



Altair

Community Housing Cymru

A local approach to setting rent

Final Report

April 2019



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1 | Executive summary

1.1. Introduction

1.2. In February 2019 Community Housing Cymru (CHC) appointed Altair Ltd (Altair) to undertake research to support CHC's work urging a local approach to setting rent. When setting rent locally, landlords in Wales should be considering affordability in the round.

1.3. During February and March 2019 Altair undertook research to analyse the elements of different affordability models and view their suitability for use in different parts of Wales. This report contains the work's findings.

1.4. The aim of the research was to identify potential 'tools' housing associations can use when developing their local rent policies. The scope of the project was to:

- Analyse different affordability models and compare the elements within them.
- Analyse the individual elements to identify common indicators across the affordability models which may be relevant for use across Wales.
- Recommend existing datasets housing associations can consider when developing affordability.
- Explore affordability definitions.
- Identify data gaps and consider what else needs to change on either a policy, organisation or data basis.
- Capture the process, discussion and information associations have undertaken to set rents locally and describe the outcomes.

1.5. Context

1.5.1. There are several drivers that have led CHC to develop its thinking on changing the approach to setting rents in Wales. The Welsh Government (WG) commissioned an independent review of affordable housing in 2018, which will report in June 2019, which is tasked with examining the current arrangements for supporting the development of affordable housing. The object is to make recommendations for changes designed to increase supply and improve delivery from the resources available. The review has been asked to make recommendations on how a sustainable rent policy can help determine long-term affordability for tenants, and the viability of existing and new housing developments.

1.5.2. In addition, the five-year rent settlement concluded in 2017/18 and a one-year transition settlement has been put in place for 2019/20. This is a significant change from the previous policy and is a challenging settlement for the housing sector.

1.5.3. During the period of the last rent settlement, changes to welfare reform and the roll out of Universal Credit (with Housing Benefit now being included as the housing element of Universal Credit) have had an impact on tenants' income and consequently, social housing. In addition to Housing Benefit now forming part of Universal Credit, there are two main changes: the first is the welfare benefit cap, originally introduced in 2013, which capped the total amount of benefit (with some

exceptions) that a family could receive; the second is the bedroom tax. This was also introduced in 2013 and applies to social tenants of working age in receipt of Housing Benefit, with a limited number of exemptions, where Housing Benefit is reduced by 14% if the household has one bedroom more than the calculated limit, and 25% for two bedrooms or more over the limits

- 1.5.4. A third proposed change, announced by George Osborne during the Spending Review and Autumn Statement in 2015, is to restrict the level of Housing Benefit, or the housing element of Universal Credit, claimed by tenants in social housing to the Local Housing Allowance (LHA) rate. This sent shock waves through large parts of Wales as social rent was already higher than LHA rates in many Valley and rural areas. This highlighted the need to review rents in the context of affordability.
- 1.5.5. There have also been concerns about the existing rent policy, particularly the problems that a lack of certainty over long-term rent settlement can cause to forward planning; a lack of autonomy to adjust rent levels across portfolio/different properties, with a resulting impact on viability; and the last-minute decision on the rent settlement meaning that tenants are not adequately informed about justifications for policy changes. Looking forward, there is increasing concern that housing associations will not be able to meet statutory requirements to inform tenants about rental increases (particularly with the new Renting Homes Act requiring two months' notice before rent increases) based on the market.
- 1.5.6. These issues combined led to CHC developing a potential new approach to setting rent, based on local long-term rent setting, in consultation with tenants and partners, overseen through the existing regulatory framework. CHC believes rent levels should:
 - Be set locally at a level that is affordable for tenants
 - Protect lender confidence
 - Maintain the confidence of government in the sector
 - Offer value for money (VfM).
- 1.5.7. With this in mind, CHC wants to identify existing approaches to rent setting based on affordability by reviewing current affordability models.

1.6. Affordability models

- 1.6.1. The fundamental principle of affordability-based models is that they are based on income and not the property market. As part of the project, we analysed a range of different affordability models and the datasets that are used by these models.
- 1.6.2. These included
 - Joseph Rowntree Foundation (JRF) Living Rent Model – a new development framework for Affordable Housing
 - Joseph Rowntree Foundation (JRF) and Cambridge Housing Society (CHS) – Developing income-linked rents
 - A Minimum Income Standard for the UK 2008-2018: Continuity and change
 - Dolphin Living – a housing association looking at setting individual rents for one of its estates

- Direction of travel for rent setting in England by NHF
 - Rent setting in Scotland by SFHA.
- 1.6.3. The most common definition of affordability adopted is the JRF Living Rent Model. This states that a living rent should be affordable for a household with someone in full-time employment, working the average number of hours worked per week (including overtime) and earning around the minimum wage. This uses the lower quartile national earning figures. However, this income needs to be adapted to reflect:
- the differing composition of households in different-sized properties
 - the fact that household income for low-paid families with children is likely to be enhanced by benefits and tax credits.
- 1.6.4. The JRF Living Rent Model sets a maximum ratio of income that should be taken up by housing costs, based on research done by Savills. This estimates that not more than 28% of net income should be spent on housing costs (rent only) and up to 33% on service charges.
- 1.6.5. The Joseph Rowntree Foundation (JRF) and Cambridge Housing Society (CHS) – Developing Income Linked Rents Project was undertaken to understand affordability in different sized properties using the JRF Living Rent Model as a basis. The data suggests that reducing the rent on smaller properties and increasing the rent on larger properties would have a positive impact on the disposable income of tenants. This is because families in work usually receive state support for housing costs, and these households tend to live in larger properties. Therefore, an increase in the rent level would increase their benefit claim. This evidence mirrors the findings from our workshop discussions where smaller-sized properties tend to be more unaffordable than larger ones.
- 1.6.6. The JRF Minimum Income Standard Calculator is a new model that was introduced in July 2018, it calculates whether the household income is enough to maintain a minimum income standard (MIS) after taking all housing costs and bills into consideration. It has assumptions built within it, again depending on household size and composition.
- 1.6.7. The main finding is that a single person must earn £18,400 a year to reach MIS; each parent in a working couple with two children must earn £20,000. The minimum wage remains too low to reach MIS, with widening shortfalls for some groups. A lone parent with two children, working full-time, had disposable income 4% below MIS in 2008 but 20% below today.
- 1.6.8. The methodology here is that people from a range of socio-economic backgrounds have detailed discussions about what a household needs to achieve an acceptable

living standard. A group of experts verify technical elements, such as checking the nutritional adequacy of the food basket.

- 1.6.9. This is a useful tool to use to sense-check affordability. Some adopters of this model compare the household income left after paying taxes and all rental costs with the MIS to assess affordability.
- 1.6.10. Dolphin Living is not a regulated housing association. The Dolphin Living project opted for a Personal Rent based on an individual's actual income. Housing associations are not able to do this but, for the purpose of this report, Dolphin Living's approach is informative. They based their definition of affordability on the calculation of a household's net income and the most recent Joseph Rowntree Minimum Income Standard applicable to their household composition. Dolphin Living adjust the JRF MIS for local costs, specifically council tax and the base rent applicable to each size of home. The base rent is the rent as at December, inflated annually by CPI+1%.

The Scottish Federation of Housing Associations' (SFHA) work is particularly interesting. For many years they have established a sector-wide definition of affordability, but the recent changes to Housing Benefit and Universal Credit have rendered the latest definition obsolete. As a result, SFHA launched a consultation which resulted in a new 'moderate incomes' approach to rent setting. This is based on affordability and sustainability, which takes household type and variations in local incomes into account but does not rely on landlords having detailed information about tenants.

- 1.6.11. SFHA, with HouseMark Scotland, have developed an affordability tool for housing associations to determine if their rents are affordable.
- 1.6.12. To use the tool, the organisation selects the local authority and the number of bedrooms, then inputs the proposed weekly rent. The model then uses the dataset on local earnings-based incomes to compare the rent. It shows a red-amber-green (RAG) result for the percentage of moderate income spent on rent. It also allows the housing organisation to see how the rent and affordability measures compare to other social landlords in their area, thereby providing useful benchmarking.

1.7. Our Findings

- 1.7.1. In assessing affordability, it is clear that one size does not fit all. The models we have looked at identify household income and household composition. (Where data for household composition does not exist, it is based on property size.) However, the models use different thresholds to determine affordability. The choice is between setting a maximum ratio of income that should be taken up by housing costs (typically 28 – 35%) or a minimum residual income a household must retain after paying for housing to meet other living costs.
- 1.7.2. There is not an overwhelming pattern emerging on the inclusion of other elements into 'housing cost' e.g. service charges, council tax, quality of the property, energy

efficiency. It is very much down to the individual organisation to adopt different elements according to local circumstances and in consultation with tenants.

1.8. Datasets

1.8.1. Following the review of the common indicators across the affordability models which may be relevant for use across Wales, we looked at the datasets that underpin the indicators.

1.8.2. We categorised the datasets that were used into the following:

- Household income
- Household composition by property size
- Income adjustment for household type
- Local data
- Other data.

1.8.3. We have summarised our conclusions on the data sources in the table below.

- Overview of datasets used to assess affordability

Category	Data Type	Data Source	Data Table	Recommended for use?
Household Income	Weekly income	ONS - Average Survey of Hours and Earnings (ASHE)	Table 8.1a Weekly pay - Gross (£) - For all employee jobs: United Kingdom, 2018	Yes
	Total income by super output area	ONS - Small area income estimates for middle layer super output areas	Small area income estimates for middle layer super output areas, England & Wales	Yes
	Total Gross weekly household income	Family Resource Survey	Table 2.6: Households by region/country and total gross weekly household income, 2016/17, Wales	No, data not granular enough
	National Living Wage	UK Government - Department of Work and Pensions	https://www.gov.uk/national-minimum-wage-rates	No, data not at a local level

Household composition by property size	Average Household composition	StatsWales	Average household size (persons) by local authority and year - https://statswales.gov.wales/Catalogue/Housing/Households/Estimates/averagehouseholdsize-by-localauthority-year	No, data not granular enough
	Household size per number of rooms	Census data	DC4404EW - Tenure by household size by number of rooms	No, data outdated

Category	Data Type	Data Source	Data Table	Recommended for use?
	Household composition, types of tenancy agreements and trends in social housing	Continuous Recording (CORE) system	Continuous Recording (CORE) system - online system	No Welsh equivalent

Income adjustment for household type	Total Household income	OECD	OECD-modified equivalence scale	Yes
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Local Data	LHA Rent levels	Rent Officers Wales	Valuing the Private Rented Sector	No, it is flawed for the purpose of benchmarking
	General Needs Rent levels	StatsWales	Average weekly rents in stock at social rent by dwelling type, provider type and basic information on number of bedrooms (defined as 1 bedroom or 2 or more bedrooms)	No, lacks granularity
	Local housing market assessment	Local Authority	Research document	No, data outdated
	Inflation and Wages earnings	Bank of England/OBR/HM Treasury	The economy forecast	Potentially yes
	Private Sector Rents in Wales	StatsWales – Welsh Government	Private Sector Rents in Wales	Yes
	Private Sector Rent level	Rightmove	Online search	Potentially yes

Other Data	Minimum Income	JRF	Minimum Income Standards - https://www.jrf.org.uk/minimum-income-calculator-do-you-earn-enough-decent-standard-living	Yes
	SAP Ratings	Welsh Government	WHQS returns – but held by individual housing associations	Yes

1.9. Our findings on affordability

1.9.1. For household income, the most common datasets used are weekly income data from ONS – ASHE, but this dataset needs to be supplemented with the total household income OECD-modified equivalence scale.

