

Section 2 Commentary

Chapter 6

Help with housing costs

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One of the most significant trends in housing over the past 25 years has been the growth in the private rented sector. As more households have come to depend on private renting, the role of the local housing allowance in improving affordability has received much attention. Meanwhile, one of the Scottish Government’s most important responses to the cost-of-living crisis has been to freeze or limit rent rises within existing tenancies.

The chapter examines these two issues:

- How the local housing allowance (LHA) operates in England, using Census and other data to examine the effects of LHA limits locally and regionally.
- The experience of the rent freeze and cap in Scotland.

The local housing allowance in England

The 2023 Autumn Statement made a long-awaited change in the way that the local housing allowance applies. It was announced that, from April 2024, LHA rates would be reset at the lower of either the 30th percentile rent for each broad market rental area (BMRA) or the national LHA limits, which were raised by 18.6 per cent for the four-bedroom rate and by over 12 per cent for all the other categories. This should bring some welcome relief for hard-pressed private renters, albeit the national LHA caps will mean that LHA rates will remain below the 30th percentile in parts of London. Likewise, some non-working households, mainly lone parents and other households with children, will continue to be subject to the benefit cap.

LHA rates had been frozen at their 2020 levels since their restoration to the 30th percentile during the height of the Covid-19 pandemic. However, in the absence of any government commitment to keeping the rates under review, there was understandable concern that, with each year that passed with the freeze still in place, the rising cost of resetting LHA would make any decision to do so ever more problematic. As expected, when the announcement was eventually made, four years later, to restore rates from April 2024 the projected cost was considerable – an expected £1.285 billion in 2024/25.

With or without the freeze, it has long been known that there are geographical disparities between the numbers of households who experience a shortfall from their contractual rent. DWP statistics for households in receipt of universal credit (UC) show that, in broad terms, the proportion of households with a shortfall increases with distance from London, except in the case of Scotland (see Table 2.6.1).

When the local housing allowance was introduced in 2008, it was set at the median rent, so in theory tenants receiving benefits had access to half the market. This was reduced to the 30th percentile in 2011. That decision was partly justified on the basis that since only around 30 per cent of private renters claimed help with their housing costs, there should be a sufficient supply to ensure that benefit claimants could rent somewhere without facing a shortfall. However, as Table 2.6.1 illustrates, when LHA rates were reset in 2020, only 36 per cent of private renters on UC in the North East had their rent fully covered, compared with 65 per cent in London.

Table 2.6.1 Proportion of private renters on universal credit whose housing costs are fully covered, 2020-2023

	Apr-20	Apr-21	Apr-22	Apr-23
North East	35.5%	32.6%	31.2%	28.2%
North West	41.4%	38.2%	36.2%	31.1%
Yorkshire and The Humber	39.3%	36.4%	34.6%	29.9%
East Midlands	43.1%	39.4%	36.7%	31.4%
West Midlands	45.2%	40.7%	38.2%	32.9%
East of England	47.5%	43.7%	41.9%	37.4%
London	64.9%	59.6%	58.8%	54.6%
South East	52.1%	48.0%	46.4%	41.4%
South West	45.6%	42.0%	39.9%	35.2%
Wales	35.2%	32.2%	30.2%	26.3%
Scotland	51.1%	48.8%	48.7%	46.2%
Total	48.0%	44.9%	43.1%	38.5%

Source: DWP Stat-Xplore.

It is not known why households outside London are more likely to incur a shortfall, but one possibility is that the gap between the numbers of private rental properties with rents equal to (or less than) the LHA rate and the numbers of private tenants claiming UC is much greater outside London.

The recent publication of 2021 Census data for England and Wales on tenure (the Census in Scotland was postponed until 2022) allow tenure and households on benefit to be compared. From this one can estimate the proportion of private renters who get help with their housing costs at the national, regional and local levels. This may help provide a better understanding of the demand for private renting among benefit claimants and others on low incomes.

