Scottish Parliament Social Justice and Social Security Committee

Local Housing Allowance

Written submission by The Resolution Foundation

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Hannah Aldridge[1]

In 2012, Local Housing Allowance (LHA) levels were linked to the 30th percentile of local rents and automatically revised to reflect market changes. However, since the systematic link with market rents was broken 13 years ago, the Government has frozen LHA rates eight times, and repegged to the market level just twice (in 2020 and 2024). Looking ahead, the Government's spending forecast assumes LHA will remain frozen in cash terms until at least 2029-30.

But this position looks untenable. Private rents have been rising fast since 2024 and on average, LHA rates are already 14 per cent lower than actual rents at the 30th percentile level – larger than the shortfall when the previous government repegged LHA in 2020. Next year, we forecast the LHA gap to be the largest it has ever been. Even with slower projected rent inflation in the future, we estimate LHA rates will be 25 per cent below the 30th percentile level by the end of the forecast period in 2029-30, amounting to a typical shortfall of £180 a month.

And the impact of the LHA freeze is felt unevenly across the country. With its eye-watering housing costs, London experiences the largest cash shortfalls between LHA rates and actual rents, but every region in England contains at least one local authority where the gap already exceeds £100 per month. This can create unsurmountable affordability challenges which in turn increases the financial burden on local councils who spent £2.8 billion on temporary accommodation in 2024-25.

And the LHA freeze looks set to wipe out income gains from other recent policy decisions. For example, a working single parent in a typical area would see their real disposable income fall by £129 per month by 2029-30, despite a real-terms increase in Universal Credit from next year.

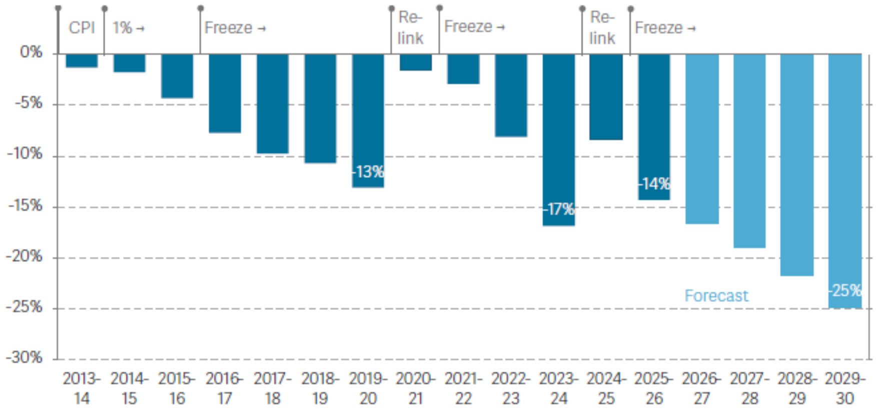
Although indefinitely freezing LHA has a desirable effect on the Government's balance sheet (we estimate that relinking LHA would cost £2.5 billion by the end of the Parliament), it is not a sustainable forecast given the impact it will have on the living standards of tenants and cash-strapped local councils. It is time to end this fiscal fiction and make LHA uprating in line with local rents annually the rule, rather than the exception.

Private renters are truly at the sharp end of the housing affordability crisis: they pay more per square metre for their homes than those living in any other tenure and have experienced especially high levels of rent inflation in the wake of the pandemic. But as well as putting downward pressure on private renters' living standards, rapidly rising rents also pose a challenge for any government intent on controlling public spending. Ahead of the 2025 Budget, we reflect on the Government's default position to freeze Local Housing Allowance (LHA) until 2029-30 and consider the implications this will have for households and the public purse.

Rents have increased by 14 per cent since LHA was last pegged to local rents

LHA determines the maximum amount of help lower-income renters – including the 1.7 million privately-renting households on Universal Credit (UC) - can receive from the state with their housing costs.[2] When the LHA system was first rolled out nationwide in 2008, the level of support a household could get was revised monthly to keep pace with the local rental market, with rates pegged to the median rent level in each Broad Rental Market Area (BRMA).[3] In April 2011, LHA was lowered to the 30th percentile (meaning that 30 per cent of privately rented properties in the BRMA are charged rent at or below the LHA rate) and a year later, the process of automatically linking LHA to market rents ended. Since then, LHA rates have been frozen in eight of the last 13 years and current Government policy, reflected in the official forecasts, is for them to remain frozen for another four years (see Figure 1).

