

Wales' housing crisis: the role of LHA

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September 2021



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Acknowledgements

This document forms part of a broader project of work developed in collaboration between the Bevan Foundation and the Lloyds Bank Foundation. The Bevan Foundation would like to thank the Lloyds Bank Foundation for their ongoing support.



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Registered charity no. 1104191 Company registered in Wales no. 4175018

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Summary

Everyone has a right to have access to a warm and secure home. However, over 30,000 households sought assistance from local authority homeless services in 2019/20 alone, whilst thousands more are trapped in unsuitable or insecure housing. There are many reasons why the housing system fails so many people in Wales, with a key factor being the weaknesses of the social security system. This report focuses on one of these weaknesses – the design of Local Housing Allowance (LHA).

Local Housing Allowance is used to calculate the maximum amount people renting from a private landlord can claim in Housing Benefit or Universal Credit. The maximum rent is based on where someone lives, the number of bedrooms they are deemed to need, and the rent paid. It is designed to allow a tenant to rent in the cheapest 30 per cent of properties in a defined area.

Our research has found that the LHA rate only covers the full, advertised rent of 4.8 per cent of properties on the market. On average, there is a gap of £133.53 a month between the LHA rate and the 30th percentile of advertised rents for shared accommodation. The gap is even larger for bigger properties, with a gap of £308.71 for four-bedroom homes. The size of the shortfall pushes some households into financial hardship, leads others to rent inadequate housing and excludes some from accessing housing completely, contributing to homelessness and housing insecurity.

The problem is exacerbated by the actions of some landlords. Some landlords require tenants to have multiple references, raise large deposits or meet minimum income requirements. These requirements effectively prevent people in receipt of Housing Benefit or the housing element of Universal Credit from renting the property. When accommodation with additional requirements is excluded, only 2.7 per cent of homes that were advertised on the market this summer had rents below LHA and were available to claimants. Our estimates are based on requirements that were listed in property adverts – there could well have been requirements that were not specified in the advert, reducing availability even further.

There are numerous locations in Wales where there was no housing available on the market for people in receipt of Housing Benefit or the housing element of Universal Credit for which rents were covered in full by LHA.

There are concerns that the situation could deteriorate over the coming months. The UK Government's decision to freeze the LHA rate at 2020/21 levels is likely to contribute to a greater gap between rents and the LHA maximum. This report identifies some interim solutions to the looming crisis. We will continue our work in this area over the autumn to develop more robust and long-term solutions. It is vital that both the UK and Welsh Governments also plan to take action.

1. Introduction

In recent years housing insecurity has become a more prominent problem in Wales. Between 2015 and 2020 there was a 40 per cent increase in the number of people presenting themselves to homeless services.¹ Over the same period, the number of people rough-sleeping more than doubled.² This does not represent the full extent of housing insecurity in Wales since other forms of housing insecurity, such as the number of people who are issued with eviction notices, who are forced to 'sofa surf' or who fall behind on their rent in the private rental sector (PRS), is not recorded.

While there are many reasons for the increase in housing insecurity, one factor is the reforms made to the social security system. These reforms have been numerous, ranging from freezing the value of social security payments to the introduction of the five-week wait for Universal Credit. One key reform has been the changes made to the Local Housing Allowance (LHA).

The LHA determines the maximum contribution of the social security system to the rental costs of low-income households living in the PRS. The amount varies depending on the area in which a property is situated, while the amount a household receives varies depending on its composition and income. Successive reforms to the LHA have reduced the value of LHA in real terms. This along with other weaknesses within the LHA system has led to a widening gap between LHA rates and rents charged by landlords. The gap between LHA and rents is widely recognised to strain household budgets, push people into rent arrears, prevent people from finding accommodation and trap people in a cycle of insecure housing and even homelessness.

The impact of the reforms to LHA in Wales is exacerbated by the housing system itself. A shortage of shared accommodation, for example, means that there simply are not enough homes available on the market for single people aged under 35 years who need help with their rent. High local rents mean that LHA rates are often lower than the rents charged by landlords, even where there is sufficient stock. And landlord practices such as requirements for deposits and affordability checks can prevent people who are in receipt of Housing Benefit or the housing element of Universal Credit from accessing the rental market even where the amount calculated by the LHA is enough to cover the rent in full.

Covid-19 has heightened these challenges. The loss of many informal support networks such as friends prepared to let people 'sofa surf' has seen homelessness services come under greater strain despite the existence of temporary protections such as the ban on evictions and the increase in LHA rates. With many of these temporary protections either already lifted or due to be lifted shortly and with a buoyant housing market, there are concerns that the situation may deteriorate in the near future.

This report explores the levels of LHA and the advertised rents of properties in Wales, as part of a larger project on the relationship between LHA and homelessness. While there has been some research on the impacts of welfare reform on people in Wales, there is very little specifically on the changes to the LHA. This report starts with by setting out the timeline of reforms to LHA and summarises how the LHA works and how it is calculated. It then explains the methodology we have used to capture data on advertised rents, before going on to highlight our findings on the relationship between LHA and advertised rents. We then consider some of the other requirements set by landlords that may prevent people from renting and finally consider issues of housing quality and security.

2. Understanding LHA

This section will set out in greater detail what is LHA, how the rates are calculated, and the additional support that is provided for renters. More detailed information on how the LHA is calculated can be found in the Rent Officers (Housing Benefit Functions) Order 1997.³

2.1 An overview of LHA

The LHA is the mechanism used to calculate the amount of Housing Benefit or housing element of Universal Credit that someone renting in the PRS is entitled to.

LHA rates depend on two key factors. First, they depend on a property's characteristics, including the number of bedrooms and where it is located. An LHA is set at the 30th percentile of rents for different types of accommodation in a given area (called Broad Rental Market Areas). Annex 1 includes the 2020/21 LHA rates for shared accommodation, 1-bedroom, 2-bedroom, 3-bedroom, and four-bedroom properties for each BRMA. The variation in local rents can be seen, with the lowest shared accommodation rate being in Brecon and Radnor at £52.50 a week while the highest is in Newport and Monmouthshire at £75.95 a week.

