



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Housing Research Summary

Social housing rents in Wales

Background

The Centre for Housing and Planning Research at Cambridge University was commissioned by the Welsh Assembly Government to carry out a study of the pattern of rents and service charges in the social housing sector in Wales. The research was commissioned as part of the Action Plan which implements the National Housing Strategy, 'Better Homes for People in Wales'.

The purpose of the research was to:

- Assemble the facts on the actual rents and service charges made by social housing landlords (local authorities and housing associations).
- Identify and compare the rent setting policies of social landlords and the extent to which variations in rents reflect variations in property attributes (e.g. the number of bedrooms, or the presence of central heating), quality (e.g. the state of repair or modernisation) and location.
- Compare rents in the social housing sector with local house prices and private sector rents.
- Investigate the relationship between rents, the costs of heating homes to an adequate standard, and 'fuel poverty'.

Data for the research was provided by every Welsh local authority, and by the 33 largest housing associations.

Main Findings

The report outlines the different overall financial and regulatory contexts for rent setting by local authorities and by housing associations. Current Assembly Government policy is to set the annual guideline rent for each local authority so as to move its actual average rent gradually into line with the maximum 'benchmark' rent set in the housing association sector. This has already been achieved in Ceredigion, Vale of Glamorgan and Monmouthshire.

The consequence of the current policy to move local authority guideline rents into line with benchmark rents will be to set the average local authority rent at the maximum housing association rent.

This policy would result in many local authority rents being higher than housing association maximum rents. In some cases, the rents of older and often unimproved local authority houses would be higher than the rents of newer housing association homes built to modern standards.

The report recommends that the Assembly should consider redesignating the benchmark rent as the average rent. This would allow housing associations to reintroduce wider differentials between the rents of good quality properties in desirable locations and those of older or less well located properties. As a result of existing rents being squeezed tightly against the benchmark, there would be little change in the average rents charged by housing associations. For every rent increase on a more desirable property there would have to be a corresponding reduction in the rent of a less desirable property.

How rents are set by local authorities

The amount of public expenditure by the Assembly on local authority housing is controlled through the 'guideline' rent system. Spending by the Assembly comes either from:

- Housing subsidy, where the Assembly meets the deficit between income (mainly from rents) and expenditure (mainly on debt servicing and housing management and maintenance) in a local authority's Housing Revenue Account (HRA). Only two local authorities in Wales are currently in need of subsidy from the Assembly.
- Housing Benefit, which assists with the rents of around two thirds of tenants.

For most local authorities, where income in the HRA exceeds expenditure, the Assembly reclaims the excess as 'negative subsidy' to off set against Housing Benefit payments to local authority tenants.

As part of this system, the average rent for each authority is controlled by the Guideline Rent, which is set for the authority each year by the Assembly. At the same time, the Assembly sets the average amount each authority can spend on management and maintenance; whilst the last major category of expenditure, debt services, is determined by the pattern of borrowing and repayments in earlier years.

Lower Guideline rents, everything else being equal, will mean higher subsidy from the Assembly and a lower amount of "negative subsidy" reclaimed from councils. Higher Guideline rents, everything else being equal, will tend to lead to higher actual rents and higher Housing Benefit payments.

Local authorities are theoretically free to charge less than the guideline rent, thereby losing rent income. Or they can charge more than the guideline rent, but the additional Housing Benefit spending must then be met from rent income and not from subsidy. There are, therefore pressures on local authorities to set average actual rents at the guideline. Even where average

actual and guideline rent differ, these pressure mean that authorities will tend to increase actual rents in line with increases in guideline rents.

Within the guideline rent system, local authorities are free to set rents for individual properties. In setting the rent of individual properties, only one local authority sets rents in relation to local capital values. Other local authorities either use property values (mainly using the old Rateable Value system), or a 'points' system reflecting the different attributes of properties. The main differences in rents are determined by the number of bedrooms in the property. Other attributes only make a minor difference to the rents of different properties. As a result, most local authorities have very 'flat' rent structures.

How rents are set by housing associations

In the housing association sector, maximum, rather than average, rents are controlled through the 'benchmark' rent system. All housing associations with new housebuilding programmes must specify the maximum rents which they would charge for six ideal property types: the average of these six rents must be less than the 'benchmark' rent specified for each area of Wales by the Assembly Government.

Provided that rents are within the 'benchmark', housing associations are free to set rents for individual properties. Most do so by using a 'points' system reflecting the different attributes of properties, although two use capital values.

In practice, the combination of a fixed rate of Social Housing Grant and the maximum rents imposed by the benchmark system means that housing associations must cross subsidise the rents on new developments from rent surpluses on older developments.

The result is that in order to maximise rent income, the differentials in rents between the highest and the lowest have become squeezed over the past few years. Most housing associations have very 'flat' rent structures.

Local authority and housing association rents compared

In comparing the rents charged by local authorities with those charged by housing associations it is important to compare like with like.

In general, local authorities still operate 'pooled' rents, whereby the costs of services such as caretaking, cleaning, grounds maintenance and lift maintenance are spread across all properties, whether or not the property receives the particular service, and are included in the rent. In general, housing associations do not do this. Instead, they charge the costs of such services only to the properties that actually receive the services, which are then charged for by a separate service charge on top of the rent. The benchmark system only controls the maximum rent: it does not apply to service charges.

From the individual tenant's point of view, the issue is the total weekly charge of rent plus service charges.

The project found that rents for 1 bedroom properties were very similar, except for sheltered housing where the total weekly charge by housing associations was higher than local authorities because housing associations had made service charges and did not 'pool' the additional costs of sheltered housing across all their properties.