1.9.2. For household composition, the Continuous Recording (CORE) system is the most comprehensive dataset that has been used by many of the England-based models. This is the area that presents the biggest challenge for Welsh housing associations. In the absence of CORE in Wales there is not any reliable data that profiles tenants who are coming into social housing. We have also observed that household composition is essential to assessing affordability and is used where the data is available. Where it is not, we have seen that associations must capture their own data, but there is no element of benchmarking or identifying trends. The only national Welsh data available is average household size by local authority level. In light of the fact that household composition is such an important factor when determining affordability, we believe there is an important role for WG to provide higher quality data, and to consider how it can improve the granularity and accessibility of the StatWales data.

1.10. Qualitative research

1.10.1. We undertook some qualitative research through a survey sent to all housing associations in Wales with over 250 homes. We held two workshops with housing associations invited by CHC. One workshop was made up of Valley-based organisations, while the other was mainly urban-based. Additionally, we had one-to-one discussions with housing associations representing areas in the Valleys as well as rural areas. The aim of the discussions was to capture the views and experience of housing associations: their current practice and thoughts on approaches to setting rent locally.

1.11. Taking account of affordability within rent setting

1.11.1. Of those who responded to the survey, 42% used JRF's Living Rent Model and a further 42% used some percentage (c. 28-33%) to calculate or cross-check proposed rent increases against affordability.

1.11.2. This is a high percentage adopting the JRF Living Rent Model, but we saw different thresholds applied on a local level. It is also worth noting that many rural and urban based organisations applied different measures due to lack of data availability.

1.11.3. For those who had developed their thinking and affordability policy, they explained that the existing rent policy limited their ability to apply their findings which mainly reflected flexibility to vary rent across the portfolio. For this reason, a few organisations did not apply the full rent increase permitted by WG (of 4.5%).

1.11.4. When asked to outline the inputs they considered when setting rent increases, it was clear from the responses that it was as varied as the sector itself. It was noted

that there was limited use of data to inform household composition other than surveys carried out by individual housing associations.

- 1.11.5. Many organisations are realising they need to capture their own household composition data because the census data is outdated, and Wales no longer has CORE.
- 1.11.6. Different organisations tended to consider different elements due to their geographical profile, e.g. rural areas had difficulty in applying income data because of their geography and sparse population. An association operating in mid Wales compared their rents against the 30th or 40th percentile earnings, not lower quartile, because there are no datasets for the lower quartile.
- 1.12. **Other determinants of affordability that could be considered in greater detail:**
 - 1.12.1. From discussions, there is no clear direction from the sector on what should or should not be included as housing cost. On all factors identified, e.g. service charges, quality of homes and proximity to local amenities, there were examples where they had or had not been included.
 - 1.12.2. **Defining affordability**

The operating environment for the sector means that housing providers must walk a fine line between their own viability, future development and making homes affordable.
 - 1.12.3. There is not one model, or one size to fit all. We have seen in the affordability models reviewed that the principle of basing a definition of affordability on household income and reviewing it against property size or, ideally, household composition is common. But thresholds and other elements differ greatly.
 - 1.12.4. In defining the success criteria for a new approach to local rent setting:
 - Most want the association to have flexibility to meet business needs (perhaps applying an average rent increase across all stock) but also to be accountable so that rent increases are not too high (perhaps through rent cap safeguarding)
 - Many want the policy to be transparent and clear/easy to follow
 - Some also mention the necessity for longer term settlement (five years +)
 - Some want it to reflect true affordability by considering service charges and running costs in addition to rent
 - Some want to be able to apply differentials to various property sizes.
- 1.13. **Consultation with tenants**
 - 1.13.1. Having a rent policy that is fair and simple to understand is necessary both to tenants and associations. Establishing the principles on which to determine rents

was the first step for many housing associations, combined with varied and meaningful consultation. Suggestions for approaching consultation include:

- Carry out a rent-only consultation, it is more effective than consulting as part of a broader consultation.
- Allow plenty of time to consult meaningfully (months, not weeks) and make sure you resource the whole project adequately.
- Establish your principles with tenants, e.g. investing in existing properties as well as developing more properties.
- Would tenants on a higher income be prepared to pay more in rent than those on a lower income?
- If you live in a new home that has low running costs, would you be willing to pay a higher rent?
- Use different ways of consulting, use social media, create a video, simple leaflets, hold meetings, use texts to communicate, visit estates.
- Use your existing structures such as working groups, democratic body, tenant representatives, but consult widely.

1.14. Recommendations

1.14.1. Based on the findings of this report we recommend:

1.14.2. CHC's role should be to facilitate more joint working across the sector to identify a broad suite of tools that will support housing associations in developing their own local rent policies. This could include establishing:

- a definition of affordability that is based on household income and household composition
- an income to housing cost ratio threshold
- a minimum residual income a household requires to meet living cost after paying housing costs
- an understanding of what should be included in 'housing costs' in addition to rent, e.g. service charges, energy efficiency, Local Housing Allowance, council tax, proximity to amenities.

1.14.3. In developing a local rent policy, we recommend:

- it is developed with tenants
- it demonstrates fairness
- it is transparent and clear
- it provides stability (at least five years)
- it has flexibility to meet business needs.

1.14.4. To help housing associations assess whether their rents are affordable we recommend that:

- CHC reviews the Scottish toolkit and develops an online tool that builds on its principles, allows flexibility, and has a useful benchmarking element which can

provide information and assurance to the association, as well as to tenants and the Regulator.

1.14.5. We recommend the following existing datasets for Welsh associations to consider:

For household income:

- Weekly income, ONS – Average Survey of Hours and Earnings (ASHE) Data
- Total income by super output area – ONS – Small area income estimates for middle layer super output areas

For household composition

- Income adjustment for household types, total household income, OECD

Local data sources

- Private sector rents in Wales, StatsWales

Other data

- Minimum Income, JRF to determine affordability of rents
- ECP or SAP ratings – held by individual housing associations.

1.14.6. To improve quality of data:

- We strongly recommend WG invests in better quality data that can be easily searched, is updated annually, and is publicly accessible to housing associations.

1.15. Next Steps

1.15.1. To implement these recommendations CHC needs to:

- Consult more widely on the proposed approach to test the suggested offer with stakeholders and tenants as the target market
- Agree the affordability principles with the sector
- Undertake more detailed modelling, including stress-testing
- Seek approval of the local rent setting approach from WG, and incorporate it into relevant strategic documents
- Co-produce a new regulatory standard on rent setting to provide assurance to all stakeholders.

2 | Introduction

- 2.1.1. In February 2019, Community Housing Cymru (CHC) appointed Altair Ltd (Altair) to undertake research to support CHC's work in urging a local approach to setting rent. When setting rent locally, landlords in Wales should be considering affordability in the round.
- 2.1.2. During February and March 2019 Altair undertook research to analyse the elements of different affordability models and view their suitability for use in different parts of Wales. This report provides the findings of this work.
- 2.1.3. The aim of the research was to identify potential 'tools' housing associations can use when developing their local rent policies. The scope of the project was to:
 - Analyse different affordability models and compare the elements within them
 - Analyse the individual elements, to identify whether they are suitable for use by housing associations across all of Wales when determining affordability locally
 - Recommend existing datasets housing associations can consider when developing affordability
 - Explore affordability definitions
 - Identify data gaps and consider what else needs to change on either a policy, organisation or data basis
 - Capture the process, discussion and information associations have undertaken to set rents locally and describe the outcomes.
- 2.1.4. Our approach to this research involved four key activities:
 - **A desktop review** of existing affordability models that have been developed in the UK to identify the different elements that make up each model and identify the datasets that are required for those elements.
 - **Quantitative research** to identify common indicators and/or principles from the affordability models that can be applied across Wales. A second stage of the data analysis was to analyse the accuracy, availability and the statistical geography of the data.
 - **Qualitative research** which involved sending a survey to all RSLs in Wales, carrying out workshops with RSLs operating in the Valleys and urban areas, and conducting one-to-one conversations with staff from rural-based RSLs as well as member organisations such as the Scottish Federation of Housing Associations and the National Federation of Housing. The purpose of this stage was to identify common indicators that can be applied across Wales which are robust and accessible, to be used as part of a local rent policy process. Its aim was also to understand the differences between urban, Valleys and rural areas across Wales and provide insight into the approaches undertaken by some RSLs when applying a local rent setting policy.
 - **Presentation of the recommendations** in this report.

We thank all those from housing associations, staff at CHC and other individuals who took part for their willingness to work with us and share their experience and knowledge.