Second LHA rates depend on a household's characteristics. The age of the claimant and the number of people they live with, including the number, age and gender of any dependents, sets the maximum number of bedrooms to which they are entitled, which in turn determines their LHA rate.⁴ As an indication, a single adult aged under 35 years old and with no dependents living with them is only eligible to claim the shared accommodation rate unless they satisfy grounds for exemption.⁵

The LHA is part of the set of benefits that are subject to the benefit cap, which limits the amount of social security benefits that a household can receive. A household subject to the benefit cap may therefore receive less than the LHA rate if their total benefit entitlement exceeds the cap.

As social security is not devolved to the Welsh Parliament, the LHA rates, the designation of BRMAs, and other factors relating to the LHA are reserved to the UK Government and are the responsibility of the Department of Work and Pensions.

2.2 Broad Rental Market Areas

Rents vary considerably across Wales, so to reflect this different rates are set for areas with broadly similar market conditions, called Broad Rental Market Areas (BRMAs). Wales has 23 Broad Rental Market Areas, which are set by the Department of Work and Pensions. When determining the boundaries, the DWP must ensure residential properties within an area have adequate access to:⁶

- health care
- education
- recreation
- banking
- shopping

The DWP must consider access to these amenities, ensuring that a BRMA offers reasonable access to them by both public and private transport. There is a legislative

requirement to consider both the distance of travel and the time taken to travel. If journeys take an unreasonable length of time, it is likely that an area is too large.

Roughly half of the BRMAs share the same borders as their respective local authorities. Larger and more rural areas, or areas with geographical features that prevent easy travel, are often split into multiple BRMAs. In total there are eleven BRMAs that either cover multiple local authority areas or only cover a part of a local authority area (see Annex 2 for details). One BRMA, the West Cheshire BRMA, straddles the England and Wales border.

2.3 Calculating the LHA

LHA rates are calculated by Rent Officers, a group of Welsh Government staff who work to DWP guidance on LHA matters. To calculate the LHA rate for each BRMA in Wales, Rent Officers must first collect data on the actual rent for one-bedroom, two-bedroom, three-bedroom, four-bedroom properties and for shared accommodation in each area. There is a requirement for the Rent Officers to collect data on 20 per cent of all PRS dwellings of each accommodation type within a BRMA to constitute an adequate sample size. In the case that they fail to locate enough dwellings, they are allowed to use data from similar areas within other BRMAs and include it in their sample.

Rent officers are also allowed to exclude some properties from their sample. The Rent Officers (Housing Benefit Functions) Order 1997 states that "*the rent officer shall determine whether... the rent payable... is significantly higher than the rent which the landlord might have been expected to obtain.*"⁷ This rent is then excluded from the overall dataset.

There are further restrictions on the types of accommodation that may be included in a sample. If a property has someone residing in it who is already in receipt of Housing Benefit or housing element of Universal Credit, the property will be excluded from the data set. Rent is also modified if the rent officer deems that part of the rent is "*attributable to the provision of services.*"⁸

Using the data from the sample, rent officers then calculate the rent at the 30th percentile using a formula.⁹ This then normally sets the maximum level of Housing Benefit or housing element of Universal Credit that a household is entitled to receive, unless rates have been frozen by the UK Government.

2.4 Timeline of the LHA

The LHA was first introduced in 2008 as a reform to the way in which Housing Benefit entitlement was calculated for someone living in the PRS. When it was rolled out, it was set at the median rent for an area.¹⁰

Numerous reforms were introduced in 2011 that reduced the value of LHA and changed eligibility. Most notable among these changes was the reduction of the LHA to the 30th percentile of rents in a BRMA, rather than at the median. In addition, there were caps on LHA depending on the size of a property, with the five-bedroom rate being scrapped. The age below which people were expected to share accommodation was raised from 25 to 35 and the number of bedrooms to which a household is entitled was specified. In addition, increases to LHA were in line with the Consumer Price Index, rather than following the 30th percentile of rents.¹¹

A further decline in the support provided was introduced in 2016, when it was announced that the LHA would be frozen for four years. It was also planned that 30 per cent of the

money saved would be used for Targeted Affordability Funding to support areas where higher rent increases resulted in a larger gap between the market and the money provided by the LHA.¹²

This decision to freeze the LHA was made despite the rising costs of private rentals and concerns that LHA rates would become increasingly divorced from actual rent levels. There were worries that this would lead to a gap between the value of LHA and actual rent levels, making it harder for tenants to access private rented housing. This in turn was expected to result in an increase in homelessness.¹³

In 2020, the level of LHA was restored to the 30th percentile of rents in that year¹⁴, enabling it to recover from the CPI cap and subsequent freeze. However, in late 2020 it was announced that the LHA rate would not be updated for 2021/22, in effect freezing its value once again.¹⁵

The reforms to LHA were only one part of a broader programme of reforms of the social security system. Among the most important other reforms that took place over this period was the introduction of Universal Credit and the subsequent freeze on the value of Universal Credit payments. The introduction of Universal Credit also brought with it a five-week-wait for a first payment. Other changes included the introduction of the benefit cap and the two-child limit on Universal Credit claims, which have particularly affected larger families. All these reforms combined have affected households' ability to afford a good quality home in the PRS.¹⁶

2.5 Discretionary Housing Payments

Discretionary Housing Payments (DHPs) serve as an additional payment for people in the PRS. The payment can be used to cover a rent shortfall, to fund a deposit on a rental property and, in some circumstances, to cover rent arrears. It is designed primarily to act as a form of short-term relief and can only be accessed by those receiving Housing Benefit or the housing element of Universal Credit.¹⁷

While funding and the general uses of DHPs are set by the UK government, DHPs are awarded by local authorities which means that there can be local variation.¹⁸ Although the fund is not devolved, the Welsh Government can provide a top up fund to local authorities,¹⁹ which can spend up to two and a half times their allocated budget on DHPs.²⁰

In 2015 the Senedd Public Accounts Committee heard that DHPs are often inflexible, unsustainable, and the quality of its administration varies between local authorities.²¹ Additionally, there are questions regarding how DHP funding is allocated to local authorities. The formula that the DWP uses to allocate funding means that local authorities that spend more on Housing Benefit receive larger allocations than others.²²

There are some inconsistencies and weaknesses in the administration of DHP payments, with the majority of local authorities not having a clear DHP policy or guide available to the public.²³ The consequence is that each local authority has a different approach to administering and determining the outcome of applications.²⁴ The weaknesses of the DHP system compounds the difficulties faced by households who struggle to access a good quality housing as a result of the LHA system.

