

Rapid Rehousing Transition Plans:

Assessing the affordability of the private
rented sector for LHA recipients in
Scotland

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Foreword

The private rented sector (PRS) is an important part of our housing system accommodating 340,000 households across Scotland. When working well, it can provide choice and flexibility for people in a range of circumstances, whether studying, relocating for work or, increasingly, looking for a long-term home to put down roots in a community.

Through the course of our work on Rapid Rehousing Transition Plans, local authorities have told us that to effectively tackle homelessness while social housing supply continues to fall short of demand, we need to make better use of the PRS. However, to provide suitable PRS accommodation for people who are experiencing homelessness or those at risk of homelessness, it needs to be secure, the homes need to be good quality, and they need to be affordable.

We have already published two reports as part of our RRTP project:

- [Rapid Rehousing Transition Plans: making the case for the next five years](#)
- [Rapid Rehousing Transition Plans: developing a monitoring framework for local authorities](#)

Now, we are exploring how to improve access to the PRS, to reduce the time spent in temporary accommodation and help people to move into suitable settled accommodation. This research considers how affordable private rented housing is for households that need help with their housing costs through Local housing Allowance (LHA) and how the system could be improved.

Housing affordability is a key factor not only in tackling homelessness, but also in reducing poverty and inequality and creating the foundations for people to thrive. The analysis presented here highlights issues with the current system and points us towards solutions so we can create more places for people to call home.



Gavin Smith

Chair of CIH Scotland

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1. Executive summary

This report was funded by the Chartered Institute of Housing (CIH) Scotland in partnership with Fife Council to examine the housing affordability problems associated with the Local Housing Allowance (LHA) and its impact on the private rented sector (PRS). The report builds on recent work by Crisis, the Bevan Foundation, and the Institute of Fiscal Studies, among others, that suggested that the decisions to reduce, cap and then freeze LHA rates has reduced the affordability of the lower end of the PRS.

This report, focused on the Scottish PRS (SPRS), goes further by both highlighting the difficulties in reaching a clear sense of what is and is not affordable, the quality of the data used, and surfaces other methodological questions regarding rent information. It then estimates (at aggregate and more local levels) the proportions of those in receipt of LHA who face financial shortfalls, as well as how much it might cost in Scotland to restore LHA to the 30th percentile and indeed to restore to its original median value (50th percentile).

The report also recommends proposals to improve the quality of rental data, improve the underlying methodology of LHA, challenge UK-wide assumptions about benefit levels and design, and systemically, makes the case for expanded affordable housing supply.

1.1 The issues

The context is one of making the case to reverse ongoing real reductions in LHA levels and the continued freezing of nominal values. It is also a situation wherein rental market participants are operating in a context of rising rents for adverts or offers, a generalised cost of living crisis and low wages and little earnings growth, particularly at the bottom end of the working population income distribution. While rents rise, the LHA remains at what was the 30th percentile in 2018-19.

A second important dimension concerns the wider dysfunction of the housing system. Home ownership is inaccessible to many without access to large deposits, as house prices rise out of the reach of many young people. Social housing is under immense pressure because of the level of unmet housing need, pressures on temporary housing, and difficult head winds for the affordable housing supply programme. For many people on low and moderate incomes, the only choice is the high rent and increasingly hard to access PRS - a sector wherein social security support is considerably less generous than on social housing. This is also a market that appears to have peaked in size, and which may well now be shrinking or where landlord exit is beginning to consolidate the rental stock amongst fewer landlords.

A third critical aspect of the modern PRS is that policy makers, commentators and think tanks make pronouncements and pursue policies on what is often flimsy and anecdotal evidence. This is true in terms of what we mean by measured market rents (which rarely take sufficient account of within-tenancy contract rents, which are much more stable than advertised rents for new tenancies), and it is true of what we know about the number of landlords, their housing stock and their behaviour. The LHA itself in Scotland also depends on broad rental market area (BRMA) boundaries which are arguably poorly related to functional market boundaries and as a result biases and unfairness can arise in terms of how much people receive relative to the distribution of rents.

A fourth critical issue is the thorny topic of what we mean by housing affordability. All of the reports above, and this paper too, say that there is something meaningful about comparing the level of rent paid at the 30th percentile to the actual level of the LHA for that property size in its given BRMA. In particular, there is an interest in a summary measure of the proportion of households who are left with a shortfall. Clearly, a large financial shortfall is likely to be a major financial problem. But this is not really a measure of affordability, since we know nothing about household income levels, savings or the residual income after housing costs. However, this measure does tell us something about the shortfall burden, and since all micro PRS research relies on advertised rents at the moment, it tells us something also about what new tenants face as a cost burden.

1.2 Findings

On average, just one in 12 (eight per cent) of properties in the financial year 2022-23 were 'affordable' (in the sense of there not being a financial shortfall) for private tenants receiving LHA. This also means that the sector is increasingly beyond new tenants as time goes on and new rents spiral ever upwards.

The report argues that it is in fact difficult to know where LHAs should be set to best address housing payment poverty and support people in tenancies without putting excessive strain on public budgets. It is not clear that the 30th percentile is the appropriate level to target those on lower incomes best - or indeed whether the median would be - without much further work into affordability, cost and income distribution. It is also questionable whether the current definitions of BRMAs should be retained. A larger number of more fine-grained market areas would reduce existing inequities, especially for those on low incomes in high rent submarkets in excess of the BRMA's typical rents. The report argues that the current approach makes little sense and needs thorough-going reform.

1.3 Recommendations

First, increase LHA rates in the short run (recognising that this is a reserved matter). This is undoubtedly challenging because LHA is a demand side subsidy, and increases that are poorly designed may be floated up into higher rents. But housing poverty necessitates action, and some fiscal additional cost will be required. The report estimates that restoring the 30th percentile to current levels would cost in annual terms in the realm of £100 million for Universal Credit (UC) recipients (although this may be an overestimate because it does not take complete account of existing [lower] contract rent). An increase to the median (50th percentile) would cost £172 million per year, on the same estimated basis.

Second, we should acknowledge the importance of interconnected government plans to move to a national system of rent control in the PRS in the near future, and the current temporary provision capping rents. It is expected that the new rent control model will apply to existing and new rents, whereas the current cap only applies to existing rents. It is also anticipated that there will need to be a transition from the cap to the new national model. These design issues have market consequences. Policy made in the name of struggling private tenants should move with caution to minimise faulty design and unintended consequences.

Third, LHA rates should adjust each year to protect the incomes of eligible households - one may argue that this may be simply set on the same basis that other benefits are uprated, which may seem reasonable given the centrality of housing costs. There may be other locks or guarantees that might be provided - but the case for a continued freeze, in such an inflationary and low wage environment exposing low-income households, is increasingly untenable. The paper argues for other methodological improvements in the short term, including taking cognisance of the work and recommendations to come from the short life working group 'towards a shared understanding of housing affordability', which will report in the spring of 2024. The report also suggests that there are fundamental questions about the suitability of the Shared Accommodation Rate (SAR) and a need to review its fitness for purpose for single people.

Fourth, the data must be improved. This involves adopting measures of rent increase that are weighted between new and existing tenancies. The Office for National Statistics (ONS) has a model that does this, operating for the English regions and for Scotland as a whole. They plan that a local version of the model will be rolled out over the next two years and will operate at the BRMA level in Scotland. This will be a great advance on current practice. However, it will only be effective if the BRMA boundaries are functionally fit for purpose - so, the issue becomes one of rental market boundaries, one that should not be ducked.

The 2021 rented sector strategy consultation held out the possibility of developing landlord registers to contain rent and property characteristics for **all** registered properties - it is understood that this remains on the table in relation to rent control proposals (which also need good data), but such a development, while welcome from an analytical point of view, would take time to be operational and would not be without challenges.

Finally, housing is a system and highly connected. There remains the need to find better ways to house many economically and socially vulnerable people in secure social and affordable housing - not the PRS. Supporting and delivering the affordable supply programme is ultimately a critical part of making the PRS work better and reducing the sting of the potential cost of the LHA.

2. Introduction

This report sets out to identify and explore conceptual, methodological and practical shortcomings inherent to the LHA rate setting process. It also seeks to quantify the current shortfall between LHA rates and advertised rents. The purpose of the research is to shine a light on the affordability issues currently facing LHA recipients within the PRS, which if not addressed, could lead to reduced mobility and potentially homelessness.

The UK is in the midst of a 'cost-of-living crisis', part of a broader poly crisis¹ fuelled by a broad range of global events including the global pandemic and the war in Ukraine (Whiting, 2023). Year-on-year inflation (CPI) has increased dramatically from two per cent in July 2021, to 10.1 per cent in July 2022, reducing slightly to 6.8 per cent in July 2023². The corresponding fall in real disposable incomes is making it extremely difficult for many UK households to make ends meet. The picture is particularly stark for those who were already living in conditions of poverty.

Although costs have increased across the board, rising housing costs are a key area of concern, especially as housing costs are recognised as '**one of the biggest drivers of poverty in the UK**' (Scottish Government, 2019). Within the PRS, rents have risen by 5.1 per cent in the 12 months to June 2023 alone (ONS, 2023). Though the effects of this increase are widely felt, they are most acute for those who require support to meet their housing costs via LHA.

A Brief Overview of Local Housing Allowance

Introduced in 2008, LHA is a means tested housing benefit paid to eligible tenants residing within the PRS. It is increasingly paid via UC, although some remain on legacy benefits in the short-term.

Conceived as a simpler and fairer system than what had gone before, LHA establishes the maximum support available to claimants calculated on the basis of their geographical location and eligible property category. The former is defined by the BRMA they live in and the latter by the number of bedrooms they are entitled to in relation to their household composition. LHA rates are calculated each year by RSS for each BRMA for each property category with reference to PRS rents. LHA rates used to be set at the median meaning that half of rents in each BRMA should be affordable to recipients. However, this was subsequently reduced to the 30th percentile. Rates are currently frozen at April 2020 levels, which are calculated using rental data from 2018-19.

Whilst the UK Government has introduced a raft of interventions to help alleviate the impact of the 'cost-of-living crisis', none have directly responded to the predicament faced by tenants living in the PRS, who are struggling to pay their rent. In fact, the continued freeze of LHA rates at the 30th percentile, last set in April 2020 but based upon data from 2018/19 (UK Parliament, 2023b), is exacerbating the problem. As a result, there are legitimate concerns that those in receipt of LHA are subject to an unbroachable shortfall against the real cost of private renting and will therefore be unable to access or sustain tenancies within the PRS (Shelter, 2023b).

This is alarming for two reasons: firstly, there is a deficit in alternative affordable housing supply, and secondly, those in receipt of LHA already face an uphill struggle in securing PRS accommodation. Historically '**seven out of ten**' landlords in Scotland preferred '**not to let their accommodation to tenants who are on... local housing allowance**' (Crook et al., 2009). While bias is partly responsible for driving these decisions, there is evidence that some landlords have business reasons for their reluctance (Clarke et al., 2015; MHCLG, 2019; Watts & Stephenson, 2017).

Housing affordability is an area of topical interest and there is a broad and growing literature pointing to affordability concerns within the PRS. For example: Simcock (2022) reveals that 30 per cent of Scotland's private renters find it difficult to afford their current rent; McKee et al. (2022) identifies affordability as a primary challenge facing Scotland's PRS renters; Soaita et al. (2022) frames affordability as a key theme that disproportionately impacts the renting experience of low-income and other vulnerable groups within the sector; Watson and Bailey (2021) report upon the impact of the 'pandemic arrears crisis', discovering that 45,000 Scottish landlords (one in five) had tenancies in arrears; and Simcock et al. (2022) identify that affordability is an area in which low income tenants most

¹A term introduced by Morin and Kern (1999).

²See <https://www.ons.gov.uk/economy/inflationandpriceindices>.

want to see change. The synthesis of this evidence suggests that affordability is significant and a growing concern amongst PRS tenants.

Third sector reports present similar findings. For example, Citizens Advice (2022) report that the 'cost-of-living crisis' and increasing rents have a deleterious impact upon the finances of private renters, who are more likely **'to be in a negative budget'** than social renters or owner occupiers. Crisis (2019) note that the gap between LHA rates and actual rents increases the risk of homelessness as families struggle to juggle increasing costs. Shelter (2022) identify that just one in 50 (2.1 per cent) rental properties in England were affordable to recipients of LHA. The Institute for Fiscal Studies (IFS) (2023a) suggest that the LHA rate freeze will adversely affect 1.1 million UK households **'by an average of £50 per month, saving the government more than £650 million in 2023-24'**. All warn of the damaging effect of the LHA rate freeze and most propose increasing rates to improve the plight of tenants.

Three recent reports look in some detail at PRS affordability in the context of LHA rates. The first, a short report by Crisis (2023b), is titled 'Locked Out, Local Housing & Affordability in the Private Rented Sector in Scotland'. The research focuses on identifying the **'proportion of the market that is accessible to low-income households'** and **'the average [rental] shortfall low-income renters face'**. The former is reported to be seven per cent³ and the latter £1,119⁴. The report utilises a dataset of advertised rents from Zoopla, which is also used in a later section of this report. These data are examined at the local authority level and focus on one to three-bedroom properties. The Crisis report concludes that in the short term, the UK Government should increase LHA rates to the 30th percentile and that the Scottish Government should provide additional support to those at risk of homelessness through its social security powers. In the long term, they suggest that the role of the PRS should be better defined and that the Scottish Government should ensure that there is sufficient access to affordable housing for those on low incomes.

The second report is by the Bevan Foundation (2023) and is titled 'Wales' Housing Crisis, Local Housing Allowance and the private rental market in Wales'. The report scrapes data from the Rightmove, Zoopla and Spare Room online advertising portals to identify the number of properties being marketed in the Welsh PRS and calculates the difference between the advertised rents and LHA rates. As with the Crisis report, the Bevan Foundation analyse the data by local authority rather than BRMA. They too exclude shared accommodation properties but include four-bedroom properties. The report concludes that **'just over 1 in 100 properties were advertised for rents that were at or below LHA'** and recommends increasing LHA rates to the 30th percentile.

The third report is by the IFS (2023b) and is titled 'Housing quality and affordability for lower-income households'. The focus of this report is broader than the Crisis and Bevan Foundation reports, respectively, as it incorporates data on changes in housing tenure, housing quality and PRS affordability for those in receipt of benefits within the UK. The latter deliverable also draws on Zoopla datasets, but on this occasion, these were provided via our sister centre, the UBDC. The report concludes that the PRS is increasingly home to low-income families, that the PRS offers lower quality properties than alternative tenures, and that just five per cent of PRS properties were affordable under existing LHA rates.

Whilst this report covers some of the same ground as these three third sector reports, it should be considered as complementary. We focus more broadly on exploring and understanding the factors shaping SPRS rents and evaluating the methodologies that underpin the LHA rate setting process. We also review the data for one to four-bedroom properties with an emphasis on BRMA as opposed to local authority level analysis.

Overall, reported shortfalls have led to cross sector calls for LHA rates to be unfrozen and returned to the 30th percentile (Crisis, 2023a; Propertymark, 2023; Shelter, 2023b; Step By Step, 2023). However, whilst unfreezing LHA rates would undoubtedly have a short term impact, there are broader questions regarding the operation of LHA and, in particular, longstanding methodological concerns pertaining to the calculation of LHA rates themselves (CIH, 2018).

³For 1-3-bedroom properties.

⁴For 2-bedroom properties.

3. The Scottish private rented sector, policy and legislation

The SPRS has grown significantly over the last 25 years, displacing rates of home ownership and social renting and now accounts for 14 per cent of all residential property in Scotland (Scottish Government, 2019a). This pattern of re-growth is also evident in the English, Northern Irish, and Welsh PRS and in many other geographies which are accustomed to neo-liberal housing policy and dualist rental systems, which consist of a profit-making private sector and a non-profit making state controlled social rented sector (Kemeny, 2006).

Although the sector now includes a range of providers, including providers of build to rent (BTR), mid-market rent (MMR), purpose-built student accommodation (PBSA), single family renting (SFR) and more besides, the sector continues to be dominated by small private investors. In fact, 94 per cent of registered landlords own just one property (Scottish Parliamentary Corporate Body, 2020). These investors primarily acquire (or retain) PRS property as a long-term investment focused on income, capital growth, or both as part of a landlord's investment and welfare strategy. They are often referred to as 'amateurs', in reference to the part-time nature of their investment activity and the secondary income it often provides. However, given the 'professional' status commonly assigned to BTR landlords (Homes for Scotland, n.d.; Scanlon et al., 2013; Scottish Government, 2017), the term can also be framed as a question of expertise, experience and competence.

At the outset of its re-growth, the PRS emerged as a provider of easily accessible and flexible accommodation for young, mobile, transient populations. However, the sector has developed '**a series of distinct and segmented submarkets**', which cater to students, key workers and low income tenants amongst others (Gibb et al., 2019). Whilst still offering flexibility, the time spent in the PRS is elongating for many (Marsh & Gibb, 2019). For some, this is a legitimate choice resulting from changing housing pathways and life courses with more time being spent in education and job-shopping, delayed family formation, and the trend towards later life marriage and cohabitation (Clapham et al., 2014; Coulter, 2016; Kemp, 2015). For others the elongation is due to specific challenges such as problematic employment (Clapham et al., 2014), the need for large deposits for owner occupation, tightening lending criteria, reduced borrowing ratios, student debts and rising house prices (Kemp, 2015; Moore, 2017).

A key concern for policymakers is that the sector is increasingly being used to provide long term accommodation for vulnerable groups, who in earlier times might have been able to access local authority or housing association accommodation (Bailey 2020). There are many questions around the suitability of the PRS for these groups in Scotland and beyond, (Coulter, 2016; Marsh & Gibb, 2019; Ronald & Kadi, 2017; Spencer et al., 2020), though questions of affordability are increasingly at the fore.

Though emergent for some time, affordability concerns have been exasperated by the 'cost-of-living crisis', which has been fuelled by a range of macro-economic factors and political instability within the UK. Households have seen increases in food, fuel and other essentials, which are unprecedented in recent times. Within the SPRS, increased demand has been matched with dwindling supply, with a drop of around 22,000 active landlord registrations between December 2018 and December 2021 (Scottish Government, 2022c). The combined result is an increase in advertised rents as tenants compete for available properties.

The resulting challenge is most acute for those who require support to meet their SPRS housing costs through the provision of LHA, a means tested housing benefit and the main focus of this report.

3.1 Policy approach

The policy environment in which the SPRS has re-grown, has been influenced by both the Scottish and UK governments. Although it could be argued that in practice, the administration of housing policy has been devolved for over a century (Sim, 2004; Wilcox et al., 2010), the UK Government's retained powers have had and continue to have, a significant effect upon the SPRS. For example, the introduction of LHA by the Department of Work and Pensions (DWP), the removal of mortgage interest rate relief by the Chancellor of the Exchequer and recent changes to capital gains taxes have all had a significant impact upon the SPRS.

Scotland's own approach to policy in general (Cairney et al., 2016) and housing policy in particular is said to be distinct or different (Gibb, 2012; Kintrea, 2007; Mullins et al., 2006; Murie, 2004) from the rest of the UK and it is apparent that Scotland's approach to housing policy (and, to some extent, the approaches in Wales and Northern

Ireland) is more fixated on **'social outcomes'** (Maclennan & O'Sullivan, 2008) and tenants with low incomes (McKee et al., 2016) than in England.

Despite initially seeking to deliver balanced policy and legislation that protects tenants whilst not constraining growth (Scottish Government, 2007, 2013), the Scottish Government's policy approach towards the PRS **'over the last decade has been almost entirely focused on tightening regulation through legislation'** (Watson, 2022). Gibb et al. (2019) provides a summary of the main reforms, which include the introduction of the private landlord register in 2006, the launch of tenancy deposit schemes in 2016 and the introduction of the private residential tenancy (PRT) in 2017. In line with the UK Government's approach, the Scottish Government has also sought to increase the tax burden for landlords, where it has the power to do so. For example, the Additional Dwelling Supplement (ADS) was increased from four per cent to six per cent in December 2022, and the Land and Building Transaction Tax (LBTT) is comparatively higher than its equivalent tax (Stamp Duty) in England.

3.2 Crisis based policy

More recently, the policy agenda has been driven by unfolding crises. For example, the Coronavirus (Scotland) Act 2020 and subsequent legislation extended notice periods for most eviction grounds, made these grounds at the discretion of the Housing Tribunal and introduced a ban on the enforcement of eviction orders - the so-called 'eviction ban'.

After a brief pause, the Cost of Living (Tenant Protection) (Scotland) Act 2022 followed. This Act introduced a cap on rent increases for existing tenancies, a moratorium of some evictions and an increase in the level of damages claimable for unlawful evictions (Scottish Government, 2023a). The combined effect of these pieces of legislation is that with just five months respite, the PRS has been operating under emergency legislation governing evictions and/or rents since 7 April 2020.

