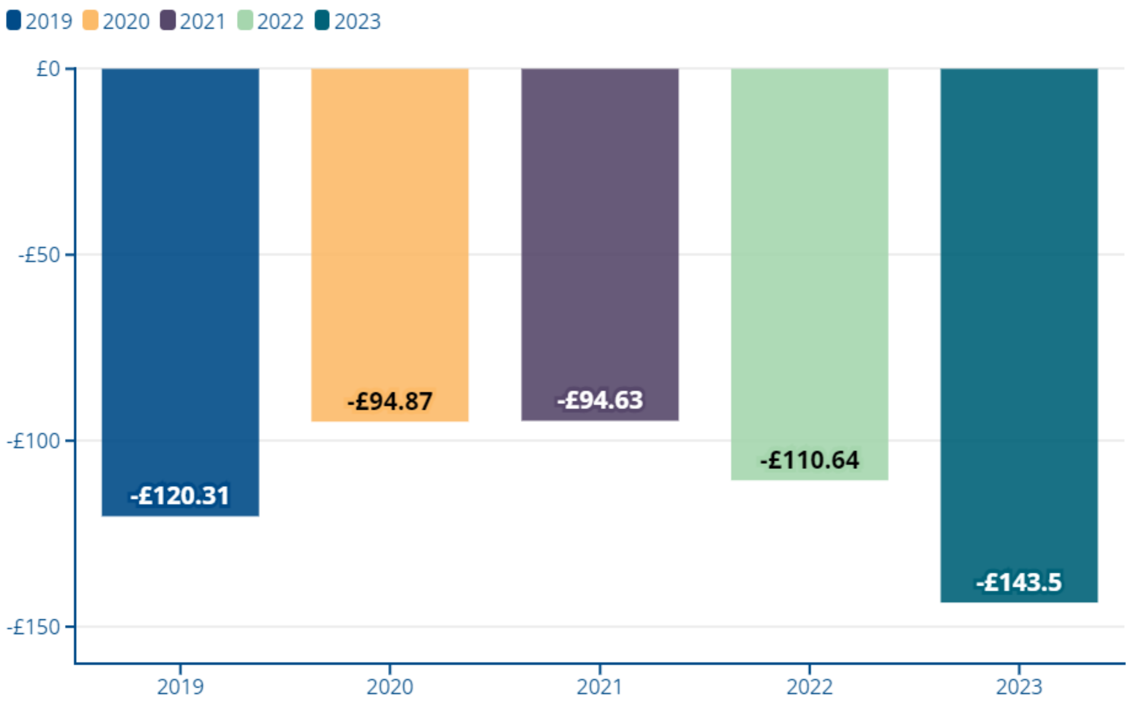
As expected, Central London stands out. The cost of a four-bedroom property in the Central London BRMA at the 30th percentile as recorded by the government is almost double (180%) the maximum LHA rate. Similarly, a two-bedroom property is 143% of the maximum LHA rate.

Other BRMAs with gaps significantly higher than the national average include: Central Greater Manchester, Tameside and Glossop, Greater Liverpool, the Black Country, Bristol, Gloucester, and East Sussex. Some of the largest gaps relate to the cost of shared accommodation. For example, in Chesterfield the cost of a single room is 137% of the maximum LHA SAR.[7]

Our debt clients

Citizens Advice supports people in debt with budget planning, and it has become clear that the freezing of LHA is causing significant difficulties for this group.

Figure 2: Monthly housing support shortfall for Citizens Advice debt clients in the private rented sector on Universal Credit, 2019-2023



(Source: Citizens Advice data for England and Wales)

[7] See Valuation Office Agency data available at: https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2023-to-march-2024. The place names used in this section are the BRMAs as designated by government.

Our debt clients on Universal Credit, living in private rented accommodation in England and Wales, have average rent costs of £633 per month. But they receive only £489 per month in housing support – a gap of £144. Figure 2 shows that this gap is now larger even than 2019, before LHA was last uprated.

The current gap of £144 per month can only be found by cutting back on daily essentials, or going further into debt. At a time of very high inflation, essential spending has already been cut to the bone, and indebtedness is increasing.