FIGURE 1: LHA rates have been realigned to market rents in just two of the last 13 years
Percentage gap between LHA rates and the estimated 30th percentile rent level since April 2012: Great Britain



NOTES: The chart shows the gap between LHA rates and estimated 30th percentile rent level in September of the year shown (mirroring the relinking approach in 2020 and 2024). We assume that the 30th percentile moves in line with average rent inflation. From 2026 onwards, we assume that rents increase in line with the OBR's earnings forecast for the 12 months to September.
SOURCE: RF analysis of ONS, Price Index of Private Rents, UK: historical series; ONS, Price Index of Private Rents; OBR, Economic and Fiscal Outlook – March 2025.

When LHA rates are held down, gaps open up between the amount of support families can get towards their housing costs and prevailing market rents. During the 2010s, rent inflation was relatively modest but, by April 2020, the point at which LHA rates were repegged to local market rents, they were 13 per cent below the estimated 30th percentile level. But rents grew rapidly in the wake of the pandemic and the gap between LHA rates and local rents became larger in a shorter time. By the time LHA rates were again relinked in April 2024, the LHA gap had reached 17 per cent. And worse was to come. A considerable gap has opened up in the short time since LHA was last pegged to actual rents, for two reasons. First, when LHA was increased in April 2024, it was pegged to rents measured in the 12 months to September 2023 when rent inflation was rising rapidly. Second, rent inflation then continued to increase quickly after this point and remained above 8 per cent until March 2025.

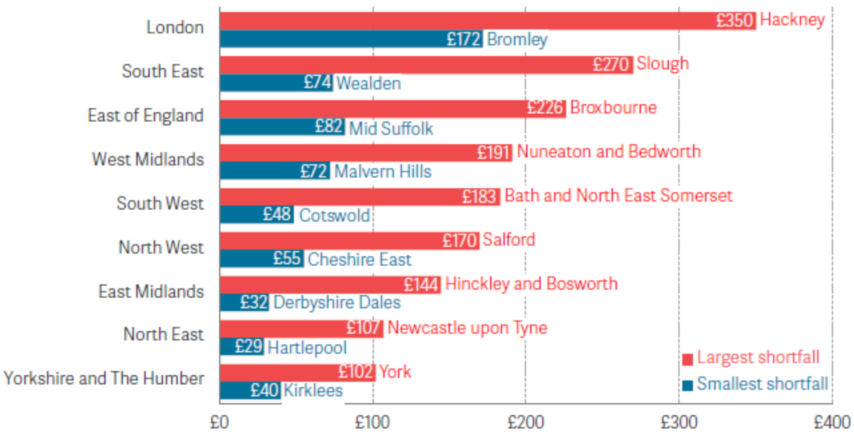
Assuming that rents at the 30th percentile increase at the same rate as the average, we estimate that LHA rates are now 14 per cent below the 30th percentile – amounting to a shortfall of £104 a month for a household renting a two-bedroom property at the median LHA rate. This gap is already bigger than when the Conservative government chose to repeg LHA in 2020. Next year, we estimate the typical gap will be the largest it has ever been. Even with slower projected rent inflation in the future, LHA rates will be 25 per cent below the 30th percentile level by the end of the forecast period, amounting to a typical shortfall of £180 a month in 2029-30 prices.

The impact of freezing LHA varies widely across the country

As is often the case, however, the average obscures a breadth of experience. The difference between LHA rates and local rents varies widely by place as increases in the cost of renting since September 2023 have been far from uniform. Today, the largest cash gaps are in London where private rents tend to be highest, and even a small percentage increase in rents can lead to a significant cash shortfall. As Figure 2 shows, in just two years, average local rents for two-bedroom property have outpaced the prevailing LHA rate by an eye-watering £350 a month in the Inner London borough of Hackney.[4] Even in the London borough with the lowest rent inflation over this period - Bromley in Outer London – that shortfall amounts to £172 a month.

FIGURE 2: London has some of the largest gaps between LHA and market rents, but shortfalls of at least £100 a month appear in every region

Local authority with the largest and smallest gap between LHA and the estimated 30th percentile for a two-bedroom property, by region: England, September 2025



NOTES: We estimate the LHA level for a two-bedroom property in each local authority using a weighted average of the BRMA coverage. Wales and Scotland are excluded as we do not have data on the BRMA and local authority intersections. We assume that rents at the 30th percentile level increase in line with the average rent level for a two-bedroom property in each local authority. Local authorities where the national LHA rate already applies (Camden, Islington, Kensington & Chelsea and Westminster) have been excluded.
SOURCE: RF analysis of ONS, Price Index of Private Rents; Valuation Office Agency, Local Housing Allowance (LHA) rates applicable from April 2025 to March 2026.