There are remarkable similarities between these two acts. Both were conceived as temporary emergency legislation. The Coronavirus (Scotland) Act 2020 was introduced on 7 April 2020 and slated to last until 30 September 2020, but was successfully amended and extended so that key provisions remained in place until 31 March 2022, two years after the start of the pandemic. The Cost of Living (Tenant Protection) (Scotland) Act 2022, was introduced in October 2022, although provisions were backdated to 6 September 2022, and was originally slated to last until 31 March 2023. However it was subsequently extended to September 2023 and the Scottish Government has recently announced that it intends to extend some provisions to 31 March 2024 (Berry, 2023).

Although broadly welcomed by tenant groups, both acts were unpopular with landlords and landlord groups prompting backlash. We focus now on the most recent, the Cost of Living (Tenant Protection) (Scotland) Act 2022. The act was originally applicable to most of Scotland's rental sector and was broadly criticised. For example, the UK Apartment Association (UKAA), which represents the BTR sector noted:

'In principle, the UKAA opposes rent cap in any form as it lowers confidence and inhibits the BTR industry's ability to deliver customer, community and investor value. Investors invest for the long term, for stable returns and if rent control is in play, it can disrupt and harm the certainty of those returns.'

The Scottish Federation of Housing Associations (SFHA, 2023) suggested:

'A rent freeze could have removed more than £200 million of investment from building new social homes, maintaining existing ones and helping people in their tenancies, while making little difference to individual tenants' incomes. Investing in good quality, warm homes for social rent is crucial to tackling poverty in Scotland and protecting all tenants from the increasing cost of living.'

David Bookbinder (2022), Director of Glasgow and West of Scotland Forum of Housing Associations (GWSF) asserted:

'As always after populist announcements, it's good to get real about the implications. A single year's rent freeze next April could take £660 million out of the social housing sector's investment in Net Zero and other improvements. A short-term sugar hit but long-term financial suicide and a disaster for our efforts to tackle climate change.'

Deeming the law as **'disproportionate and unfair'**, the Scottish Association of Landlords (SAL), Scottish Land and Estates (SLE) and Propertymark joined forces to seek a judicial review (SAL, 2023a). The judicial review has found in favour of the Scottish Government ruling that the restrictions on rent increases were not unlawful (Court of Session, 2023).

Each sector lobbied separately for special treatment. However, it was the social housing sector that made most progress, with the Scottish Government allowing the social sector rent cap to expire from March 2023. This agreement was reached following commitment by the Convention of Scottish Local Authorities (COSLA) not to increase April 2023 rents by more than an average of £5 a week and following confirmation by SFHA, that members were consulting on average rent increases of 6.1 per cent (Scottish Parliament, 2022). For providers of student accommodation (i.e., halls of residence and PBSA) the cap was suspended in March 2023, allowing for reinstatement if required (Scottish Government, 2023a). These actions led the UKAA to assert:

***'The Scottish Government has made social housing providers exempt from this cap. As both social landlords and BTR providers hold the same aspirations to deliver good quality housing, in good quality communities, the UKAA argues that the BTR industry should be treated in a similar manner.'* (SHN, 2023a)**

And led John Blackwood of SAL to argue:

***'While the Scottish Government sees fit to raise council and housing association tenants' rents, so social landlords can do repairs and improvements, they fail to realise that private landlords are faced with similar financial pressures.'* (SHN, 2023b)**

Prior to the introduction of the 'rent cap', PRS landlords operating under the PRT regime⁵ could increase the rent in existing tenancies once every 12 months by providing three months' notice⁶. When first introduced, the cap, which was backdated to 6 September 2022, was set at zero, meaning that rents could not rise. However, under Chapter 2A of the Act (Scottish Government, 2022a), landlords were permitted to apply to rent officers for an increase above the cap value to account for increases in 'prescribed costs', namely mortgage interest rates, insurance premiums and service charge costs. However, the proposed increase could not be greater than 50 per cent of the landlords cost increase(s) in the six months prior to application. Furthermore, the final award, if any, would be the lower of the proposed increase or three per cent of the existing rent.

Recognising that **'costs have been rising for landlords too'**, in April 2023 the rent cap was raised to three per cent and the cap for 'prescribed costs' was raised to six per cent (Scottish Government, 2023e). Costs have indeed been rising for landlords, with insurance premium rises of up to 25 per cent (One Broker, 2023), repair and maintenance cost increases outstripping CPI (CEBR, 2022) and average BTL mortgage rates increasing from 4.3 per cent to 6.5 per cent between July 2022 and July 2023 alone (Which?, 2023). Given recently identified concerns pertaining to landlord resilience levels (Watson & Bailey, 2021), there are some questions regarding the ability of landlords to sustain problematic investments.

It should be reiterated that the rent cap only applies to existing tenancies (with some exclusions). This means that landlords are able to increase rents for new tenancies. As will be seen later, this appears to be a key driver for the increase in rents reported in the Scottish Government statistics and as used to inform policy decisions.

3.3 Erroneous assumptions regarding landlord behaviours?

The point made above is important as there is evidence that landlords do not regularly increase rents in existing tenancies. In fact, in a recent online survey of a representative sample of Scottish landlords, Watson (2023) found that just seven per cent sought to increase rents every 12 months. Furthermore, 66 per cent reported a shortfall between the rent they were charging and the rent they would seek if the property was re-advertised at prevailing market rates. The mean shortfall was almost £60 (£59.52) and the median was £30. However, just over one in five landlords (23 per cent) reported that this shortfall equated to £100 a month or more.

⁵The PRT was introduced on the 1 December 2017.

⁶Tenants can generally challenge a rent increase by applying to a rent officer. Rules differ according to tenancy type.

In a follow up interview in the same study, one participant noted that her failure to increase the rent regularly had become a problem:

'I think it's always just been at the back of my mind that tenants move like every year or every two years, so you just put the rent up in-between them, you know? Except that didn't happen. These ones that stayed for eight years... After a few years, I realised they're not going to move on, and I haven't increased their rent. I can't really start increasing it now when I haven't increased it before this.'

This may seem like an outlier, but a further example of a seven year rent freeze, was found in a study by Evans et al. (2022) who also reported that **'rent increases within tenancies were rare'** amongst their survey sample. In fact, rent had stayed the same for 59 per cent of tenants since their tenancy commencement date.

In a similar vein, SAL reports that 54 per cent of its members tenants are paying below prevailing rates. (SAL, 2023b). Rugg and Rhodes (2018) offer an explanation, suggesting that **'many landlords will decide against regular increases in rent for good tenants, as an incentive for them to remain'**. Watson (2023) confirms this to be true in several cases, with one participant noting:

'If you have a good tenant and it's a long-term tenant, there's a lot to be said about just keeping them happy because they might stay for a bit longer. If you're going to up the rent, they might end up not being able to afford it and might leave and then you have to go through the expense of then doing a whole redecoration of your property again. The estate agent has to market it. You've got marketing fees, you've got new tenant setup fees. You've got all of these things which actually can probably be more expensive doing that than it would increasing your rent £10 a month, £20 a month. It really depends how long the person is staying there as well. They might only stay there for a couple of years. In which case, it's not really worth rocking the boat at all.'

Letting agents who were interviewed in the study tended to concur:

'There's a lot made of landlords just going out and randomly, you know, increasing the rent at every opportunity they can. Now, my experience was that most landlords, if they have a good tenant, are, kind of, happy, you know, with that. They're happy to have that rent coming in, and if we suggest a rent increase, they are like, "oh no, no, I don't want to rock the [boat], you know, he's a good tenant, let's just keep that rent as it is.'"

Instead, many landlords prefer to allow rents to increase when new tenancies are agreed. Again, letting agents in Watson's (2023) study concurred, with one suggesting that during initial rental valuations **'everyone wants to get as much rent as possible'**, but that many of her clients did not want to **'rock the boat'** once a tenancy had started.

Perversely, there is anecdotal evidence that the rent cap is actually driving up advertised rents. This is evident in comments made by letting agents in Citylets (2023d) market update:

'Most landlords now realise that their one chance to increase rents to market levels is when they have a change of tenant. The rent freeze has turbo-charged rent inflation, as well as brought with it the usual array of unintended consequences.'

Although impact assessments were completed prior to implementing both Acts⁷, a key problem with the existing impact assessment process is that it does not consider the cumulative impact of legislation changes, only the impact of the legislation at hand. In any event, the assessments were limited in scope and the legislation appears to have been at least partially driven by the assumption that landlords would act upon their assumed base maximising instincts when faced with a changing environment. And furthermore, that this would lead to a **'tsunami'** of evictions in the case of the pandemic and an **'avalanche of rent increases'** in the case of the 'cost-of-living crisis' (Lewis, 2023). This firmly ties in with the pervasive view, particularly in Scotland (Kemp & Rhodes, 1997), that landlords are unscrupulous profit chasers and therefore need to be coerced by legislation into doing the right thing. However, evidence from the time of the pandemic suggests that overall, landlords showed a high degree of forbearance towards significant tenant arrears (Watson & Bailey, 2021).

⁷It was estimated that the initial 6 month freeze could cost landlords between £3,500,000 to £32,500,000 (The Scottish Parliament, 2022).

3.4 Data challenges in the policy making process

A further similarity between the Coronavirus (Scotland) Act 2020 and the Cost of Living (Tenant Protection) (Scotland) Act 2022 is that neither piece of legislation was predicated on strong data-backed evidence, as none exists.

In specific reference to the rent cap, Citylets (2023a) note that it '**aimed at a part of the market for which there is little to no information to quantify and qualify the scale of the problems it sought to address**'. However, there is a much broader issue with data in the PRS.

Livingston (2018), from the UBDC, suggests that there is '**a lack of information on landlords, submarkets and poor data on rents**'. The rental market is atomistic and highly disaggregated into spatial and sectoral segments. Rent data, excepting adverts for new lets, is not widely or consistently gathered, other than in national surveys. This means we have very little systematic evidence on rents applying to ongoing or existing tenancies, especially at lower scales of aggregation. This is unfortunate and creates significant problems for market and affordability analysis.

This could be viewed as a wicked problem, not because it cannot be solved, but because there appears to be some resistance to doing so. This is despite Scottish policymakers generally being '**cognitively open to evidence**' (Gibb et al., 2022c).

Overall, despite having been subject to significant policy and regulatory intervention over the last two decades, there is little official data with which to judge the success of specific measures (Livingston et al., 2018). As Rettie & Co (2023) note, legislative changes in the PRS are '**bedevilled by a lack of data on the sector to baseline existing performance let alone assess the impact of change**'. There is however longstanding concern surrounding the efficacy of much of Scotland's existing legislation and landlords' knowledge of it, not to mention low levels of enforcement, poor impact monitoring and unintended policy outcomes (Gibb, 1994; Kemp & Rhodes, 1997; Livingston et al., 2018; Scottish Government, 2009; Watson & Bailey, 2021).

There has also been a reliance on those with an interest in the sector (academics, service providers, advocacy groups etc.) to provide monitoring and commentary of policy outcomes via ad hoc research. Recent examples include Watson and Bailey (2021) and Rettie & Co (2023) who point to unintended outcomes in the form of record arrears and a halt in BTR activity respectively.

3.5 Is overregulation causing landlords to leave the sector?

A perception of overregulation has been prevalent amongst Scottish landlords for some time (Crook et al., 2009; Evans et al., 2022) and it appears that the scales are beginning, in some respects, to tip in favour of tenants (Combe, 2022). Landlords have voiced disappointment with this development with some even maintaining that policymakers are '**biased against them**' (Watson & Bailey, 2021). The perception extends to the letting industry with Adrian Sangster, leasing director at Aberdeen Considine, noting '**it feels like they [landlords] are under attack**' (Findlay, 2022).

Moreover, in a recent survey by SAL (2022), 34 per cent of respondents reported that they intended to reduce their portfolio over the next ten years, with 63 per cent citing regulation and 60 per cent citing '**hostility towards landlords from government/politicians**' as factors in their decision-making process. There may be a healthy dose of hyperbole here, but it is not clear that the sentiments should be ignored by policymakers.

In fact, there is anecdotal and research-based evidence that the ever-changing legislative burden and ever increasing tax burden, has resulted in existing private landlords re-evaluating their PRS investments and in some cases, choosing to leave the sector (Evans et al., 2022; Scottish Association of Landlords, 2021; Watson & Bailey, 2021) and others to switch to short term lets (STLs)⁸ (Boyle, 2022; Evans et al., 2019).

⁸It should be noted that a licensing scheme was recently introduced for STLs.

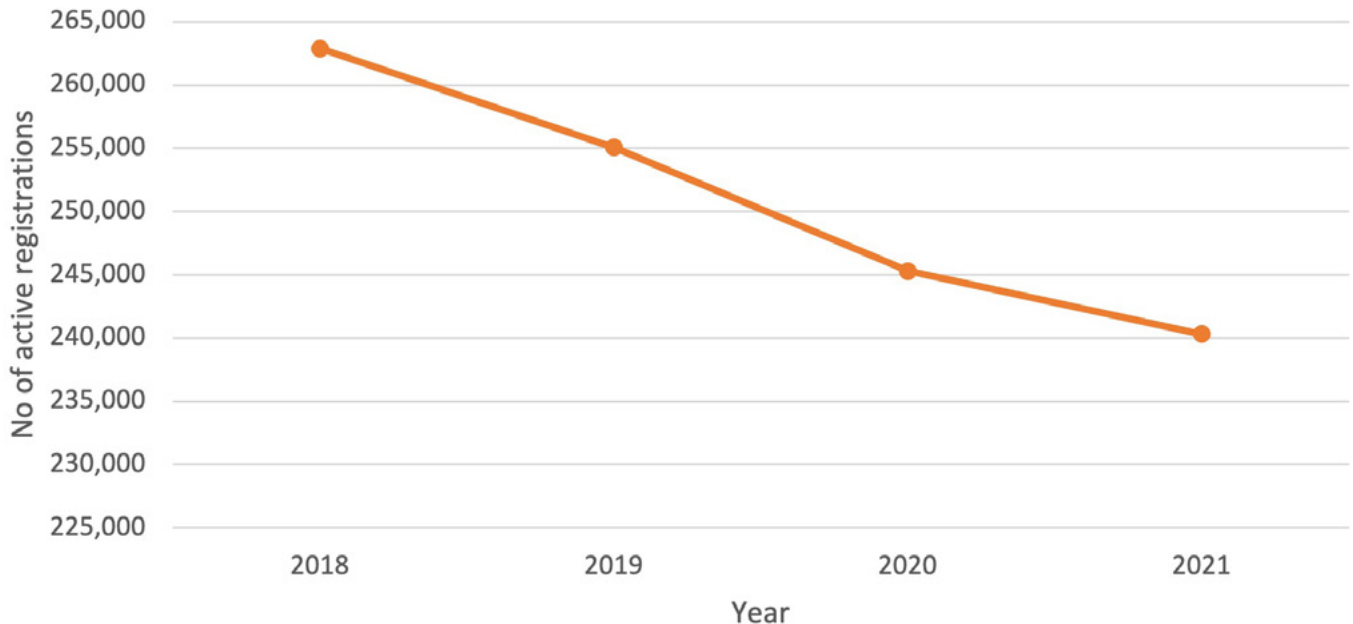
Furthermore, it is likely that the sector's attractiveness to new entrants, the lifeblood of the PRS, has been diminished by the legislative landscape and current debates. The evidence is mixed, but Rightmove provides some evidence of a landlord sell off, noting an increase in the number of ex-rental properties for sale.

Citylets (2023d) reports that average PRS stock levels are '**10 per cent down on the previous year entering the traditional busiest Q3 quarter**'. The report also includes statements from letting agents across Scotland, who point to a tangible reduction in supply. However, it is not clear what proportion of this diminished supply is attributable to a shrinking PRS and what proportion results from reduced levels of sector churn.

Regardless, the Scottish Government does not recognise these concerns. In response to a consultation on the second extension of the Cost of Living (Tenant Protection) (Scotland) Act 2022, it noted, '**There is no strong empirical evidence at present to substantiate the anecdotal claims from some consultation respondents that landlords are leaving the sector.**'

To support this conclusion, the Scottish Government cite data from the landlord registration system, which shows a slight increase in the number of landlords (583) between January 2022 and January 2023. The problem here, however, is that the same data (Figure 3.1) shows a rather dramatic drop of around 22,000 active landlord registrations between December 2018 and Dec 2021 (Scottish Government, 2022c). There are a number of methodological limitations associated with these data, however, a very practical concern is the observation that landlords only register once every three years. Therefore, any landlords who have sold property over the last three years, but have not reached their registration renewal date, will still show as an active landlord. As a result, data drawn from the system should not be used for short term policy impact monitoring. It should also be noted that property is an illiquid asset, and there are many factors that influence the time lapse between a decision to sell a property and the actual sale.

Figure 3.1 - Number of active landlord registrations in Scotland (2018 to 2021)



Source: Scottish Government, 2022b

The impact of the legislation on the BTR sector has been more immediate and dramatic, with Lord Willie Haughey announcing a hold on a £1 billion, 11,000 affordable homes investment due to increasing costs and the rent cap (Peattie, 2022). Rettie & Co (2023) report separately that £2 billion of BTR investment is '**at risk of not being delivered**'. However, the rising cost of capital and Scotland's ongoing independence currency debate are undoubtably additional factors influencing institutional investors.

The as yet unanswered question is how the Scottish Government propose to transition from the legislation when it expires. A key driver will be to avoid the potential for significant rent rises in parts of the market which have been protected by the cap, whilst moving towards a '**national system of rent controls**' as set out in the New Deal for

Tenants (Scottish Government, 2021b). There is some concern over the precedent set during the pandemic, which saw elements of the temporary legislation become permanent (i.e., tribunal discretion when granting evictions and the requirement for landlords to comply with pre-action requirements). Indeed, the government is already considering its approach.

3.6 Legislation moving forward

There can be little doubt that the temporary legislation introduced since 2020 has had some success in supporting some tenants and has prevented additional burdens being placed upon already stretched local authority and government services. However, neither has done anything to address the ability of tenants to afford their rent in the long term.

Looking to the future, there is little legislative respite in store for landlords, with a large number of proposals making their way through the legislative process. To begin with, new Energy Performance Certificate (EPC) rules will require that PRS properties obtain an EPC C, at change of tenancy, from 2025⁹ or by 2028 at the latest. The 'New Deal for Tenants' consultation (Scottish Government, 2021b) includes proposals for rent controls, new housing standards and more besides. Of these, rent control is attracting the most attention¹⁰, fuelled in part by the issues arising from the introduction of rent pressure zones in Ireland and the rent cap in Scotland.

The big question here is not whether individual measures are required, some undoubtedly are, but rather, how these measures will impact upon affordability and supply. On the balance of probability, it is likely that they will negatively impact upon both.

4. Supply, demand and rents in Scotland

It should be recognised that an increasing legislative burden is not the sole driver of dwindling PRS supply. Rising interest rates are increasingly important for two reasons. Firstly, the number of BTL products on the market has reduced and rates on remaining products have risen (Sagar, 2023). As a result, landlords face higher costs when re-mortgaging, making some investments unviable. Increased mortgage rates also make leveraged market entry considerably less attractive.

Secondly, fixed rate savings accounts now provide returns in excess of six per cent per annum (Money Saving Expert, 2023). These will undoubtedly be attractive to landlords in general and specifically the 40 per cent who currently earn a total return less than six per cent (Watson, 2023).

A further factor reducing supply is an ageing super cohort of landlords who are at or nearing retirement and in some cases seeking to exit the sector (Ronald & Kadi, 2017). This process requires a steady flow/increase of new landlords to maintain existing stock levels. However, the Scottish Government figures cited in the previous section do not demonstrate such growth.

Another issue constraining supply is a decrease in PRS churn levels. As noted earlier, the time spent in the PRS is elongating for many groups (Marsh & Gibb, 2019) meaning that properties are not recycled back into the market as frequently.

On the demand side, the sector is subject to increasing levels of demand from a myriad of tenant groups including students, young professionals, low income workers, the homeless and generation rent, amongst others (Livingston et al., 2018).