3. Methodology

The findings in this briefing are based on the initial results of both qualitative and quantitative research undertaken between March and August 2021. This briefing is primarily based on two sources of data.

The first source is interviews with officers at eight Welsh local authorities. Interviews were conducted with officials working within the homelessness and housing departments in Cardiff, Rhondda Cynon Taf, Flintshire, Gwynedd, Pembrokeshire, Merthyr Tydfil, Conwy, and Torfaen local authorities. The interviews were semi-structured and undertaken to understand both a set of common themes across multiple local authorities, and to identify whether there were any authorities facing unique, local pressures.

The second source was advertised rents of available private rental properties between May and July 2021. Data was gathered about a total of 3,715 accommodation units in Cardiff, Swansea, Rhondda Cynon Taf, Flintshire, Denbighshire, Conwy, Gwynedd, Pembrokeshire, Merthyr Tydfil and Torfaen. These areas were selected to be a cross-section of rural, urban, coastal and valley areas within Wales. For the purpose of this report, we will be presenting data at a local authority level, rather than for each BRMA, because BMRAs are not a geographic entity used in other policy areas. Looking at the local authority level therefore makes it easier to discuss solutions more holistically.

In local authority areas where there was more than one BRMA we have taken the mid-point between the differing LHA rates and used this to calculate the gap. Whether the data is analysed at local authority or BRMA area makes little difference to the final set of results produced. Our analysis of the data at BRMA level is available on request.

We collected data on the rent being asked in property advertisements as well as any other landlord requirements such as references and deposits, and any indicators of the quality of accommodation. Data was collected primarily from Rightmove.com and Spareroom.com, with some data also collected from informal sources like Facebook and Gumtree. The data we have obtained is the advertised rent asked for a property; the final agreed-upon rent may differ. This is an important distinction as LHA levels are set based on agreed rents rather than advertised rents.

We aimed to collect enough data to distinguish between the formal market, being properties advertised by landlords or letting agents on property websites, and the informal market, where properties were advertised on, for example, Facebook and Gumtree.

While we were able to find some adverts from the informal market, we were unable to collect sufficient data to effectively analyse it as a separate entity. Further, we are also unable to include properties let via word of mouth, despite the likely size of this market. As such, our data largely reflects formal market trends. In addition, we were unable to collect data on rental properties that are already being let out. As such, the analysis below represents the situation faced by someone if they were to search for accommodation during May and August 2021.

Of the initial 3,715 advertised properties, roughly a quarter was student accommodation. These properties were predominately in Gwynedd, Cardiff, Swansea, and Rhondda Cynon Taf. Subsequent analysis excludes student accommodation as it is not typically available to the general public and is not included in the LHA calculations. We therefore analysed data on a total of 2,853 properties.

4. Issues with the LHA

The numerous reforms made to the LHA have resulted in the support provided by the social security system towards housing costs in the PRS becoming increasingly inadequate.

There is now an established body of evidence that demonstrates that a gap has developed between the LHA rate and rental prices at the 30th percentile. For example, a 2021 report found that in 2019/20 the gap between LHA rates and rental prices at the 30th percentile stood at £6.94 per week in 2019/2020, up from £2.04 per week in 2016/17.²⁵ This shortfall has put households under greater financial pressure and is an important driver of housing insecurity and homelessness in Wales.²⁶

This section will set out the extent of the gap that has developed between the LHA rate and homes that were available on the rental market in ten local authorities over the summer of 2021. There are two main reasons for doing so. First, there is limited evidence about the gap between rents and LHA in Wales, and second, in 2020/21 the LHA was restored to the 30th percentile of the market. The existence of a large gap between the LHA rate and the 30th percentile of advertised rents so shortly after the LHA rate was reset suggests that the LHA freeze alone is not the only driver of the shortfall between the LHA and advertised rents.

4.1 The LHA gap

The difference between LHA and actual rents is well-known.²⁷ Previous studies demonstrated that people in receipt of Housing Benefit or the housing element of Universal Credit are only able to cover the cost of housing of 13 per cent of the market across the UK, with numerous areas lacking any housing where the rent is fully covered.²⁸ Research undertaken in Bristol showed an even more challenging picture, with only two per cent of properties being within the amount provided by Housing Benefit or the housing element of Universal Credit.²⁹

We have divided our analysis into three to reflect the different market pressures felt by different household types:

- shared accommodation;
- one-bedroom accommodation;
- two-, three- and four-bedroom accommodation.

In undertaking this analysis, we have explored the number and type of properties advertised for rent, the number of those properties where the rent is fully covered by Housing Benefit or the housing element of Universal Credit, the 30th percentile of advertised rents at the time we undertook our analysis, and the gap between the LHA and this 30th percentile.

Shared accommodation

Table 1 sets out findings in respect of shared accommodation. It shows that there is a large gap between LHA and the rent of the 30th percentile of advertised properties. The shortfall was more than £50 a month in all local authority areas bar two (Flintshire and Gwynedd) at the time of our research. Even in Flintshire, where the gap between the LHA and the 30th percentile of advertised market rents is lowest, a tenant would face a shortfall

of £120 per year. The largest gap was in Denbighshire, where a tenant would be short by £1,970.40 each year.

Table 1 – Data breakdown for shared accommodation

Local Authority	Number of properties advertised	Number of properties that are within the LHA allowance	LHA Rate (£)	30 th Percentile (£)	Gap between LHA and 30 th Percentile (£)
Cardiff	758	39	284.44	405	120.56
Conwy	42	3	235.80	380	144.20
Denbighshire	54	0	263.58*	400	164.20
Flintshire	84	25	350	360	10
Gwynedd	140	36	300	345	45
Merthyr Tydfil	22	0	216	360	144
Pembrokeshire	77	0	240	400	160
Rhondda Cynon Taf	113	4	216	300	84
Swansea	142	2	250	370	120
Torfaen	15	2	216	350	134
Total	1,447	111	256.47**	370	133.53
* In Local Authority in which there are multiple LHA rates, we used the mid-point between the rates					
** Based on average across 10 Local Authorities					

Over half of the properties we surveyed were in Cardiff, reflecting the city's larger rental market. Other than this, there do not seem to be any discernible pattern in the difference between local authorities. For example, Rhondda Cynon Taf has a smaller gap between LHA and advertised rents than Torfaen and Merthyr Tydfil, despite sharing similar characteristics. Similarly, the LHA rate in Flintshire is closer to advertised rents than in Denbighshire, despite the fact they border each other and share the North Clwyd BRMA in areas.

