

# Bevan Foundation's written evidence to the APPG on poverty's inquiry into the (in)adequacy of social security

The Bevan Foundation is Wales' most influential think-tank. We aim to end poverty and inequality by working with people to find effective solutions and by inspiring governments, organisations and communities to take action. We are grateful for the opportunity to submit written evidence to the APPG on poverty as part of its inquiry into the (in)adequacy of social security. Our response draws on our extensive expertise on poverty in Wales, with a particular focus on our research exploring the relationship between the Local Housing Allowance (LHA) and homelessness.

## Does the social security system provide adequate levels of support?

It is clear that the social security system does not provide adequate support to low-income households to meet their needs. A survey undertaken by YouGov on behalf of the Bevan Foundation in July 2022 found that:

- 38 per cent of people in receipt of Universal Credit in Wales reported that they either sometimes, often or always didn't have enough money to buy household essentials.
- 68 per cent of people in receipt of Universal Credit in Wales reported that their mental health had been negatively affected by their financial position, whilst 41 per cent reported that their physical health had been negatively affected.
- 44 per cent of people in receipt of Universal Credit in Wales reported they had borrowed money between January and July 2023 due to increased financial pressure, whilst 39 per cent reported being in at least one month's arrears on at least one bill.<sup>1</sup>

One group that faces particularly challenges due to the inadequacy of the social security system are low-income private renters.

The level of support that a low-income household renting in the private rental sector is entitled to receive through the social security system is determined by LHA. The LHA is designed to allow a tenant to rent a property in the cheapest 30 per cent of a market area (Broad Rental Market Area), adjusted for household composition. Research undertaken by the Bevan Foundation has demonstrated that the level of support provided by the LHA falls far below this.

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<sup>1</sup> Bevan Foundation, *A snapshot of poverty in Summer 2022* (July 2022) available at - <https://www.bevanfoundation.org/resources/a-snapshot-of-poverty-in-summer-2022/>

On August 1<sup>st</sup> 2022, only 60 properties listed for rent on the formal rental market in Wales were advertised for rents that would be covered in full by LHA, 5.9 per cent of properties on the market.<sup>2</sup> Research in other parts of the UK have produced equally stark findings.<sup>3</sup>

The emergence of a gap between LHA and rent leaves many low-income tenants having to choose between one of three poor options:

- Move into a property where the rent is greater than LHA and cover the gap with other income sources. This can lead to households facing significant financial pressure, increasing their risk of falling into arrears on their rent or having to cut back on other essentials such as food or heating.
- Move into poor quality/ unsuitable accommodation that is covered in full by LHA.
- Seek assistance through the homelessness system. The effectiveness of this assistance is itself undermined by the gap that has emerged between LHA and rent, with people being prevented from being able to move on from temporary accommodation due to the lack of available properties at LHA rates.<sup>4</sup>

### Why is the LHA inadequate?

Whether benefits are uprated and how they are uprated does have an impact on whether benefits are adequate to meet the needs of people on low-income. Recent decisions taken with regards to LHA provide a clear illustration of this.

LHA was last uplifted in 2020/21, at the start of the Covid – 19 pandemic. This means that the allowance that a low-income private renter is entitled to today is based on rents in 2019/20. There are currently no plans to uprate LHA for 2023/24. Rents have increased dramatically in the interim:

- Asking rents in Wales increased by 15.2 per cent between quarter three 2021 and quarter three 2022 on Rightmove.<sup>5</sup>
- Asking rents in Wales increased by 12.3 per cent between quarter three 2021 and quarter three 2022 on Zoopla.<sup>6</sup>
- All rents in Wales, including rent paid by tenants who are already renting properties, increased by 3.2 per cent between October 2021 and October 2022 according to the ONS.<sup>7</sup>

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<sup>2</sup> Bevan Foundation, *Wales' Housing Crisis: an update on the private rental market in summer 2022* (September 2022) available at - <https://www.bevanfoundation.org/resources/wales-housing-crisis-summer-2022/>

<sup>3</sup> Zoopla and Crisis, *Falling short: Housing benefit and the rising cost of renting in England* (August 2022) available at - [https://www.crisis.org.uk/media/248340/zoopla\\_briefingv8-1.pdf](https://www.crisis.org.uk/media/248340/zoopla_briefingv8-1.pdf)

<sup>4</sup> Bevan Foundation, *Wales' Housing Crisis: making the LHA work for Wales* (March 2022) available at - <https://www.bevanfoundation.org/resources/wales-housing-crisis-making-the-lha-work-for-wales/>

<sup>5</sup> Rightmove, *Rental Trends Tracker: q3 2022* available at - <https://hub.rightmove.co.uk/rental-trends-tracker-q3-2022/>

<sup>6</sup> Zoopla, *Zoopla Rental Market Report, Q3 2022* available at - <https://advantage.zpg.co.uk/wp-content/uploads/2022/09/UK-rental-market-Q3-final.pdf>

<sup>7</sup> Office for National Statistics, *Index of Private Housing Rental Prices, UK: October 2022* (November 2022) available at - <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/october2022>

The failure to uplift LHA in line with these higher rents inevitably means that the value of support low-income private renters are entitled to has decreased in real terms over the past three years.