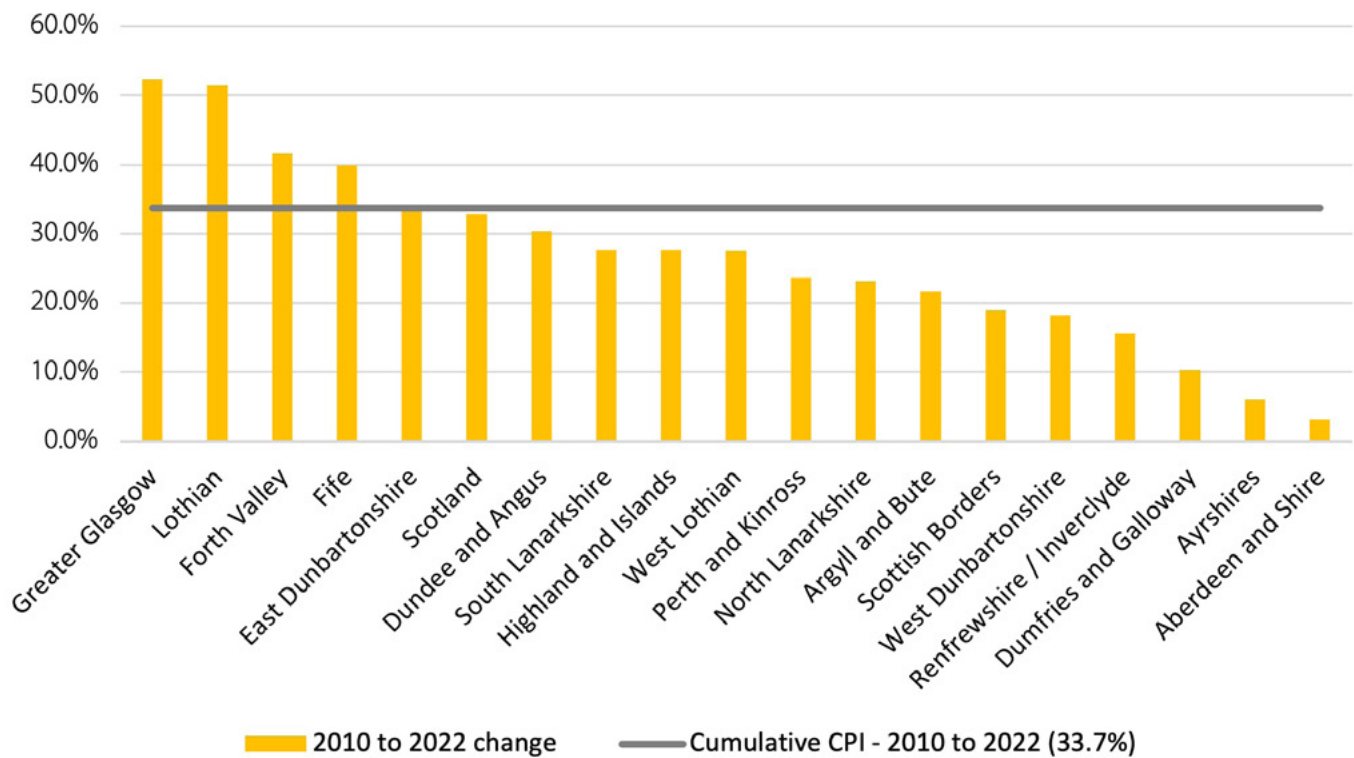
In short, **'supply has not kept up with demand'** (Scottish Property Federation, 2023). There is no shortage of anecdotal evidence regarding the impact of this mismatch ranging from the emergence of rental bidding wars, landlord requests for tenant CVs and letting agents closing down rental enquiry lines.

⁹Further details and exclusion can be found at <https://www.gov.scot/policies/energy-efficiency/energy-efficiency-in-homes/>.

¹⁰Rent controls are a topic of considerable ongoing debate. See BPF (2023); (Gibb et al., 2022a; Gibb & Marsh, 2022; Gibb et al., 2022b, 2022c) for more details.

Although in this context, there is much hyperbole regarding the rapid growth of PRS rents within Scotland, the evidence is mixed. Between 2020 and 2022, mean rents grew in excess of the cumulative rate of CPI in just five out of 18 BRMAs (Figure 4.1). It is clear that rents have increased above CPI in areas with strong demand (e.g., Glasgow and Edinburgh) and below CPI in areas with low demand (Ayrshire and Aberdeen). This would appear to suggest that the market is working. However, the data does point to unsustainable levels of rental growth in a few key areas.

Figure 4.1- Cumulative change in mean rents 2010 to 2022 (2-bedroom properties)



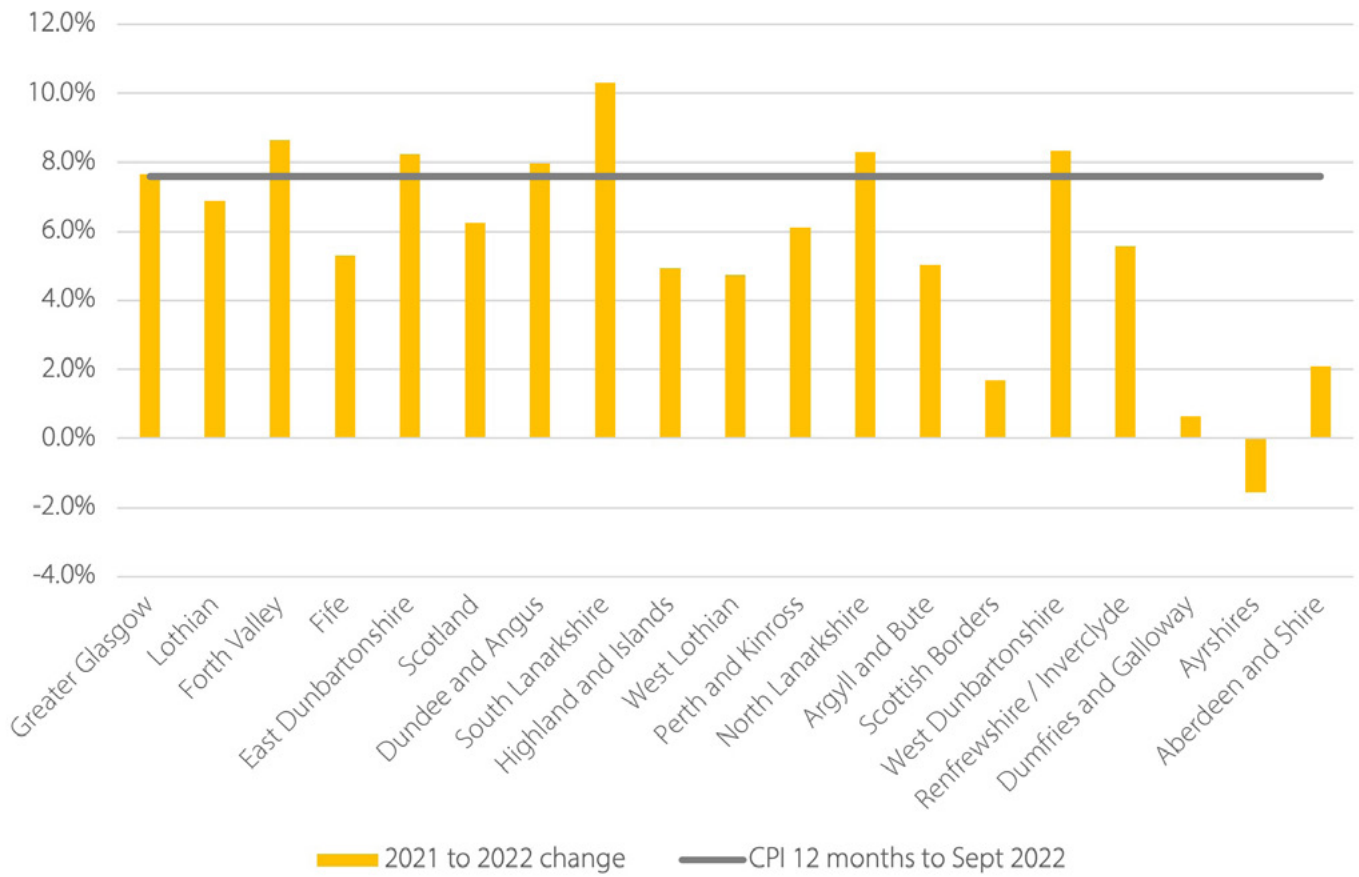
Source: Adapted from Scottish Government (2022e)

Looking at the same data but over a shorter time series (between October 2021 and September 2022) reveals above CPI increases¹¹ in seven BRMAs (Figure 4.2). However, it also demonstrates the dynamism of the market with significant growth in Dunbartonshire, Lanarkshire as well as Dundee and Angus.

The data are interesting but dated and therefore cannot accurately inform current debates around affordability. It would be logical to assume that the forthcoming dataset to September 2023, which will not be released until January 2024, will show restricted rental growth in light of the introduction of the Cost of Living (Tenant Protection) (Scotland) Act 2022. However, as will be discussed shortly, methodological concerns will impact the effect.

¹¹The average CPI between October 2021 and September 2022 is 7.6 per cent. Note however, that CPI rose by 10.1 per cent in the 12 months to September 2022 (ONS, 2022). If this figure was used, only one BRMA would have seen a rent increase above CPI.

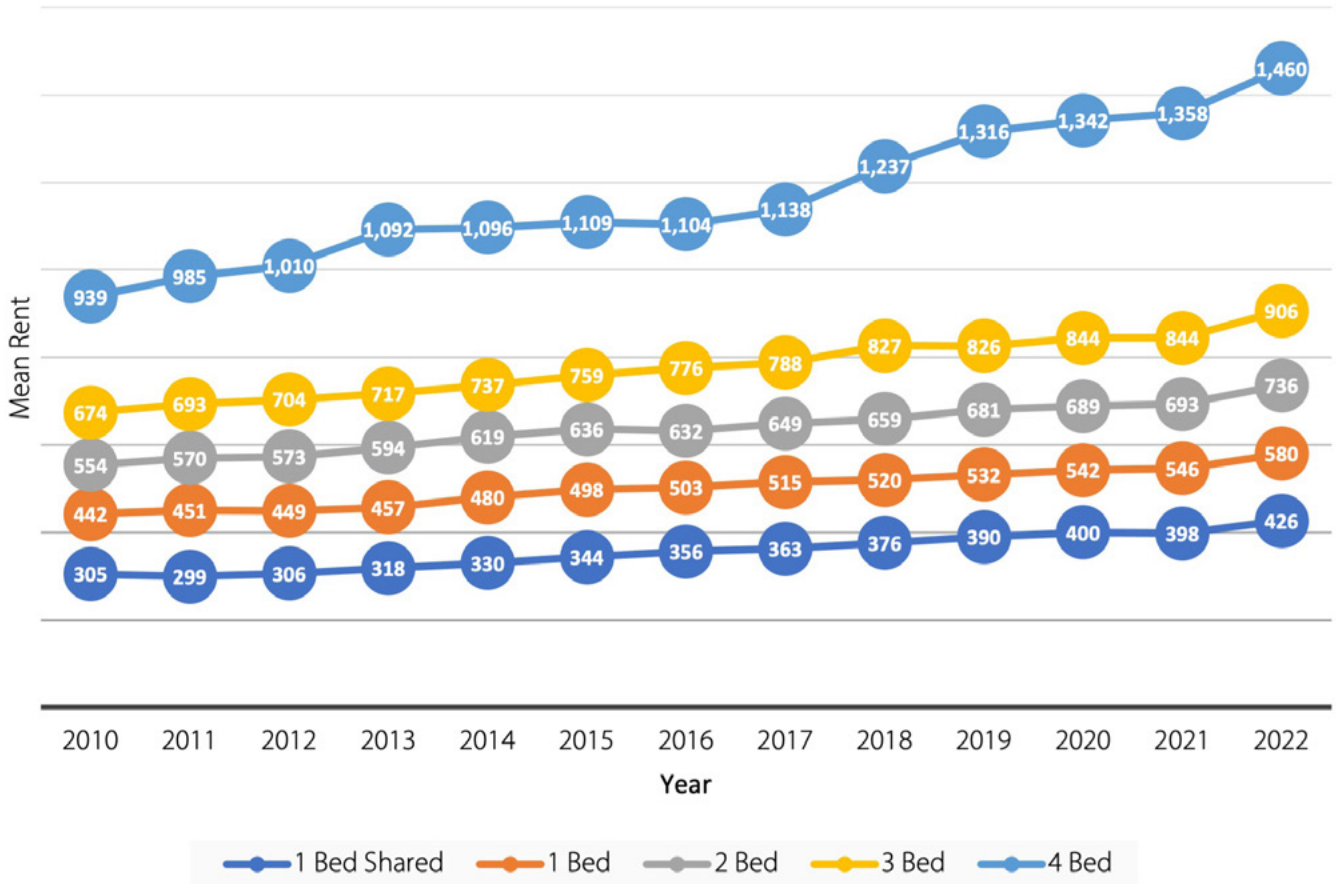
Figure 4.2 - Cumulative change in mean rents 2021 to 2022 (2-bedroom properties)



Source: Adapted from Scottish Government (2022e)

The longer data series can also be presented by property type. Figure 4.3 suggests that the growth has been relatively balanced across each property type.

Figure 4.3 - Cumulative change in mean rents 2021 to 2022 (all property types)



Source: Adapted from Scottish Government (2021c) and Scottish Government (2022f)

More recent data compiled by the ONS (2023) (Figure 4.4) is drawn from the same source as Scottish Government data but uses a different methodology. It suggests that the annual percentage change in rents in Scotland in the 12 months to June 2023 was 5.5 per cent and 5.7 per cent in the 12 months to July 2023. These are set against a CPI rise of 7.9 per cent and 6.8 per cent respectively, pointing to some restraint.

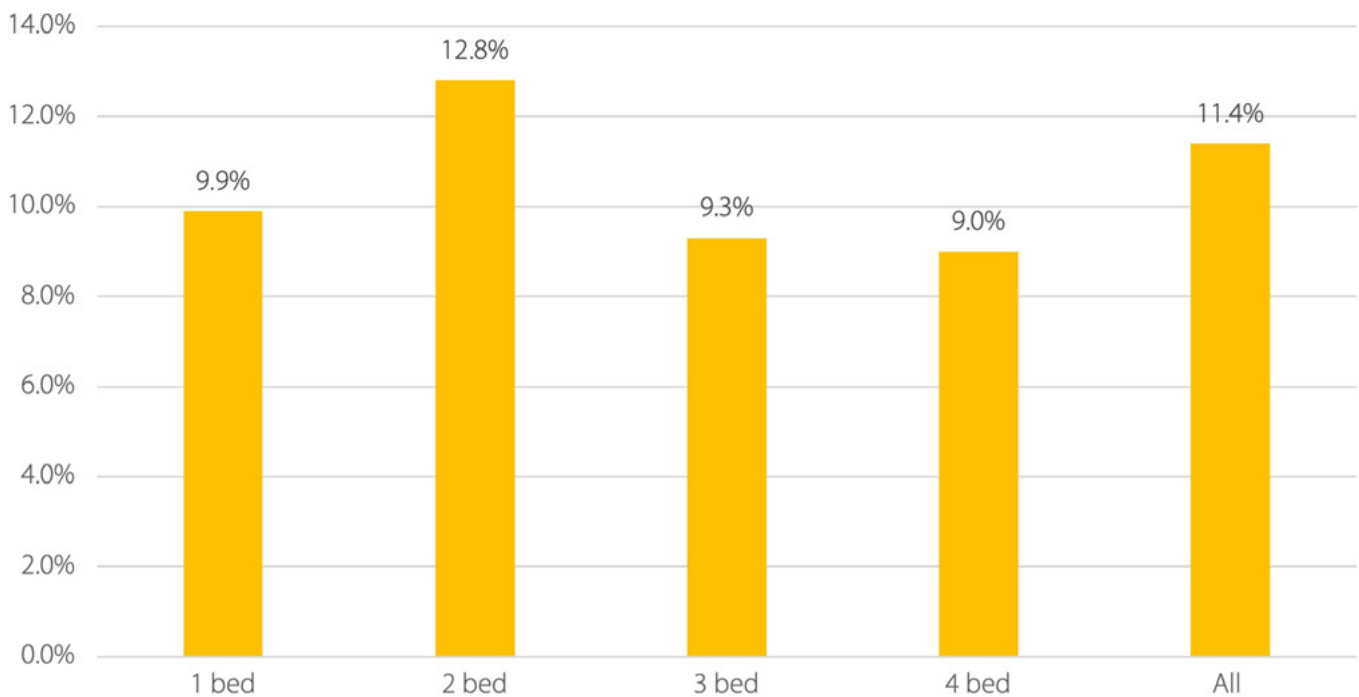
Figure 4.4 - Private rent year-on-year price change 2012 to 2023



There are also a variety of industry sources of rental data. One example is the Hamptons Monthly Letting Index, which draws upon records from the Countrywide Group (a property services provider). The index reports year-on-year rental growth to June 2023 of 8.7 per cent in Scotland. This is set against CPI growth of 7.9 per cent in the same period.

A further source is Zoopla, an online advertising portal, who report an annual year-on-year increase of 13.1 per cent in advertised rents to June 2023 (Donnell, 2023). Citylets, another online property advertising portal, report year-on-year growth of 12.4 per cent in the first quarter of 2023 and 11.4 per cent to the second quarter (2023a, 2023d). As can be seen in Figure 4.5, there are only slight differences in the growth rate they report by property size, again suggesting that the entire market has been impacted.

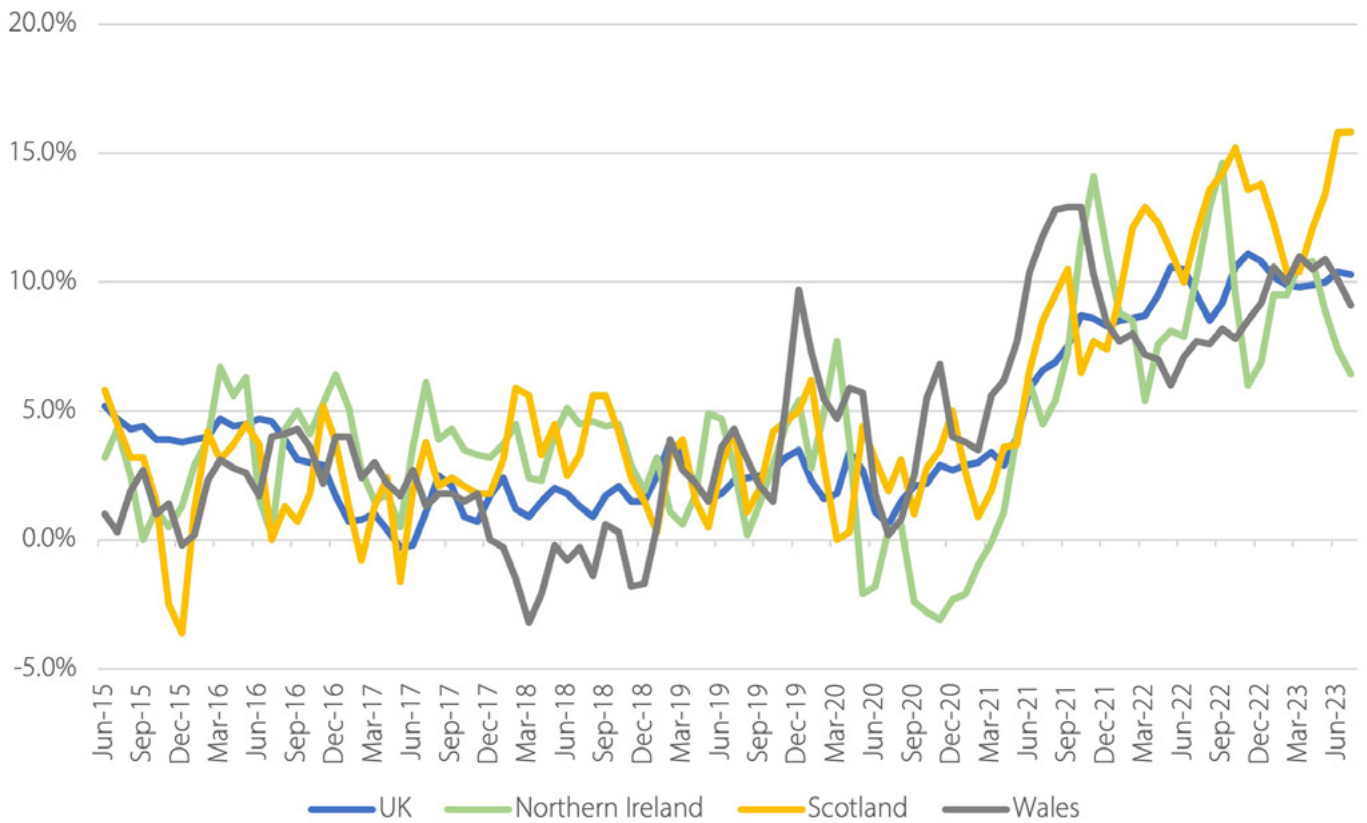
Figure 4.5 - Year-on-year percentage rent change by property type (Q2 2023)



Source: Adapted from Citylets (2023d) Market Overview - Q2 23

Homelet (2023), a tenant referencing and specialist lettings insurance company, have a long running index which tracks the annual variation in UK rental values. The series (Figure 4.6) demonstrates the effects of market and regulatory forces upon the sector and suggests stronger rental growth in Scotland than in other constituent parts of the UK in recent times. A more detailed look at Scotland over the last three years (Figure 4.7) suggests that the pace of rental growth has been dramatic.