However, using Census data only provides a broad picture of demand, for three reasons. First, Census data provide a range for the number of private renters: the lower figure (excluding 'other private rented') will tend to overstate the demand, whilst the higher figure will tend to understate it because the Census and benefit definitions of 'private renter' differ. Therefore, numbers of private renters on benefit should be stated as a range instead of definite amount. But for this chapter the higher figure for the number of private renters is used to simplify the comparison (which in turn may understate the proportion on benefit).

Second, neither data set provides a breakdown by property size, so there may be significant variation in the demand at the local level between each of the five LHA categories. Even if the proportion of private renters on benefit is around 30 per cent, there still may be shortages in one or more of the property-size categories, especially in shared and four-bedroom accommodation which account for only a small proportion of all privately rented dwellings.

Third, the LHA is set over broad rental market areas: these are, on average, roughly twice the size of an English local authority district, so it is possible for there to be a shortage of supply (less than 30 per cent of available properties with rents within the LHA) within a single local authority area, but not within the wider BRMA.

Table 2.6.2 Percentage of private renters receiving help with housing costs in England and Wales, 2021

	Private renting as % of all tenures (estimates)		Percentage of private renters receiving UC/HB	
	Low	High	Low	High
North East	15.1%	17.2%	49.9%	57.1%
North West	17.2%	19.2%	45.6%	51.2%
Yorkshire and The Humber	17.2%	19.4%	41.0%	46.4%
East Midlands	16.6%	18.7%	36.5%	41.2%
West Midlands	15.9%	17.9%	40.2%	45.4%
East of England	16.1%	18.2%	35.8%	40.5%
London	27.6%	30.0%	43.5%	47.1%
South East	16.9%	19.2%	36.7%	41.6%
South West	17.1%	19.7%	38.5%	44.4%
Wales	14.5%	17.0%	43.2%	50.7%

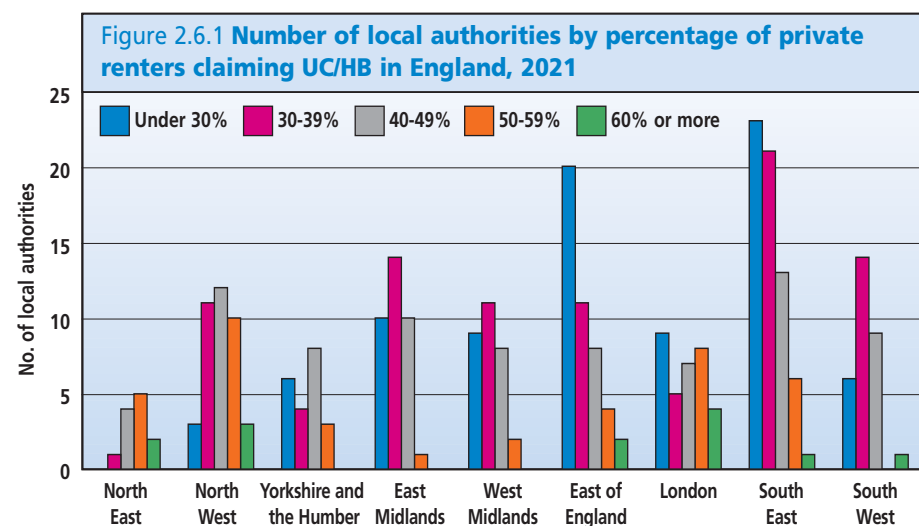
Source: Census 2021 and DWP Stat-Xplore.

Bearing in mind these limitations, the general demand for properties as at April 2021 in each of the English regions and in Wales is shown in Table 2.6.2. In six of the ten regions at least 40 per cent of private renters were receiving benefits. Apart from London, these are in the North, Midlands and Wales. In broad terms, in these regions 40 per cent or more of private renter households would be competing for the bottom 30 per cent of rents if they wish to avoid a shortfall in covering their housing costs.