However, significant affordability gaps are not just a London phenomenon. As Figure 2 shows, every region in England contains at least one local authority where there is a £100-plus shortfall between the LHA rate for a two-bedroom property and the estimated 30th percentile rent level. Even in regions not renowned for high rents and low housing affordability, significant gaps have emerged, such as £170 a month in Salford in the North West; £144 a month in Hinckley and Bosworth in the East Midlands; and £107 a month in Newcastle Upon Tyne. And if we compare the real-terms cash shortfalls now with the shortfalls observed before the April 2024 relinking, we find that the gaps are bigger today than they were when LHA was last relinked in 57 per cent of local authorities in England.

The LHA freeze increases the cost burden on councils through the provision of temporary accommodation

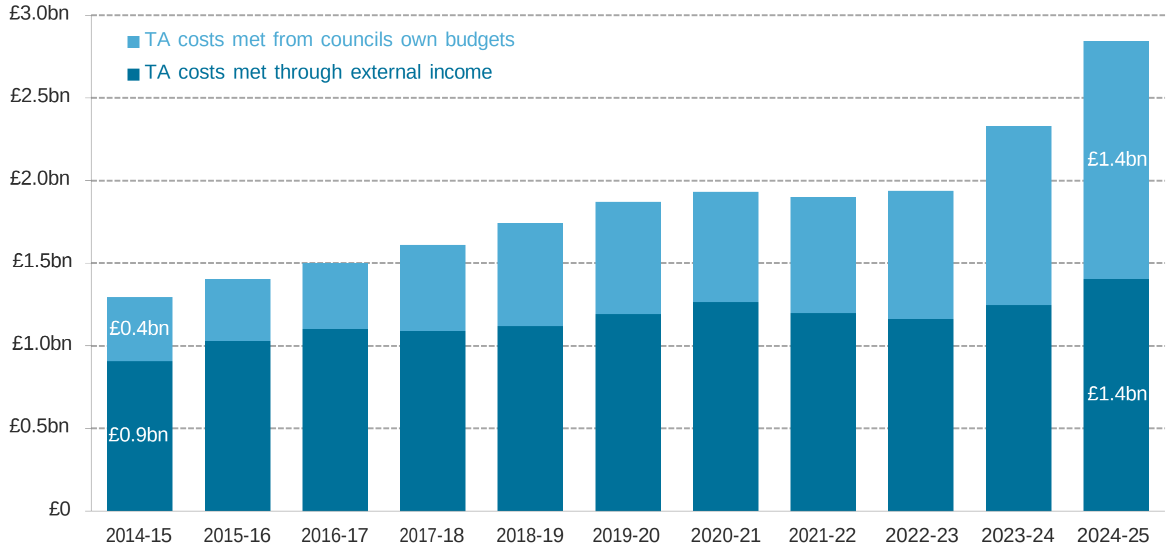
But it is not just households who feel the squeeze as LHA shortfalls grow. When lower-income households are unable to make up the gap between the actual rent they pay and the support they receive from the state with their housing costs, they are at a higher risk of becoming homeless and being placed in temporary accommodation (TA). LHA shortfalls also make it harder for local councils to find alternative housing for those in TA: to discharge their duty to homeless households, councils have to offer families a suitable home they can afford. In areas where there is a large gap between market rents and LHA, it will be much harder for councils to find accommodation that meets this requirement, meaning that households stay in TA for longer.

While use of TA will depend on a range of local factors, such as employment levels and the availability of social housing, the amount of help private renters get towards their housing costs has often been identified as playing a role. In 2017, for example, the National Audit Office reported that local authority staff widely attributed rising homelessness to “increases in rents in the private sector, and a decline in people’s ability to pay these rents”.

The number of households in TA in England is now at a record high of 132,000. Alongside the devastating impact this can have on individual households, it poses a significant cost burden on local councils. Councils in England spent £2.8 billion on TA in 2024-25, more than double the £1.3 billion spent ten years earlier (in 2024-25 prices) (see Figure 3). While local councils receive a subsidy from the DWP towards the Housing Benefit of each household in TA, this subsidy has also been frozen without any adjustments since 2011. The maximum subsidy councils can receive is set at 90 per cent of LHA rates in 2011 despite average rents increasing by 60 per cent since then. As a result, councils have overwhelmingly carried the cost burden of rising levels of TA. In the decade to 2024-25, councils net TA cost rose by 370 per cent from £0.4 billion to £1.4 billion.