The lack of any wider trends illustrates that markets are sensitive to local factors. For example, our conversation with Torfaen Council revealed that they are seeing increased demand for properties due to the opening of the Grange hospital, and an influx of people from Bristol as a result of the M4 tolls being removed.

There are three local authority areas (Denbighshire, Merthyr Tydfil and Pembrokeshire), where there is no shared accommodation available where advertised rents are at or below LHA rates. Even in Flintshire, the local authority that had highest proportion of accommodation within the LHA rate, fewer than 30 per cent of tenants would have their rents covered in full.

Of the 111 shared accommodation units included in our analysis, 105 were found on Spareroom.com. Spareroom tends to feature adverts for lodgings made available on a bare license, meaning that they offer fewer legal protections than tenancies. We heard from local authority officers that this means that often they cannot discharge someone from homelessness into such accommodation whilst the properties are less attractive for prospective tenants who have not come through the homelessness system.

One-Bedroom properties

The picture for one-bedroom homes is similar to the picture for shared accommodation. The gap between LHA and advertised rents across 10 local authorities is relatively large, and someone claiming Housing Benefit or the housing element of Universal Credit can expect to experience a shortfall of on average £1,926.12 per year. However, half of the areas surveyed appear to experience smaller LHA gaps for one-bedroom homes than in shared accommodation.

Table 2 – Data breakdown for one-bedroom accommodation

Local Authority	Number of properties advertised	Number of properties that are within the LHA allowance	LHA Rate (£)	30th Percentile (£)	Gap between LHA and 30th Percentile (£)
Cardiff	276	15	483.28	650	166.72
Conwy	10	0	320	445	125
Denbighshire	10	1	344.10*	450	164.20
Flintshire	24	1	368.20	475	106.80
Gwynedd	29	0	317.29*	550	227.80
Merthyr Tydfil	6	0	308.40	430	121.60
Pembrokeshire	9	0	313	400	87
Rhondda Cynon Taf	12	4	304.20*	375	70.80
Swansea	29	0	414.24	595	180.76
Torfaen	4	0	349.24	450	100.76
Total	408	20	439.49**	600	160.51

* In Local Authority in which there are multiple LHA rates, we used the mid-point between the rates
 ** Based on average across 10 Local Authorities

There appears to be a small positive correlation between local authorities where the LHA – advertised rent gap is smaller for one-bedroom properties than for shared accommodation, and the number of shared accommodation homes advertised. Areas like Torfaen, Merthyr Tydfil, and Denbighshire, all of which had a limited number of shared accommodation homes on the market over the summer, see a smaller LHA-rent gap for one-bedroom properties than for shared accommodation. A possible explanation for this is that the lack of supply of shared-accommodation properties is pushing up rents.

Pembrokeshire and Rhondda Cynon Taf were the only areas with an LHA-rent gap below £100 a week. Rhondda Cynon Taf also had the highest proportion of available one-bedroom housing. Even so, across the ten local authorities we surveyed, the LHA rate only fully covered the cost of rent of 5 per cent of one-bedrooms accommodation, far below the 30th percentile. Six out of the ten areas we surveyed (Conwy, Gwynedd, Merthyr Tydfil, Pembrokeshire, Swansea and Torfaen) had no one-bedroom accommodation that was fully covered by Housing Benefit or the housing element of Universal Credit.

Two-, three-, and four-bedroom accommodation

Table 3 collates the data for two-, three-, and four-bedroom accommodation in one table.

Table 3 – Data breakdown for two-, three- and four-bedroom accommodation					
Local Authority	Number of properties advertised	Number of properties found below 30th percentile	LHA gap two-bedroom (£)	LHA gap three-bedroom (£)	LHA Gap four-bedroom (£)
Cardiff	530	1	201.64	306.56	425.48
Conwy	22	0	169.32	250.68	432.60*
Denbighshire	28	0	194.32	195.68*	282.60*
Flintshire	81	1	93.68	197.28	363.56
Gwynedd	45	0	235.76	616.72	737.64*
Merthyr Tydfil	38	0	204.80	183.76	401.64*
Pembrokeshire	34	1	154.16	211.72	374.64*
Rhondda Cynon Taf	130	2	139.80	199.16	409.96
Swansea	71	0	239.32	266.72	535.36
Torfaen	28	0	101.56	266.72*	301.64*
Total	997	5	182.33**	198**	308.71**
* Low sample size ** Based on average across 10 Local Authorities					

The gap between LHA and advertised rents is larger still for two- and three-bedroom accommodation and increases further for four-bedroom properties. Even in areas with sufficiently large data samples, there is still a large gap between the LHA rate and the advertised rent in the 30th percentile of the market. The average gap across the ten local authorities for a four-bedroom home stands at 308.71 per month, which would equate to a tenant experiencing an annual shortfall of £3,704.12.

Amongst houses with two or more bedrooms, we were only able to locate five properties that the rent was advertised for below the 30th percentile. There is a significant lack of properties available at or below LHA rates for tenants who require a larger property.

It should also be noted that the data for four-bedroom homes is limited, reflecting a broader lack of four bedroom rental properties in Wales, an issue that was raised by local authorities during our research.

Conclusions

It is clear that LHA does not cover the advertised rents of the majority of accommodation available for rent in most local authorities we considered. There are two consequences of this.

First, there is an acute shortage of properties whose advertised rents are at or below the LHA rate. We identified just 136 properties on the market in 10 local authorities this summer where Housing Benefit or the housing element of Universal Credit would cover rents in full – just 4.8 per cent of advertised homes.

Second, the vast majority of properties are advertised with rents above the LHA rate. The gap between LHA and advertised rents increases sharply with property size, rising from an average gap of £133.53 a month for shared accommodation to a gap of £308.71 in four-bedroom homes. It should be noted that whilst the LHA-rent gap increases in cash terms with every additional bedroom, the gap is consistently around 32 per cent above LHA for all property types.

The properties whose rents were fully covered by Housing Benefit or the housing element of Universal Credit were found in Cardiff, Conwy, Denbighshire, Flintshire, Gwynedd, Pembrokeshire, Swansea, Torfaen, and Rhondda Cynon Taf. None were identified in Merthyr Tydfil.