Figure 4.6 - Annual variation in UK rental values 2015 to 2023



Source: Adapted from Homelet (2023)

Figure 4.7 - Annual variation in Scottish rental values 2020 to 2023



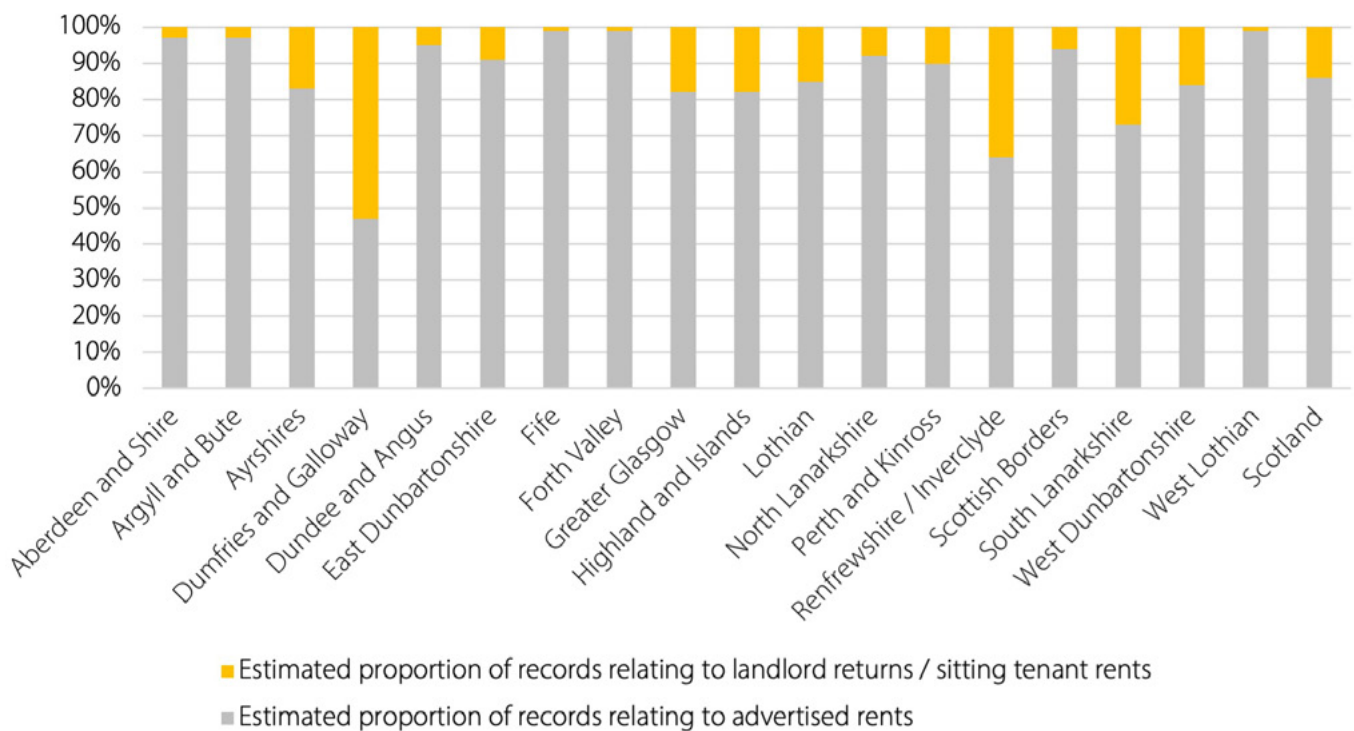
Source: Adapted from Homelet (2023)

However, whilst each of the afore-referenced data sources point to rents rising, in some cases dramatically since the advent of the 'cost-of-living crisis', it is important to recognise limitations within the data. For example, the Scottish Government's PRS rent statistics referenced draw upon data from the RSS 'Market Evidence Database'. This database has an overreliance on advertised rent data (the rent at which an available property is being advertised/ marketed) at the expense of existing rent data (the rent associated with established ongoing tenancies). The Scottish Government (2022d) qualify this in their presentation of the data:

'In the latest year to end September 2022, an estimated 86 per cent of records were based on advertised rents, with the remainder being based on sitting tenant rents from landlord returns.'

More detailed data, obtained via Freedom of Information (FOI) request FOI/202300368850 for the purpose of this report, shows the extent of the bias (Figure 4.8). In all but one BRMA, over 50 per cent of the records are based upon advertised rents. In over half (10 BRMAs), the figure is 90 per cent or over.

Figure 4.8 - Proportion of records attributable to landlord returns and advertised rents



Source: Adapted from FOI/202300368850

This bias towards advertised rents is problematic for several reasons. Firstly, advertised rents do not necessarily align with the rents finally achieved. According to market dynamics, the condition of the property and a plethora of other factors, tenants may offer more or less than the advertised rent. As a result, the final negotiated rent could be higher or lower than the rent that was advertised.

Secondly, existing rents make up the larger part of the market and therefore should attract a larger weighting in the analysis. Due to market dynamics, these rents will inevitably differ from advertised rents. Furthermore, as there is some evidence that existing rents change relatively infrequently (see Section 3.3) and as 42 per cent of adults had lived in their PRS accommodation for between one and four years (Scottish Government, 2023h), it is likely that some existing rents will be considerably lower than advertised rents.

The ONS data attempts to address this overreliance on advertised rents by incorporating both advertised and existing rents within its index of private housing rental prices (IPHRP) which is classified as an experimental statistics output. However, as the IPHRP data is also drawn from the 'Market Evidence Database' these replacement properties are likely to be biased towards advertised rents. As the ONS notes:

'Measures for Scotland are mainly based on advertised rental data for new lets, along with assumptions on average periods between rent price increases, so changes in rents for existing tenants are largely estimated. The IPHRP methodology assumes that rental price remains constant for up to 14 months if updated rental data for that property are not available, and replaces records more than 14 months old. Since only a small proportion of Scotland data collected are based on updated rental data from existing lets, replacement data will be predominantly based on newly advertised rents.'

Furthermore, it is not clear that 14 months is an appropriate period in a Scottish context.

The industry sources such as Zoopla and Citylets are completely based upon advertised rents, although the Homelet data is based upon newly agreed rents.

A further danger with industry data sources is that they do not represent the whole of the market. For example, Homelet source their data from a large client base consisting of 4,500 letting agents. However, in Scotland, only 41 per cent of landlords use a letting agent to source tenants (Watson, 2023).

This lack of market coverage is also visible in the data sourced from online advertising portals. Not all landlords advertise their properties via advertising portals, but those who do (either directly or via an agent) utilise different portals. To illustrate this, a cursory search of rental properties was undertaken for North Lanarkshire via Rightmove (2023), Zoopla (2023), Gumtree (2023) and Citylets (2023c). The searches reveal ten, four, three and one properties available for rent respectively. It is therefore concerning that the Scottish Government (2023g) relies upon these statistics, albeit with caveats, in its Q2 2023 Scottish Housing Market Review.

Despite deficits in the robustness of the data, it is clear that rents are rising. According to official data, in the minority of cases these rises are above CPI, in the majority, they are not. Overall, it is concerning that the data currently being relied upon to inform policy decisions is heavily skewed towards advertised rents, which are increasing in response to inflation, but also, perversely, in response to recent and proposed legislation including those designed to restrict rent increases. As a direct result of the rent cap, the PRS now has a distinct two-tier pricing system with clear winners and losers.

The implications are broad, but in the short-term, many tenants are trapped in tenancies with existing rents, which are far lower than advertised rents. This short-term affordability dividend is offset by greatly reduced opportunities for mobility. On the other hand, for those seeking to enter the PRS, the challenge is significant. Not only do they face high rents and high levels of competition, but high rents also mean high deposits. Unfortunately, sector entry is likely to be particularly difficult for those relocating from social housing or those seeking to use the PRS as a gateway out of homelessness.

5. Defining affordability

The term affordability is used in a wide variety of housing contexts and has a number of different conceptualisations. For example, there is aspiration for everyone to have an affordable home (Scottish Government, 2021a), there is a target to build more 'affordable homes' (Scottish Government, 2022) and there are plans to introduce rent control in the PRS to curb affordability concerns (Scottish Government, 2021b).

In a rental context, the proliferation of the term is no longer the preserve of social housing debates, but is now used in the broader context of private rents, social rents, MMR, shared ownership and more besides (Scottish Government, 2019).

These differing conceptualisations and contexts mean that there is **'no one universally accepted definition of rent affordability'** (Scottish Government (2019). Sanderson (2023) suggests that the term is used carelessly in the context of housing and the Affordable Housing Commission (2019) suggest that the term is a **'much-abused word in housing circles'**.

Rental affordability also means different things to different people as it is affected by factors including household income (including levels of means tested benefits), household debt, household composition, geographical location, household choice as well as a range of intermediary factors such as the legislative regime, interest rates, inflation, and more besides.

Regardless of these limitations, there are many attempts to define the term:

- The Affordable Housing Commission (2019) relate affordability to **'what level of income spent on housing is likely to cause hardship and stress.'**
- Shelter suggest that a home is affordable **'if you can pay the rent or mortgage without being forced to cut back on the essentials or falling into debt.'** (Bibby, 2015)

With differing definitions come differing methods for calculating affordability, each with its own pros and cons. These include the price to earnings method, which compares the ratio of house prices to household income; the proportion of income method, which focuses on the percentage of income spent on housing; and the residual income method, which is concerned with how much income is left following housing expenses.

Many of the existing methods and proposed methods use rules of thumb to describe a proportion of income or threshold value, beyond which housing becomes unaffordable. For example, Meen (2018) reports a figure of 25 per cent and Shelter (2015) 35 per cent, which bodes ideological and practical questions regarding how the other 75 per cent and 65 per cent respectively should be apportioned?

These methods are thoroughly examined and explained by Meen (2018) who points to a range of methodological and practical issues with each.

There are ongoing debates as how to best address these conceptual, definitional and methodological shortcomings. For example, Perera and Lee (2021) suggest moving towards a relational view, while others such as Wilcox and Bramley (2010), have proposed multiple measures of affordability. Meen (2018) provides a range of insights, which warrant further study, but strongly advocates that measures should **'be relevant to, and reflect the circumstances of, groups widely thought to experience affordability problems, particularly low-income households'**.

The Scottish Government Housing Affordability Working Group has been formed with the specific **'aim of reaching a consensus on a shared understanding of affordability'**. The scale of their challenge is underlined by the group's guiding principles which point to the need for a person-centred perspective, a human rights-based approach, a focus on equality and anti-discrimination, and a systems wide approach.

Gibb¹² asserts that a true scientific definition may be unreachable, but that a consensus might be reached. For the purposes of this paper, we have adopted a simple definition of affordability, which focuses on the alignment between LHA rates and advertised rents as follows:

'An affordable rent is a rent that allows LHA recipients to secure PRS rental properties at the 30th percentile of advertised rents in each BRMA for their eligible housing type.'

The purpose of doing so is to match recent approaches to LHA rate setting and to aid later analysis. A clear implication of this definition is that it tacitly assumes that LHA rates should fully fund rents at this level (it is not necessarily clear that they should) and furthermore, that even very small shortfalls in LHA rates against this benchmark, result in unaffordable housing. However, this is not necessarily the case. LHA recipients face differing non-housing costs and have differing levels of residual income and so have differing levels of financial resilience to rising rents.

6. Local Housing Allowance - an overview

Prior to 2008, housing benefit for private tenants was restricted according to their level of income and restrictions imposed by rent officers who **'played a role in ensuring that H[ousing] B[enefit] neither fuels rent increases nor enables people to live in more expensive private sector accommodation than they could otherwise afford.'** (House of Commons Library, 2006). However, as a result of these restrictions, the majority of private tenants faced **'crippling shortfalls'** between the level of their housing benefit award and the level of their rent (CAB, 2005). This was just one of many issues with the system. Although these are well summarised elsewhere (Kemp, 1998; Shelter, 2006), the observations of Lord Whitty (2000) provides an abbreviated summary:

'Everyone recognises that housing benefit is in need of reform. It has helped distort the structure of rents and trap people in unemployment. It is difficult to understand and complex to administer.'

Andrew Smith (2000), the then Secretary of State for Work and Pensions goes further:

'The system we have inherited is complicated, costly to administer, vulnerable to fraud and difficult for tenants to understand. For too many people it means endless form filling and delays in payment. It is often a factor preventing people from making the move from welfare into work.'

These concerns were recognised and broadly shared within the UK Government (DETR, 2000).

Conceived as a **'simpler'** system, LHA established the **'maximum financial support payable'** to those entitled to means tested housing benefit for those who resided within the PRS (House of Commons Library, 2006). For the claimant, LHA was designed to improve fairness and choice, increase transparency, improve personal responsibility, ensure financial inclusion and streamline administration (DWP, 2006). For the government, LHA offered the chance to reduce the administrative burden, combat fraud and incentivise claimants into the workforce (Shelter, 2006).

Due to a variety of reasons, including rising costs and the emergence of unintended outcomes, several of the tenant centric ambitions were weakened by subsequent reforms. For example, LHA recipients were originally entitled to keep excess funds (up to £15 per week) where their actual rent was less than the LHA rate. However, this entitlement was removed in 2011 due to **'customers in some areas benefiting far more than others'** (DWP, 2009) and thus compromising the fairness principle. In reality, this meant a loss to some tenants, but early evidence suggested that it resulted in a gain for any landlords who choose to increase the rent to the maximum allowed by the LHA rate (CAB, 2005).

¹²Gibb, K (2022) Housing Affordability Scottish Government Working Group: Introductory Background and Overview Paper, July 2022 - available on request.

LHA was initially trialled via nine 'pathfinder' local authorities¹³, with the first commencing in November 2003¹⁴. A further nine authorities were added in 2005¹⁵. Overall, the project was broadly supported.

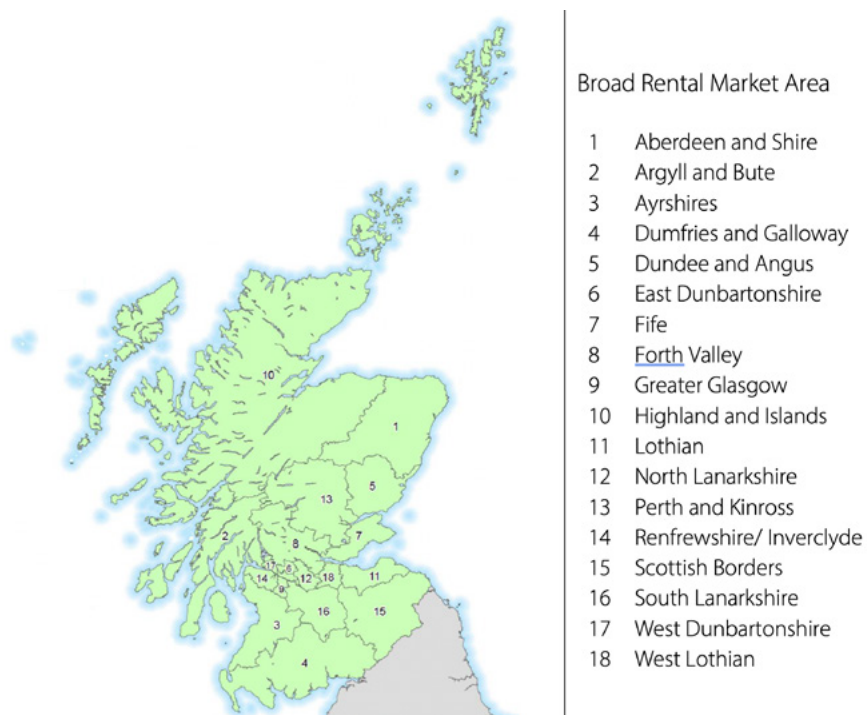
After thorough scrutiny of the trials, the UK Government concluded that overall, pathfinder had '**worked well**' (House of Commons Library, 2006). The CIH concurred, noting that the initiative had '**been a great success**'¹⁶. CAB (2005) on the other hand, reported mixed success against the original objectives and Shelter (2006) pointed to failings, including it becoming '**more difficult**' for claimants to afford and access PRS properties in pathfinder areas. Regardless, enabled by the Welfare Reform Act 2007, a national roll out followed in April 2008.

LHA bases housing support payments on a system of '**standard maximum allowances**' (House of Commons Library, 2006) with the level of support which claimants receive under LHA differing according to household size and, specifically, the number of bedrooms they are entitled to, and their geographical location.

The bedroom component is calculated according to the number of people living in a property, their age and sex¹⁷. For example, a married couple with two girls aged between 10 and 15 would be entitled to the two-bedroom rate. The same couple with one boy and one girl of the same ages would be entitled to the three-bedroom rate.

The geographical component relies upon the identification of typical rents in a given area. This marks a significant departure from the previous system in which '**tenants had their maximum benefit entitlement restricted by an individual assessment of their accommodation made by rent officers**' (DWP, 2009). Rather than adopt the local authority level as a boundary classification, LHA utilises BRMAs¹⁸. There are 18 BRMAs in Scotland, 152 in England, 22 in Wales and eight in Northern Ireland. This contrasts with 32, 317, 22, and 11 local authorities or equivalents respectively. Scotland's BRMAs are detailed in Figure 6.1.

Figure 6.1- Scotland's BRMAs



¹³The pathfinder project was conceptualised in the DWP publication - Building choice and responsibility: a radical agenda for Housing Benefit, DWP, 2002. The wider roll out was discussed in the green paper - A new deal for welfare, empowering people to work, DWP, 2006.

¹⁴The first nine pathfinder authorities were Blackpool, Brighton and Hove, Conwy, Coventry, Edinburgh, North-East Lincolnshire, Leeds, Lewisham and Teignbridge.

¹⁵The second nine pathfinder authorities were Argyll and Bute, East Riding of Yorkshire, Guildford, Norwich, Pembroke District, Salford, South Norfolk, St Helens and Wandsworth.

¹⁶Quote attributed to the CIH in House of Commons Library (2006). Original source no longer available.

¹⁷The DirectGov website includes a calculator to allow claimants to check how many rooms they are entitled to (see: <https://lha-direct.voa.gov.uk/bedroomcalculator.aspx>).

¹⁸BRMA are 'largely similar' to the localities previously utilised by rent officers (House of Lords, 2008).

In Scotland, the responsibility for setting BRMAs lies with RSS, who are part of the Scottish Government. The current boundaries have been designed in accordance with the Rent Officers (Housing Benefit Functions) (Amendment) Order 2008 and Rent Officers (Housing Benefit Functions) (Scotland) Order 1997.

The reason BRMAs cross local authority boundaries is implicit in the Schedule 3B BRMA definition as:

'... an area within which a person could reasonably be expected to live having regard to facilities and services for the purposes of health, education, recreation, personal banking and shopping, taking account of the distance of travel, by public and private transport, to and from those facilities and services.'

This schedule also stipulates how a BRMA should be comprised. It should include:

(a) residential premises of a variety of types, including such premises held on a variety of tenures; and

(b) sufficient privately rented residential premises to ensure that, in the rent officer's opinion, the local housing allowance for the categories of dwelling in the area for which the rent officer is required to determine a local housing allowance is representative of the rents that a landlord might reasonably be expected to obtain in that area.'

It is important to recognise that an underlying rationale for LHA is **'that taxpayers do not subsidise benefit claimants to live in expensive rental accommodation that those not on benefits could not afford'** (DWP, 2020). As a result LHA rates **'are not intended to cover all rents in all areas'** (Davies, 2023).

On the surface, restricting rates in line with a specific percentile appears like an appropriate and expedient method of achieving this. As the ratios between LHA rates and rents have fluctuated over time, it could be assumed that a fair gap has been maintained in the affordability levels of rents for recipients and non-recipients. However, there is no Scottish data to support this assumption. For example, it is not known what percentile of rents are currently affordable to groups not in receipt of LHA and specifically, those in the quarter of PRS tenants in the bottom 40 per cent of the income distribution (IFS, 2023a)¹⁹. Without this knowledge, it is impossible to know where the line should be drawn. This raises a problem for those advocating, permanent percentile specific increases.

So, whilst maintaining an ideological gap in affordability levels between recipients and non-recipients appears to be fair and generally accepted, it does not appear to be considered during the LHA rate setting process. If it were to be included, it could result in a race to the bottom in the current economic environment.

Furthermore, the current debate is so focused on percentiles, that larger questions around whether PRS properties should be accessible according to such benchmarks and, more broadly, the level of support that LHA should provide, are largely ignored.

In addition to these conceptual concerns, there are a number of methodological and practical concerns regarding the identification of BRMAs and the subsequent identification of LHA rates. These include but are not limited to concerns regarding: the conceptual underpinnings of LHA; the definition of the BRMAs; the sample size used in calculating LHA rates; the time lag between data collection and rate commencement; the discarding of rent data; the overreliance on advertised rents; the appropriateness of the SAR; and, cumulatively, the impact of these concerns on 'affordability' for LHA recipients. These concerns and their impacts are explored in the sections that follow.

¹⁹Interestingly, a now aged English study (Walker & Niner, 2010) found that PRS properties occupied by low income working households fell below the respective LHA rate (at the 50th percentile) by £16 per week on average.

7. Local Housing Allowance - methodological concerns

7.1 Concerns with the definition of Broad Rental Market Areas

From the outset of the scheme, there have been concerns about the transparency of BRMA creation²⁰. For example, the Citizens Advice Bureau (UK Parliament, 2010) noted:

'The BRMA calculation is one of the least transparent, nobody can understand it. It is an absolute nightmare to try and explain to somebody how the boundary was drawn in that way.'

Others have identified issues resulting from the boundaries selected. For example, research by (Shelter, 2009) concluded that:

'...the BRMA boundaries used for setting LHA are working contrary both to the aims of housing benefit reform and to wider government initiatives, such as creating mixed communities and maximising employment and training incentives for benefit claimants.'