3 | Drivers for seeking a long-term settlement for affordable rent setting

3.1. Context

- 3.1.1. CHC launched its twenty-year 'Housing Horizons' vision for Welsh housing associations in November 2017 when it set out a vision for Wales where good housing is a basic right for all. The vision's commitments include a pledge to build 75,000 new homes by 2036. Housing need figures, published in February 2019, have shown that an average of 8,300 additional housing units will be required annually in Wales over the next five years, with an anticipated contribution of around 3,500 from housing associations.
- 3.1.2. The sector manages over 158,000 homes. Securing good quality affordable homes for tenants is a priority. The thread that ties these together is rent and being affordable. The CHC wishes to explore a different, local approach to rent setting. Other drivers include:

3.2. Independent Affordable Housing Review

- 3.2.1. The WG commissioned an independent review of affordable housing in 2018. The review will report in April 2019 and is tasked with examining the current arrangements for supporting the development of affordable housing and to make recommendations for changes designed to increase supply and improve delivery from the resources available. The review has been asked to make recommendations on how a sustainable rent policy can help determine long-term affordability for tenants and the viability of existing and new housing developments.
- 3.2.2. The last five-year rent settlement concluded in 2017/18, and a one-year transition settlement has been put in place for 2019/20. This settlement is a significant change from the previous policy and represents a challenge for the housing sector in Wales. CHC and its members feel the time is right to propose a new approach to setting rent in Wales.
- 3.2.3. CHC's response to the Affordable Housing Review outlines the reasons housing associations want to see a new local and long-term approach to rent setting. The housing association sector wants:
 - To be able to balance tenant affordability against business viability and increasing the supply of new homes
 - A less complex system with the ability to provide longer term certainty for tenants and lenders
 - Openness and transparency as independent organisations
 - An accountable approach where there would be regulatory oversight of the rent setting process

- Flexibility, so that associations can administer a fairer policy, recognising that one size or one model does not fit all.

3.2.4. CHC has developed a potential new approach to setting rent, based on local long-term rent setting, in consultation with tenants and partners, overseen through the existing regulatory framework. To achieve the ambition of a Wales where good housing is a basic right for all, CHC believes rent levels should:

- Be set locally at a level that is affordable for tenants
- Protect lender confidence
- Maintain the confidence of government in the sector
- Offer value for money.

3.3. Current rent setting policy – the key components

3.3.1. The existing rent policy sets a target rent band for each landlord and is based on a set of principles and a common methodology across Wales that applies equally to both local authority and housing association landlords. The rent bands are based on a rent matrix.

3.3.2. The rent matrix sets indicative policy rent levels for each size and type of dwelling, for dwellings in each local authority area. Components for the matrix are:

- **Location** - this is based on local authority areas because this is the only level at which data on the stock and rents of social landlords and the chosen locational indicators is available. WG rent policy recognises that property values and other market characteristics vary within local authority areas. This is one of the reasons for leaving landlords with the responsibility for setting the distribution of rents within their own stock based on four factors: house prices, private rents, place of work-based earnings, and place of residence-based earnings.
- **Type and Size of Dwellings** – the current rent policy has a weighting according to type and size of dwellings.
- **Average rent levels** - the national target average rent is based on the average housing association rents.
- **Quality** – this is a factor which allows a financial adjustment to be made to a landlord's target rent band to reflect the quality of each landlord's housing stock based on the average Standard Assessment Procedure (SAP) based on the Welsh Housing Quality Standard (WHQS) threshold of 65.

3.4. The current rent setting policy – concerns

3.4.1. Concerns regarding the existing rent policy include:

- Lack of certainty over long-term rent settlement (<five years) leads to problems planning new development and long-term financial planning
- A sense of “use it or lose it” rental increases that mean not applying the increase now will mean you will not be able to apply it later

- a lack of autonomy to adjust rent levels across portfolio/different properties (with a resulting impact on viability) and an inability to set the right rents for the local market's conditions
- Its redistributive effect penalises low income, low property price areas
- last-minute decisions on rent settlement mean policy justifications are not adequately explained to tenants
- there is a strain on RSLs' ability to meet statutory requirements to inform tenants about rent increases (which will get harder with the new Renting Homes Act requiring two months' notice before increases).

3.5. Other regions of the UK

- 3.5.1. CHC is not alone in seeking to change from a national rent policy. In England, the National Housing Federation (NHF) set up a Task and Finish Group: Future of housing association rents, that reported in 15 May 2018
- 3.5.2. Affordable Rents were introduced in England in 2011 as a funding mechanism to support development, and are set at a maximum of 80% of the market level, and the calculation of affordable rents (unlike that for most other forms of restricted rent) is inclusive of service charges. The affordable rent is uplifted by an inflation formula and is subject to a full rebasing on a change of tenancy.
- 3.5.3. The Task and Finish Group reported that, for housing association rent policy to be effective and sustainable, it must satisfy three criteria:
- Housing associations to be able to plan and invest with confidence due to greater certainty and control over their core income
 - Housing association rents to be affordable for those in housing need and responsive to local markets
 - Rent setting to be transparent and accountable at a national, regional and local level.
- 3.5.4. The NHF is also proposing that housing associations have the ability to set their own rents. The NHF highlights the advantages of this model as:
- improving their ability to set rents which are truly affordable for tenants within the context of local earnings and labour markets
 - facilitating greater transparency and clarity for tenants
 - improving their ability to plan for the future, deliver business plan objectives, and meet their social purpose
 - increasing their agility and ability to respond to changes in the housing market and operating environment
 - Help balance the tensions between the welfare costs and the investment required to increase the supply of affordable housing.
- 3.5.5. Housing associations in Scotland have been setting their own rents within an outcome-based regulatory framework for many years. The Scottish Government publishes a Scottish Social Housing Charter which describes the results that tenants and other customers expect landlords to achieve. The Scottish Housing Regulator

(SHR) monitors, assesses and reports on the outcomes and standards in the Charter. The Scottish Federation of Housing Associations launched an improved online interactive tool in August 2018 in partnership with HouseMark. Details of the model are included in Section 4. Scotland's experience highlights the challenge of adopting a definition of affordability that is fit for purpose.

3.6. Local Housing Allowance

- 3.6.1. During the Spending Review and Autumn Statement in 2015 George Osborne announced an intention to restrict the level of Housing Benefit, or the housing element of Universal Credit, claimed by tenants in social housing (council and housing association stock) to the Local Housing Allowance (LHA) rate. The prospect of this change sent shockwaves through Wales, this was particularly the case as LHA levels are frozen and the data in many parts of Wales is of poor quality and does not reflect the market as set out in the CHC research 'Postcode Lottery'¹. While the proposal was never adopted or implemented, we have found through this research that many housing associations which would have been heavily impacted by that policy started looking closely at their rent levels and affordability. Two of those organisations are case studies in Section 6.

3.7. Welfare Reform

- 3.7.1. Over the last few years welfare reform has seen many tenants' income decrease while the cost of living, including rents, has continued to increase. The NHF and SFHA rent work underlines the challenge of understanding the impact of welfare changes on tenants and social housing.
- 3.7.2. A project we analyse in Section 3, Joseph Rowntree Foundation (JRF) and Cambridge Housing Society (CHS) – Developing income linked rents, found that at least two areas of broader social policy changes directly affect social housing.
- 3.7.3. The first is the welfare benefit cap. This was originally introduced in 2013 and capped the total amount of benefit (with some exceptions) that a family could receive at £500 per week, and £350 for a single person. The caps were reduced in 2016 and are now £384.62 for a couple (£20,000 per year), with or without children and lone parents, and £257.69 for single people (£13,400 per year). The cap is administered by reducing the amount of Housing Benefit paid until the value of all eligible benefits is reduced to the cap.
- 3.7.4. The second is the 'bedroom tax'. This was also introduced in 2013 and applies to social tenants of working age in receipt of Housing Benefit, with a limited number of exemptions. Housing benefit is reduced by 14% if the household has one bedroom in excess of the calculated limit, and 25% for two bedrooms or more over the limits.

¹https://chcymru.org.uk/uploads/events_attachments/The_impact_of_applying_LHA_rates_to_the_social_rented_sector_-_October_2017.pdf

4 | Affordability Models

4.1. Overview

4.1.1. As part of the project, we analysed a range of different affordability models and the datasets that are used by these models.

4.1.2. The frameworks that we analysed included:

- Joseph Rowntree Foundation (JRF) Living Rent Model – a new development framework for Affordable Housing
- Joseph Rowntree Foundation (JRF) and Cambridge Housing Society (CHS) – Developing income linked rents
- A Minimum Income Standard for the UK 2008-2018: Continuity and change
- Dolphin Living – a housing association looking at setting individual rents for one of its estates
- Direction of travel for rent setting in England by NHF
- Rent setting in Scotland by SFHA.

4.1.3. The section below provides more information on the different affordability frameworks.

4.2. Living Rent – a new development framework for Affordable Housing

4.2.1. **Overview** – This research was produced by Savills, in conjunction with Joseph Rowntree Foundation (JRF) and National Housing Federation (NHF) in July 2015. While this research has been carried out using data from England, the CHC has carried out an exercise to test the impact for Welsh housing associations.

4.2.2. Due to the low availability of new housing, a growing proportion of households in Wales on low or middle incomes are spending more than 35% of their income on housing costs. The object for this project was to develop a mechanism to re-establish the crucial links between:

- Housing and the labour market and
- Rents and the ability of people on low incomes to afford them.

4.2.3. The research looked at the implications of moving to a system where rents are linked to tenants' incomes, but it was found that this could reduce work incentive and increase administration costs for housing associations.

4.2.4. In this affordability model, the starting point for a basic proposition is that Living Rent should be affordable for a household with someone in full-time employment, working the average number of hours worked per week (including overtime) and earning around the minimum wage. However, this income needs to be adapted to reflect:

- The differing composition of households in different-sized properties

- The fact that household income for low-paid families with children is likely to be enhanced by benefits and tax credits.

Data Sources

- *Annual Survey of Hours and Earnings (ASHE)* compiled by ONS. This is the most comprehensive source of information on the structure and distribution of earnings in the UK.
- *OECD – modified equivalence scale*. This is used to adjust household income based on household composition.
- *Information from CORE* – Continuous recording of lettings in social housing in England.

4.2.5. **Methodology** – For this model, the lower quartile national earnings figure is used. This equates to the earnings of someone in full-time employment, working the average number of hours worked per week on the minimum wage. The data is sourced from the Annual Survey of Hours and Earnings (ASHE) compiled by the ONS.

4.2.6. An OECD-modified equivalence scale is used to adapt the figures arising from ASHE to reflect differing household composition and the effect of benefits and tax credits on household incomes. The table below shows how household income increases for each additional household member.

Type of Household Member	Equivalence Value
First adult	1
Additional adult	0.5
Child aged 14 and over	0.5
Child aged 0 - 13	0.3

4.2.7. The research used information from CORE to gain an idea of the profile of households (in terms of household members) according to the size of property. The table below shows the average household composition for one-, two- and three-bedroom properties. The equivalence score is then applied to that household to get an estimate for household income by property type.