5. Explaining the shortfall

It is clear that the LHA rate covers the advertised rent of a very small proportion of properties available in summer 2021. There appear to be three major factors behind this gap: the LHA freeze, and the way that LHA is calculated. Each of these issues are discussed below.

5.1 The LHA freeze

The decision to freeze LHA between 2016/17 and 2019/20 contributed significantly to the emergence of a gap between the LHA rate and landlord rents. Even before the freeze, the real terms value of the LHA was in steady decline as result of the UK Government's decision to raise it in line with CPI inflation rather than 30th percentile rents. The decision to freeze the LHA not only crystallised this existing shortfall but then prevented further uplifts as rents rose.³⁰ By 2020, Policy in Practice estimated that the LHA freeze had effectively led to it being equivalent to the 13th percentile of rents.³¹ Similarly, the Chartered Institute for Housing's 2019 'Frozen Out' report demonstrated that there are multiple areas within Wales where less than 10 per cent of the rented properties would be fully covered by Housing Benefit or the housing element of Universal Credit.

The UK Government's decision to reset LHA for 2020/21 at the contemporary 30th percentile should have eliminated the gap that had emerged over the previous five years. Its subsequent decision to re-freeze LHA for 2021/22 at the previous year's level risks opening up a gap between LHA and landlord rents once again.

Rent Officers' own data on 30th percentile rents confirms that the new freeze is already having an impact. After just one year, there are shortfalls of £5 a week or more between the LHA rate and 30th percentile rents for shared accommodation in Blaenau Gwent, Merthyr Cynon, North Powys, Pembrokeshire and Taff Rhondda. North West Wales, South Gwynedd, Pembrokeshire and Cardiff all have shortfalls across all or all bar one type of accommodation (full details can be found in Annex 1 and 3).³² Some of the gaps may reflect the impact of Covid-19 on the housing market although there is mixed evidence to support this.³³

It is, however, likely that there are other factors at play which have led to the re-emergence of the gap between LHA and the 30th percentile of advertised rents in Wales.

5.2 Calculation of LHA

One possible reason for the difference between the LHA rate and landlord rents is how the LHA rate is calculated. Several local authority officers raised concerns that there is a lack of clarity about how the LHA is set and how the BRMAs are established.

First, there are concerns about the data used in setting LHA. Data should be collected from 20 per cent of all PRS dwellings, but rent officers have no powers to compel landlords to disclose this information, meaning that they are only able to use data willingly provided by landlords.

Relying on voluntary data collection means that there can sometimes be insufficient information. In these cases, rent officers may use data from 'similar' areas in order to boost their sample. The limited amount of four-bedroom and shared accommodation in many areas means that the sample is often smaller than is reliable, and so data for these types of accommodation are more likely to be supplemented with data from other areas.

This practice adds a further element of unreliability to the determination of LHA – indeed it may skew the data and produce an LHA that is unrepresentative of an area.

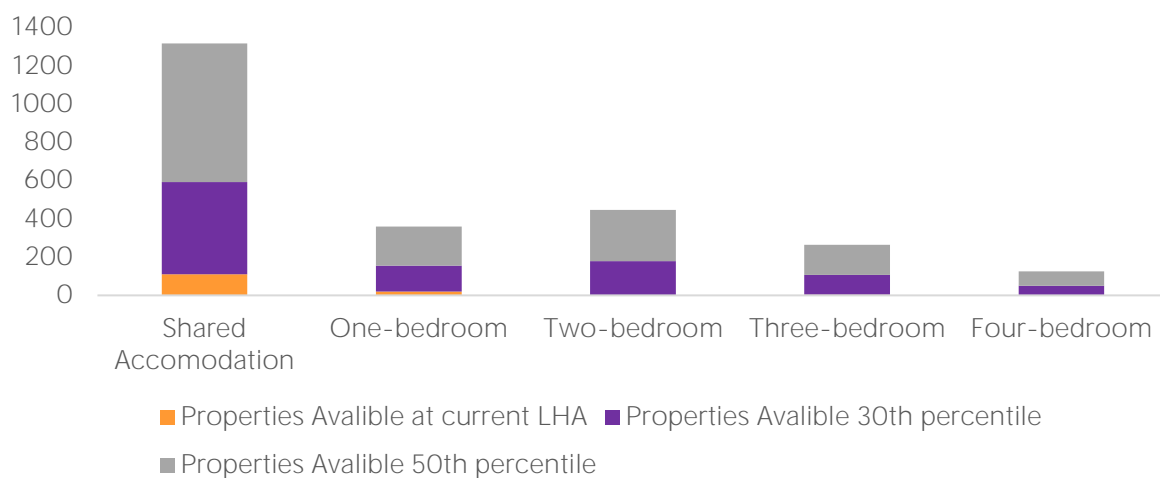
A second issue is that LHA rates are based on agreed rents rather than advertised rents. As such, LHA rates are a snapshot of all rents, some of which may have been agreed many years ago, rather than an up-to-date reflection of the asking rents of homes currently on the market. LHA is therefore inherently slow to respond to trends in the rental market, even if there were no freeze. This particularly affects people seeking a new tenancy. With a third of PRS tenants having lived in their current address for fewer than 12 months, this is a large number of tenants seeking a new property each year.³⁴

A third issue with the mechanism for setting LHA relates to the way that BRMAs are established. When BRMAs are established, access to local authority services is not considered as one of the factors to be taken into account. We heard from larger, rural local authorities that many of their services are based in one part of a local authority, rather than spread across their area. For example, Gwynedd contains two BRMAs: North West Wales and South Gwynedd. The North West Wales BRMA has a larger population and so more local authority services are concentrated there. However, properties in South Gwynedd BRMA are comparatively more affordable for someone claiming Housing Benefit or housing element of Universal Credit. As such, a tenant in South Gwynedd may have their rent covered in full but would have to travel long distances to access some local authority services.

5.3 Setting the LHA at the 30th percentile

Setting LHA at the 30th percentile by definition means that seven out of ten properties have rents in excess of Housing Benefit or the housing element of Universal Credit. This section explores the impact on the availability of rental properties in the ten local authority areas we considered of setting LHA at the 30th percentile of summer 2021 advertised rents and of increasing it to the median. It should be noted that these estimates do not take into account the potential impact of any change on landlord or tenant behaviour.