Even then, this may somewhat understate demand as it assumes only benefit claimants seek homes within the LHA rate, whereas in reality demand may include students, households with modest earnings and households with 'no recourse to public funds' because of their immigration status (see Contemporary Issues Chapter 3). Furthermore, at the local level there will be areas where the demand for homes with rents at or below the LHA is substantially greater than this.

Given that London households are the least likely to experience a shortfall, the relatively high claimant caseload may seem surprising. However, the high London rents mean that benefit entitlement stretches much further up the earnings scale – for example, entitlement extends to £75,000 for a couple with two children, who have a single earner and pay a lower-quartile rent (author calculation). As we shall see, the overall figure for London conceals some wide local variations in the claimant caseload. (Unfortunately, UC statistics do not allow for the disaggregation of working households to allow more detailed investigation.)

Further analysis was conducted at the local authority level for England to identify areas where the proportion of private renter households claiming help with their housing costs exceeded the 30 per cent level, where in theory the supply and demand for lettings at affordable rents would be roughly in balance. Figure 2.6.1 summarises the results for 309 English local authorities, split by region. It is based on the higher Census figure for private renter households and so may somewhat suppress the true level of demand; it is also based on the April 2021 caseload (the first year of the LHA freeze). It shows that in a significant number of areas, the quantity of benefit claimants is at least double the number of affordable homes.



Source: Author calculation.

The results for the 309 English councils can be summarised as showing that:

- In more than half of councils (58 per cent), up to 39 per cent of renters claim help with housing costs. In 86 of these councils, the proportion claiming help with housing costs was below 30 per cent; in the remaining 92 councils, the proportion was 30-39 per cent. However, taken together these two groups only account for 29 per cent of the 1.95 million HB/UC caseload.
- Over a quarter (26 per cent) of councils had 40-49 per cent of private renters on benefit. These 79 councils account for the next largest share of the caseload, at 32 per cent.
- Less than a fifth (52 councils, 17 per cent of the total) have at least half of their private renters on benefit and account for the remaining 39 per cent of the caseload. Indeed, in 13 of these councils, 60 per cent or more of tenants are on benefit.

Within these findings, there are further striking differences. For example, in 52 councils in London, the East and the South East of England (the largest share), under 30 per cent of private renters were receiving benefits, and these account for just under nine per cent of the caseload in England. This is because high-rent areas such as Kensington, Westminster, Camden and Richmond have a low proportion of benefit claimants. In these areas, the benefit shortfalls that arise either from the LHA cap or the benefit cap make renting unsustainable for out-of-work claimants. Conversely, benefit claimants in London are concentrated in the most affordable areas: Enfield, Barking and Dagenham, Brent and Haringey (in descending order) where at least 63 per cent of renters are on UC/HB.

Outside London, the most heavily benefit-dominated markets also follow a pattern – one that has often been commented on. The council with the highest concentration of benefit claimants is Blackpool, where a massive 81 per cent of private renters receive benefits. Other such councils are in depressed housing markets in northern England or in coastal areas: Tendring and Castle Point (both in Essex), Thanet, Torbay, Hastings and North East Lincolnshire (Grimsby), where 60 per cent of private renters are receiving benefits. Other low-demand markets in the north where at least 55 per cent of renters are receiving benefits include Barrow, Burnley and Hyndburn (Lancashire), Rochdale and Oldham. In the North

East, there are two clusters of councils where over 50 per cent of renters are receiving benefits. One is in Teesside (Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton) with 70 and 63 per cent of renters receiving benefits in Hartlepool and Middlesbrough respectively. The other is in Durham (Sunderland, South Tyneside and county Durham) where some 53-58 per cent of renters are receiving benefits.

What can we make of this all? The most obvious and unsurprising finding is that private renters on benefit tend to be concentrated in the most affordable areas. But this does not mean that they are less likely to face a shortfall. In fact, as the DWP data show, if anything claimants in these lower-rent markets in the North of England are more likely to face a shortfall than their counterparts in southern England. The Census data seem to support the hypothesis that this is because the number of renters on benefit often far exceeds the supply of such homes within the LHA rate. It seems likely that these distortions are heightened for less common property sizes (shared, or four-bedroom dwellings) and may be dampened a little for the more commonly sized dwellings.