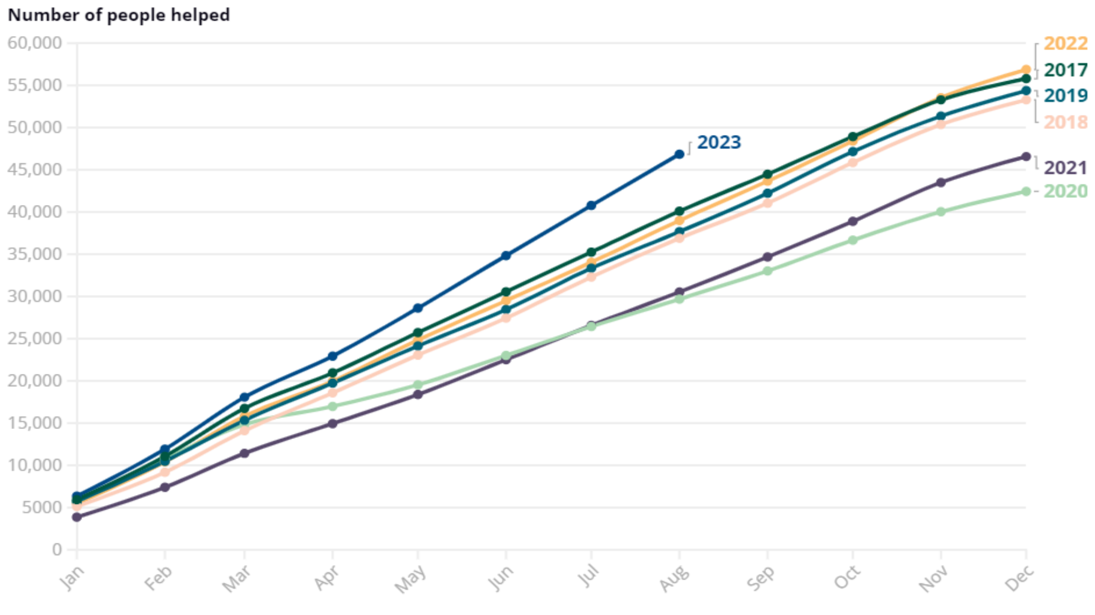
The impact of LHA shortfalls

This section draws upon Citizens Advice's evidence (primarily client experiences recorded by our advisers) to document some of the impacts that freezing LHA has had on the lives of the people we support. It focuses first on the rising tide of homelessness, before considering wider impacts on people's housing choices, ability to meet needs, ability to work, and mental health,

Homelessness cases will keep rising

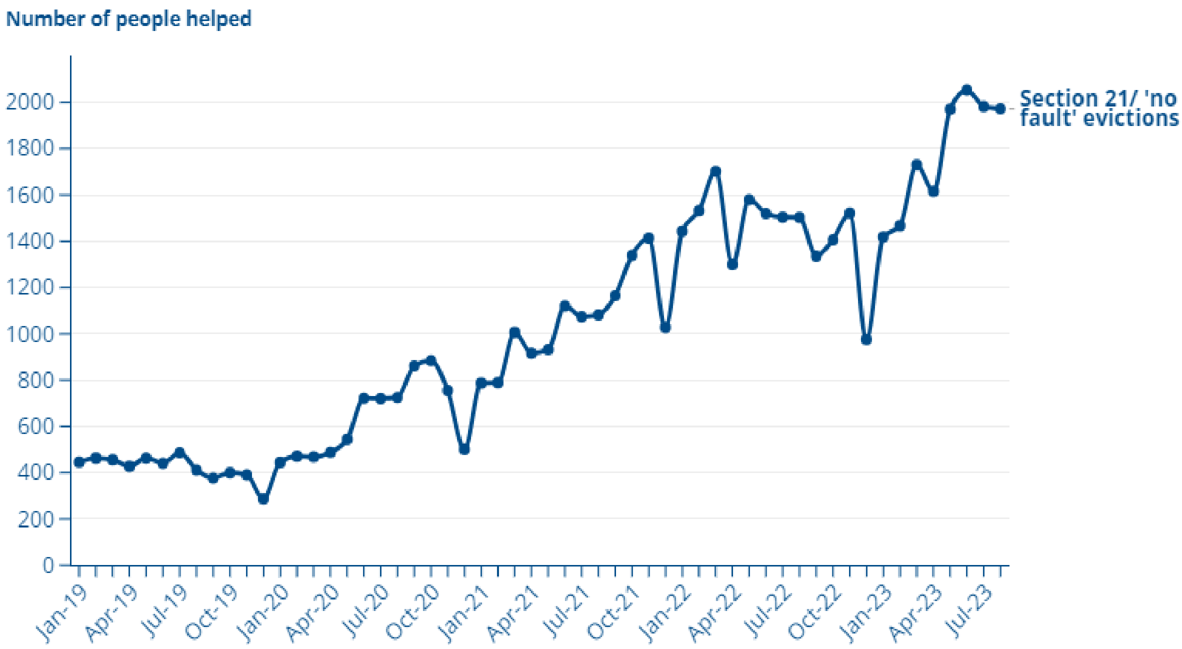
Our advisers are supporting many people experiencing homelessness and temporary accommodation as a result, at least in part, of LHA being frozen, with an adviser in Sheffield reporting that 'the majority' of people they have advised on LHA issues have been evicted or recently threatened with eviction. The growing threat of homelessness is evident in our data: figure 3 shows that, so far in 2023, we have helped more people with homelessness issues that at the same point in any of the last 6 years, and figure 4 shows that the number of people we are helping with 'no fault' evictions has grown significantly since 2020.

