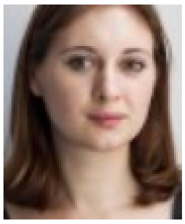
CPI or 1 per cent rises: The real story is the missing link to rents



*Yesterday's Autumn Statement contained important announcements about the up-rating of benefits. Shelter's **Kate Webb** analyses the changes in Local Housing Allowance, suggesting that while the chancellor has recognised the risk that rents will outpace LHA, it is far from certain that this has been adequately addressed.*

As part of yesterday's Autumn Statement the Chancellor announced changes to the way Local Housing Allowance (LHA) rates will be up-rated over the next three years. Rates will only be up-rated annually by one per cent [PDF] in 2014/15 and 2015/16, as part of a package of real-term cuts to working age benefits. There will be some protection for the most over-heated markets but details remain sketchy.

Also skipped over was the fact that this is an additional cut being imposed on top of an existing high risk reform: in April 2013 the historic link to rents will be broken and LHA rates up-rated annually by CPI. Until last April, LHA tracked actual rents in the market. The rates were set on a monthly basis, and pegged to the bottom third of rents in each locality. This meant that if rental markets remained calm, benefits levels would stay the same or even fall. But if rents started rising due to market pressures [PDF], LHA rates would increase to ensure that low income households could pay the rent.

Last year's Welfare Reform Act broke this crucial link to actual rents: from April 2013 LHA rates will not rise above CPI inflation. Rates used to move monthly in response to rents but have already been frozen since last spring in anticipation of the move to annual CPI increases. This will not have the same overnight impact as say, the LHA caps, but means that over time LHA rates will become increasingly out of step with the actual cost of private renting. This is because private rents have traditionally risen faster than inflation: in the 10 years to 2007, rents increased by 70 per cent but CPI only rose by 20 per cent [PDF]. Previous research by Shelter warned that linking CPI to LHA would make a third of local authorities unaffordable to low income households by 2023.

This change to the up-rating system was a technical but high risk move. Lord Freud, the Minister for Welfare Reform, acknowledged this when the Act was going through parliament, and promised to look again at LHA rates if they become critically out of step with local rents.

Today's announcement imposes a further change to up-rating, making it more likely that rents will outpace LHA by the time of the next election. It's a confusing move by the Chancellor, considering that the change to CPI up-rating hasn't even taken effect yet. Surely the Treasury should monitor the impact of its first cut before imposing a second? The more LHA rates are held down, the greater the risk that low income households simply won't be able to find affordable housing. Ministers know this won't be a sustainable situation and will need to be corrected. Extra cuts now will make this correction more costly, as the divide between private rents and the support available will be greater.

The Autumn Statement goes some way towards acknowledging this risk, but does so via a complex and potentially inadequate measure. It commits to reinvest 30 per cent of the forecasted savings from the one per cent increase to 'exempt rates in those areas where rent increase are highest, in recognition… that rental markets differ across the country.' It's not entirely clear what this 'exemption' will amount to – it probably means that LHA rates will only be up-rated by CPI, rather than re-establishing the link to actual rents. But it is reassuring that the Treasury has acknowledged that rents are likely to outstrip inflation in some markets, and that housing costs are more geographically variable than other household expenditure.

The risk is that the money earmarked from today's savings won't be sufficient to compensate for the growing inadequacies of LHA. It is vital that ministers do not backtrack on the commitment to restore the link between housing benefit and housing costs if low income households are priced out of the market.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting.

This post originally appeared on Shelter's Policy Blog.

About the author

Kate Webb *is a policy officer at Shelter. To find out more about Shelter see their website and Twitter feed.*

You may also be interested in the following posts (automatically generated):

1. While the Living Wage is hugely important, it is not enough on its own to guarantee someone a life free of poverty (10)
2. The government's proposed cuts to the housing benefit will force 130,000 families out of their homes and add to the UK's growing homeless population (7.2)
3. Non-EU migrants compete mostly with each other for housing; their impact on house prices is minimal. (6.3)
4. Contrary to popular opinion, home ownership may actually make workers less economically mobile (6.2)