Overall, it seems that benefit claimants tend to end up in the cheapest markets through a lack of purchasing power, or because they live in areas of economic decline, or both.

With respect to debates about the policy of recurring cycles of LHA freezes and often short-lived 'thaws', government often justifies each new freeze on the grounds that, given that benefit claimants constitute around a third of the market, holding down the LHA rate will 'help keep rents from rising further'.¹ However, the freeze may well have a limited effect on rents where the proportion of tenants receiving LHA exceeds the numbers of properties available within the LHA limit. Areas where 40 per cent or more of tenants receive LHA account for more than 60 per cent of the total benefit caseload. In these circumstances, tenants who are able to do so may be willing to prioritise expenditure on housing over other necessities, at least to an extent. The longer a freeze continues the proportion of the market that LHA covers will steadily shrink, meaning its influence over the market at the margin seems likely also to diminish.

Assuming then that the LHA has little or no impact on rent levels in benefit-dominated markets, do the data indicate that it might exert a downward pressure where there are more properties available under the cap than there are tenants who receive LHA, i.e. areas where supply and demand are in better balance? The remaining 40 per cent of the caseload where benefit claimants and the numbers of affordable homes are more closely matched is spread over 203 council areas. But 62 per cent of these are in the South and East of England, where rents are high and so is demand. Even in these areas it is possible that some claimants will be unable to find accommodation at rents under the cap, due to competition from households in moderately paid work who do not claim or are not entitled to UC, and they face the unpalatable trade-offs in household expenditure.

Rental markets are complex – as is the whole housing market – with a myriad of sub-markets. With more than £10 billion spent annually on supporting private tenants in England, LHA clearly plays an influential role in the private rented sector. However, when the support it provides is cut back or frozen, it is plainly naïve to assume that tenants will simply be able to compensate for the cuts by seeking rent reductions or cheaper properties.

Scotland's rent cap

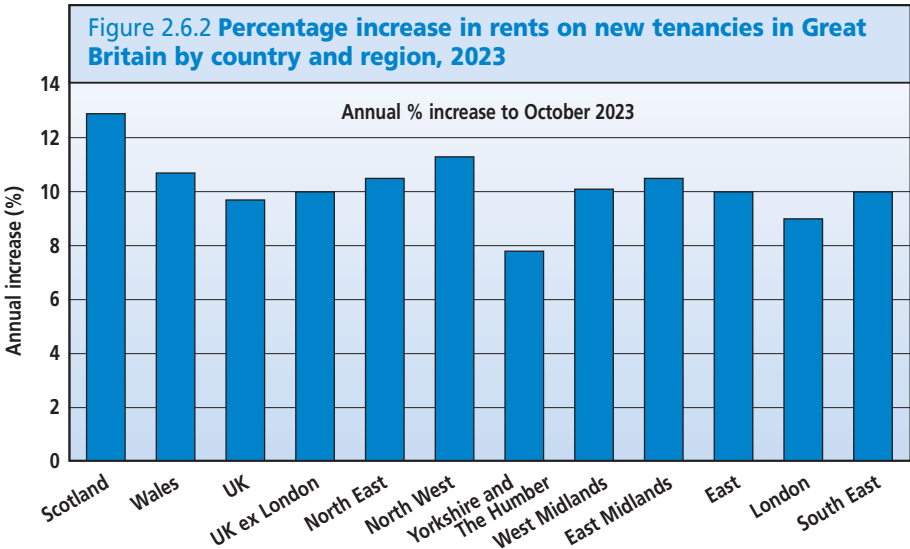
The Scottish Government responded to the cost-of-living crisis by introducing a rent freeze, followed by a rent cap. It has now announced proposals for transitioning away from the cap, whilst it is developing proposals for a national system of rent controls.