Figure 3: Number of people Citizens Advice has supported with issues related to homelessness, 2017-2023



(Source: Citizens Advice data for England and Wales)

Figure 4: Number of people Citizens Advice has supported with Section 21 'no fault' evictions, 2019-2023



(Source: Citizens Advice data for England and Wales)

The number of people facing homelessness can be expected to increase further. Advisers are consistently reporting cases where tenants are being faced with steep rent increases, even when they already have significant LHA shortfalls. Social housing is rarely an option; too few social housing tenancies available often means long wait times and priority given only to those in the highest priority bandings.

Sylvia* has a long-term disability, works part-time, and receives Universal Credit. She lives alone in the West Midlands. Her rent was increased in January, increasing her LHA shortfall to more than £50 per month. Her landlord now wants to raise the rent again, which would increase the shortfall to more than £150 per month. Sylvia may be able to temporarily delay the proposed increase, but cannot prevent it being implemented in January. There are very few cheaper properties available locally.

Libby* has lived in her home in the South West for 14 years. She receives Universal Credit but has deductions which reduce her income, and her LHA rate leaves a shortfall of more than £430 each month. She is receiving Discretionary Housing Payments but these still don’t cover all her rent. As a result, she struggles to pay her rent and has accumulated arrears. Her landlord is pursuing a no-fault eviction, and Libby wants to find more affordable accommodation. She has been making offers on flats but has struggled to find anywhere she can afford. Her local authority has said they can find her temporary accommodation. However, this may be outside the county where she has been living for nearly 20 years. She has rehomed her pets in case she is made homeless and is worried about her future.

Grace* lives in London with her 3 children. She was evicted from her home a few months ago as her landlord wanted to sell the property. She has been living in temporary accommodation with her children since. Her family currently lives in a B&B, which is far away from her children's schools, and has no cooking or washing facilities. One of her children is being treated for a serious medical condition, potentially triggered by the stress of their housing situation. Grace has been trying to find alternative private rented accommodation, but has been unable to find anything that is affordable within her LHA rate, even when looking at smaller properties. She is considering moving out of London but is worried about the impact on her children’s education, one of whom is currently sitting exams.

Daniel* lives in the West Midlands. His LHA shortfall is more than £160 per month. He has respiratory problems, exacerbated by a mould problem in his flat. But since he has no dependents he is unlikely to be placed in social housing. He is worried that complaining to his landlord will result in eviction, when there are very few cheaper properties available locally.

*All names have been changed

Inadequacy and complexity is causing hardship

The freezing of LHA means people are forced to make difficult choices when their rent increases beyond what they can afford, such as moving to areas where they have few local links – and where they risk losing access to services they or their children rely upon – or living in unsuitable accommodation.

We know that many people routinely use income from other benefits to cover their rent, whether this is their main Universal Credit award, or in many cases additional benefits for disabled people. The latter scenario means people with higher living costs as a result of disability are having vital needs unmet.

The LHA rate for shared accommodation is a source of hardship for many people, particularly those in their early 30s who are prevented from settling down in a property of their own. Advisers report a shortage of shared properties within or even close to the SAR in many areas (particularly large cities).

They also consistently deal with cases where the SAR affects separated parents. Generally speaking, a parent with only partial custody rights over their children will, if aged below 35, only be able to access the SAR. This makes it very difficult for them to find housing suitable to accommodate their children on the nights when they do have custody, jeopardising their right to a family life.