Graph 3: Number of properties available at different LHA levels



As can be observed from graph 3, raising the LHA rates to be in line with the 30th percentile of the advertised rents increases the number of properties with rents at or below this level from 136 to 949, a nearly 600 per cent increase. The increase is even greater if LHA rates were set at the median, with the number of properties available at or below LHA rates increasing to 1,422. The majority of the properties collected are shared accommodation, and the levels of other property types are far lower in comparison. This would indicate that even if the LHA was at a sufficient level, there still may be an issue with the overall stock of different houses.

6. Landlord requirements

Low-income households face challenges accessing accommodation in addition to the shortage of properties and the shortfall of LHA relative to rents. We heard from local authority officers that some private landlords had additional requirements that exclude low-income tenants, even if the rent is at or less than LHA.

6.1 Barriers to renting

Prior to July 2020, landlords were able to refuse to let a property to people in receipt of social security benefits, with the phrase “No DSS” – referring to the now superseded Department of Social Security – often appearing in letting adverts. A court case in July 2020 found that these practises were discriminatory, and the practice ought now to have ceased.

With landlords unable to specify “No DSS” in adverts they have developed a number of alternative requirements that in practice exclude low-income tenants. Amongst the techniques used are:

- excessive deposits or bonds;
- a requirement for multiple references;
- a requirement for at least one guarantor;
- the setting of minimum income requirements.

Of the adverts we surveyed, 62 per cent referred to the need for a deposit, with the average deposit being £269.86. Roughly a third of all the properties surveyed asked for deposits at the same value as one month’s rent, and 15 per cent specified deposits that were above one month’s rent.

In total, 33 per cent of adverts explicitly asked for references, a credit check or a guarantor, or a mixture of those three. Ten adverts additionally mentioned wider background checks, and 27 had a minimum income requirement. It should be noted that prospective tenants may face additional requirements that have not been made clear in the advert.

Additionally, 29 per cent of adverts specified that they only wanted to rent to “professionals,” while 22 adverts explicitly wrote “no DSS” or similar phrasing in their adverts despite the 2020 legal ruling.

Table 4 – Data breakdown for one-bedroom accommodation with no LHA gap

Local Authority	Houses with no LHA gap	Accommodation with barriers	Percentage available (%)
Cardiff	55	28	49
Conwy	3	0	100
Denbighshire	1	0	100
Flintshire	27	16	59
Gwynedd	36	13	36
Pembrokeshire	1	0	100
Rhondda Cynon Taf	10	0	100
Swansea	2	0	100
Torfaen	2	2	0
Wales	138	61	44
Merthyr Tydfil is not included due to no accommodation found			

Excluding 'standard' requirements for a deposit at the advertised rent or below and the need for a reference, a third of all advertised properties specified at least one requirement that would be likely to prevent someone in receipt of Housing Benefit or the housing element of Universal Credit from applying to rent it. This included nearly half (61) of the 138 properties where the advertised rent was at or below LHA rates.

The effect is to further reduce the number of properties available to a claimant. A mere 2.7 per cent of homes on the market between May and August 2021 had both their rent covered in full and had no requirements that likely to exclude low-income households. 94 per cent of homes at the 30th percentile or below were either too expensive to have their rents covered in full or had other limiting factors.

Of the homes that were available, 27 were located in Cardiff, 23 in Gwynedd, 11 in Flintshire, 10 in Rhondda Cynon Taf, three in Conwy, two in Swansea, one in Pembrokeshire, and one in Denbighshire.

We also recorded how many homes would allow tenants to have pets. Of the 2,236 properties we surveyed, 1,454 referred to pets in the adverts. Of these, just 15 per cent said they would allow or consider allowing pets, the rest stating that pets were not allowed. The majority of advertisements for properties that allowed pets were for two-, three- and four-bedroom homes, suggesting that they are targeted towards families. As properties that allow pets are in short supply, a household with a pet may struggle to find suitable accommodation if they need to move house. Only ten of the properties that allow pets had rents that were fully covered by Housing Benefit or the housing element of Universal Credit.

6.2 Landlords' attitudes

Conversations with local authority officers revealed several reasons as to why landlords set requirements that may exclude low-income renters.

Renters claiming benefits are often seen as a risk by landlords. There is already a body of research that has explored why this is the case. Many landlords who own a single property, for example, prefer to take "safe bets" when renting out their home and will

therefore avoid renting out to people in receipt of Housing Benefit or the housing element of Universal Credit, even if the tenant is working.³⁵ Increased demand for accommodation in the PRS has enabled landlords to “*pick and choose*” who they rent to.³⁶ Landlords were also wary of letting to claimants because of the five week wait for Universal Credit.³⁷

What this indicates is that even if the LHA rates were more closely aligned with advertised rents, a large proportion of homes in the PRS would not be accessible for prospective tenants due to landlords’ requirements. Greater willingness to let properties to tenants receiving Housing Benefit or the housing element of Universal Credit is required if the PRS is to be considered secure and accessible for benefit recipients. This is vital if the PRS is to play a meaningful role in Wales’ housing market, including providing accommodation for people who are homeless.

Some local authorities noted that at the beginning of the pandemic landlords became more willing to house people in receipt of Housing Benefit or the housing element of Universal Credit because of concerns about the incomes of people in work. Tenants in receipt of benefits were viewed as a “safer bet” during the pandemic because their income was guaranteed. This suggests that the crux of the issue for landlords is financial, with landlords being concerned that benefit claimants cannot reliably pay rent. A gap between LHA and actual rents is likely to increase landlords’ reluctance to let to benefit claimants even further.

Our interviews confirmed this point. Officials at Flintshire and Gwynedd, areas where our research suggests have a small gap between rents and LHA, reported far fewer issues with landlord willingness to let to claimants compared with local authorities where the gap is larger. In the latter, we heard that landlords would rather take the risk of having a vacant property than let to a claimant.