Furthermore, although the criteria for setting BRMAs are relatively broad (see earlier), a notable omission is that travel to work times are not considered. The UK Government's response to this in 2010 was that **'a lot of people travel a long way to work and we think that it is completely unrealistic to say that we should have the housing market in the same space as the travel-to-work area'** (UK Parliament, 2023b). However, for some in receipt of LHA, the travel to work radius is likely to be relatively small.

There are also concerns that BRMAs are **'too widely drawn'**²¹. In fact, the Scottish Futures Trust (2023) suggest that Scotland's BRMAs are:

'...too aggregated to provide meaningful insight into housing markets at an individual town level.'

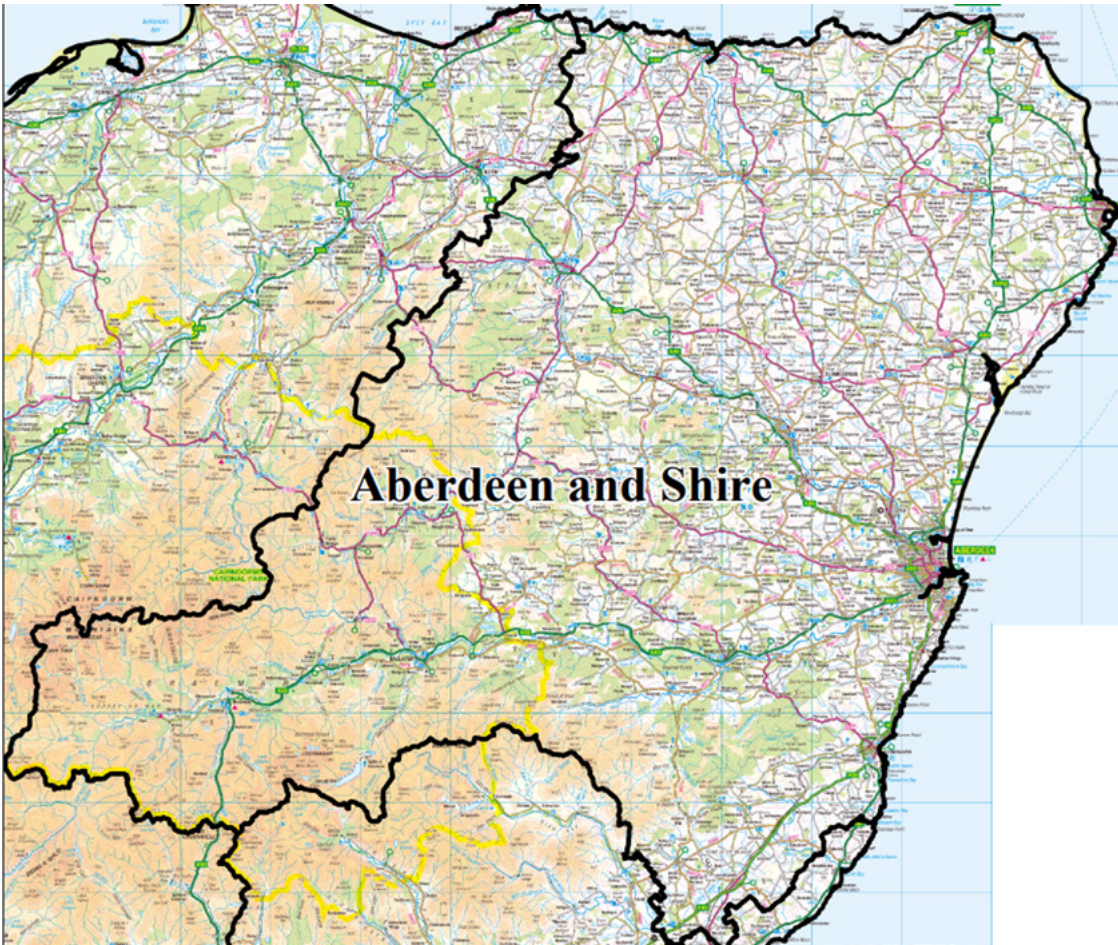
In balance, it would appear that Scottish BRMAs are relatively large, especially when considered in relation to other BRMAs in other parts of the UK²². A case in point is Aberdeen (Figure 7.1), which encompasses around eight per cent of Scotland's overall landmass, and includes both Aberdeen City as well as a number of rural areas. It is difficult to envisage how the broad range of rental markets and submarkets within this boundary can be represented in a single set of rates.

²⁰It would appear that there is more transparency regarding the process in England, See <https://lha-direct.voa.gov.uk/search.aspx> to compare the different levels of data available for BRMA in Scotland and England by local authority.

²¹Quote attributed to the Child Action Poverty Action in House of Commons Library (2006). Original source no longer available.

²²Wales for example, has a smaller geography than Scotland, but has more BRMAs.

Figure 7.1 - Map of Aberdeen and Shire BRMA

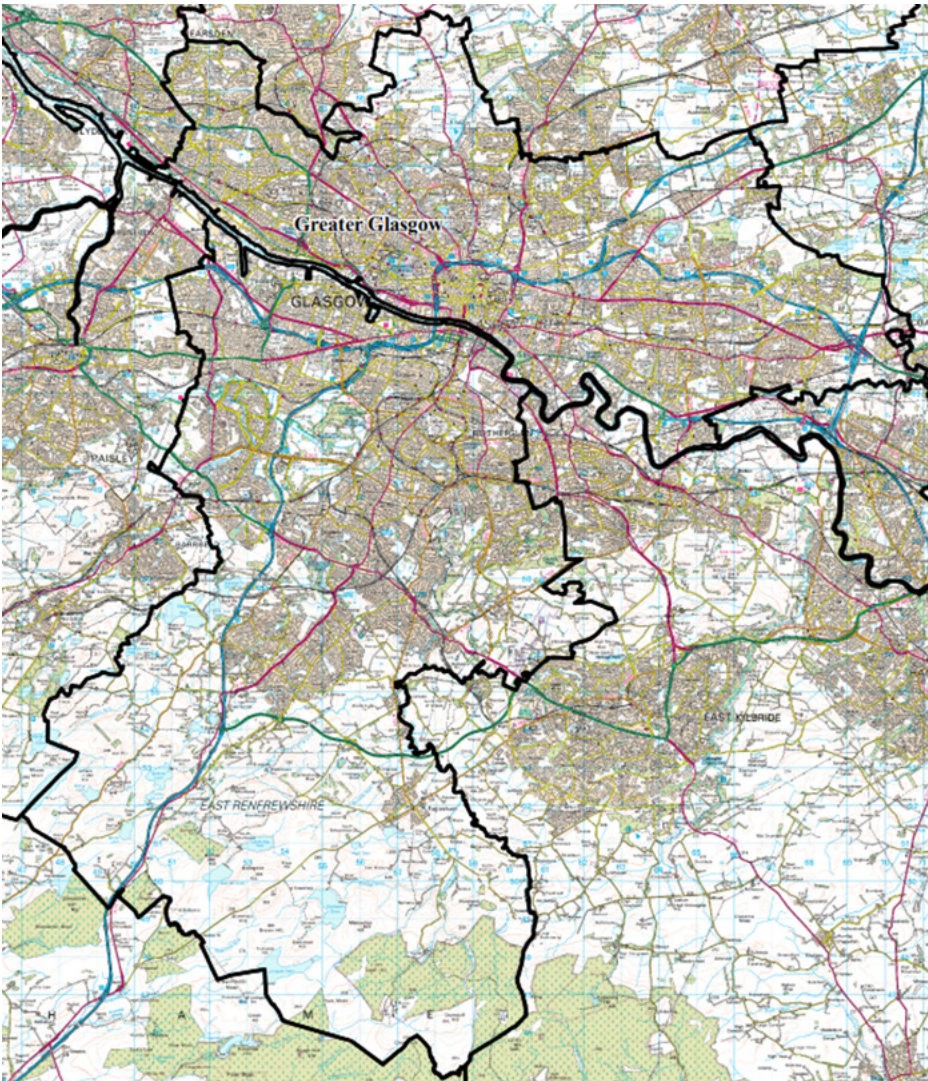


Source: <https://lha-direct.voa.gov.uk/>

A further example is the Greater Glasgow BRMA (Figure 7.2), where the mix includes city and suburban areas. It is notable that the BRMA encroaches into East Renfrewshire and in particular affluent areas such as Thornliebank, Giffnock, Newton Mearns, Clarkston, Muirend, Busby and Eaglesham. This is one example of an area where the size of the BRMA is likely to cause **'major problems within high rent pockets in otherwise low market areas'** (Robertson & Young, 2018).

In fact, Glasgow City Council (2007) warned that the inclusion of East Renfrewshire into the then proposed Greater Glasgow BRMA posed a **'serious cause for concern'** due to a **'very wide disparity in private rents between the East and West of the city of Glasgow'**. However, given its inclusion, it is confusing that all of Rutherglen, Cambuslang and parts of East and West Dunbartonshire were not also included. The same/similar arguments can be made within most BRMAs.

Figure 7.2- Map of Greater Glasgow BRMA



Source: <https://lha-direct.voa.gov.uk/>

Given data limitations, it is not abundantly clear how the relative portions of rental data from urban and rural lettings raises or lowers the LHA rate. However, one simplistic way to explore this further is to look at the average rents in BRMAs constituted of two or more local authorities. To do so, we use data drawn from a dataset provided by Zoopla. We focus on rental listings in Scotland between 1 April 2022 and 31 March 2023, which were pre-sorted by BRMA, cleansed and had outliers (rent <£300 per calendar month and >£2000 per calendar month) removed. It should be noted that the data suffers from many of the rental limitations pointed out earlier; that is, not all landlords advertise via property portals and those who do, do not always utilise Zoopla. In addition, despite being the most up to date data that were readily available, there is still a considerable time lag. A further limitation is the absence of unambiguous data relating to the 'shared room' category and, as a result, this research is focused upon one, two, three and four-bedroom categories. Regardless, it is currently the best source of freely available data as demonstrated in a recent assessment of its quality and representativeness (Livingston et al. (2021).

In Table 7.1, the average rent for a two-bedroom property has been identified for a random selection of BRMAs along with the average rents for each local authority that is included in each BRMA. As expected, the data clearly highlight differences in the average rents between local authorities in each BRMA.

The aggregation of these figures within a single BRMA is likely to have a significant effect on the LHA rate for that area. One possible implication for tenants is that some may have to relocate a large distance from their desired location in order to find an affordable rent. However, it should be noted that the data was not collected for this purpose, is not weighted and includes some small sample sizes. As such, the analysis should be considered illustrative only.

Unfortunately, the sample sizes are also too small to repeat the analysis at postcode level in order to provide commentary at that level, or in relation to specific markets and sub-markets. In any event, there is little understanding of the latter in light of existing data limitations. Regardless, it is commonsensical that; the larger the BRMA geography, the wider the urban rural divide and the broader the number of markets and submarkets included, the more rents will vary.

Table 7.1- Average rents by BRMA and constituent BRMA local authorities

BRMA	Geography			
		BRMA Level	Aberdeen City	Aberdeenshire
Aberdeen and Shire	£ 700.68	705.32	655.17	-
		BRMA Level	Clackmannanshire	Falkirk
Forth Valley	£ 720.98	632.5	640.74	845.39
		BRMA Level	City of Edinburgh	East Lothian
Lothian	£ 1,174.22	1188.47	1020.33	851.95

Source: Zoopla dataset

These observations intuitively suggest that a larger number of BRMAs are required to take a more detailed account of local markets. However, the fundamental question here is whether the variances observed produce rent differences which are large enough to necessitate a BRMA boundary change?

There is an established BRMA Review Protocol (UK Government, 2023b)²³, which includes a requirement for rent officers to periodically review BRMA boundaries. Local authorities are also able to request a review where in line with the following **'relevant reasons'**²⁴:

- Significant change to the provision of facilities and services for health, education, recreation, personal banking and shopping.
- Significant change to the transport infrastructure.
- Significant change to the variety of housing types and tenures.
- Significant change to the size of the PRS.

However, other than a change in July 2015, which re-allocated Oban from the Highlands and Islands BRMA to the Argyll and Bute BRMA (Scottish Government, 2021d), it does not appear that Scotland's BRMAs have been significantly altered since inception.²⁵ This could easily lead to the conclusion that variances are not large enough to warrant change and therefore that existing BRMAs are optimal. Whilst this is entirely possible, the geographical and market spread contained within each BRMA makes this unlikely.

Regardless, re-designating boundaries to address these challenges would not be possible without a comprehensive database of SPRS rents, that can be broken down by geography, market and sub-market. Although any boundary changes would inevitably result in winners and losers, further data and research is required to quantify the possible effects.

²³The protocol requires that BRMA changes are agreed by Secretary of State for Work & Pensions.

²⁴We asked RSS how many local authorities had requested a review; the response was outstanding at the time of publication.

²⁵We asked RSS if this was the case, again the response was outstanding at the time of publication.

7.2 Concerns regarding the sample size used in calculating LHA rates

As detailed earlier, RSS maintains a list of rents in a 'market evidence database', which is used to inform the setting of LHA rates. To create the lists, the service uses a **'combined approach of regular and targeted collection based on market intelligence'** in order to obtain **'a representative sample of around 10 per cent of private rents'** for each property size for each BRMA. Robertson and Young (2018) are critical of this sample size and point to a much larger sample (20 per cent) being used in England.

A key implication of the approach adopted by RSS is that rent officer judgement plays a significant role in the process. As the ONS (2018) note:

'Rent officers are expected to maintain a high standard of knowledge of the private rental market in their area and over time the collection is refined using local market knowledge to reflect the changing rental market'

The sample proportion to the year ending September 2022 was obtained via FOI and is detailed in Table 7.2. It is clear that the proportion differs between BRMAs. The breakdown of rents for these 35,716 rents can be accessed via FOI/202300368850.

Table 7.2 - BRMA sample size as a proportion of PRS properties for the year ended September 2022

BRMA	PRS Stock Properties	Total Sample Size	%
Aberdeen and Shire	36,616	3,907	11
Argyll and Bute	3,412	400	12
Ayrshires	15,961	2,532	16
Dumfries and Galloway	10,288	990	10
Dundee and Angus	22,364	1,904	9
East Dunbartonshire	2,934	377	13
Fife	20,927	1,688	8
Forth Valley	14,152	1,739	12
Greater Glasgow	61,269	5,611	9
Highland and Islands	17,017	1,630	10
Lothian	67,171	6,922	10
North Lanarkshire	12,423	1,157	9
Perth and Kinross	9,551	1,242	13
Renfrewshire / Inverclyde	13,871	1,834	13
Scottish Borders	7,500	908	12
South Lanarkshire	15,063	1,421	9
West Dunbartonshire	2,696	375	14
West Lothian	6,417	1,079	17
Total	339,632	35,716	11

Source: FOI/202300368850

The breakdown of the sample by property type, which is published by the Scottish Government (2022h), has been expressed as percentages in Table 7.3. There are some small discrepancies between both of these data sources, which are assumed to be due to rounding errors.

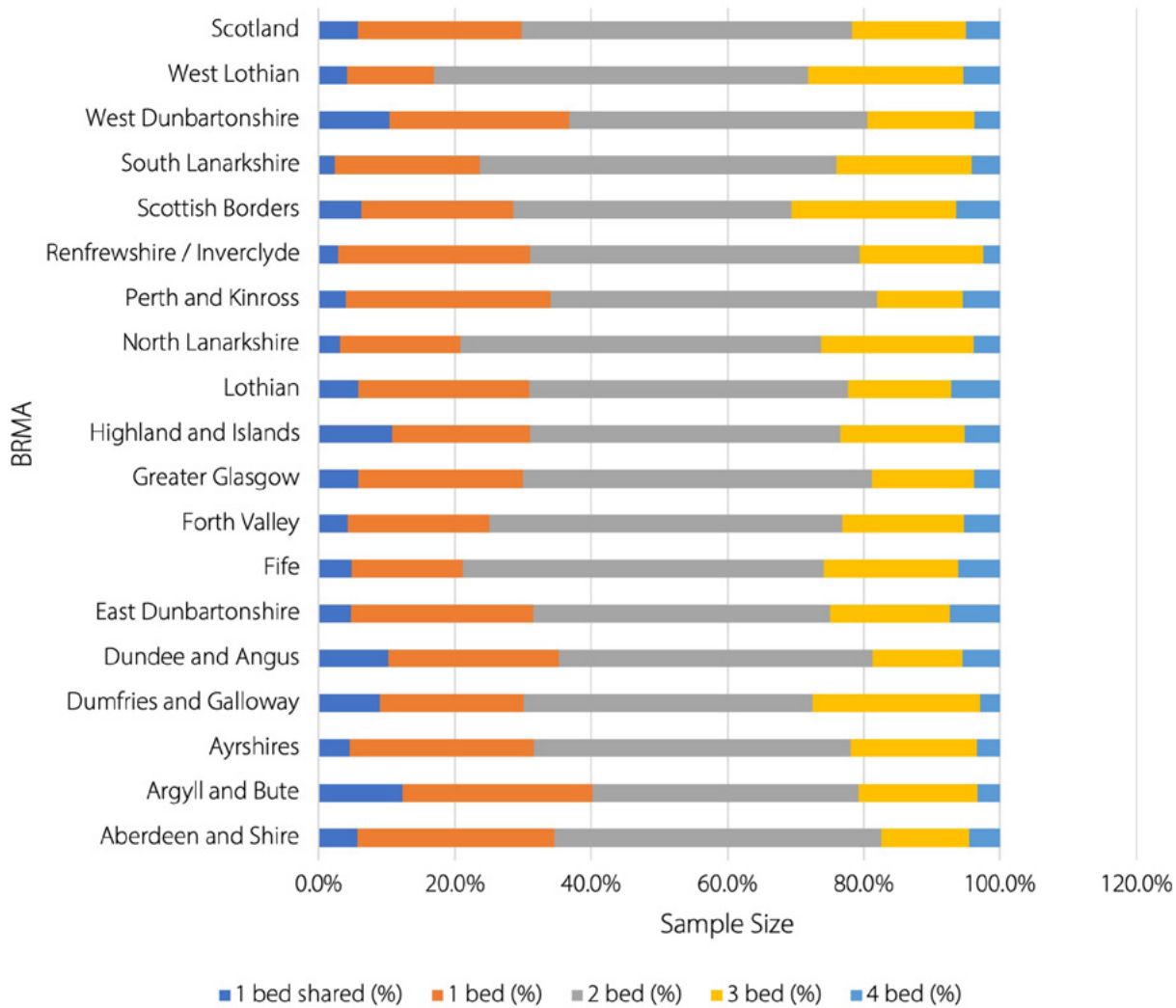
It should be noted that some of the sample sizes appear relatively small. Small sample sizes can result in risk increased volatility in the data, which can make comparisons over time problematic. The table also highlights that there are different sample sizes by property type in different BRMAs. This is further illustrated in Figure 7.3. As such, it is **'not appropriate to compare an overall "average" rent figure (averaged across all property sizes) between different areas of the country'** (Scottish Government, 2022h). The sample size also varies over time by property type. As recognised by the Scottish Government, this should also be considered when comparing outputs over time.

Table 7.3 - BRMA sample size by property type for the year ended September 2022

BRMA	1 bed shared (no)	1 bed shared (%)	1 bed (no)	1 bed (%)	2 bed (no)	2 bed (%)	3 bed (no)	3 bed (%)	4 bed (no)	4 bed (%)	Total
(%)	(%)	4 bed (no)	4 bed (%)	Total							
Aberdeen and Shire	220	5.6%	1135	29.0%	1879	48.0%	505	12.9%	178	4.5%	3,917
Argyll and Bute	49	12.3%	112	28.0%	156	39.0%	70	17.5%	13	3.3%	400
Ayrshires	115	4.5%	685	27.0%	1177	46.5%	470	18.6%	86	3.4%	2,533
Dumfries and Galloway	90	9.0%	211	21.1%	425	42.5%	246	24.6%	29	2.9%	1,001
Dundee and Angus	195	10.2%	476	25.0%	877	46.1%	251	13.2%	105	5.5%	1,904
East Dunbartonshire	18	4.8%	101	26.8%	164	43.5%	66	17.5%	28	7.4%	377
Fife	82	4.9%	275	16.3%	896	53.0%	332	19.7%	104	6.2%	1,689
Forth Valley	75	4.3%	361	20.8%	900	51.8%	312	17.9%	91	5.2%	1,739
Greater Glasgow	329	5.9%	1352	24.1%	2875	51.2%	840	15.0%	215	3.8%	5,611
Highland and Islands	176	10.8%	330	20.2%	743	45.6%	298	18.3%	84	5.2%	1,631
Lothian	403	5.8%	1735	25.1%	3240	46.8%	1051	15.2%	494	7.1%	6,923
North Lanarkshire	36	3.1%	204	17.6%	613	53.0%	259	22.4%	45	3.9%	1,157
Perth and Kinross	49	3.9%	374	30.1%	595	47.9%	157	12.6%	67	5.4%	1,242
Renfrewshire / Inverclyde	53	2.9%	515	28.1%	888	48.4%	332	18.1%	46	2.5%	1,834
Scottish Borders	57	6.3%	203	22.3%	371	40.8%	220	24.2%	58	6.4%	909
South Lanarkshire	33	2.3%	303	21.3%	744	52.4%	282	19.8%	59	4.2%	1,421
West Dunbartonshire	39	10.4%	99	26.4%	164	43.7%	59	15.7%	14	3.7%	375
West Lothian	46	4.3%	137	12.7%	593	54.9%	246	22.8%	58	5.4%	1,080
Scotland	2065	5.8%	8608	24.1%	17300	48.4%	5996	16.8%	1774	5.0%	35,743

Source: Adapted from Scottish Government (2022h) Table C1

Figure 7.3 - Illustrative BRMA sample size by property type for the year ended September 2022



Source: Adapted from (Scottish Government, 2022h) Table C1

To account for changes in the sample sizes and the composition of the sector over time, a weighted stock approach was adopted in 2020²⁶. Using data obtained via the Scottish Household Survey (SHS), the weights are built using three years' worth of data in order to 'help with precision of results at Broad Rental Market Area and to smooth out annual variations seen in the survey results'. Due to timing, a two-year time lag is applied. For example, the 2020 statistics drew upon data from 2017 to 2019, centred on 2018, and the 2021 statistics should have drawn upon data from 2018 to 2020, centred on 2019, a two-year time lag, and so on²⁷. One limitation of the weighting approach 'is that there may be some level of mis-match between the SHS weights (covering all PRS stock) and the sample of records collected from Rent Service Scotland (i.e. excluding those with housing benefit and regulated tenancies)' (Scottish Government, 2022h).