Advisers report that many people do not understand how LHA works; they may not realise that moving to a different BRMA may mean they qualify for less financial support. One adviser reported the case of a client who moved from Oxford to Rugby; he hoped that lower rents on average in Rugby would mean he could afford a larger property that would allow him to keep a pet to combat loneliness. However, having borrowed money to cover moving costs, he found that his housing support shortfall increased due to a lower LHA rate in Rugby.

The Wray* family consists of a disabled father, a mother above state pension age, and a severely disabled adult daughter. The landlord has raised their rent, but they are unable to find an affordable property locally. Moving home at all would have a detrimental impact on their daughter – compounded by the prospect of having to relocate to a new area. They are already using the father and daughter's Personal Independence Payment (PIP) to cover their LHA shortfall, and now face the prospect of increased indebtedness.

Patricia* lives with her son in South Yorkshire. She has ME. She is currently living in her elderly mother's home, but this is in the process of being sold to pay for residential care. Suitable accommodation will cost around £750 per month, more than £300 above the LHA maximum, and her monthly deficit will increase further as she needs to reduce her hours at work to better manage her health. Patricia is making a PIP claim, but this money should be spent on disability-related living costs, not used to cover housing cost shortfalls. The stress caused by this situation is exacerbating Patricia's ME symptoms.

Corinne* lives in the North of England in a privately rented property. She currently has a shortfall between her LHA rate and her rent of around £50 a month. Corinne came to us after her landlord told her the rent will be increasing by an additional £200 a month. She has severe mobility difficulties and receives a Personal Independence Payment (PIP) to help cover the additional costs associated with her disability. However, she is having to use this money to pay her rent each month. With the rise in rent, even her PIP payments won't cover her shortfall and she is worried about her ability to keep paying her rent, cover her health costs, and maintain a basic standard of living.

Meghan* lives with her partner in the South West of England. Her LHA rate is not enough to cover her rent, so she has a shortfall in her budget each month. As a result, she struggles to pay her rent and has built up arrears of more than £1,200. Her rent is due to increase by £35 a month, and she's worried that this will prevent her from being able to pay off her existing debts. Meghan's housing is of poor quality and there are ongoing issues with damp, mould and insects. She and her partner would like to move somewhere more suitable and affordable but this would be difficult while they remain in arrears to their current landlord. Meghan was advised to apply for a Discretionary Housing Payment, but this would be only a temporary solution.

*All names have been changed

Work is not the answer

LHA shortfalls are particularly difficult, however, for those who are unable to increase their earnings from employment to close the gap. This includes those prevented from working, or increasing their hours, due to disability or caring responsibilities, and those above working-age. But it also includes people who are already in full-time employment – they have little scope to increase earnings, and may be unable to find a cheaper property to rent.

Our June 2023 cost of living survey found that Universal Credit recipients in work are more likely than those out of work to be worried about being able to pay their rent. 59% of in-work claimants who pay rent were fairly or very worried about meeting this cost over the next 6 months, compared to 48% not in work.

Our advisers have also helped people prevented from working by the design of the LHA system. For example, where neighbouring areas with very different rental costs are included in the same BRMA, the LHA rate will be lower as a result of including a greater proportion of lower-cost properties in the calculation of the 30th percentile. However, as highlighted primarily by advisers in the South West – where rental costs have been driven up by the proliferation of holiday lets in residential areas – employment opportunities are likely to be concentrated in the area with higher-cost properties. The cost and inaccessibility of public transport within many regions means people are faced with a choice between living in areas with work available but where LHA shortfalls will be higher, and areas where rents may be affordable but finding work is more difficult.

Sasha* lives in the North East with her daughter. She claims Universal Credit and has a shortfall between her LHA rate and rent of nearly £290 a month. Sasha also works full-time, but her rent is nearly 60% of her monthly take-home pay. She has no scope to increase her earnings and is worried about covering her costs. She has considered looking for cheaper housing, but her current rent is similar to other private properties in her area.

Anaya* also lives in the North East and works full-time. Her landlord is planning to increase her rent by £350 per month, which would take her rent to more than her entire monthly income. She does not currently claim Universal Credit but is eligible. However, the LHA rate she would be entitled to would still leave her with a considerable shortfall in her housing costs. Anaya is struggling to cover the transport costs to work and is worried she will either have to quit or be fired, and may have to take a job even further away at lower pay.

*All names have been changed

Mental health is being affected

Many advisers report that LHA shortfalls have a negative impact on the mental health of the people they support, as they are caught in what a national helpline adviser described as 'a constant cycle of catching up'.