House Size	Household Size	Equivalence rating
One bedroom	Single adult	1
Two bedrooms	One working adult and one child	1.3
Three bedrooms	One working adult and two children	1.6

- 4.2.8. Percentage of income spent on housing costs - JRF's Monitoring poverty and social exclusion report, shows that the poorest households spent on average 29% of their income on housing, with the poorest fifth spending 33% of gross income. The Savills' methodology calculates the Living Rent excluding service charges (as for existing social rents)
- 4.2.9. Savills' modelling of tax take for lower-quartile household income explores the real gap between net and gross incomes, considering both tax and National Insurance on the one hand, and benefits and tax credits on the other. The research estimates that 28% of net income is spent on housing.
- 4.2.10. The rent level can then be compared with the household income.
- 4.3. **Developing income linked rents – Joseph Rowntree Foundation (JRF) and Cambridge Housing Society (CHS)**
- 4.3.1. **Overview** – This research was conducted by the Cambridge Centre for Housing and Planning Research (CCHPR) on behalf of CHS and JRF in September 2018.
- 4.3.2. The primary aim of the project was to explore how CHS Group could set rents that are genuinely affordable by analysing:
- The incomes of CHS Group's tenants, taking account of their household types and any support from welfare benefits
 - Existing rents in CHS Group's stock across the six local authority areas, together with practicable options for moving towards a more affordable rent structure
 - The impact of changes to rents on tenant incomes, including any support for housing costs from Housing Benefit or Universal Credit.
- 4.3.3. The research explores the broader social policy that has a direct impact on social housing and affordability which are:
- Welfare benefit cap, which capped the amount individuals can receive in benefits
 - Bedroom Tax – the reduction in Housing Benefit for those who have spare rooms
 - Roll out of Universal Credit.

Data Sources

- *Family Resources Survey*, which provides percentage of households between different gross weekly income bands
- Data on household size and composition from CORE lettings data (data specific to England).

- 4.3.4. **Methodology** – The incomes of current tenants have been modelled using a local income model developed by CCHPR. This model draws on survey information at the national level, including the Family Resources Survey, modelled to reflect the known characteristics of individual local authority areas from census data, updated by the most recent population projections. The model produces net income distributions for a range of household types at the local authority level, allowing profiles of affordability to be developed for each household type within different rent structures.
- 4.3.5. The estimates have been carried out for dwelling size (rather than household type) because this information is more useful to CHS when setting rents, as rents can be varied for different sizes of property. The model was used to estimate the proportion of tenants with incomes above a variety of different thresholds for affordability, and to test the impact of changes in rent levels on affordability.
- 4.3.6. This research acknowledges that Universal Credit may be used to pay a proportion of the rent, and therefore models the impact on household finances if this were to taper (and therefore how much additional income the household would require for the rents still to be affordable).
- 4.3.7. **Findings** – the data showed that there is no rent level that is affordable to everyone. However, the data suggested that reducing the rent on smaller properties and increasing the rents on larger properties would increase the disposable income of tenants. This is because families in work usually receive state support for housing costs, and these households tend to live in larger properties. Therefore, an increase in the rent level would increase their benefit claim. The report also suggests investing in properties to reduce their running costs, such as better insulation, which leads to a more energy-efficient house and lower electricity bills.
- 4.3.8. **Recommendations** – While this model is not directly replicable in Wales, it fits with the general anecdotal evidence we have seen that smaller sized properties tend to be more unaffordable than the larger ones. This is because households in larger

properties are likely to be having multiple earners, or families that can have access to greater state support.

4.4. A Minimum Income Standard for the UK 2008-2018: Continuity and change

- 4.4.1. **Overview** – JRF carried out a research report in July 2018 to update the Minimum Income Standard (MIS). The MIS identifies what working-age adults and pensioners say is needed for an acceptable living standard.

Data Sources and Methodology:

- Groups of people from a range of socio-economic backgrounds have detailed discussions about what a household needs to achieve an acceptable living standard. A group of experts verify technical elements, such as checking the nutritional adequacy of the food basket.
- JRF Minimum Income Standard Calculator – this calculates if the household income is enough to maintain a minimum income standard after taking all housing costs and bills into consideration. It has assumptions built within it, depending on household size and composition.

- 4.4.2. **Findings** – The main finding is that a single person must earn £18,400 a year to reach MIS; each parent in a working couple with two children must earn £20,000. The minimum wage remains too low to reach MIS, with widening shortfalls for some groups. A lone parent with two children, working full-time, had disposable income 4% below MIS in 2008 but 20% below today.

- 4.4.3. Some models compare MIS with the household income left after paying taxes plus all rental costs to assess affordability.

- 4.4.4. **Recommendation** – While this model cannot help directly in setting rent level as a percentage of income, it can help to sense-check if the rent levels will ensure that the household will achieve the MIS.

4.5. Dolphin Living – Personalised Rent setting policy for an Estate

- 4.5.1. **Overview** – Dolphin Living is a housing association based in London. Dolphin Living's New Era Estate consists of 96 one-, two- and three-bedroom apartments. It is owned by a subsidiary company and therefore not regulated by the Regulator of Social Housing. Tenants were asked to opt in for a personalised rent assessment and get a fixed three-year tenancy in return, or alternatively have only a one-year tenancy.

- 4.5.2. The calculation of a 'personalised rent' is based on a household's net income (their income after tax) and the most recent Joseph Rowntree MIS applicable to their

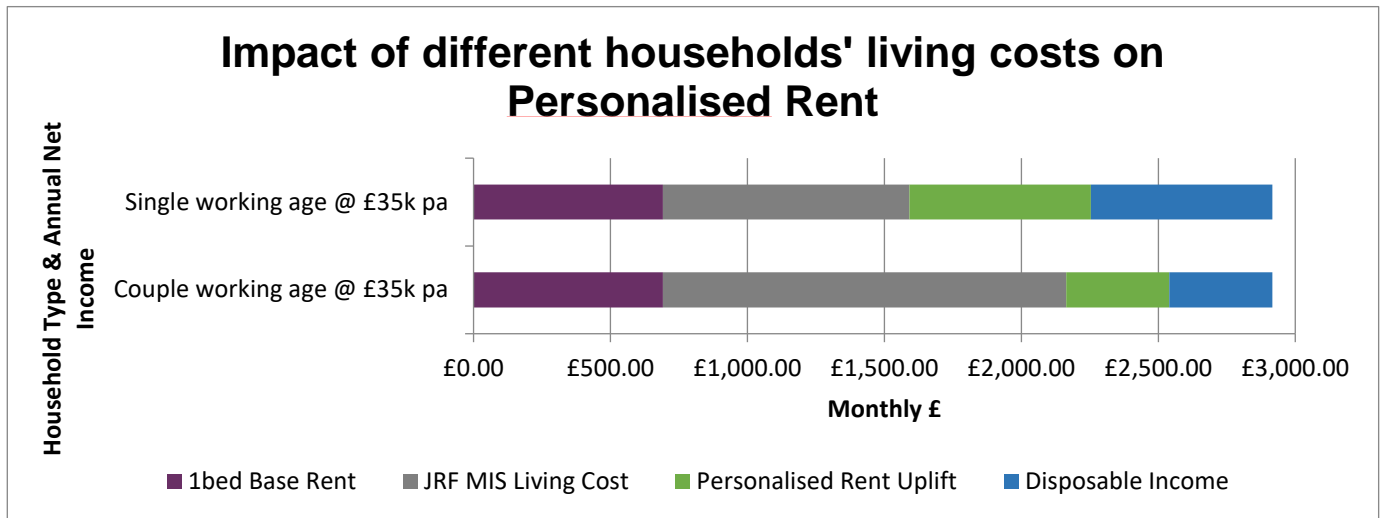
household composition. Dolphin Living adjust the JRF MIS for local costs, specifically council tax and the base rent applicable to each size of home. The base rent is the rent as at December 2014 inflated annually by CPI+1%.

Net income = base rent + JRF MIS + residual income

Data Sources

- Household composition
- Whether tenants are in full-/part-time employment
- Employers' contact details
- Salary before and after tax
- Pension information
- Details of other income including income from the state
- Proof of incomes (salary/self-employed income, private pension and income from the state).

- 4.5.3. **Methodology** – The first step in calculating a personalised rent is to assess and verify household composition and monthly income. Tenants are asked to provide the information listed above.
- 4.5.4. Dolphin Living look at the current rent level and the living cost for each household composition (as detailed in the JRF MIS) which gives the weekly net income required. If the household's net weekly income is higher than this, then the extra residual income is split in half between tenant and Dolphin Living. Dolphin Living recoups its share by gradually increasing the rent by CPI + 4.5% every year. If there is no extra residual income, rents increase by CPI + 1%.
- 4.5.5. Under this method, the rent share is higher than 28% of net income (closer to 35 – 40%), but the rent is personalised for each household.
- 4.5.6. The graph below gives an illustration of how rent is set:



- 4.5.7. Note that Dolphin Living does not charge extra service charge; tenants pay rent only.
- 4.5.8. **Findings** – Tenants were engaged with the rent proposals and have embraced the rent change. About half of the tenants opted in to the personalised rent model. It is, however, administratively burdensome to administer the rent, but Dolphin Living only needs to assess income every three years for 96 properties.
- 4.5.9. **Recommendations** – While this model may be unworkable on a large scale, and could raise concerns about work incentives and increased administration costs (or, indeed, could be deemed unlawful for regulated housing associations to set individual rent based on an individual’s specific income) its method can be considered to show the effect of using the MIS rather than percentage of income spent on rents, as adopted in the Living Rent Model.

4.6. Housing rent policy in Scotland

- 4.6.1. **Overview** – Housing associations in Scotland set their own rents within an outcome-based regulatory framework. The Scottish Government publishes a Scottish Social Housing Charter which describes the results that tenants and other customers expect landlords to achieve. The SHR monitors, assesses and reports on the outcomes and standards in the Charter.
- 4.6.2. Each association has their own procedures for setting their rents; rent increases for the year 2018/19 vary from zero to around 4%. The Housing (Scotland) Act 2001

requires social landlords to consult tenants and take account of their views when making decisions about proposed rent increases.

4.6.3. The standard regarding rents and service charges is:

“Social landlords set rents and service charges in consultation with their tenants and other customers so that:

- a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and service users can afford them
- tenants get clear information on how rent and other money is spent, including details of any individual items of expenditure above thresholds agreed between landlords and tenants.”