FIGURE 3: Councils' net temporary accommodation costs have increased more than three-fold in the last decade

Annual real spending on temporary accommodation provision by local authorities (2024-25 prices): England

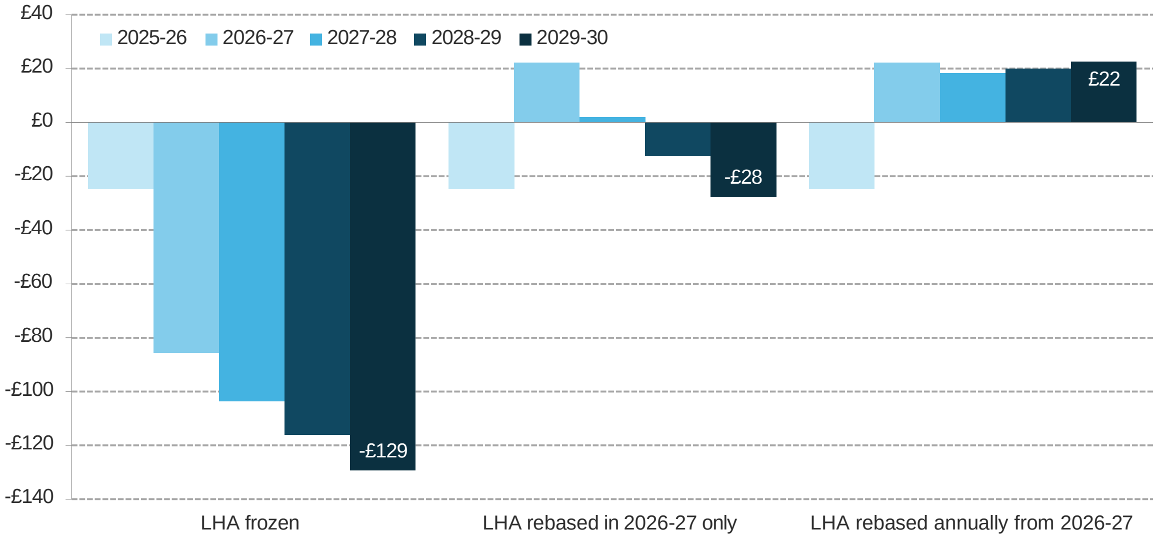


NOTES: We calculate spending on TA by adding all local authority spending within the service category "homelessness" minus non-TA spending (Homeless Reduction Act costs and other administration and support costs). Costs have been adjusted to 2024-25 prices using September's CPI.
SOURCE: RF analysis of MHCLG, Local authority revenue expenditure and financing England individual local authority data, Revenue outturn housing services (RO4).

Freezing LHA creates a drag on living standards for private renters

Freezing LHA ultimately lowers living standards for lower-income private renters, as illustrated by Figure 4. This shows the real-terms change in after housing costs income of a working single parent with one child living in Gloucester between 2024-25 and 2029-30 if LHA remains frozen as assumed in the Government's spending forecast. [5] During this period, their earnings and income from the 'standard allowance' component of UC will increase in real terms.[6] But these income boosts cannot compensate for the loss experienced from LHA failing to keep up with rents. By 2029-30, we estimate the family's net monthly income will have fallen by £129 in today's money.

FIGURE 4: When LHA is frozen, rent rises soon wipe out increases in other income Change in real after housing cost income from 2024-25 of a working single parent in receipt of UC, in different LHA uprating scenarios (2025-26 prices): Gloucester



NOTES: This chart looks at the after housing costs income of a single parent with one child in Gloucester (where the LHA level is the median for England). The parent works 30 hours a week at minimum wage and is in a council tax band B property. The rent for the property matches the LHA level in April 2024 and increases annually in line with average local rents until 2025-26 when it increases in line with the OBRs earnings forecast.
SOURCE: RF analysis of ONS, Price Index of Private Rents; Valuation Office Agency, LHA rates applicable from April 2025 to March 2026; OBR, Economic and Fiscal Outlook – March 2025.

But Figure 4 also shows the impact of alternative LHA scenarios. If LHA were repegged to market rents in April 2026, which we estimate to cost £1.7 billion, it would neutralise the impact that rent inflation has had on household incomes.[7] The example family, which benefited from a real terms increase in the National Living Wage, is now better off. But this gain is soon lost if LHA rates are not relinked annually as rent rises once again erode income gains. The only way of preventing rent increases from acting as a significant drag on living standards for families in receipt of housing support is to permanently link LHA to market rents. In this scenario, a real-terms increase in earnings and the UC standard allowance mean that the family's income is higher at the end of the forecast period. Although the cost to the Government of annual relinking rises with rent inflation is significant (reaching £2.5 billion by the end of the forecast period), freezing LHA is fiscally short-sighted as this only achieves short-term, in-year savings until another crisis point is reached.