It was also brought to our attention that the terms and conditions of Buy to Let mortgages often include restrictions on lettings, including preventing landlords from renting to Housing Benefit or the housing element of Universal Credit claimants. A report from the NRLA noted that 36 per cent of landlords reported some clause in their mortgage that prevented them from renting to those claiming Universal Credit.³⁸

A further issue raised by local authorities was that landlords avoid tenants in receipt of Housing Benefit or the housing element of Universal Credit for fear that they would be used as a ‘social worker.’ The NRLA noted that 68 per cent of landlords were unwilling to let to someone who is homeless, and 57 per cent of landlords did not want a tenant who was claiming Universal Credit.³⁹

We were also told that some landlords are leaving the market. We were heard that numerous landlords hold negative attitudes towards Rent Smart Wales, environmental retrofitting, and the Renting Homes (Wales) Act. 51 per cent of landlords in the UK said that legislative restrictions were a reason for them not wishing to let to people claiming Universal Credit.⁴⁰

While there are some financial incentives employed by local authorities to encourage landlords to let to benefit claimants, research from the NRLA demonstrates that purely financial incentives, such as paying bonds, paying for repairs, or guaranteeing rent are

largely ineffective in persuading most landlords to work with local authorities when they can earn more money renting above LHA rates.⁴¹

The buoyant property market is also affecting the availability of rental properties. We heard from some local authority officers that the landlords who had been most willing to work with them historically are most likely to be taking advantage of the current housing market and selling their properties. We also heard that others were turning their rentals into luxury homes to take advantage of a growing middle class professional market. There are concerns therefore that there will be fewer landlords willing to work with local authorities in future on rental schemes that support landlords to rent their homes to tenants that are in receipt of Housing Benefit or the housing element of Universal Credit.

The consequences of this lack of landlord cooperation are two-fold. First, it reduces the availability of housing for people claiming support provided by Housing Benefit or the housing element of Universal Credit. Second, it pushes a lot more people out of their accommodation as landlords sell and upgrade. This in turn creates greater demand for homes at the lower end of the market, as well as creating far greater pressure on homelessness services.

7. Quality and Security

The level of LHA and landlord actions have consequences for the quality and security of accommodation advertised for rent.

7.1 Security of tenure

Of properties advertised to rent during summer 2021, 51 per cent was shared accommodation. The majority of this accommodation was advertised by landlords seeking a lodger, rather than as a room in a House in Multiple Occupation (HMO) - In total, 69 per cent of the adverts for properties on Spareroom were obvious lodging situations or had a maximum length of tenancy.

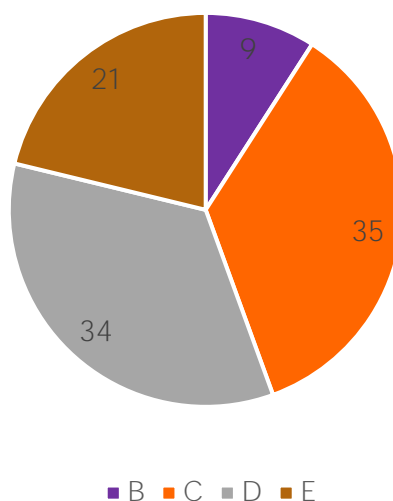
This has important implications for security, because lodgings are typically let on a bare licence, which gives minimal legal protections to tenants. Bare licenses do not offer the same legal protections against evictions as standard tenancy agreements, nor must they comply with the same housing quality standards. Indeed, bare licenses are often considered to be unsuitable for people seeking long-term accommodation or at risk of homelessness.

7.2 Quality of accommodation

Concerns were raised during our interviews about the quality of housing available to people in receipt of Housing Benefit or the housing element of Universal Credit. Phrases like *"toilet end of the market"* were used to describe some of the properties that people were finding.

Of the 2,853 advertisements we surveyed, only 9.3 per cent gave data on the EPC rating of the property. If the informal market and Spareroom properties are excluded, just 241 properties, or 16 per cent, on the formal market providing an EPC rating.

Graph 5: Proportion of EPC Ratings (%)



Of the properties that did provide a rating, 55 per cent were rated at either D or E. This suggests that the majority of housing available is expensive to heat. There appeared to be no relationship between energy efficiency and rents: in our sample, properties with a D

rating were the cheapest while those rated C were the most expensive, although the differences across all four ratings were marginal.

Around half of advertised properties (1,465) were fully furnished, 15 provided white goods but no other furnishings, and 627 were unfurnished. The majority of the furnished housing was advertised on Spareroom although a substantial minority of properties advertised on other websites was offered furnished.

Of the properties whose rents were fully covered by the amount provided by Housing Benefit or the housing element of Universal Credit and for which there are no additional barriers to tenants 50 were furnished but only three specified an EPC rating.

Last, quality and security are not solely matters of energy efficiency and tenant rights. During our research, we encountered one advert on Craigslist which advertised a room in exchange for sexual favours. A survey from Shelter Cymru showed that two per cent of men and three per cent of women have been offered sex in exchange for rent.⁴²

7.3 Other findings

A theme that emerged from the conversations with local authorities is that LHA reform is having an impact on people beyond increasing financial pressure. For example, one local authority raised the issue of separated couples with children. Often, only one parent will be eligible for the two-bedroom rate, meaning that a parent who is only eligible for the shared accommodation rate has no ability to host the child overnight.

We also heard from some rural local authorities that people are often required to travel large distances to reach friends and family, work, or support services. It can also lead to people being moved away from their communities within which they have support circles when being rehoused.

A further concern that was raised by a number of local authorities is that the increased workload is leading many staff to becoming burnt out. There is great fear as to what the autumn may hold as protections for renters are eased.

8. Conclusions

This report has demonstrated that there is a shortage of housing available for those claiming Housing Benefit or the housing element of Universal Credit where rents are covered in full. Only 4.8 per cent of the homes currently on the market are fully covered by the amount of support allocated by Housing Benefit or the housing element of Universal Credit. Even where rents are set at a level that can be fully covered, there are numerous requirements in place that would prevent many renters claiming Housing Benefit or the housing element of Universal Credit, or even those with a history of arrears or poor credit, from accessing housing.

There are concerns that the situation may deteriorate further. If LHA rates continue to be frozen at 2020/21 rates, then LHA gap may widen further. Changing market conditions that have resulted from the pandemic may also drive down the number of homes that are accessible to those who are in receipt of Housing Benefit or the housing element of Universal Credit. The combination of these factors is likely to put even further stress on already stretched local authority housing and homelessness teams.