4.6.4. It is interesting to note that in Scotland, where housing association boards have control over their rents, rent increases have been lower than in England over the past five years. Similarly, the Housing Benefit bill in Scotland has grown far slower than in England.

Data Sources

Scottish Associations use different data sources and different methods to calculate affordability. Data sources include:

- Household Income, using the ASHE dataset
- Minimum Income Standard, as calculated by JRF
- Living Wage, set by the Living Wage Foundation. This, however, is set at a National level (adjusted separately for London), and therefore does not benefit from local factors
- Some associations factor in Council Tax bands and average Universal Credit claims into calculating affordability.

4.6.5. The Scottish Federation of Housing Associations (SFHA) has presented a definition of affordability and pressed the Scottish government to agree on a definition. The definition is:

“For a rent (including service charges) to be affordable, a household with one person working 35 hours or more should only exceptionally be dependent on Housing Benefit in order to pay for it.”

4.6.6. However, there were a series of changes to Housing Benefit and Universal Credit, which made this definition unusable as mentioned in Section 2. As a result, SFHA launched a consultation, which resulted in a new ‘moderate incomes’ approach to rent setting. This is based on affordability and sustainability, which takes household

type and variations in local incomes into account, but does not rely on landlords having detailed information about tenants.

- 4.6.7. SFHA, with HouseMark Scotland, have developed an affordability tool for housing associations to determine if their rents are affordable.
- 4.6.8. To use the tool, the organisation selects the local authority and the number of bedrooms, then inputs the proposed weekly rent. The model then uses the dataset on local earnings-based incomes to compare the rent. It shows a red-amber-green result for the percentage of moderate income spent on rent. It also allows the housing organisation to see how the rent and affordability measures compare to other social landlords in their area, thereby providing useful benchmarking.
- 4.6.9. Some other points to consider from Scotland include:
- The ASHE dataset does not include self-employed or people receiving benefits, so there is a risk that these households may not be accurately captured
 - The affordability frameworks do not consider potential reduced running costs arising from the home (or through service charges), e.g. new build properties, solar panels, improved insulation
 - LHA rates are for BRMAs (Broad Rental Market Area) and have been mapped at local authority level, which may vary slightly from how the income in the ASHE dataset is split.

4.7. Summary of findings

- 4.7.1. To assess affordability, the models use datasets to identify household income and household composition. However, the models use different thresholds to determine affordability. The choice is between setting a maximum ratio of income that should be taken up by housing costs (typically 28 – 35% as indicated in the JRF Living Rent study and may be inclusive of service charges or not) or a minimum residual income that a household must retain after paying for its housing to meet its other living costs. We have also seen that household composition is an important factor in understanding affordability.

5 | Elements and datasets from the affordability models

5.1. Overview

This section will look at all the datasets/elements and principles that are used in the models reviewed and outlines which could be used to inform rent setting locally and which ones are dismissed outright, others may be considered but there is a need to be aware of issues relating to them. A full list of the data sources is found in Appendix 1.

5.1.1. We have categorised the datasets that were used into the following:

- Household income
- Household composition by property size
- Income adjustment for household type
- Local data.

5.2. Household Income

5.2.1. Of the four main household income data sources reviewed in the models (see Appendix 1) we suggest that there are only two that can be recommended for use in Wales. They are:

- **Weekly income, ONS – Average Survey of Hours and Earnings (ASHE) Data** This is split by percentiles and quartiles for each local authority in Wales and England. The data is granular enough to use for most regions in Wales, however, it does not go deeper than borough level which, in Ceredigion and Powys for example, constitutes a huge area. An association operating in that area compares their rents against the 30th or 40th percentile earnings, not lower quartile, because there are no datasets for the lower quartile due to low population. However, it is widely used by housing associations in Wales as a measure for household income. Housing associations can use private tenants' data on relets as a sense-check, where applicable. However, the dataset does not consider self-employed people's income.
- **Total income by super output area – ONS – Small area income estimates for middle layer super output areas.** This dataset provides total annual income by middle layer super output areas. This data is at a much more granular level than local authority level. This dataset can be used to identify the differences in incomes between different regions in a local authority level, so the rents can be adjusted accordingly. This helps organisations that operate within one local authority area to set localised rents and consider income disparity within borough levels.

5.2.2. We suggest that the following datasets are not sufficient to set localised rents:

- **Total gross, Family Resource Survey** – the data is split by country (England and Wales) and region (however not for different Welsh boroughs). It shows total percentage of households by different household income bands. It provides an alternative to the ONS ASHE survey, though is not as widely used. This

dataset would not be detailed enough for the purpose of setting localised rents. However, some affordability models use this dataset as a starting point

- **National Living Wage – UK Government, DWP.** This data provides an overview of the hourly rate that people on low incomes earn. The data can be used as an estimate for household income. However, it is at a national level, and not specific to different Welsh boroughs. It lacks local factors in determining income levels

5.3. Household composition by property size

5.3.1. This is an area where data is proving to be problematic in Wales. The three main sources of data identified in affordability models are, for different reasons, either not fit for purpose or not available in Wales. They are:

- **Average household composition, Stats Wales -** Data is at an average level and not granular enough. It can be used to identify trends in household composition/growth in household over time and as a sense-check for household composition. There is not much data on household composition per property size. Affordability models use estimates for this, based on internal data held by housing associations. The granularity of the published dataset appears to have been reduced in 2019.
- **Household size per number of rooms, Census data –** The main problem is that it is only updated every ten years. Data can give an estimate of household size per different rooms. However, it is difficult to split out by private renters and social renters. Some housing associations had data on their tenants (internal lettings data) about household composition. However, this changes constantly so figures have to be updated. This data could be supplemented with expected annual growth levels in household size/previous trends.
- **Household composition types of tenancy agreements and trends in social housing, Continuous Recording (CORE) system** The continuous recording of lettings and sales in social housing in England (referred to as CORE) is a national information source that records information on the characteristics of both private registered providers and local authority new social housing tenants and the homes they rent. This collection provides all the statistical information that the Ministry of Housing, Communities and Local Government produces on social housing lettings. It includes trends in social housing lettings over time, characteristics of tenants with new social housing lettings, and types of tenancy agreements. Wales does not have an equivalent data source.

5.4. Income adjustment for household types

- **Total household income, OECD –** this is the main data source that is used to adjust income to household type and can be recommended for use in Wales. Scale is used to adjust income depending on household size. The scale is used to adapt the figures arising from the ASHE survey to reflect differing household compositions and the effect of benefits and tax credits on household incomes. This is at a UK-wide level and not specific to Wales. Welsh housing associations that have used the Living Rent Model use the OECD scale, which is used by several government departments.

5.5. Local Data

5.5.1. Six local data sources were identified, following analysis, which can be recommended, with provisos, for use in Wales:

- **Private sector rents in Wales, StatsWales** - Gives rent data for each local authority, split by property size and median, lower and upper quartiles.

5.5.2. We would not recommend the following data being used in isolation, or being applied in certain areas across Wales, to determine local rent setting.

- **Local Housing Allowance (LHA), Rent officers Wales** - rates applicable from April 2019 for different-sized properties in different regions in Wales. It also shows what will be covered by Housing Benefit. LHA has been frozen and the data is flawed for purposes of benchmarking.
- **General needs rent levels, StatsWales** – provides Social Housing Rent Levels by different local authorities in Wales but does not differentiate in property size above two bedrooms. It lacks granularity.
- **Inflation and wages earnings, Bank of England, OBR, HM Treasury** - Used to forecast the medium-term state of the economy.
- **Private sector rent level, Rightmove** - Can be used to benchmark rent levels to PRS rent levels, by geography and property size.

5.5.3. Finally, **Local housing market assessments, Local authority** - Provides an overview of the local market conducted by the local authority, but it is not updated frequently so goes out of date quickly.

5.6. Other data

5.6.1. **Minimum Income, JRF** - <https://www.jrf.org.uk/minimum-income-calculator-do-you-earn-enough-decent-standard-living> This is a research project carried out by JRF to identify the minimum income required by households not to live in poverty. This can be used to determine affordability of rent levels to ensure households have a disposable income that allows them to live comfortably. It is used as a measure to test affordability.

5.6.2. The table below provides an overview of the different datasets that are recommended for use to assess affordability, and those that are not recommended. A detailed analysis is provided in Appendix 1.

Table: Overview of datasets used to assess affordability

Category	Data Type	Data Source	Data Table	Recommended for use?
Household Income	Weekly income	ONS - Average Survey of Hours and Earnings (ASHE)	Table 8.1a Weekly pay - Gross (£) - For all employee jobs: United Kingdom, 2018	Yes
	Total income by super output area	ONS - Small area income estimates for middle layer super output areas	Small area income estimates for middle layer super output areas, England & Wales	Yes
	Total Gross weekly household income	Family Resource Survey	Table 2.6: Households by region/country and total gross weekly household income, 2016/17, Wales	No, data not granular enough
	National Living Wage	UK Government - Department of Work and Pensions	https://www.gov.uk/national-minimum-wage-rates	No, data not at a local level
Household composition by property size	Average Household composition	StatsWales	Average household size (persons) by local authority and year - https://statswales.gov.wales/Catalogue/Housing/Households/Estimates/averagehouseholdsize-by-localauthority-year	No, data not granular enough
	Household size per number of rooms	Census data	DC4404EW - Tenure by household size by number of rooms	No, data outdated
	Household composition, types of tenancy agreements and trends in social housing	Continuous Recording (CORE) system	Continuous Recording (CORE) system - online system	No Welsh equivalent
Income adjustment for household type	Total Household income	OECD	OECD-modified equivalence scale	Yes
Local Data	LHA Rent levels	Rent Officers Wales	Valuing the Private Rented Sector	LHA is flawed as a dataset for benchmarking
	General Needs Rent levels	StatsWales	Average weekly rents in stock at social rent by dwelling type, provider type and basic information on number of bedrooms (defined as 1	No, lacks granularity

Category	Data Type	Data Source	Data Table	Recommended for use?
			bedroom or 2 or more bedrooms)	
	Local housing market assessment	Local Authority	Research document	No, data outdated
	Inflation and Wages earnings	Bank of England/OBR/HM Treasury	The economy forecast	Potentially yes
	Private Sector Rents in Wales	StatsWales	Private Sector Rents in Wales	Yes
	Private Sector Rent level	Rightmove	Online search	Potentially yes
Other Data	Minimum Income	JRF	Minimum Income Standards - https://www.jrf.org.uk/minimum-income-calculator-do-you-earn-enough-decent-standard-living	Yes

5.7. Other considerations

- 5.7.1. The multiple sources of datasets listed to determine affordability will need to be triangulated to help capture different dimensions of affordability. What is clear is that there is a huge gap in data availability on a Welsh local level. Existing datasets are weak and lack enough granularity to provide a meaningful benchmark for the purpose of setting rents locally. LHA, General Needs, StatsWales and Average household, StatsWales are all deemed unsuitable for use. Other datasets can be used as a sense-check, such as the JRF Minimum Income calculator.
- 5.7.2. In addition to household income and composition, quality of the stock could play a role in setting rents. NHF in England has been exploring the role that total running costs (such as energy and utility costs) could play in the rent setting process. While the implications for this have not been extensively modelled, the thinking was that properties with a lower running cost should have a higher rent. This would act as an incentive for housing associations to improve their stock and make it more energy efficient. Government has reduced the grants provided for making homes more energy efficient, so a higher rent could help incentive this investment in stock. However, since the government confirmed that rents will increase by CPI + 1%, this

idea has not been developed further. We also note that quality of stock is not included in the Scottish toolkit.