²⁶Except for the case of the SAR, which is based upon the 'estimated proportions of owner occupier or private rented households in each areas that contain two or more adults who are not related or who are not in a married/civil partnership or a co-habiting partnership, with the aim to identify households where there may be an individual room being rented in some form' (Scottish Government, 2022h).

²⁷Note that in 2020 the SHS data was not available and the previous weights were adopted.

Despite the limitations observed, sample size is just one challenge associated with the overall sampling strategy. The **'regular and targeted collection'** of data by rent officers draws from multiple sources, as noted by Chris Donaldson, the head of RSS:

'Rent data comes from estate agents, letting agents, adverts in shop notices and printed adverts, as well as Facebook and Gumtree. Information is also taken from both Zoopla, and Citylets, although we don't take direct feeds'²⁸. Over time we have changed the mix of sources, so more data comes from landlords via links with Scottish Association of Landlords and the various local authority PRS forums. This was largely done to reflect the changes in internet use within the PRS' (Robertson & Young, 2018).

The RSS also note that some landlords and letting agents provide regular updates on their property portfolios²⁹. However, it is not clear what proportion of the data set these make up, what geographies are covered and what parts of the market they cover. Furthermore, the largely self-selecting nature of the sample, introduces further bias.

An example of a form used to collate some of the data can be found in Appendix 1. As part of targeted data collection, Robertson and Young (2018) highlight that RSS have also sought the assistance of Living Rent to obtain data from tenants. However, it is not clear which sources of data (letting agents, landlords or tenants) are reliable. As Robertson and Young (2018) note,

'Such data additional collection instruments appear problematic, in that quality control in relation to data accuracy is hard to achieve, and the obvious imbalance in returns from landlords and tenants merely further acts to skew the data towards landlord sources.'

Given the scope for bias, the complexity and the administrative intensity inherent to the process, it might be reasoned that an alternative could improve data quality and the lot of the hard-working RSS team. Random sampling is one strategy that might offer a more reliable solution. However, this approach is dismissed by the Scottish Government on the basis that there is no legal requirement for landlords to provide rental data and no obligation for rent officers to collect it. This would appear to represent a significant legislative shortfall, which also prohibits the adoption of a census approach. Whilst factual, it is not clear why the status quo cannot be altered to allow for methodological improvements. This will be discussed in more detail in Section 9.6.

Any changes to the sampling strategy would again result in winners and losers. Although further investigation is required to identify the likely effects, it is suspected that improvements would result in lower LHA rates, principally through the inclusion of larger volumes of rental data from existing tenancies.

7.3 Concerns regarding the time lag between data collection and Local Housing Allowance rate commencement

The existing data collection period used to establish LHA rates runs from 1 October to 30 September each year, with the rates being calculated and published on 31 January the following year. These rates generally go live from April for a period of 12 months. It is clear therefore, that there is a considerable time lag between the production of the data, the setting of the LHA rate and the rate going 'live'. The lag means that the newly arrived at LHA rate does not take account of the rental growth in the six months between the end of the data collection period in September and the rate going live the following April.

The lag could theoretically work in a tenant's favour during a falling market by broadening choice. In a rising market however, the lag could present affordability challenges for tenants.

One way to illustrate the impact of the lag is to look at the change in the average rent that has occurred during the lag period over the last two rate setting cycles. The data in Table 7.4 draws upon Citylets (2023b) quarterly average rent data for all property types in Scotland. In the 2022/23 rate setting cycle, the average rent fell (1.1 per cent) between the last quarter of the rate setting period and the rate commencement period. In the 2023/24 rate setting period, the average rent increased (2.6 per cent) in the same period. In both cases the market (measured via advertised rents) has moved on in the time that had elapsed between the rate being set and the rate going 'live'. Although data collection, analysis and rate setting take time, the current six-month lag appears excessive and warrants review.

²⁸Rent officers do not scrape data from property advertising portals.

²⁹Source: Email correspondence with RSS.

Table 7.4 - The difference in rents arising from the time lag inherent to the LHA rate setting calendar

	LHA rate setting calendar for 2022/2023 rates		LHA rate setting calendar for 2023/2024 rates	
	Time period	Average rent	Time period	Average rent
Data collection period	Q4 2020	£ 826	Q4 2021	£ 869
	Q1 2021	£ 826	Q1 2022	£ 896
	Q2 2021	£ 883	Q2 2022	£ 970
	Q3 2021	£ 906	Q3 2022	£ 981
LHA rate calculation period	Q4 2021	£ 869	Q4 2022	£ 972
LHA rate pending period	Q1 2022	£ 896	Q1 2023	£ 1007
LHA rate commencement period	Q2 2022	-	Q2 2023	-
Difference between Q4 and Q1	-1.1%		2.6%	

Source: Zoopla dataset

7.4 Concerns regarding the discarding of rent data

Under the legislation, the rent officer does not consider social rents, mid-market rents, or rents from halls of residence when calculating LHA rates. Private rents which are supported by housing benefit are also excluded, as are those subject to regulated tenancies (Scottish Government, 2022h). The '**regular and targeted collection**' methods employed by RSS (see Section 7.2) should automatically exclude most non PRS rents.

With regards to private rents, the number of regulated tenancies is small and diminishing, leaving only the exclusion of private rents subject to housing benefit for further consideration. The underlying rationale for excluding this data is to prevent the possibility of landlords leading the market in order to force up rates. We asked RSS how they went about this process and they advised that before including a property for analysis, they check the address and tenancy details against housing benefit data provided by DWP. Where a match is found, the record is excluded from the analysis.

This process clearly relies on the accuracy of address data reported from multiple sources and is therefore subject to error. This is particularly likely for complex addresses such as properties split into flats, but also for address data sourced from advertising portals, which is often limited or error laden.

Unfortunately, there is no formal record of how many rents are excluded and no estimate of the impact of their exclusion from the rate setting process. This is due to the fact that RSS has '**no business requirement to do so**'.

The impact of discarding these rents would clearly depend on a number of factors including the number of occurrences, the age of the tenancies and prevailing LHA rates. However, according to UC data, around 20 per cent of SPRS properties have rents that are supported by LHA. As this is a sizeable proportion and as advertised rents currently outstrip LHA rates, the inclusion of discarded rents could result in a significant decrease in LHA rates and presents a clear conundrum for policy makers.

7.5 Concerns regarding the reliance on advertised rents

The pitfalls of relying on advertised rents was discussed in some detail in Section 4. Namely that the advertised rents can differ from the rents finally achieved and also from existing rents. Given the paucity of data, it is difficult to ascertain the impact of this bias upon LHA rates. If landlords reviewed rents every 12 months as allowed under PRT legislation, existing rents would be more aligned to advertised rents (depending on market conditions) and the impact of relying on advertised rents would be lessened. However, the difference could still be considerable in rapidly rising or falling markets. Given the general proclivity for landlords to infrequently adjust rents combined with current levels of rental growth, the current effect could be quite large.

To estimate the effect would require a number of assumptions, including an assessment of how far existing rents lag advertised rents. Unfortunately, there is little formal quantitative data to support the latter. Some insight is provided by Watson (2023), who identified that 60 per cent of landlords reported rents that were on average nine per cent lower than their estimation of prevailing rents. Although these data have a number of limitations, including the use of pre-covid data and a reliance upon landlord assessments of rents, it is currently the best estimate available.

Assuming Watson's (2023) findings are reliable (they appear to be), changing the LHA rate calculation methodology to include existing rents in proportion to their weight within each BRMA, would in the current market, result in lower LHA rates than those produced using the current methodology. The scale of the effect would be significant. Of course, the inverse might be said in a market in which rents were falling dramatically.

Perversely, the former would increase the existing gap between LHA rates and exacerbate the affordability challenges faced by those in receipt of LHA seeking to enter or move within the sector. This creates a dilemma for policymakers who are simultaneously being called upon to both increase LHA rates and implement methodological improvements that would likely reduce LHA rates. Without further data and analysis, it is not clear where the trade-off would lie.

7.6 Concerns with the Shared Accommodation Rate

The SAR is in itself something of an anomaly conceptually, practically and methodologically. The rate is supposed to allow recipients to obtain accommodation in which they have exclusive use of one bedroom, but share one or more other facilities such as kitchens, bathrooms and/or living areas (UK Government, 2023a). Originally known as the Shared Room Rate (Hobson, 2022) and applicable to those under the age of 25, SAR now applies to single people under the age of 35 who fall within the single category and are not lone parents³⁰.

The rate has been broadly criticised since its inception and Hobson (2022) provides a detailed overview of many of the critiques in addition to a detailed overview of the rates evolution.

Conceptually, there are concerns regarding the inherent fairness of the rate (Earley et al., 2023) and Ortega-Alcázar and Wilkinson (2019) assert that the very existence of the rate inherently assumes that young people are **'less in need than other groups'** and renders them **'one of the most vulnerable groups in terms of housing rights'**. There are also broader worries regarding the **'suitability of the environment of shared accommodation'**, particularly with reference to vulnerable groups (Rhodes et al., 2011). David Linden, an SNP MP, encapsulates the views of many when he describes the SAR as a **'massive social injustice'** (UK Parliament, 2023a).

Methodologically, the SAR shares some of the concerns voiced earlier. A clear example relates to sample size, which in East Dunbartonshire amounted to just 18 records during the last analysis (see Table 6.3). In addition, it was highlighted earlier that the SAR also adopts a different weighting methodology than is adopted for the other property categories.

Unfortunately, data provision also continues to be a problem. As will be explored in more detail later (see Section 9.2), official data pertaining to UC LHA claimants (the bulk of claimants) is currently unavailable by property category. A re-focus on housing benefit statistics reveals just 693 LHA cases in the SAR category in Scotland³¹. This prohibits meaningful analysis. Furthermore, neither Zoopla nor Rightmove include a search function relating to shared accommodation and it is not clear what proportion of the market specialist sites such as Spare Room represent.

More practically, there are long standing concerns regarding the supply of shared accommodation (Crisis, 2016; Shelter, 2006), which within the PRS has traditionally been the preserve of professionals and students. In fact, a cursory review of the Spare Room online advertising portal, reveals that many of the properties currently available are clearly being marketed towards these groups. Given this myriad of challenges, it might be reasoned that the SAR warrants review.

³⁰A number of exemptions exist.

³¹See <https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>, Table: HB 5 - Bedroom entitlement for LHA, Entitled Bedrooms (LHA only) by Measures by Month and National - Regional - Admin LA.

8. The affordability of rents for Local Housing Allowance recipients

For the purposes of this research, we introduced a simple definition of affordability in Section 5:

'An affordable rent is a rent that allows LHA recipients to secure PRS rental properties at the 30th percentile of advertised rents in each BRMA for their eligible housing type.'

As noted earlier, successive policy changes have impacted upon the generosity of LHA, resulting in widespread concerns regarding the affordability of the PRS for LHA recipients. Some of the overall policy changes and the changing methodology used to calculate LHA rates is well summarised by Hobson (2023), who reports that LHA has gone from being based upon median rents to the 30th percentile of rents until 2013, when rates were increased in line with CPI. Capped annual rises followed in 2014 and 2015 and then rates were frozen from April 2016 to April 2020 when they were raised to the 30th percentile and re-frozen.³²

The transition from the median to 30th percentile meant that theoretically, LHA recipients went from being able to afford one in two properties in each BRMA to around one in three. This represents a significant reduction in the pool of properties available to LHA recipients.

The current freeze means that LHA rates have once again been decoupled from prevailing rents. The lack of consistency is concerning and at odds with the ideologies which underpinned the creation of LHA. In an environment with rising rents, the rate freeze raises serious questions about the affordability of the PRS for LHA recipients.

One way to evaluate 'affordability', as per our earlier definition, is to identify how many rents (advertised rents) were affordable in each BRMA at the prevailing LHA rates over a given time period. Again, using the Zoopla data, qualified as before, Table 8.1 highlights the percentage of each BRMA that was affordable for each property type.

Table 8.1- Percentage of each BRMA affordable for each BRMA (April 22 to March 23)

BRMA	No of beds	LHA rate (monthly)	No of rents	No of rents affordable at or below LHA	% of rent Affordable at or below LHA
Aberdeen & Shire	1 bed	£423.84	2921	380	13.01%
	2 bed	£593.36	3492	688	19.70%
	3 bed	£747.93	973	86	8.84%
	4 bed	£997.27	394	41	10.41%
Argyll & Bute	1 bed	£373.97	50	3	6.00%
	2 bed	£498.64	71	6	8.45%
	3 bed	£548.51	41	5	12.20%
	4 bed	£897.52	5	0	0.00%
Ayrshires	1 bed	£349.05	214	18	8.41%
	2 bed	£423.84	340	11	3.24%
	3 bed	£498.64	145	4	2.76%
	4 bed	£693.12	21	4	19.05%

³²The cost to the taxpayer of increasing LHA rates to the 30th percentile in 2020 was in excess of £1 billion across the UK (Davies, 2023).

BRMA	No of beds	LHA rate (monthly)	No of rents	No of rents affordable at or below LHA	% of rent Affordable at or below LHA
Dumfries & Galloway	1 bed	£368.98	53	4	7.55%
	2 bed	£448.76	100	4	4.00%
	3 bed	£498.46	40	2	5.00%
	4 bed	£673.14	14	2	14.29%
Dundee & Angus	1 bed	£364.00	1236	125	10.11%
	2 bed	£498.64	2043	105	5.14%
	3 bed	£648.22	714	48	6.72%
	4 bed	£1,047.11	243	32	13.17%
East Dunbartonshire	1 bed	£448.76	67	1	1.49%
	2 bed	£593.36	126	1	0.79%
	3 bed	£792.83	63	0	0.00%
	4 bed	£1,291.46	35	17	48.57%
Fife	1 bed	£373.97	362	12	3.31%
	2 bed	£473.72	1018	59	5.80%
	3 bed	£573.43	358	24	6.70%
	4 bed	£847.69	81	6	7.41%
Forth Valley	1 bed	£393.90	397	11	2.77%
	2 bed	£498.64	985	48	4.87%
	3 bed	£648.22	307	20	6.51%
	4 bed	£947.40	73	6	8.22%
Greater Glasgow	1 bed	£493.65	2331	60	2.57%
	2 bed	£648.22	4209	138	3.28%
	3 bed	£747.93	853	35	4.10%
	4 bed	£1,396.16	132	57	43.18%
Highland & Islands	1 bed	£423.84	259	15	5.79%
	2 bed	£548.51	549	46	8.38%
	3 bed	£633.27	205	35	17.07%
	4 bed	£797.81	56	4	7.14%
Lothian	1 bed	£688.09	6133	555	9.05%
	2 bed	£822.73	9430	603	6.39%
	3 bed	£1,096.98	2933	228	7.77%
	4 bed	£1,690.35	368	110	29.89%

BRMA	No of beds	LHA rate (monthly)	No of rents	No of rents affordable at or below LHA	% of rent Affordable at or below LHA
North Lanarkshire	1 bed	£359.02	136	3	2.21%
	2 bed	£448.76	485	12	2.47%
	3 bed	£493.65	186	6	3.23%
	4 bed	£792.83	27	5	18.52%
Perth and Kinross	1 bed	£398.88	388	27	6.96%
	2 bed	£498.64	619	28	4.52%
	3 bed	£648.22	182	7	3.85%
	4 bed	£892.54	51	5	9.80%
Renfrewshire/ Inverclyde	1 bed	£349.05	526	6	1.14%
	2 bed	£448.76	708	23	3.25%
	3 bed	£548.51	163	5	3.07%
	4 bed	£997.27	30	6	20.00%
Scottish Borders	1 bed	£324.09	76	0	0.00%
	2 bed	£423.84	115	7	6.09%
	3 bed	£523.55	73	5	6.85%
	4 bed	£797.81	15	1	6.67%
South Lanarkshire	1 bed	£373.97	418	11	2.63%
	2 bed	£473.72	934	36	3.85%
	3 bed	£623.31	310	27	8.71%
	4 bed	£947.40	64	7	10.94%
West Dunbartonshire	1 bed	£373.97	34	0	0.00%
	2 bed	£448.76	80	0	0.00%
	3 bed	£548.51	39	2	5.13%
	4 bed	£947.40	12	2	16.67%
West Lothian	1 bed	£488.67	98	7	7.14%
	2 bed	£598.35	391	21	5.37%
	3 bed	£693.12	186	4	2.15%
	4 bed	£947.40	54	3	5.56%

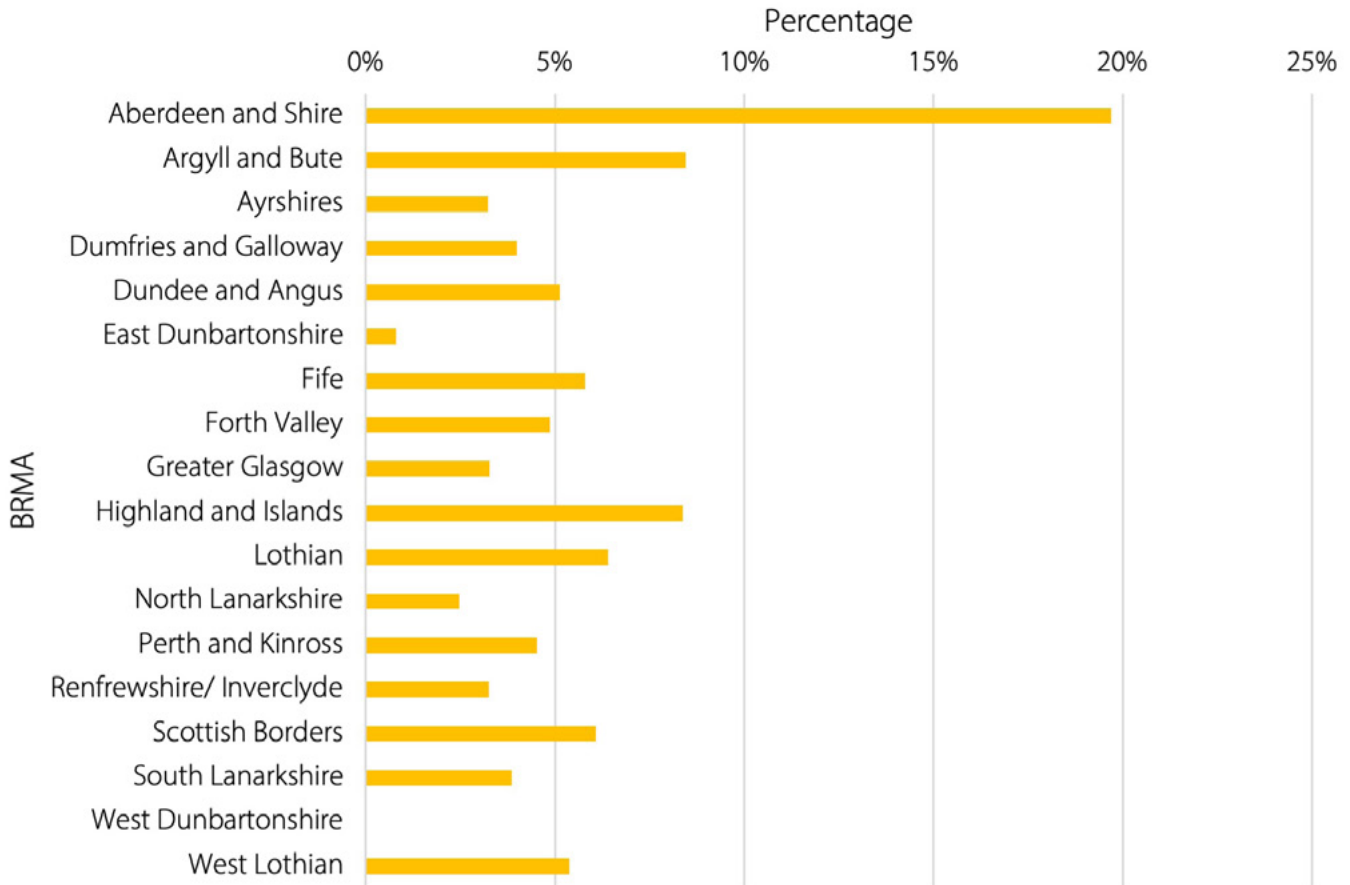
Source: Zoopla dataset

The findings are sobering. For the 72 rates analysed, just three were 'affordable' to those in receipt of LHA in the period. This means that around 96 per cent of rates are below the 30th percentile. Scottish Government (2023) analysis includes shared accommodation data and estimates that 59 per cent of LHA rates (53 out of 90) were below the 30th percentile using the 2021/22 data. More recent analysis³³ (Scottish Government, 2023c) estimates that 84 per cent of LHA rates (76 out of 90) are now below the 30th percentile. The Zoopla data suggest that on average, across all BRMAs, just over eight per cent of PRS properties were 'affordable' to those in receipt of LHA. This compares with seven per cent reported by Crisis (2023b) who use the same dataset, but focus on one to three-bedroom properties only.