In September 2022, the Cost of Living (Tenant Protection) (Scotland) Act introduced a rent freeze for existing tenancies until the following April, along with a moratorium on enforcing most evictions. Initially this applied to both private and social tenancies. It was replaced by agreements with social landlords for below-inflation increases, and by a three per cent cap on private rent increases in April 2023 (with landlords permitted to apply for increases of up to six per cent based on allowable cost increases). The restriction applies only to the rents of existing tenants; it does not apply to new tenancies.

Student accommodation was also exempt. The Scottish Parliament approved a further and final extension of the rent cap until April 2024. The moratorium on enforcing most evictions has also been extended until the end of March 2024.

In the period since the cap was introduced, rents on new tenancies have been rising rapidly. The most recent figures from the Zoopla index (see Figure 2.6.2) suggest that rents have risen in Scotland by 12.7 per cent, more than in Wales (10.7 per cent) or any English region. Rent inflation in Scotland’s largest cities was also the highest in the UK, with rents in Edinburgh rising by 15.2 per cent and in Glasgow by 13.2 per cent. With rents rising in Aberdeen by nine per cent, Scottish cities make up three of the most inflationary ten UK cities (see Figure 2.6.3).

As the legislation stood, the end of the rent cap would have led to a reversion to the previous system of rent adjudication which uses the open market rent (determined by the Rent Registration Service or a Tribunal) to prevent excessive within-tenancy rent increases. However, the evidence of the scale of rent inflation on new tenancies, which of course fell outside the cap, has been supplemented with anecdotal examples of landlords seeking rent rises of 50 per cent or more.

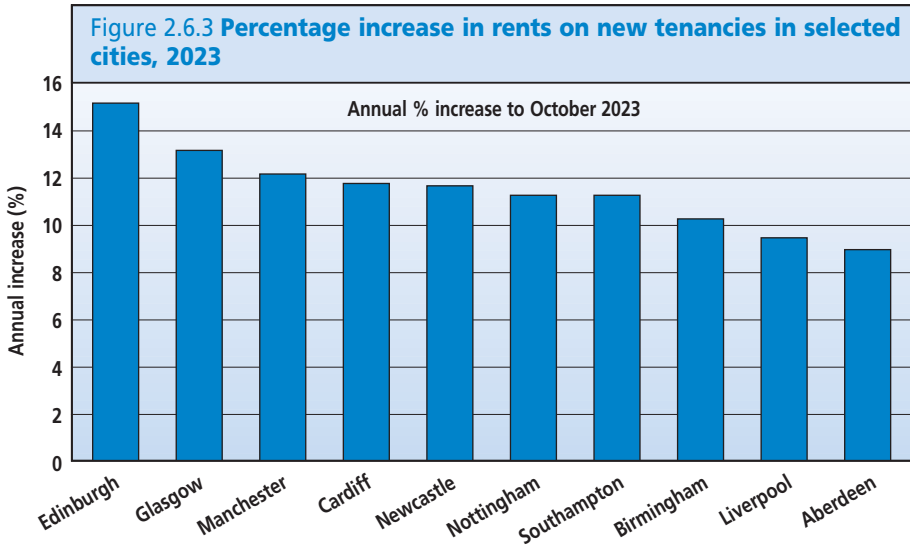


Source: Zoopla Rental Market Report, December 2023.

The Scottish Government is therefore introducing a transitional system for regulating rent increases for one year from 1st April 2024.

Under a formula announced in January, just nine days after the consultation closed, within-tenancy rents will be permitted to increase by the lower amount of the rent proposed by the landlord, the open market rent (OMR) or a ‘permitted rent’ based on a formula. The formula allows rent increases of up to six per cent, but then applies a taper of 0.33 per cent for each percentage point of the proposed rent increase over six per cent. The maximum increase allowed is 12 per cent.