The failure to uplift LHA annually only partly explains why LHA is inadequate in meet the needs of low-income tenants. Data published by the DWP showed that in 2020/21 the majority (64 per cent) of universal credit claimants in Wales, that lived in the private rental sector, lived in properties where the LHA was set at a level that did not cover their rent in full.<sup>8</sup> This was true despite LHA having been uprated in April 2020. This suggests that the decision to freeze LHA rates is not the only factor behind the system's inadequacy.

The Bevan Foundation have unearthed weaknesses with the way that data is collected and interpreted when setting LHA rates. We believe that these play an important role in explaining the inadequacy of LHA. These weaknesses include:

- The data available for calculating LHA rates are not robust enough. Landlords are under no legal obligation to share how much they charge for rents with the rent officers who calculate LHA rates. Landlords operating at the higher end of the rental market have very little incentive to share their data. At the same time, the rents paid by people in receipt of benefits are discounted from calculations. This means that LHA rates may simply represent the 30th percentile of a subset of the rental market, rather than the 30<sup>th</sup> percentile of the market as a whole.
- Data accuracy concerns are even more pronounced in smaller Broad Rental Market Areas (BRMAs). In many areas the number of certain type of properties are low, for example there are very few shared accommodation properties in many areas of Wales. To provide an adequate sample size data is taken from neighbouring BRMAs which may or may not reflect the local rental market.
- Rents vary significantly within BRMAs. This means that in areas within BRMAs where rents are higher, the LHA can be set at a level that is well below the 30<sup>th</sup> percentile even if it is sufficient elsewhere.
- The data used to calculate LHA is taken from a range of existing rentals including newly rented properties and properties that have been rented to the existing tenant for many years. In a rapidly rising market, the rent paid by existing tenants is likely to be less than the rent paid by new tenants. Collecting data on both types of rent increases the risk of the LHA rate being insufficient for prospective tenants looking to rent a home.
- The process for uprating LHA, even if done annually could still be too slow. In the months between when data is collected in the autumn and new LHA rates come into force in the spring, rents can increase sharply meaning that the rates are already insufficient.<sup>9</sup>

## Solutions

The Bevan Foundation has identified a number of measures it thinks should be taken to address the gap that has emerged between LHA and rent, and its impact on low-income

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<sup>8</sup> Data accessed via Statxplora

<sup>9</sup> Bevan Foundation n(4)

renters.<sup>10</sup> We believe that there are three themes that emerge from these solutions that could apply across the social security system more broadly.

1. Uprating benefits annually does matter. The challenges faced by low-income renters have undoubtedly been exacerbated by the decision to freeze LHA. It is vital that all benefits are uprated regularly to reflect rising costs.
2. There is a need to improve the data that is used to determine the rates at which benefits are set. For example, in a Welsh context, landlords could be compelled to share their rents with Rent Smart Wales. This would ensure that LHA rates accurately reflected the 30<sup>th</sup> percentile of rents, allowing for the current system to be more effectively implemented. Similar approaches could be taken elsewhere across the UK.
3. There is a need to undertake a review of the levels that benefits are set based on improved data. It is clear that LHA and the social security system more broadly does not provide low-income households with an adequate level of income to avoid poverty. There is a clear need to improve the generosity of the social security system so that benefits more adequately meet people's costs.<sup>11</sup>

In addition to these broad themes that have emerged through our work on LHA we believe that any conversation on the adequacy of the benefits system should also consider the impact of broader features of the social security system that restrict the level of support a household receives. These include:

- Deductions
- Sanctions
- The two child limit
- The benefit cap
- The bedroom tax

These features of the social security system see already inadequate incomes reduced to levels that pushes many households into destitution. Almost half (47 per cent) of people who use Trussell Trust food banks for instance, are in debt to the DWP.<sup>12</sup> The positive impact of improving the adequacy of headline benefit rates will be undermined unless these features of the social security system are addressed.

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<sup>10</sup> *ibid*

<sup>11</sup> *ibid*

<sup>12</sup> Trussell Trust, *Emergency food parcel distribution in the United Kingdom: April – September 2022* available at - <https://www.trusselltrust.org/wp-content/uploads/sites/2/2022/11/MYS-UK-Factsheet-2022.pdf>