Unlike other key benefits, the LHA freeze is the default position in the public finances

Given the impact it will have on private renters, freezing LHA until at least 2029-30 runs counter to the Government's mission to "raise living standards in every part of the UK" and will push many renters far beyond the point where previous governments have responded. Alongside this, financial pressures will continue to build on local authorities through the provision of temporary accommodation to private renters in the most acute need. In practice, it is implausible that the Government can avoid relinking LHA to local rents at some point over the next four years. But the way LHA is treated in the public finances means this presents a real problem for a government as fiscally constrained as ours today.

Unlike the State Pension which the law requires must be uprated by at least earnings every year, UC and LHA rates are uprated on a discretionary basis subject to annual review by the Secretary of State.[8] However, despite the fact there is usually no statutory requirement for UC levels to change, the convention is for the benefit to increase in line with CPI and this default is reflected in the Government's spending forecasts.[9] As a result, should the Secretary of State decide in their annual review to maintain the value of UC by uprating it with CPI, this would not count as additional spending. Similar defaults are used for many parts of the tax system – such as a 'baseline' assumption that the personal tax allowance will rise in line with inflation. In contrast, although LHA rates are also subject to an annual review, the Government's spending forecasts assume that LHA rates remain frozen until at least April 2030. As a result, any decision to relink and maintain the real value of LHA would count as additional spending for the Department.

Conclusion

With four more years of the forecast period to go, the gap between LHA and actual rents is already very large. Next year we expect the gap between LHA and the 30th percentile to be the largest it's ever been, amounting to a monthly shortfall of £120 for a typical LHA recipient needing a two-bedroom property, with many losing much more. Continuing to freeze LHA will yield only short-term savings for the DWP while shunting costs to local councils who have a duty to support families with the most severe affordability challenges through the provision of TA.

In the long term, the most sustainable way to drive down the benefits bill when it comes to housing support is to reduce housing costs overall. In light of this, the Government's ambition to build 1.5 million more homes by the end of the Parliament is very welcome, although as our last Housing Outlook showed, this is unlikely to shift the dial in terms of housing affordability in the short term. Similarly, the commitment to build 300,000 more affordable homes in the next ten years will benefit many but could only accommodate a fifth of the 1.5 million UC-recipient households in the private rented sector in England.[10] In the long term, the private rented sector will continue to house a large share of the lower-income population.

While indefinitely freezing LHA has a desirable effect on the Government's balance sheet, it is not a sustainable forecast assumption given the impact it will have on living standards of tenants and cash-strapped local councils. Currently, forecasting a freeze to 2029-30 ultimately hides a £2.5 billion hole in the public finances. The Government should decide what level of rent should be compensated for and plan to meet that through the forecast. Annual LHA relinking should be the rule, rather than an exceptional move when pressures simply get too great.

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1 With thanks to colleagues Lindsay Judge and Alex Clegg for their insight and expertise.

2 A further 230,000 Housing Benefit claimants are also subject to LHA rates.

[3] A BRMA comprises two or more distinct but adjoining areas of residential accommodation within which a person could reasonably be expected to live considering their need for facilities and services

[4] Although, the national LHA ceiling would have to be unfrozen for LHA levels in Hackney to realign with the 30th percen-tile of local rents. The national LHA ceiling currently applies the four most expensive London boroughs (Camden, Islington, Kensington & Chelsea and Westminster). If LHA rates were relinked to the 30th percentile and the national LHA ceiling remained frozen, 11 London boroughs including Hackney would hit the national ceiling.

[5] We have selected Gloucester because LHA is the median level in this area and rent inflation aligns with the GB average.

[6] Under the Universal Credit Act 2025, the standard allowance will increase above inflation over four financial years from 2026-27. By 2029-30, it will be 4.8% higher than it would have been under the normal practice of annual inflation-related increases.

[7] RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Price Index of Private Rents; OBR, Economic and Fiscal Outlook - March 2025; VOA, Local Housing Allowance rates, 2025-26. The counter-factual is Local Housing Allowance frozen at its 2025-26 level. Assumes private rents grow in line with the OBR's forecast for average weekly earnings growth, lagged by 12 months.

[8] The triple lock whereby the State Pension increases each year by prices, earnings or 2.5 per cent whichever is the largest is a political commitment and not one set in legislation.

[9] Although, since the Universal Credit Act 2025 was passed in September 2025 the standard allowance will increase above inflation over four financial years from 2026-27.

[10] But enabling lower income tenants to move from the private rented sector into social rented homes would reduce the costs of relinking LHA in the longer-term.