- 5.7.3. In Wales, the Welsh Housing Quality Standard sets the minimum requirement in terms of quality and energy efficiency based on the SAP rating, the level is SAP 65.
- 5.7.4. Housing associations report on energy SAP ratings in their annual returns to Welsh Government. However, these are deemed to be quite crude. Energy Performance Certificates (EPC) are incorporated in building regulations for new builds. This is currently under review. Housing associations must issue EPCs on re-lets. Building in energy efficiency is complex when determining affordability, not least because housing associations control neither household energy consumption nor the price of energy.
- 5.7.5. Research conducted for JRF and CHS in the report, “Developing income linked rents”, found that the surplus income created from increasing rents could be ringfenced and reinvested in measures to reduce total running costs for tenants. These could include improved insulation, energy efficiency and water saving measures. The report found that this would result in increased rent costs for all tenants, offset by reduced running costs for tenants with the highest energy and water bills. This would therefore affect each tenant differently, with those with higher bills benefitting more.
- 5.7.6. Furthermore, if stock is already at the Welsh Housing Quality Standard, the investment required to reduce running costs will show diminishing returns for each £1 of further investment. Therefore, the value added from carrying out this investment may not necessarily offset the additional cost.
- 5.7.7. While quality of stock is considered in rent setting and affordability, it is hard to administer and understand at present. Furthermore, there is no publicly available data to benchmark energy efficiency levels against other providers. However, we feel that the focus on fuel poverty and the investment that is going into retrofitting existing stock means it merits further consideration. We see examples in Wales where higher rents have been set against more efficient buildings.

6 | Qualitative analysis

6.1. Overview

6.1.1. This section describes the findings from the qualitative and primary research undertaken in this project to capture the views and experience of housing associations: their current practice and thoughts on approaches to setting rent locally.

6.1.2. It provides the outcomes of research undertaken through:

- a survey sent to all housing associations in Wales with over 250 homes. Despite the tight turn-around, 13 responses were received, which account for a third of all housing associations.
- Twoworkshops, made up of housing associations invited by CHC. One workshop comprised Valley-based organisations, while the other was mainly urban-based
- one-to-one discussions with housing associations representing areas in the Valleys, as well as rural areas.

We were specifically asked to identify views and thoughts on:

6.2. Current rent setting and decision-making at a local level

6.2.1. Responses raised the following effects on decision-making at a local level:

- the lack of autonomy to adjust rent levels across portfolio/different properties (raising questions of viability) and the inability to set the right rents for the local market's conditions and affordability is problematic.
- the redistributive effect of the existing rent envelope penalises low income, low property price areas.
- last-minute decisions on rent settlement mean policy justifications are not adequately explained to tenants
- there is a strain on RSLs' ability to meet statutory requirements to inform tenants about rent increases (which will get harder with the new Renting Homes Act requiring two months' notice before increases).

6.3. How have HAs taken account of affordability within rent setting

6.3.1. Many respondents stated that because of Welsh Government limits within the existing rent policy, it was not possible to apply many of the affordable approaches they might have wanted, but they were used instead to "check" rents or rent increases before being applied. Having carried out these checks, some organisations did not apply the full rent increase permitted by WG (of 4.5%).

6.3.2. Of the respondents to the survey, 42% used JRF's Living Rent Model and a further 42% use some percentage (c. 28-33% of rent to income ratio) to calculate or cross-check proposed rental increases against affordability. 25% of all respondents stated

they engage with tenants directly about rents. Whilst a high percentage of survey respondents state they have applied the JRF Living Rent model or its definition of affordability, it's important to note that the thresholds applied by individual housing associations and other affordability elements included as household costs differed greatly. As more housing associations consider affordability we would expect to see more diversity in the affordability elements and models adopted across Wales.

- 6.3.3. The survey asked respondents to outline what they, as organisations, considered when setting rent increases. They responded:
- 6.3.4. External inputs such as:
- National Living Wage (NLW)
 - Local market conditions
 - Economic growth forecasts
 - Geographic differences
 - Local Housing Allowance (single and couple)
 - Private rents
 - Thought leadership in the sector through the work Shelter has developed and JRF (Living Rent).
- 6.3.5. Internal metrics such as
- rental arrears
 - affordability assessments on applications
 - reasons for end of tenancy
 - voids
 - tenant VfM satisfaction
 - service charges
 - energy costs of property.
- 6.3.6. Different organisations tended to consider different elements. LHA would not appear in the Valleys and in more rural areas for example. More rural areas had difficulty in applying income data as the large area and sparse population did not provide enough data. For example, mid Wales does not have a breakdown to lower percentile income below local authority level.
- 6.3.7. When asked to identify household income there was a combination of data sources used which included:
- ONS ASHE survey – this was used by two Valleys-based organisations to determine income. They applied the three-year moving average as there was too much fluctuation in annual income data.
 - In rural areas, it was found that gross earnings figures from ONS ASHE are not very accurate as they only go down to county level which, in Ceredigion and Powys, constitutes a huge area. An association operating in that area compared

their rents against the 30th or 40th percentile earnings, not lower quartile, because there are no datasets for the lower quartile.

- One organisation tested their rent levels against actual earnings data by surveying 140 new tenants. This organisation found that their rents were affordable and came below the 28% threshold including service charges.
- One other association surveyed their pensioners and tenants on benefits and found that income does not play a significant role in determining affordability. The debt levels of the household are a more important determinant of affordability. However, this data is hard to source, other than by speaking to tenants. Even then, they may not reveal the full extent of their debt.

6.3.8. Many organisations are realising they need to capture their own household composition data because the census data is outdated, and Wales no longer has CORE. We are seeing housing associations:

- Capturing internal lettings data from new tenants – the figures can be sense-checked against JRF's scales
- Carrying out tenant profiling annually through telephone surveys. Some are quite confident that they have a good database on tenant household composition.

6.3.9. Data sources for market value included:

- Local Housing Market Assessment used instead of census data (though this was published back in March 2006, so might be outdated)
- PRS Rightmove data to compare current rent levels with market rent was mentioned by a few housing associations. However, social rents and PRS rents are different, so it is difficult to benchmark the two.
- Welsh Government Private Sector Rent 2018 dataset
- In more rural areas, the granularity of data is very difficult due to the sparse population across large geographical areas. Some operators in these areas use the total rents data within Global Accounts/Value for Money and compare their rents against the sector median

6.4. Other determinants of affordability that could be considered in greater detail:

- There has been an interesting debate on the condition of stock, whether it was energy efficient or not, and whether this should be taken into consideration by associations when determining rent (as can be done under the current rent policy). Some organisations did increase rent, while others decided that they should prioritise improving all stock to improve affordability and reduce housing costs to tenants.
- Local amenities, infrastructure and facilities were all recognised as factors that may affect affordability, both in terms of closer proximity to facilities and lower travel costs reducing overall household costs. However, these more convenient properties are often in demand and many associations wanted to be able to raise rents where demand was high. That flexibility could mean rent levels of other properties where there is less demand being made more attractive.

- Council Tax can vary from area to area. There was a discussion whether this should be factored in when considering affordability. It is included in the SFHA's toolkit.
- In urban areas, being below LHA is deemed affordable. However, it is clear from discussions with housing associations operating in rural and Valley areas that LHA is flawed and cannot be used to benchmark rents.
- Some housing associations realised that, as significant providers of homes in certain areas, they dominate the rent levels in that area. This makes comparison of rent difficult.

6.5. Defining affordability:

- 6.5.1. The operating environment for the sector means that housing providers must walk a fine line between their own viability, future development and making homes affordable.
- 6.5.2. What is also clear is that there is not one definition of affordability, or one size, to fit all. We have seen common elements which include basing the definition of affordability on household income and reviewing it against a property size or, ideally, household composition. We have seen from the responses to the survey and the discussions held at the workshops that the Living Rent Model is gaining traction among associations. The principles of fairness, equality and simplicity also came through strongly in the consultation sessions.
- 6.5.3. However, there are variations in application. We have seen differences in approaches to affordability in neighbouring associations. While both associations have adopted the Living Wage Model, one includes rent and service charges in the calculation of the Living Rent Model, while others only include rent. This has been agreed by tenants, and rents are deemed affordable within their adopted definition. This clearly evidences the fact that one size does not fit all in Wales.
- 6.5.4. In defining the success criteria for a new approach to local rent setting:
 - Most want the association to have flexibility to meet business needs (perhaps applying an average rent increase across all stock) but also to be accountable so that rent increases are not too high (perhaps through rent cap safeguarding)
 - Many want the policy to be transparent and clear/easy to follow
 - Some also mention the necessity for longer term settlement (5+ years, to ensure certainty for business planning)
 - Some want it to reflect true affordability by considering service charges and running costs in addition to rent
 - Some want to be able to apply differentials to various property sizes.

6.6. Consultation with tenants

6.6.1. Having a rent policy that is fair and simple to understand is necessary both to tenants and the associations. Establishing the principles on which to determine rents was the first step for many housing associations, together with varied and meaningful consultation. Suggestions for consultation include:

- Carry out a rent only consultation, it is more effective than consulting as part of a broader consultation.
- Allow plenty of time to consult meaningfully (months, not weeks) and make sure you resource the whole project adequately.
- Establish your principles e.g. investing in existing properties as well as developing more properties.
- Would tenants on a higher income be prepared to pay more in rent than those on a lower income?
- If you live in a new home that has low running costs, would you be willing to pay a higher rent?
- Use different ways of consulting, use social media, create a video, simple leaflets, hold meetings, use texts to communicate, visit estates.
- Use your existing structures such as working groups, democratic body, tenant representatives, but consult widely.