Table 2.6.3 illustrates how the scheme is meant to operate. It shows a range of proposed rent increases from one per cent to 30 per cent. There are two illustrative open market rents (OMR A and OMR B) ceilings at the level of eight and 15 per cent above the starting rent. The table shows that where OMR A applies, the rent can be increased by up to six per cent and then increases are dampened until a maximum increase of 12 per is reached. Where the lower OMR B applies, the maximum increase cuts in at eight per cent, i.e. before the 12 per cent limit is reached.



Source: Zoopla Rental Market Report, December 2023.

Table 2.6.3 Scotland's transitional arrangements for ending the rent cap, April 2024-March 2025

Proposed rent increase (%)	A Permitted % increase where open market rent is 15% higher than current rent	A Scale of dampening (percentage point – see note)	B Permitted % increase where open market rent is 8% higher than current rent	B Scale of dampening (percentage point – see note)
1	1	0.0	1	0.0
2	2	0.0	2	0.0
3	3	0.0	3	0.0
4	4	0.0	4	0.0
5	5	0.0	5	0.0
6	6	0.0	6	0.0
7	6.3	0.7	6.3	0.7
8	6.7	1.3	6.7	1.3
9	7.0	2.0	7.0	2.0
10	7.3	2.7	7.3	2.7
11	7.7	3.3	7.7	3.3
12	8.0	4.0	8.0	4.0
13	8.3	4.7	8.0	5.0
14	8.7	5.3	8.0	6.0
15	9.0	6.0	8.0	7.0
16	9.3	6.7	8.0	8.0
17	9.7	7.3	8.0	9.0
18	10.0	8.0	8.0	10.0
19	10.3	8.7	8.0	11.0
20	10.7	9.3	8.0	12.0
21	11.0	10.0	8.0	13.0
22	11.3	10.7	8.0	14.0
23	11.7	11.3	8.0	15.0
24	12.0	12.0	8.0	16.0
25	12.0	13.0	8.0	17.0
26	12.0	14.0	8.0	18.0
27	12.0	15.0	8.0	19.0
28	12.0	16.0	8.0	20.0
29	12.0	17.0	8.0	21.0
30	12.0	18.0	8.0	22.0

Source: Author calculations.

Note: 'Scale of dampening' is the percentage point difference between proposed and permitted rent increase. For further explanation, see text.

The transitional scheme has been criticised by both property and tenant interest groups. David Alexander, chief executive of the lettings agency D J Alexander described it as 'an overly complicated and laborious action' whilst Aditi Jeehangir, secretary of Living Rent (a tenants' union), described the formula as being 'incomprehensible' and the scheme 'unworkable'.² Jeehangir also pointed out that the scheme places the onus on the tenant to take the landlord to the Rent Service or a Tribunal, implying that the 'take up' of the protection might be limited. However, the Scottish Government could not introduce another across-the-board cap, as the power to do so expires at the end of March.

Controversy about Scotland's controls over rents

The rent cap has been very controversial, as is indicated by the Scottish Association of Landlords' unsuccessful attempt to challenge the rent cap legislation in the Court of Session on the basis that it contravened the European Convention of Human Rights.

Landlord interests have suggested that the rent has led to landlords exiting the market, so placing upward pressure on rents. Zoopla claimed that the high level of rent inflation in Scotland is 'clear evidence of how rent controls can be counter-productive and distort markets'.³

However, Zoopla's own analysis points to strong upward pressures on rents across the UK, attributable to the ending of the pandemic restrictions, a buoyant labour market and high levels of immigration, including overseas students who had been absent during the pandemic. It further points out that high interest rates have slowed entry into owner-occupation by would-be first-time buyers, who remain in the private rented sector for longer, so diminishing the supply of new lettings. It is therefore difficult to assert with any certainty that the additional levels of rent inflation in Scotland are attributable to the cap. It could be that one or more of the commonly experienced pressures (e.g. the numbers of overseas students) is being felt more acutely in Scottish cities.