It is clear from the content of this report that the current LHA system is preventing people from accessing a decent home at a rent they can afford. The process for setting LHAs should be more open and robust. To achieve this, we recommend the following:

- Requiring all landlords who are registered with Rent Smart Wales to share how much they charge in rent would provide the Welsh Government's Rent Officers with a far larger data set for their calculation.
- Develop regular liaison with local authorities and interested parties on data collection and sampling.
- Conduct periodic reviews of boundaries in consultation with local authorities, landlords and additional stakeholders.
- Establish a Welsh Government working group to assess the PRS and the quality of rental homes.
- Explore the possibility of devolving the process of setting the BRMA boundaries.
- In addition, increasing LHA annually could prevent the LHA gap growing further.

Over the autumn the Bevan Foundation will continue our research in this area to build a more comprehensive picture on the impact of LHA reform on the rental market and access to housing in Wales. We will look at a range of options for reform that could to the development of a more effective system of supporting people on low income with their housing costs. Given the scale of the challenges we have unearthed in this report and the possibility that the situation may deteriorate further this autumn with the end of the Universal Credit uplift, the eviction ban and furlough it is vital that the Welsh Government makes maximum use of all its levers to ensure we don't see a surge in homelessness.

Annex 1. LHA rates for Apr 2020 - Mar 2021 (£ per week)

(BRMA)	Shared Accommodation	1 bedroom	2 bedroom	3 bedroom	4 bedroom
Blaenau Gwent	54.00	66.39	80.55	90.90	132.33
Brecon and Radnor	52.50	71.86	98.96	115.07	138.08
Bridgend	58.68	109.32	109.32	115.07	156.26
Caerphilly	75.95	79.17	103.56	108.16	138.08
Cardiff	71.11	120.82	149.59	178.36	218.63
Carmarthenshire	62.71	80.55	97.81	110.47	136.93
Ceredigion	62.50	92.05	110.47	121.97	138.08
Flintshire	87.50	92.05	120.82	136.93	184.11
Merthyr Cynon	54.00	77.10	86.30	97.81	149.59
Monmouthshire	75.95	95.57	126.58	149.59	179.74
Neath Port Talbot	62.50	79.55	95.00	103.56	121.40
Newport	75.95	90.90	113.92	126.58	172.60
North Clwyd	58.95	80.00	113.92	132.33	166.85
North Powys	52.50	67.89	90.90	109.32	136.93
North West Wales	75.00	80.55	103.56	120.82	149.59
Pembrokeshire	60.00	78.25	98.96	120.82	143.84
South Gwynedd	58.95	74.79	87.45	103.56	121.20
Swansea	62.50	103.56	113.92	120.82	166.16
Taff Rhondda	54.00	75.00	92.05	98.96	137.51
Torfaen	54.00	87.31	105.86	120.82	149.59
Vale of Glamorgan	64.44	100.63	126.58	138.08	195.62
West Cheshire	73.25	103.56	126.58	149.59	205.97
Wrexham	72.84	92.05	113.92	128.88	166.85

Annex 2. List of BRMAs

Local Authority	BRMAs covered
Blaenau Gwent	Blaenau Gwent BRMA
Bridgend	Bridgend BRMA
Caerphilly	Caerphilly BRMA
Cardiff	Cardiff BRMA
Carmarthenshire	Carmarthenshire BRMA
Ceredigion	Ceredigion BRMA*
Conwy	North Clwyd BRMA*
Denbighshire	North Clwyd BRMA* Wrexham BRMA*
Flintshire	Flintshire BRMA* North Clwyd BRMA* West Cheshire BRMA*
Gwynedd	North West Wales BRMA* South Gwynedd BRMA*
Merthyr Tydfil	Merthyr Cynon BRMA*
Monmouthshire	Monmouthshire BRMA
Neath Port Talbot	Neath Port Talbot BRMA*
Newport	Newport BRMA
Pembrokeshire	Ceredigion BRMA* Pembrokeshire BRMA*
Powys	Brecon and Radnor BRMA* Neath Port Talbot BRMA* North Powys BRMA*
Rhondda Cynon Taf	Merthyr Cynon BRMA* Taff Rhondda BRMA*
Swansea	Swansea BRMA
Torfaen	Torfaen BRMA
Vale of Glamorgan	Vale of Glamorgan BRMA
Wrexham	Wrexham BRMA*
Ynys Mon	North West Wales BRMA*
* BRMA covers multiple local authorities, or a limited part of a local authority	

Annex 3. Gap between LHA rates and officially recorded 30th percentile (£ per week)

(BRMA)	Shared Accommodation	1 bedroom	2 bedroom	3 bedroom	4 bedroom
Blaenau Gwent	-6.00	1.67	0.00	0.00	0.00
Brecon and Radnor	-5.00	5.19	4.37	0.00	4.60
Bridgend	-1.32	0.00	0.00	-5.75	-4.61
Caerphilly	2.94	-1.38	0.00	-1.16	0.00
Cardiff	0.69	-5.76	-5.75	-5.75	0.00
Carmarthenshire	0.00	0.00	-2.30	0.00	0.16
Ceredigion	0.00	0.00	0.47	-2.30	-2.30
Flintshire	-0.35	0.00	0.00	-1.15	0.00
Merthyr Cynon	-6.00	1.34	0.00	-5.75	17.26
Monmouthshire	0.58	0.06	0.00	0.00	-0.92
Neath Port Talbot	-4.82	-1.00	-1.66	0.00	-5.18
Newport	2.65	0.00	-1.15	-5.75	-23.02
North Clwyd	-1.30	-0.55	-1.15	0.00	0.00
North Powys	-5.00	-1.15	0.00	0.00	-1.04
North West Wales	0.00	-6.76	-5.06	-4.60	2.76
Pembrokeshire	-5.00	-1.64	-1.05	0.00	-4.55
South Gwynedd	-1.30	-0.21	-2.91	-6.45	-4.20
Swansea	-4.82	0.00	0.00	0.00	-0.69
Taff Rhondda	-6.00	-5.00	0.00	-1.04	-0.57
Torfaen	-3.50	-1.07	2.30	0.00	0.00
Vale of Glamorgan	-0.46	2.82	-0.83	-0.38	0.00
West Cheshire	-1.00	0.00	0.00	0.00	0.00
Wrexham	-3.41	-3.46	0.00	-3.45	-5.75

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- ⁴² Bibbings, J. (2017, August 30). *Private tenant security is a feminist issue – and here's why*. Retrieved from Shelter Cymru: <https://sheltercymru.org.uk/private-tenant-security-is-a-feminist-issue-and-heres-why/>