Marcus* is 45 years old and single. He was forced to leave central London after being unable to find anywhere affordable, and being unable to secure social housing. He experienced homelessness and was offered social housing in South Shields. He worked (temporarily and sporadically) in London, but he has failed to find work in South Shields. He has no family or community links in the area, and his mental health has suffered as a result. He is now in receipt of disability benefits and unable to work. Marcus has persistent debt problems.

*All names have been changed

Alternative support is difficult to access

Discretionary Housing Payments (DHPs) from local authorities may offer some support for those in rent arrears as a result of LHA shortfalls. But they usually offer only temporary respite[8]: Citizens Advice regularly supports people whose DHPs have been stopped before there has been any improvement in their financial situation.

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[8] See DWP guidance available at: https://www.gov.uk/government/publications/discretionary-housing-payments-guidance-manual/discretionary-housing-payments-guidance-manual#section-2-about-discretionary-housing-payments.

Furthermore, DHPs are increasingly difficult to access, with variation among local authorities. The government recently reduced the funding available for DHPs across England and Wales from £140 million to £100 million each year.[9]

Yasmine* applied for a Discretionary Housing Payment (DHP) when her housing cost support was reduced due to the benefit cap. She is a single parent caring for a disabled child. The family lives in the South East. Yasmine was refused a DHP because she is currently applying for Disability Living Allowance (DLA) for her child; the benefit cap would likely be removed if the application was successful. However, DWP advised her that the DLA application could take several months to process. In the meantime, Yasmine cannot afford her rent without reducing spending on feeding and clothing her children, and heating her home.

Emma* is renting a single room for £440 per month, far higher than her LHA maximum of £288. She is pregnant and worried about what she will be able to afford when her baby is born, but has been turned down for additional support by her local authority. Emma is unable to ask her family to help, and is worried about losing access to health services.

*All names have been changed

[9] See DWP guidance available at: https://www.gov.uk/government/publications/housing-benefit-subsidy-circulars-2022/s12022-discretionary-housing-payment-government-contribution-for-english-and-welsh-local-authorities-for-financial-year-ending-march-2023.

A way forward: conclusion and recommendations

LHA was introduced in 2008 to control expenditure on housing support. Benefit claimants would only be able receive housing cost support for rental properties priced at or below the median cost of local rents. However, in return for this limit, LHA was to retain its value by rising each year in line with rent increases.

This principle was retained when the LHA maximum was set at the 30th percentile rather than median of local rents from 2011, even as the system was made less generous overall.[10] But successive LHA cuts and freezes, and a decoupling from rents, have resulted in millions of people becoming responsible for housing costs that they cannot afford.

With the social housing sector over-subscribed, and home-ownership a pipe dream for many people, LHA has come to represent a hidden housing tax on those on the lowest incomes. Under threat of eviction, they have no choice but to find the money to cover the shortfall between their rent and their Housing Benefit or Universal Credit housing element payments. Freezing LHA effectively reduces the value of other benefits used to plug the gap, or leads to claimants cutting back on essentials such as food or energy.

Looking ahead to the Autumn Statement, **relinking LHA to the 30th percentile of rent costs** in each BRMA is the most immediate priority. The situation for Housing Benefit and Universal Credit housing element claimants today is at least as serious as 2020, when the link was last restored after a period of being frozen.

Other key priorities include **abolishing the national LHA cap** and **increasing maximum SAR amounts**, as well as **increasing funding for DHPs** for people whose housing cost shortfalls rise unexpectedly.[11]

[10] Note that the House of Commons Work and Pensions Select Committee recently recommended returning to the median to calculate LHA.
[11] It would also be important for the general cap on benefit payments to be modified to accommodate the restoration of support for housing costs recommended here.

Over the longer term, there are a number of issues that require greater consideration by the government. There could be more discretion to increase LHA rates where there is evidence that advertised rents for new tenancies, or the rents actually being paid by benefit claimants, are significantly higher than LHA (whether linked to the 30th percentile or not).

It may also be necessary to review the composition of BRMAs in some areas, especially where broad BRMA boundaries mean people are compelled to live far from where employment opportunities are concentrated.

Finally, we should recognise that LHA is only one part of the puzzle. **Developing a wider programme of housing market reform** to reduce the exposure of people on low incomes to unaffordable rent rises is essential.

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Published October 2023

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux.

Registered charity number 279057.