Has the rent cap led to the shrinking of the private rented sector? In its reasoning for extending the rent cap until April 2024, the Scottish Government argued that

‘there is no strong empirical evidence to substantiate anecdotal claims... that landlords are leaving the sector’.⁴ It pointed to the levels of landlord registration remaining steady as being the ‘most up-to-date measure of the overall supply of privately rented properties’. However, registration lasts for three years so landlords who exit from the sector might just allow their registration to lapse rather than actively deregister.

It is difficult not to be persuaded by the accumulation of partial evidence that suggests that the sector is shrinking. A Propertymark survey of letting agents⁵ identified a large majority reporting an increase in landlords intending to sell because of the cap being extended. Landlords are generally prevented from evicting tenants, and the vast majority of agents report an increase in landlords selling when tenancies naturally end. Rightmove reported a 20 per cent fall in lettings in Scotland between June 2021 and December 2022, whilst Hampton’s (the estate agents) said that landlords made up 14 per cent of sellers in 2023 (up to April), compared to ten per cent in 2022.⁶ Savills suggest that Scotland is the only part of the UK where landlord sales have risen in 2023, whilst the Scottish Association of Landlords was reported as finding that 56 per cent of its members were planning to cut their portfolios.⁷ A report by SOLACE (which represents senior local government officials) asserted that the sector ‘is shrinking’ and that the cap ‘has not achieved what it set out to do’ – rather it has discouraged investment.⁸ A Savills representative also claimed that institutional investors were switching from Build to Rent to student accommodation (which was exempted from the rent cap from April 2023).⁹

A national system of rent controls

Whilst new tenancies, including newly built properties, have not been subjected to the cap, the Scottish Government’s emerging proposals in support of its commitment to introducing a ‘national system of rent controls’ is creating uncertainty in that market.

Legislation has been anticipated for some time. That is has not yet been published is indicative of the complex nature of rent regulation and the risks of unforeseen consequences that have been demonstrated by the experience of rent caps.

The SOLACE report argued that proposals should be postponed ‘until such time as we have better data and more clarity about the role of the PRS’. However, with four Scottish councils, including Glasgow and Edinburgh, having declared ‘housing emergencies’ it seems unlikely that the Scottish Government will back away from this policy. Indeed, we understand that a paper outlining the Scottish Government’s emerging proposals was circulated to local authorities in December.

Notes and references

- 1 For example, welfare minister Lord Freud’s speech to the National Landlords Association, 31 October 2012 (<https://hbinfo.org/news/lord-freud-minister-welfare-reform-speech-national-landlords-association>).
- 2 Kendix, M. (2024a) “SNP’s rent cap for tenants ‘unworkable’ and ‘dimly thought out’,” in *The Times*, 25 January (www.thetimes.co.uk/article/snps-rent-cap-for-tenants-unworkable-and-dimly-thought-out-dwcm7h8hb).
- 3 Zoopla (2023) Rental Market Report, December.
- 4 Scottish Government (2023) *Second proposed extension of the Cost of Living (Tenant Protection) (Scotland) Act 2022. Statement of Reasons*. Edinburgh: Scottish Government.
- 5 Propertymark (2023) *The Cost of Living (Tenant Protection) (Scotland): Letting Agent Insight* (www.propertymark.co.uk/resource/cost-of-living-tenant-protection-scotland-letting-agent-insight-april-2023.html).
- 6 Jack, M. (2023) ‘Why landlords are quitting the Scottish rental market’, in *The Times*, 7 April (www.thetimes.co.uk/article/why-landlords-are-quitting-the-scottish-rental-market-8h77vd33b).
- 7 Kendix, M. (2024b) ‘Edinburgh developers switch to student housing after SNP rent cap’, in *The Times*, 19 January (www.thetimes.co.uk/article/snp-rent-controls-edinburgh-student-housing-accommodation-loopholes-m5772hb3n).
- 8 SOLACE (2023) *Housing in Scotland: Current Context and Preparing for the Future*. Blog article (<https://solace.org.uk/housing-in-scotland/>).
- 9 Kendix, M. (2024b) *op.cit.*