6.6.2. Below are case studies from Trivallis and Merthyr Valley Homes, two organisations who work in the Valleys and have invested time and effort in developing their affordable rent policies.

Case Study 1 - Trivallis

About Trivallis

Trivallis is an LSVT, formed in December 2017 following a positive ballot from tenants to transfer housing stock from Rhondda Cynon Taff County Borough Council. As a community mutual housing association, Trivallis provides its tenants with a role in decision-making and shaping services. Trivallis manages over 10,000 general needs and sheltered housing stock, 650 leasehold properties, 36 retail premises and around 1,700 garages.

What they are doing?

Trivallis launched its Fair Rent Review project in April 2018, with the aim of making their rents fair and affordable. The main question that influenced the new policy was assessing whether it would be fair to take into consideration particular factors when setting rent. These factors were: average income of lower earners in an area; number of people who want to live in an area; access to the job market; access to shops; access to schools and colleges.

For eight weeks during the summer of 2018, Trivallis aimed to complete surveys with its tenants. More than 2,200 customers, a statistically significant sample, gave feedback on the factors they felt would form the basis for rents. 57.2% of tenants thought it was fair to base rents on affordability, compared to an average of 40.1% who thought it would be fair to use the traditional desirability factors. Therefore Trivallis decided to set their rents in line with the JRF Living Rent Model, which reflects differences in income levels at a local level and the types of families that are typically allocated different sized properties.

JRF Living Rent Model

The policy ensures that Trivallis continues to comply with Welsh Government policy. Furthermore, flexibility within the policy ensures that there will not be any adverse impact on Trivallis' long-term financial viability and ability to develop and grow in the future. The living rent applies to Trivallis' general needs and sheltered housing tenancies.

While the Living Rent Model establishes a link between rents and a tenant's ability to afford them, Trivallis' model has been enhanced to ensure that it is fair and affordable for its tenants by varying rents across Rhondda Cynon Taff (RCT) based on changes in income levels. For properties with communal areas, if the inclusion of service charge causes the total rent payment to be unaffordable, then a rent cap may be considered

Data

Trivallis felt that the Annual Survey of Hours and Earnings (ASHE) dataset, compiled by the ONS, was not granular enough for its analysis. The ASHE dataset splits income levels at a borough level, however, as Trivallis operates in RCT, they required data to be split further. As a result, Trivallis split the borough using the middle super output areas to identify differences in income at a more granular level. The middle super output areas have been drawn up such that each area has a similar population size. For example, RCT is split into 31 different areas.

The ONS publish a dataset called "Small area income estimates for middle layer super output areas", which provides an estimate for differences in incomes across borough level. These differences can be used to adjust the lower quartile income of the ASHE dataset, to feed into the rent setting. Using the middle super output areas allows for differences in average income across communities to be taken into account when setting rents. Adjustments have also been made to the differential in certain areas to mitigate the risks of competition from the private rented sector and to ensure affordability for those employed tenants earning the minimum wage.

Outcome

The aim of using the Living Rent Model is to make rents more affordable for the tenants, as identified in the tenant consultation. The levels of the Living Rent will be reviewed annually. The increase or decrease will be determined by the average change of median income levels for RCT in the previous three years, using the ASHE survey as the data source. The use of a three-year average will reduce the risk of a reduction in rental income if average income levels fall.

Trivallis will be reviewing their KPIs, voids levels and competition from the private rented sector to ensure that rents are set at the right level. This is detailed in their rent setting policy.

Case Study 2 - Merthyr Valley Homes

About Merthyr Valley Homes

Merthyr Valley Homes (MVH) was formed in 2009 with the transfer of stock from Merthyr Tydfil Borough. It owns and manages around 4,200 homes.

After extensive review, MVH changed to become a mutual housing organisation that is owned and controlled by tenants and employees.

What they are doing

When MVH was facing the prospect of having rents set at LHA, it gave them the incentive to look at their rent setting policy. Property mix was the driver for rents up to that point.

Following consultation, MVH tenants expressed their preference for rents to be based on the type and size of the property, i.e. the same rent for similar properties. And they wanted rents to be set affordably, fairly and simply.

From 1st April 2018, MVH adopted the Living Rent Model to set its rents, taking affordability into consideration. MVH ensures that the rent levels set for each property type do not breach the overall parameter/rent envelope set by the Welsh Government. When MVH was set up, they had 1,300 different rents for 4,100 properties. This is detailed in their rent setting policy.

MVH has a large proportion of three-bedroom housing stock. As a result, the living rent for a three-bedroom house has been set at 28% of the published average wage for Merthyr Tydfil. This level has then been adjusted (either up or down) for different property types and sizes.

The rent for new-build properties is charged at a slightly higher rent based on a sliding scale, depending on the number of bedrooms. The rationale for this decision is that new-build properties have fewer repair issues and are more energy efficient.

Data

MVH use the Annual Survey of Hours and Earnings (ASHE) dataset, compiled by the ONS. MVH use a three-year average for household income to take into account trends in income change.

Moving forward, MVH realises the need to have better data on their household mix and will be carrying out a tenancy audit to ensure that it can better estimate total household income.

Outcome

MVH is in the process of converging their rents. MVH has agreed that those rents that are more than £5 away from the living rent would be adjusted by plus or minus £2. Those rents that are within £5 would adjust by plus or minus 60p.

It has been agreed that this policy will be reviewed annually to reflect any changes in guidance from the Welsh Government and in the financial position of MVH.

7 | Recommendations

7.1.1. Based on the findings set out throughout this report we recommend:

7.1.2. CHC's role should be to facilitate more joint working across the sector to identify a broad suite of tools that will support housing associations in developing their own local rent policies. This could include establishing:

- a definition of affordability that is based on household income and household composition
- an income to housing cost ratio threshold
- a minimum residual income a household requires to meet living cost after paying housing costs
- an understanding of what should be included in 'housing costs' in addition to rent, e.g. service charges, energy efficiency, Local Housing Allowance, council tax, proximity to amenities.

7.1.3. In developing a local rent policy, we recommend:

- it is developed with tenants
- it demonstrates fairness
- it is transparent and clear
- it provides stability (at least five years)
- it has flexibility to meet business needs.

7.1.4. To help housing associations assess whether their rents are affordable we recommend that:

- CHC reviews the Scottish toolkit and develops an online tool that builds on its principles, allows flexibility, and has a useful benchmarking element which can provide information and assurance to the association, as well as to tenants and the Regulator.

7.1.5. We recommend the following existing datasets for Welsh associations to consider:

For household income:

- Weekly income, ONS – Average Survey of Hours and Earnings (ASHE) Data
- Total income by super output area – ONS – Small area income estimates for middle layer super output areas

For household composition

- Income adjustment for household types, Total household income, OECD

Local data sources

- Private sector rents in Wales, StatsWales

Other data

- Minimum Income, JRF to determine affordability of rents
- ECP or SAP ratings – held by individual housing associations.

7.1.6. To improve quality of data:

- We strongly recommend WG invests in better quality data that can be easily searched, is updated annually, and is publicly accessible to housing associations.

7.2. Next Steps

7.2.1. To implement these recommendations CHC needs to:

- Consult more widely on the proposed approach to test the suggested offer with stakeholders and tenants as the target market
- Agree the affordability principles with the sector
- Undertake more detailed modelling, including stress-testing
- Seek approval of the local rent setting approach from WG, and incorporate it into relevant strategic documents
- Co-produce a new regulatory standard on rent setting to provide assurance to all stakeholders.

Appendix 1 | Data sources used in affordability models

The table below provides a detailed analysis of the different datasets that are available publicly that can be used to assess affordability when setting rents.

It has been RAG rated. The datasets in green can be used to identify affordability, those in amber can be used but may need to be manipulated in some form or other, and the datasets in red are those that are not detailed enough to be used for this exercise.

Category	Data Type	Data Source	Data Table	Notes	Data Limitations	Update Frequency	Availability of Data
Household Income	Weekly income	ONS - Average Survey of Hours and Earnings (ASHE)	Table 8.1a Weekly pay - Gross (£) - For all employee jobs: United Kingdom, 2018	Data is split by percentiles and quartiles for each local authority in Wales and England. The data is granular enough to use for different regions in Wales. It is widely used by housing associations in Wales as a measure for household income. Housing associations can use private tenants' data on relets as a sense-check, where applicable.	Data does not go deeper than borough level, so associations operating in one borough will not be able to flex rents using this dataset This dataset does not consider self-employed people's income.	Updated annually, around October	Freely available, does not require subscription
	Total income by super output area	ONS - Small area income estimates for middle layer super output areas	Small area income estimates for middle layer super output areas, England and Wales	This dataset provides total annual income by middle layer super output areas. This data is at a much more granular level than local authority level. This dataset can be used to identify the differences in incomes between different regions in a local authority level, so the rents can be adjusted accordingly. This helps organisations that operate within only one local authority area to set localised rents and consider income disparity within borough levels	Dataset includes total annual household income, and not weekly income levels. Therefore, this annual income needs to be used as a proxy to identify income trends within borough level	Updated every two years, around April	Freely available, does not require subscription

Category	Data Type	Data Source	Data Table	Notes	Data Limitations	Update Frequency	Availability of Data
	Total gross weekly household income	Family Resource Survey	Table 2.6: Households by region/country and total gross weekly household income, 2016/17, Wales	Data is split by country (England and Wales) and region. Total % of households by different household income bands. Provides an alternative to the ONS ASHE survey, though not as widely used.	Data is not split for different Welsh boroughs. This dataset would not be detailed enough for the purpose of setting localised rents. However, some affordability models use this dataset as a starting point	Updated annually, around March. Data is delayed, so 2016/2017 data published March 2018. Next update is due soon	Freely available, does not require subscription
	National Living Wage	UK Government - Department of Work and Pensions	https://www.gov.uk/national-minimum-wage-rates	Provides an overview of the hourly rate that people on low incomes earn. Can be used as an estimate for household income.	Data is at a national level, and not specific to different Welsh boroughs. It lacks the local factors in determining income levels	Updated annually, around April	Freely available, does not require subscription
Household composition by property size	Average Household composition	StatsWales	Average household size (persons) by local authority and year - https://statswales.gov.wales/Catalogue/Housing/Households/Estimates/averagehouseholdsize-by-localauthority-year	Can be used to identify trends in household composition/growth in household over time and use as a sense-check for household composition. Affordability models use estimates for this, based on internal data held by housing associations	Data is at an average level and not granular enough. There is not much data on household composition per property size. Needs to be supplemented with internal data	Updated annually, around September	Freely available, does not require subscription