³³The data source is not cited.

In the vast majority of areas, for the vast majority of housing types, LHA rates have slipped significantly behind advertised rents although some are affected more than others. Focusing on two-bedroom properties (Figure 8.1), which make up the bulk of the PRS, Aberdeen and Shire had the largest percentage of affordable properties at current LHA rates. Of the 3,492 two-bedroom properties advertised for rent in this BRMA rent in the period, just 19.7 per cent were affordable for those in receipt in LHA. West Dunbartonshire had the lowest levels of affordability. Of the 80 properties advertised in the period, none were affordable at current LHA rates.

Figure 8.1- Percentage of advertised rents affordable (two-bed properties) at or below current LHA rates



Source: Zoopla dataset

The implication for LHA recipients, is that there is considerably less choice available with many effectively priced out of the market.

It is possible to quantify the scale of the problem in financial terms by identifying the difference between the LHA rates and key metrics (mean, 30th percentile and 50th percentile) for each BRMA. The findings are summarised in Table 8.2.

Table 8.2 - Difference between LHA rates and rents at the mean, 30th and 50th percentiles

BRMA	No of beds	Monthly LHA rate	Monthly mean rent	30th percentile	50th percentile (median)	LHA & mean diff	LHA & 30th percentile diff	LHA & 50th percentile diff
Aberdeen & Shire	1	423.84	504.72	450.00	495.00	80.88	26.16	71.16
	2	593.36	700.68	600.00	675.00	107.32	6.64	81.64
	3	747.93	1017.76	875.00	995.00	269.83	127.07	247.07
	4	997.27	1389.14	1200.00	1400.00	391.87	202.73	402.73
Argyll & Bute	1	373.97	531.40	450.00	485.00	157.43	76.03	111.03
	2	498.64	692.96	575.00	650.00	194.32	76.36	151.36
	3	548.51	938.41	675.00	895.00	389.90	126.49	346.49
	4	897.52	1628.00	1390.00	1750.00	730.48	492.48	852.48
Ayrshires	1	349.05	468.73	385.00	425.00	119.68	35.95	75.95
	2	423.84	575.89	500.00	550.00	152.05	76.16	126.16
	3	498.64	768.14	575.00	665.00	269.51	76.36	166.36
	4	693.12	945.71	700.00	895.00	252.60	6.88	201.88
Dumfries & Galloway	1	368.98	442.19	400.00	425.00	73.21	31.02	56.02
	2	448.76	541.15	492.00	520.00	92.39	43.24	71.24
	3	498.46	698.88	600.00	650.00	200.41	101.54	151.54
	4	673.14	1036.79	930.00	975.00	363.65	256.86	301.86
Dundee & Angus	1	364.00	504.43	427.50	492.50	140.43	63.50	128.50
	2	498.64	743.08	650.00	725.00	244.45	151.36	226.36
	3	648.22	1015.11	825.00	1000.00	366.88	176.78	351.78
	4	1047.11	1427.14	1300.00	1495.00	380.03	252.89	447.89
East Dunbartonshire	1	448.76	672.24	625.00	695.00	223.48	176.24	246.24
	2	593.36	883.13	785.00	862.50	289.77	191.64	269.14
	3	792.83	1284.76	1098.00	1250.00	491.94	305.17	457.17
	4	1291.46	1478.00	1290.00	1300.00	186.54	-1.46	8.54
Fife	1	373.97	533.37	450.00	495.00	159.40	76.03	121.03
	2	473.72	682.07	575.00	630.00	208.35	101.28	156.28
	3	573.43	880.15	695.00	795.00	306.72	121.57	221.57
	4	847.69	1311.05	1150.00	1300.00	463.36	302.31	452.31
Forth Valley	1	393.90	540.42	475.00	520.00	146.52	81.10	126.10
	2	498.64	720.98	625.00	695.00	222.35	126.36	196.36
	3	648.22	1000.89	825.00	950.00	352.67	176.78	301.78
	4	947.40	1527.71	1350.00	1600.00	580.32	402.60	652.60
Greater Glasgow	1	493.65	777.18	675.00	750.00	283.53	181.35	256.35
	2	648.22	1027.67	850.00	975.00	379.45	201.78	326.78
	3	747.93	1284.39	975.00	1295.00	536.46	227.07	547.07
	4	1396.16	1543.55	1395.00	1500.00	147.39	-1.16	103.84

BRMA	No of beds	Monthly LHA rate	Monthly mean rent	30th percentile	50th percentile (median)	LHA & mean diff	LHA & 30th percentile diff	LHA & 50th percentile diff
Highland & Islands	1	423.84	560.39	500.00	550.00	136.54	76.16	126.16
	2	548.51	679.56	600.00	675.00	131.05	51.49	126.49
	3	633.27	800.77	695.00	800.00	167.49	61.73	166.73
	4	797.81	1061.95	897.50	962.50	264.14	99.69	164.69
Lothian	1	688.09	888.84	780.00	850.00	200.75	91.91	161.91
	2	822.73	1174.22	995.00	1150.00	351.50	172.27	327.27
	3	1096.98	1526.22	1375.00	1575.00	429.23	278.02	478.02
	4	1690.35	1737.66	1695.00	1850.00	47.31	4.65	159.65
North Lanarkshire	1	359.02	477.72	425.00	470.00	118.70	65.98	110.98
	2	448.76	618.10	550.00	595.00	169.34	101.24	146.24
	3	493.65	779.04	650.00	737.00	285.39	156.35	243.35
	4	792.83	1092.96	940.00	1000.00	300.14	147.17	207.17
Perth and Kinross	1	398.88	483.40	450.00	460.00	84.51	51.12	61.12
	2	498.64	654.78	575.00	625.00	156.14	76.36	126.36
	3	648.22	940.62	800.00	900.00	292.39	151.78	251.78
	4	892.54	1352.84	1250.00	1300.00	460.31	357.46	407.46
Renfrewshire/ Inverclyde	1	349.05	507.68	450.00	495.00	158.63	100.95	145.95
	2	448.76	669.18	575.00	650.00	220.42	126.24	201.24
	3	548.51	878.61	725.00	850.00	330.10	176.49	301.49
	4	997.27	1562.37	1385.00	1597.50	565.09	387.73	600.23
Scottish Borders	1	324.09	485.25	397.50	425.00	161.16	73.41	100.91
	2	423.84	606.70	528.00	595.00	182.85	104.16	171.16
	3	523.55	794.18	650.00	750.00	270.62	126.45	226.45
	4	797.81	1333.33	990.00	1500.00	535.52	192.19	702.19
South Lanarkshire	1	373.97	505.89	450.00	475.00	131.92	76.03	101.03
	2	473.72	670.87	585.00	650.00	197.15	111.28	176.28
	3	623.31	865.52	745.00	837.50	242.22	121.69	214.19
	4	947.40	1287.73	1099.50	1300.00	340.34	152.10	352.60
West Dunbartonshire	1	373.97	506.32	475.00	500.00	132.36	101.03	126.03
	2	448.76	663.93	600.00	650.00	215.17	151.24	201.24
	3	548.51	817.13	660.00	725.00	268.61	111.49	176.49
	4	947.40	997.50	950.00	950.00	50.10	2.60	2.60
West Lothian	1	488.67	588.15	550.00	595.00	99.48	61.33	106.33
	2	598.35	727.53	675.00	710.00	129.18	76.65	111.65
	3	693.12	942.28	825.00	900.00	249.17	131.88	206.88
	4	947.40	1288.80	1150.00	1300.00	341.40	202.60	352.60

Source: Zoopla dataset

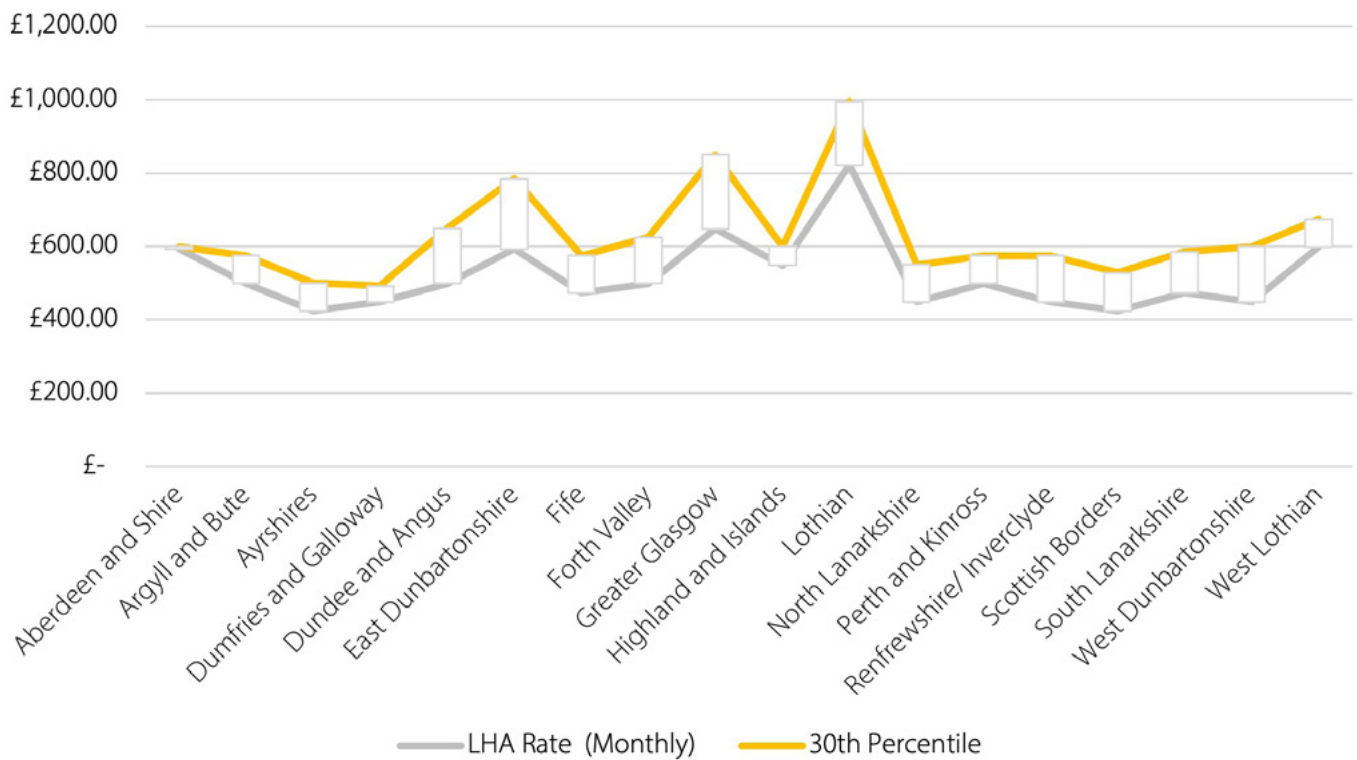
The scale of the financial shortfall is significant in the majority of BRMAs for the majority of property types. As the 30th percentile has historically been used as a benchmark for calculating LHA rates and because it is the level that many advocate a return to, it is worth looking more closely at these data.

Again, focusing on two-bedroom properties, Figure 8.2 shows the gap between current LHA rates and advertised rents at the 30th percentile for each BRMA. In every BRMA, there is a shortfall between the LHA rate and the advertised rent (at the 30th percentile) for two-bedroom properties. The average shortfall across all 18 BRMAs is £108.10, but the smallest difference is in Aberdeen where the shortfall is just £6.64 per month and the largest is in Greater Glasgow where the shortfall is £201.78 (Figure 8.3). So, despite all BRMAs being affected, the extent of the challenge is not evenly spread.

It may be feasible for some in receipt of means tested benefits to broach these shortfalls, for example, the shortfall of £6.64 in Aberdeen. As pointed out earlier, a shortfall between an LHA rate and advertised rent is not necessarily a robust indicator of affordability or unaffordability.

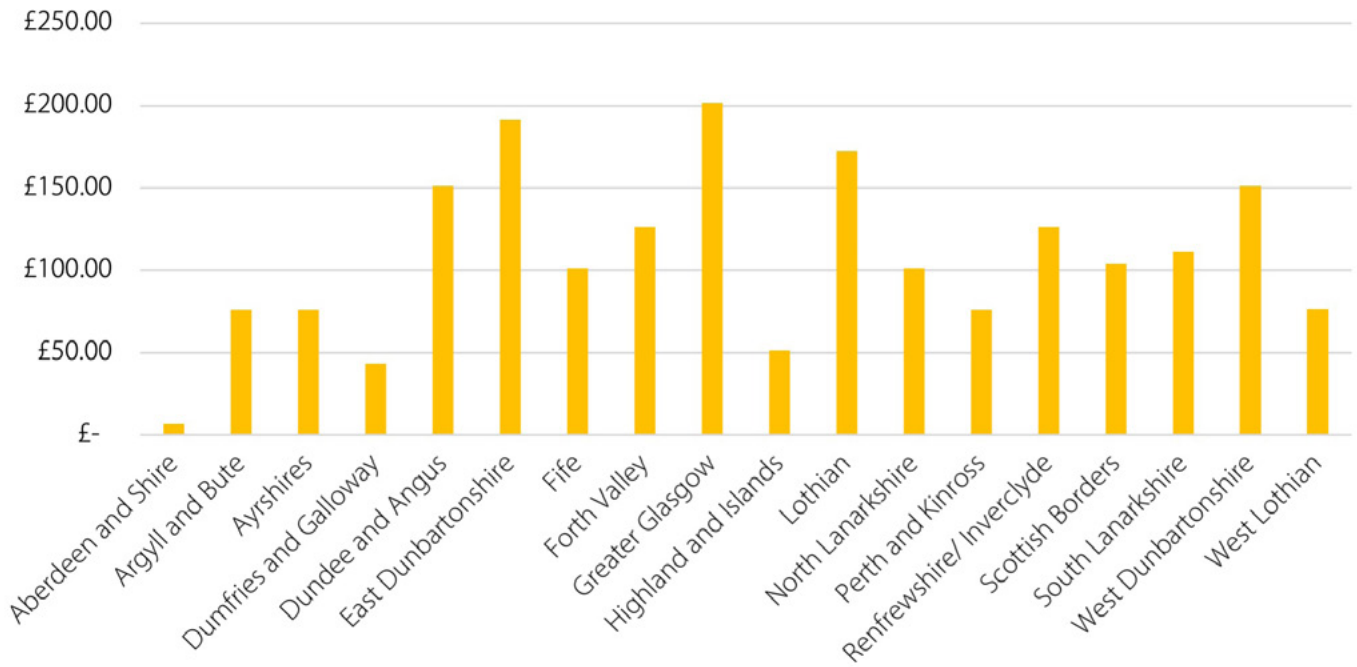
However, in the wider context of the cost-of-living crisis, it is unlikely that many, including the 19 per cent of the Scottish population (one million people) living in relative poverty before housing costs (Scottish Government, 2023d), would be able to successfully broach the average shortfall, let alone the shortfall apparent in the Greater Glasgow BRMA. As Shelter (2023b) point out, large **'shortfalls leave private renters at high risk of going into rent arrears and pushes families towards homelessness'**.

Figure 8.2 - The gap between LHA rates and advertised rents at the 30th percentile for two-bedroom properties



Source: Zoopla dataset

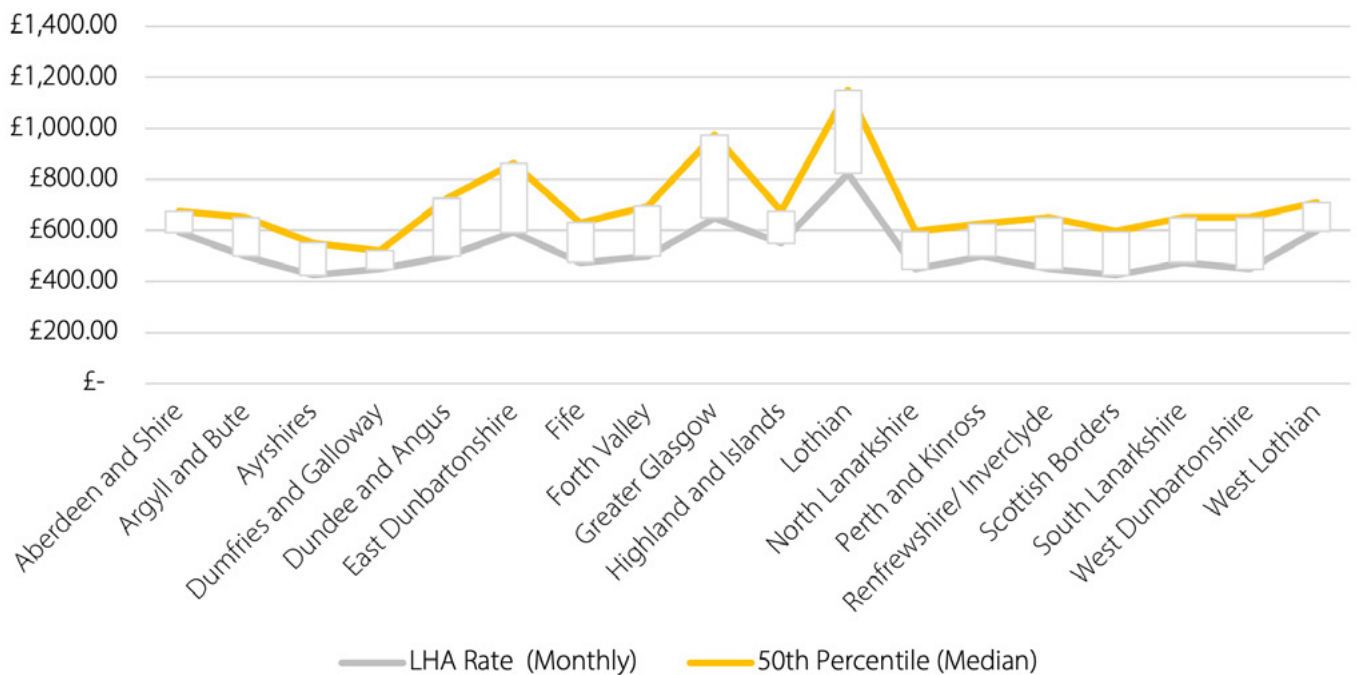
Figure 8.3 - Difference between LHA rates and advertised rents at the 30th percentile for two-bedroom properties (per month)



Source: Zoopla dataset

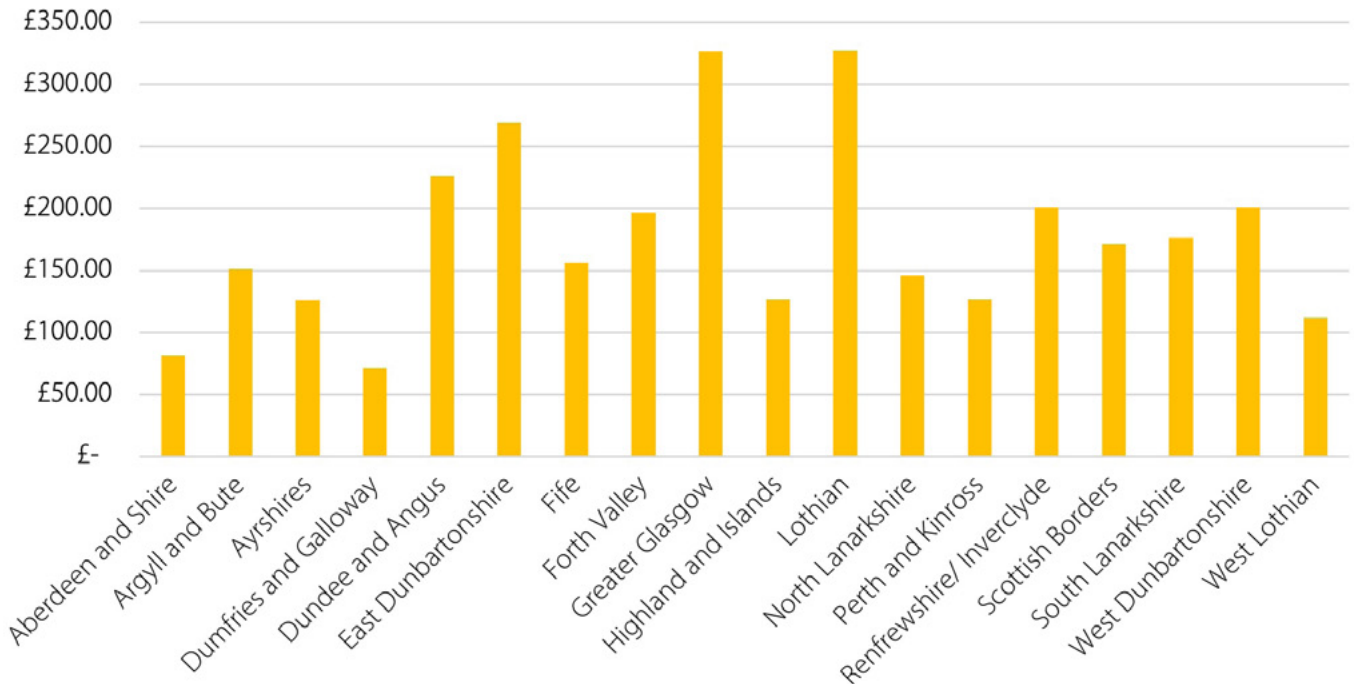
As the LHA was originally based upon median rents, the above analysis has been repeated at the 50th percentile. Logically, the gap is higher than at the 30th percentile (Figure 8.4). The lowest observed shortfall is in Dumfries and Galloway (£71.24) and the largest in Lothian at £327.27 (Figure 8.5). Again, the extent of the challenge is not evenly spread. Overall, the Zoopla data suggest that neither the bottom third, nor bottom half of the market as categorised by advertised rents, is 'affordable' to LHA recipients.

Figure 8.4 - The gap between LHA rates and advertised rents at the 50th percentile for two-bedroom properties



Source: Zoopla dataset

Figure 8.5 - Difference between LHA rates and advertised rents at the 50th percentile for two-bedroom properties (per month)



Source: Zoopla dataset

9. What is being done to mitigate against Local Housing Allowance shortfalls?

It would not be appropriate to consider and report upon shortfalls in LHA rates without considering supplementary forms of support offered to LHA recipients, as during the pandemic, the UK Government has introduced a raft of interventions to help alleviate the impact of the broader ‘cost-of-living crisis’. These have been designed either to respond to the needs of specific groups, as in the case of the means tested measures such as the Cost-of-Living Payment, or respond to specific sectors, such as the surge in energy costs via the non-means tested Energy Bills Support Scheme³⁴. However, there are no schemes designed to specifically address the gap between advertised rents and LHA rates.

In addition to this broadly focused support, the Scottish Government administers a range of existing support schemes including Discretionary Housing Payments (DHPs) and the Scottish Welfare Fund (SWF), which can have a mediating effect on housing affordability.

DHPs are ‘**designed to help support vulnerable claimants most affected by welfare reforms including affordability pressures in the private rented sector.**’ (DWP, 2020). Funds can be applied for to contribute to shortfalls in rent, moving costs, deposits, and benefits related rent arrears.

Responsibility for the payment was transferred to the Scottish Government in 2017. Despite estimating the cost of DHP awards in 2022/23 at around £80 million, just £10.9 million was allocated to local authorities for non-bedroom tax issues (Scottish Government, 2022b). Of this, just £1.3 million was allocated to alleviate LHA challenges.

For 2023/2024, the budget has grown, making it clear that DHPs are playing a key role in supporting housing costs including shortfalls resulting from affordability issues:

‘We will spend up to £84 million in 2023-24 on Discretionary Housing Payments to mitigate not only the UK Government’s bedroom tax and the on-going freeze to Local Housing Allowance rates, but now also the benefit cap which is pushing families into hardship.’ (Scottish Government, 2023b)

³⁴The full range of the support provided is detailed here: <https://www.deliveringforscotland.gov.uk/households/cost-of-living/>

However, most is again ringfenced to offset against the bedroom tax and benefit cap.

The SWF is a further source of potential support via Crisis Grants and Community Care Grants. These are Scottish replacements for grants that previously came under the DWP's Social Fund.

Crisis grants can be applied for in response to a range of emergency situations from domestic abuse to redundancy. Although the awards are not housing specific, they could be used to cover help with some housing costs.

Community Care Grants can be applied for in a range of specified circumstances such as leaving care or prison. A key deliverable of the grant is to help individuals live independently within their community. The fund size in 2020/2021 was £35.5 million.

Whilst these funds are welcome, their very existence points to failings in the existing benefits system. Furthermore, the unallocated elements of both DHPs and the SWF are extremely meagre when compared to the LHA shortfall. It can therefore be concluded that overall, the targeted fiscal support on offer falls short of the mark.

In addition to these funds, there is no shortage of advice for those facing affordability challenges. The Scottish Government have created a website³⁵ to direct people to advice and support, although curiously, housing does not receive its own section. The DWP (2020) provides a range of suggestions for LHA recipients who face a shortfall between their LHA rate and their rent. These include renegotiating with their landlord and finding cheaper accommodation elsewhere. The value of this advice is questionable in the current market.

10. What would it cost to increase Local Housing Allowance rates to the 30th and 50th percentiles?

The cost to increase LHA to either the 30th or 50th percentile is simply the sum of the monthly shortfall per property type per BRMA per percentile, multiplied by the number of claimants in each category, multiplied by 12 to annualise the figure.

It is possible to use the Stat-Xplore tool³⁶ to identify the number of UC claimants that are currently in receipt of LHA by BRMA. To do so, we created a table of UC recipients by Scottish BRMA filtered to include only those with housing entitlement within the PRS. The table returned 68,635 records³⁷.

However, it is not currently possible to identify how these records are apportioned by category i.e., by the number of entitled bedrooms. The dataset includes a disclaimer stating that this is due to '**a problem with the supply of data**'. This suggests that in addition to the challenges identified with official rent statistics, there are also challenges with data sources that relate more broadly to the PRS³⁸.

However, it is still possible to work towards a high-level estimate of the annual cost of increasing existing LHA rates to the 30th and 50th percentiles if we make some broad assumptions. We next identified the proportion of PRS properties with one, two, three, or four and more bedrooms from the 2021 SHS (Scottish Government, 2023f) and assumed that each BRMA is composed this way³⁹. Using this data, we calculated the shortfall for each BRMA as detailed in Table 10.1.

In total, it is estimated that the cost to increase existing LHA rates to match the 30th percentile of rents, is just under £98 million per year and just over £172 million to match the 50th percentile. It should be reiterated that these percentiles are calculated using advertised rents, which have been rising in the short term. The calculation also assumes that all rents would rise to meet revised LHA rates at the same time, though clearly this would not be the case.

³⁵See <https://costofliving.campaign.gov.scot/>.

³⁶See <https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml>.

³⁷This analysis does not include all of those still in receipt of legacy benefits.

³⁸See Robertson and Young (2018) for a fuller commentary.

³⁹There are clearly limitations to this approach and in particular, the fact that the SHS does not provide a breakdown of the 1-bedroom category.

Table 10.1- Estimated annual cost to increase LHA to the 30th and 50th percentiles of advertised rents

BRMA	Percentile	Cost of increase per month (£)	Cost of increase per annum (£)
Aberdeen and Shire	30th Percentile	219,315.18	2,631,782.10
	50th Percentile	626,939.58	7,523,274.90
Argyll and Bute	30th Percentile	124,141.05	1,489,692.58
	50th Percentile	243,970.50	2,927,645.98
Ayrshires	30th Percentile	398,829.81	4,785,957.75
	50th Percentile	808,223.01	9,698,676.15
Dumfries and Galloway	30th Percentile	129,408.04	1,552,896.52
	50th Percentile	195,384.79	2,344,617.52
Dundee and Angus	30th Percentile	714,558.70	8,574,704.46
	50th Percentile	1,214,042.70	14,568,512.46
East Dunbartonshire	30th Percentile	146,200.91	1,754,410.86
	50th Percentile	209,184.32	2,510,211.78
Fife	30th Percentile	588,694.57	7,064,334.83
	50th Percentile	940,119.02	11,281,428.23
Forth Valley	30th Percentile	374,263.90	4,491,166.80
	50th Percentile	598,359.70	7,180,316.40
Greater Glasgow	30th Percentile	1,741,797.23	20,901,566.77
	50th Percentile	3,068,135.93	36,817,631.17
Highland and Islands	30th Percentile	214,835.10	2,578,021.19
	50th Percentile	463,785.60	5,565,427.19
Lothian	30th Percentile	1,477,960.28	17,735,523.36
	50th Percentile	2,780,662.78	33,367,953.36
North Lanarkshire	30th Percentile	421,194.64	5,054,335.73
	50th Percentile	636,324.88	7,635,898.61
Perth and Kinross	30th Percentile	159,665.90	1,915,990.76
	50th Percentile	236,415.20	2,836,982.36
Renfrewshire / Inverclyde	30th Percentile	600,283.40	7,203,400.81
	50th Percentile	949,856.75	11,398,281.01
Scottish Borders	30th Percentile	124,967.30	1,499,607.63
	50th Percentile	230,400.58	2,764,806.93
South Lanarkshire	30th Percentile	483,812.70	5,805,752.39
	50th Percentile	789,690.52	9,476,286.29
West Dunbartonshire	30th Percentile	74,546.85	894,562.17
	50th Percentile	100,697.65	1,208,371.77
West Lothian	30th Percentile	158,795.29	1,905,543.44
	50th Percentile	250,030.29	3,000,363.44
Total Cost 30th Percentile			97,839,250.16
Total Cost 50th Percentile			172,106,685.56

Source: Scottish Government (2023f) Table 1-10, DWP (2023) Custom Table and Zoopla dataset

11. Conclusions and recommendations

11.1 Conclusions

The PRS is subject to a number of established, interrelated and chronic challenges, which have been exacerbated by the 'pandemic arrears crisis' and the 'cost-of-living crisis'. Advertised rents are currently rising due to a variety of factors including constrained supply, increased demand and rising costs. LHA rates have been frozen and are currently insufficient to cover advertised rents at the 30th percentile. Whilst this could have a mediating effect on rents overall, demand is so strong that this is unlikely in the short term.

Interventions designed to abate rising rents have had mixed success and, in some cases, may have exacerbated the challenges faced by tenants and landlords. Specifically, the rent cap has resulted in a two-tier pricing system, which has trapped existing PRS tenants and resulted in significant barriers to access for new entrants.

This report establishes the financial shortfall between LHA rates and advertised PRS rents. The findings point to the shortfall being significant. On average, just eight per cent of properties in Scotland were 'affordable' to those in receipt of LHA to the year ending March 2023. The implication is that the PRS is now largely unaffordable to new entrants or those seeking to move within the sector who are in receipt of LHA.

The lack of choice is incredibly problematic, especially in light of the challenges LHA recipients already face in securing PRS property (see Section 2), and the lack of alternative housing provision.

The two-tier pricing system caused by the introduction of the rent cap also means that those in existing tenancies may be better off in the short term, insulated to some extent from rising rents, but they are effectively trapped where they are, regardless of whether their existing tenancy meets their needs. Those who have had to move and now face rents higher than their LHA allowance, face difficult decisions regarding how to fund shortfalls between their rent and LHA entitlement. These choices will only be exasperated as winter approaches and energy usage increases.

The report also identifies and examines a number of conceptual, methodological and practical concerns posed by the LHA. Conceptually, there are fundamental questions regarding existing definitions of affordability and gaps in the debate regarding the overall role of LHA in meeting housing costs.

Furthermore, it is not clear at which level or percentile LHA rates should be set to ensure that those in receipt of the benefit are not living in more expensive accommodation than those who are not in receipt of LHA. In addition, there are real questions regarding the appropriateness of the SAR in meeting the housing needs of its recipients.

The report finds that the current LHA methodology does not use an optimal sampling strategy, is biased towards advertised rents over rents in general, does not consider differences between local markets and submarkets, discards rental data that might otherwise reduce rates, and produces rates which lag the end of the data collection period by six months⁴⁰. It can therefore be concluded that at point of going live, LHA rates are not representative of Scottish rents. As the IFS (2023a) conclude, **'the current approach makes little sense'** and therefore, the existing methodology would benefit from improvement.

It should be recognised however, that the methodological choices made by RSS are heavily constrained by legislation and the availability of data. In short, RSS appears to be doing a good job in difficult circumstances. In order to realise improvement, changes will be required in both of these areas and these will be explored in more detail in the sections that follow.

Overall, the legislative context, a mismatch between supply and demand and the effects of several ongoing crises (a poly-crisis) have converged causing private rents to rise. Compounded by issues with the LHA rate setting process these rents are unaffordable for LHA recipients using our previous definition. There are a number of actions that could be taken in both the short and long term to address the affordability issues faced by LHA recipients. These are now explored.

⁴⁰Assuming rates are not frozen or increased using another mechanism.

11.2 Increase Local Housing Allowance rates in the short term

In the short term, Crisis (2019) advocate increasing LHA rates to **'cover at least the cheapest third of private rents'**. Step By Step (2023) also recommend increasing LHA rates to **'meet real-world rental costs'**. Likewise, Propertymark (2023) are calling for LHA to be **'set to at least the 30th percentile, if not the 50th percentile'**, and Shelter (2023a) demand that LHA is reconnected to **'the real cost of renting, so that it covers at least the cheapest third of local homes'**.

It is evident that the Scottish Government (2023c) broadly supports this course of action, as the Scottish Government's Housing Minister has written to the Secretary of State for Work and Pensions to request that LHA rates are returned to the 30th percentile **'as a minimum'**.

We agree that in the short term, the deficit between the current LHA rates and advertised rents needs to be addressed, although there are questions over how this might be achieved.

Although LHA was introduced by the DWP as part of a UK Government initiative and is a reserved matter, the Scottish Government could use social security powers to top up existing LHA rates to the 30th percentile level. Indeed, a precedent was set by the Scottish Government's mitigation of the bedroom tax via DHPs and the Scottish Government is currently mopping up some of the LHA shortfall via DHPs. However, given that the estimated cost to increase LHA rates to match the 30th percentile of rents, is just under £98 million per year⁴¹, it is not clear how such an endeavour would be funded or indeed whether or not the Scottish Government would have the appetite to do so.

A more fiscally viable solution (for the Scottish Government at least) would be for the UK Government to return LHA rates to the 30th percentile as it did during the pandemic. However, there are ideological and fiscal barriers to them doing so.

As noted earlier, increasing LHA rates to the 30th percentile would improve affordability and mobility in the short term. However, we have concerns that it could lead to market distortions. Specifically, raising LHA rates could push advertised rents higher and cause existing rents to rise as they harmonise with prevalent LHA rates⁴².

Policy makers will need to continuously monitor the situation and be ready to respond as necessary in order to restrain within-tenancy rent increases and allow rents to harmonise over time. One response already being considered by the Scottish Government is the transition from the existing rent cap to some other form of rent control. However, we would highlight that all rent control models have limitations and risk generating unintended consequences, a point currently being well made by the rent cap. As such, policymakers should be minded to proceed with caution.

It would also be necessary to monitor affordability for those on low incomes who are not currently in receipt of LHA, but who might require support if revised LHA rates push rents higher.

11.3 Identify a mechanism for annual Local Housing Allowance rates adjustment

There are strong ideological and fiscal arguments for the changes that have been made to LHA over the last fifteen years including the recent freezing of rates. However, although policy makers would undoubtedly prefer to retain this flexibility, the sector and its actors would benefit from a period of stability. There are a number of ways in which this could be approached, but a good starting point is to look at existing mechanisms for alternative benefits.

One example is the 'triple lock' mechanism adopted for the state pension. Under the triple lock commitment, the state pension increases by the highest measure of CPI, the average increase in wages, or 2.5 per cent each year. Although further analysis and debate is required, this model could potentially be adapted to fit LHA.

⁴¹It should be further reiterated that this percentile is calculated using advertised rents, which have been rising in the short term. The calculation also assumes that all rents would rise to meet revised LHA rates at the same time, though clearly this would not be the case.

⁴²Evidence of harmonisation was found in an early study of the impacts of LHA (Rugg et al., 2008).

11.4 Short term methodological improvements

Also in the short term, there is a requirement to evaluate undertaking a series of short term methodological improvements. To begin with, the work of the Housing Affordability Scottish Government Working Group should be supported to reach a definition of affordability in the context of different groups within the PRS. This will allow for further debate on the relationship between LHA rates and affordability.

Specific short term methodological improvements should also be considered in order to remedy some of the issues raised in this report. For example, a reduction in the lag between the data gathering phase and the new LHA rate each year to improve the accuracy of rates, and the implementation of rent tracking in order to build knowledge on how existing rents change over time. There is also an opportunity to further evaluate rents that are discarded from LHA analysis because they are subject to housing benefit, in order to better understand the impact of their removal. In the short term, it may also be possible to leverage the landlord registration system in order to trial and evaluate a random sampling strategy.

11.5 Review the Shared Accommodation Rate

There are also fundamental questions regarding the suitability of the SAR and a clear need for review to ensure that it is meeting the needs of its recipients. Although data is required to allow for more detailed analysis, early options for improvement include enhancing the existing SAR or replacing it entirely with the one-bedroom rate. In light of the concerns raised and the relatively small number of claimants, these would appear to represent uncontroversial starting points.

11.6 Improve private rented sector rent data

In the short term, existing data sources need to be improved to ensure their ongoing availability and accuracy.

In the longer term, PRS data sources need to dramatically improve in order to provide policymakers with the data they need to make considered policy decisions. In particular, there is a clear requirement to capture detailed data on rents by market and sub-market on at least an annual basis. This could be achieved by leveraging either Scotland's existing tenancy deposit schemes or the landlord register. Although both present a range of administrative and commercial challenges⁴³, the latter would place responsibility for data provision firmly in the hands of landlords and may be preferable.

The existing landlord registration system could be re-designed to capture annual rents and both landlords and rent officers compelled to provide/use the data as part of an annual rent census. In light of the speed and depth of the legislative changes forced through in response to both the pandemic and the 'cost-of-living crisis', these relatively small-scale changes should not be beyond the capability of the legislature.

However, given that the Scottish Government's chief housing statistician suggested that there are no immediate plans to improve rent data quality (Robertson & Young, 2018), wholesale change would appear unlikely in the short term. However, it should be noted that the ONS is working on the redevelopment of private rental statistics, which could yield incremental improvement⁴⁴.

11.7 Review Broad Rental Market Area boundaries

The provision of improved PRS rent data would enable a more detailed review of BRMA boundaries. This is no easy task and boundary changes would inevitably result in winners and losers. However, without undertaking the analysis, it is not clear if smaller BRMA's or a more detailed focus on markets and submarkets would produce fairer outcomes.

⁴³See Robertson and Young (2018) for an overview.

⁴⁴See <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/theredevelopmentofprivaterentalpricesstatisticsintendedmethodology/march2022>

11.8 Build more social and affordable housing

There is also a clear long term need to relieve the pressure that has been building within the system by building more social housing in locations where there is strongest demand. This is an idea which receives widespread support across the sector and beyond.

The Scottish Government targeted delivering 50,000 new affordable homes between April 2016 and March 2021, the target was hit in March 2022 (Scottish Government, 2022) and the latest commitment, to deliver 110,000 affordable homes by 2032 is a step in the right direction. However, for the time being at least, it is too little too late.

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13. Appendix 1: example of Rent Service Scotland data collection form

Rent Service Scotland

Scottish Government
Compass House
11 Riverside Drive
DUNDEE
DD1 4NY

DETAILS OF RECENT LETTINGS

Please complete and email to:
rss.dundee@gov.scot
Tel: 0300 244 7000

Your Contact Details:

Name: _____

E-mail: _____

Telephone: _____

Address: _____

House/ Flat Number or Name	Property Address (street name, town)	Full Postcode	Rent Paid £ per week (pw), or per calendar month (pcm)	Water Rates Included (Yes/No)	Property Type (eg. Converted flat, semi- detached house)	Furnished/ Unfurnished (Unfurnished incl. Carpets, curtains, & white goods)	No of Living Rooms	No of Bedrooms	New Letting or Renewal	Tenancy Start or Renewal Date (mm/yy)

The information supplied on this form will be processed by the Rent Officer for the purposes of setting Local Housing Allowance (LHA) rates. This information will be held securely in the Rent Service Scotland database and held in line with the current retention policies. This information is also shared with the Office of National Statistics and is used to calculate CPI(H). If you need any further information please write to us at Rent Service Scotland, Scottish Government, Compass House, 11 Riverside Drive, Dundee, DD1 4NY. The Data Protection Officer can be contacted at the above address. We would also like to contact you annually to review and update this information. Please 'X' the box if you would prefer to be contacted by Post E mail or Telephone

Source: Scottish Government (2018)



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