Category	Data Type	Data Source	Data Table	Notes	Data Limitations	Update Frequency	Availability of Data
	Household size per number of rooms	Census data	DC4404EW - Tenure by household size by number of rooms	Data can give an estimate of household size per different rooms. Some housing associations have data on their tenants (internal lettings data) about household composition. However, this changes constantly, so housing associations have to keep updating this.	Difficult to split out by private renters and social renters	Updated every ten years, could be out of date quickly. Could supplement this data with expected annual growth levels in household size/previous trends	Freely available, does not require subscription
	Household composition, types of tenancy agreements and trends in social housing	Continuous Recording (CORE) system	Continuous Recording (CORE) system - online system	<p>The continuous recording of lettings and sales in social housing in England (referred to as CORE) is a national information source that records information on the characteristics of both private registered providers and local authority new social housing tenants and the homes they rent.</p> <p>This collection provides all of the statistical information that the Ministry of Housing, Communities and Local Government produces on social housing lettings and includes:</p> <ul style="list-style-type: none"> trends in social housing lettings over time characteristics of tenants with new social housing lettings types of tenancy agreements 	There is no Welsh equivalent	Updated periodically	Used by English HAs, not used in Wales. Data not publicly available

Category	Data Type	Data Source	Data Table	Notes	Data Limitations	Update Frequency	Availability of Data
Income adjustment for household type	Total Household income	OECD	OECD-modified equivalence scale	Scale is used to adjust income depending on household size. The scale is used to adapt the figures arising from ASHE survey to reflect the differing household composition and the effect of benefits and tax credits on household incomes. Welsh housing associations that have used the Living Rent Model use the OECD scale, which is used by several government departments.	This is at a UK wide level and not specific to Wales.	Statistical Office of the European Union (EUROSTAT) adopted this scale in 1990 and several Government departments use this scale	Freely available, does not require subscription
Local Data	LHA Rent levels	Rent Officers Wales	Valuing the Private Rented Sector	Local Housing Allowance (LHA) rates applicable from April 2019 for different sized properties in different regions in Wales. Can be used to benchmark affordable rent levels set. It also shows what will be covered by Housing Benefit.	It is not a dataset that can be applied across Wales, particularly in rural and Valley areas.	Annually	Freely available, does not require subscription
	General Needs Rent levels	StatsWales	Average weekly rents in stock at social rent by dwelling type, provider type and basic information on number of bedrooms (defined as	Social Housing Rent Levels, by different regions in Wales. Can be used to test affordability	Based on current rent formula	Annually	Freely available, does not require subscription

Category	Data Type	Data Source	Data Table	Notes	Data Limitations	Update Frequency	Availability of Data
			1 bedroom or 2 or more bedrooms)				
	Local housing market assessment	Local Authority	Research document	Provides an overview of the local market, conducted by the local authority	Often outdated	Not Frequently	Freely available, does not require subscription
	Inflation and Wages earnings	Bank of England/OBR/ HM Treasury	The economy forecast	Used to forecast state of the economy in medium term		Quarterly	Freely available, does not require subscription
	Private Sector Rents in Wales	StatsWales	Private sector rents in Wales	Provides rent for each local authority, split by property size and median and lower and upper quartiles	-	Annually	Freely available, does not require subscription
	Private Sector Rent level	Rightmove	Online search	Can be used to benchmark rent levels to PRS rent levels, by geography and property size	-	Frequently	Freely available, does not require subscription

Category	Data Type	Data Source	Data Table	Notes	Data Limitations	Update Frequency	Availability of Data
Other Data	Minimum Income	JRF	Minimum Income Standards - https://www.jrf.org.uk/minimum-income-calculator-do-you-earn-enough-decent-standard-living	Research project carried out by JRF to identify the minimum income required by households not to live in poverty. This can be used to determine affordability of rent levels to ensure households have a disposable income that allows them to live comfortably. Used as a measure to test affordability	-	Initial research carried out in 2008, updated in 2018	Freely available, does not require subscription

Appendix 2 | Summary of survey findings

Survey Analysis

Survey Questions	Themes from Survey
<p>1. What do you think are the biggest challenges in the current rent setting model?</p>	<p>Lack of certainty over long-term rent settlement (<5 years) leads to:</p> <ul style="list-style-type: none"> ▪ problems planning new development ▪ long-term financial planning difficulties ▪ “use it or lose it” rental increases: not applying the increase now will mean you will not be able to apply it later ▪ affects lenders’ perception of risk in the sector. <p>A lack of autonomy to adjust rent levels across portfolio/different properties (raising viability concerns) and ability to set the right rents for the local market’s conditions is problematic</p> <p>Its redistributive effect penalises low income, low property price areas</p> <p>Last-minute decisions on rent settlement mean:</p> <ul style="list-style-type: none"> ▪ decisions on rent settlement mean policy justifications are not adequately explained to tenants ▪ strain on RSLs’ ability to meet statutory requirements to inform tenants about rent increases (which will get harder with the new Renting Homes Act requiring two months’ notice before increases).
<p>2. How do you take account of affordability in the rent setting process currently?</p>	<ul style="list-style-type: none"> ▪ 42% use JRF’s Living Rent Model ▪ 42% use some percentage (c. 28-33%) to calculate or cross-check proposed rental increases against affordability ▪ 25% engage with tenants directly about rents <p>Before setting rent increase, boards consider:</p> <p>1) External inputs such as:</p> <ul style="list-style-type: none"> ▪ National Living Wage (NLW) ▪ local market conditions ▪ economic growth forecasts

	<ul style="list-style-type: none"> ▪ geographic differences ▪ Local Housing Allowance (single and couple) ▪ Private rents <p>2) Thought leadership in sector</p> <ul style="list-style-type: none"> ▪ Shelter ▪ JRF (Living Rent) <p>3) Internal metrics such as</p> <ul style="list-style-type: none"> ▪ rental arrears ▪ affordability assessments on applications ▪ reasons for end of tenancy ▪ voids ▪ tenant VfM satisfaction <p>4) Consultation with tenants via surveys and other means</p> <p>5) Not applying full rent increase as set by WG.</p>
<p>3. Have you considered alternative approaches to rent setting based on affordability (if the WG formula rents no longer applied)? If so, describe them.</p>	<p>4 in 5 have considered alternative approaches (83%)</p> <ul style="list-style-type: none"> ▪ There is a split between organisations looking primarily at housing affordability based on household income and total running costs and a geography/property-based model ▪ Breakdowns of approaches as well as data used are outlined below in Current rent settlement approaches section on page 51.
<p>4. In your view, what are the most important outcomes any new rent model should achieve?</p>	<p>Success criteria for a new approach:</p> <ul style="list-style-type: none"> ▪ Most want the association to have flexibility to meet business needs (perhaps applying an <u>average</u> rent increase across all stock) but also to be accountable so that rent increases are not too high (perhaps through rent cap safeguarding) ▪ Many want the policy to be transparent and clear/easy to follow ▪ Some also mention the necessity for longer term settlement (5+ years, to ensure certainty for business planning) ▪ Some want it to reflect true affordability by considering service and running costs in addition to rent ▪ Some want to be able to apply differentials for various property sizes.

<p>5. Would your affordability model generally result in a rent decrease or increase across your stock and how would this affect your financial position overall?</p>	<ul style="list-style-type: none"> ▪ Two thirds believe the application of an affordability model would result in neutral total income, or that the new rents will result in increase in some parts of stock and decreases in others (acknowledgment that likely increases in rent in larger properties will allow better affordability of smaller properties) ▪ A third say income will increase, but that this will either allow for more development or that this increase is already built into their business plan (such in the case of LSVTs).
<p>6. What datasets would you require in order to calculate affordable rents?</p>	<p>Dependent on current rent settlement approaches outlined on page 51 the datasets mentioned are:</p> <ul style="list-style-type: none"> ▪ economic growth forecasts ▪ local housing market data (demand data, housing costs for all sectors and income levels) ▪ Local earnings (external) or income levels of housing portfolio (internal) ▪ Private rent levels (caution, consider if RSL presence in LA area influences this and LHA rates) ▪ Timely annual income data for LAs from WG Statistics Office/ASHE ▪ National Living Wage data ▪ 5+year WG rent increase indexation ▪ Medium term guarantees for gap data ▪ ASHE Home Geography data ▪ CIH weekly rents/earnings data.
<p>7. Are those datasets readily available in your area?</p>	<ul style="list-style-type: none"> ▪ About two thirds say data is available.
<p>8. How have you engaged with tenants in these discussions? (What has worked well/what has not?)</p>	<ul style="list-style-type: none"> ▪ Most RSLs have had direct or indirect conversations or consultations with tenants about annual rent increases. Some have talked about future affordability models but most consult on existing or past annual rent increases. <p>What works well:</p> <ul style="list-style-type: none"> ▪ Tenants understand how rents are linked to business considerations (in cash terms) and this allows “mature conversations” to be had between RSLs and tenants ▪ Formal tenant groups have worked well (in formal governance structure) ▪ Social media and other forms of outreach work well but need careful monitoring. <p>What has not</p> <ul style="list-style-type: none"> ▪ Getting a representative group of tenants to engage ▪ Engagement with future or potential tenants is hard ▪ Late decision by WG on rent settlement meant meaningful consultation was hampered.

Current Rent Settlement Approaches

1.1 Current approaches to rent settlement (within current WG limits)

Because of WG limits, these approaches are generally used to “check” rents or rent increases before being applied. For this reason, some organisations, such as Tai Calon, did not apply the full rent increase (of 4.5%).

1.1.1 Affordability based on local income/JRF Living Rent

- Bro Myrddin Housing Association
- Tai Calon Community Housing
- Rhondda Housing Association
- Newydd Housing Association (1974) Ltd
- Trivallis
- United Welsh

1.1.2 Combined Affordability/Property & Geography Approach

- Cartrefi Cymunedol Gwynedd
- Mid-Wales Housing Association
- Linc-Cymru Housing Association Ltd
- Bron Afon Community Housing
- Grwp Cynefin
- Newport City Homes.