Housing association rents for 2 bedroom properties tended to be some £5 per week higher than local authority rents, and housing association rents for 3 bedroom properties tended to be some £7.50 per week higher than local authority rents. Housing association properties are

generally newer, while local authority properties are older, and many remain unmodernised.

Geographic comparisons of rents, comparing the difference between average rents for each bedsize of property in every postcode sector, shows that there are few areas where there are large differences in rents between the two sectors. In some of these areas, it is the local authority rent that is more than £10 per week higher than the average housing association rent.

The report also shows that the method of rent setting had no discernible effect on the level or pattern of rents charged. Whatever the rent setting policy of the individual landlord, social housing rents were compressed within a very narrow, almost flat, band from the lowest to the highest.

Rents in the social sector compared to the private rented sector

There are very limited data on the actual rents charged by landlords in the private rented sector. There is no requirement that rents should be registered, and the only rents which are recorded in detail are those where the tenant is in receipt of Housing Benefit, which may not be typical of private sector rents in general.

However, the Rent Officer Service is required to set Local Reference Rents for all areas of Wales, in order to assist local authorities in the administration of Housing Benefit, and these can be used for comparison with the benchmark rent system in the housing association sector.

The project found that the 'benchmark' rent was significantly cheaper than private sector rents in fourteen local housing markets, nearly all around the periphery of Wales, from Monmouthshire on the English border, through the major cities of Newport and Cardiff, including the 'suburban' areas of Penarth and the rural

Vale of Glamorgan, the university and county towns of Aberystwyth, Caernarfon, Bangor and Conwy, and the area around Mold in Flintshire.

However, the project also found that the benchmark rent was less than 75% of average private sector rents in nineteen local housing markets. These fell into two clear geographic groupings. One lies along the central backbone of the country, from Blaenau Ffestiniog, through south eastern Gwynedd and down through western Powys. The second area is concentrated in the Valleys.

The closeness between housing association rents and private sector rents in the Valleys was commented on by a number of housing associations. Private landlords are able to offer houses in streets, rather than on estates, together with a higher level of furnishings and white goods than is current practice in housing association lettings, and this appears to represent a competitive product in this area, at a relatively small price premium.

Rents compared to house prices in the owner occupied sector.

The overall housing market in Wales is predominantly owner occupied. Wales has a somewhat higher proportion of owner occupation than other countries in the UK, at 72.3% of the total housing stock.

Variations in house prices in the owner occupied sector will also be relevant to the demand for social housing. Where house prices are high, and the affordability of owner occupation is low, the demand for affordable rented housing is likely to be high. Where house prices in the owner occupied sector are affordable, the demand for rented accommodation is likely to be less.

Data was obtained from the Land Registry, giving the actual sale prices of properties in each of the 520 postcode sector in Wales.

(A postcode sector is represented by the first four letters and digits of the postcode, and contains approximately 3,000 postal addresses.)

The data show that prices tend to be higher around the coastal areas, from Llandudno to Beaumaris and the Menai Straits, on the Llyn Peninsula, and along the coast in Gwynedd, Ceredigion, Pembrokeshire, the Gower Peninsula and in the Vale of Glamorgan. The highest prices are recorded in Cardiff. Prices also tend to be higher along the border with England.

A comparison of prices between 1995/96 and 2000/01 showed that there were a number of areas where house prices had remained stagnant over this period, barely keeping pace with general price inflation. There were also some areas of Wales where prices actually fell in nominal terms in that period. These areas appeared to be concentrated in the South Wales valleys, and the hinterlands of Bridgend, Neath Port Talbot and Swansea.

These patterns of house prices in the owner occupied market are of course reflected in the rents which landlords will charge in the private rented sector. Investors have been able to acquire properties in the Valleys for relatively low prices. Landlords have been able to make competitive returns on these investments by charging rents little more than those in the social housing sector.

The affordability of rents in social housing

It is an obvious, but important, point that rents can never be set so low that households would never be dependent upon Housing Benefit. The growth in part time work, particularly among single parents, means that many families are in work, but have very low earnings. Housing Benefit exists to enable families with low earnings, or with no earnings at all, to be able to afford their rent.

Assessing whether rents are 'affordable' without reliance on Housing Benefit must therefore be done by reference to households with some reasonable level of full time earnings.

Information on the earnings and incomes of social housing tenants in Wales is extremely limited, but the data which are available indicate that earnings for different groups of (mainly) manual workers vary across Wales by more than the variations in rents. (The data also shows that on average women's earnings are only between two thirds and three quarters of men's earnings.)

Therefore, the project selected plausible ranges of incomes for full time workers, between £240 and £320 per week for men, and £190 to £260 per week for women (before tax and National Insurance deductions), in order to test the 'affordability' of rents in the social housing sector. £240 per week before deductions is a rate of £6.15 per hour for a 39 hour week, while £190 per week is a rate of £4.87 per hour, also for a 39 hour week, or only just above the Minimum Wage.

Since 1997, the relationship between earnings and the affordability of rents has been significantly altered. The introduction, and gradual increase, of the Minimum Wage has put a 'floor' under earnings for the low paid. In addition, the continuation of Child Benefit and the introduction of the system of Tax Credits have added very significantly to the incomes of working families with children. The Working Tax Credit has now extended the system of support for lower paid earnings to childless couples and single people.

These changes have significantly altered the relationship between earnings, and actual cash incomes. The extent of this change is not always fully appreciated. It has an important effect on the 'affordability' of rents, and on the

entitlement of a household to Housing Benefit.

The report shows that for over 90% of rents in the social housing sector in Wales, tenants in all forms of household where one member is in full time work would be able to pay their rent without being dependent upon Housing Benefit, and would have a significant cash income (after tax and National Insurance deductions, and after paying rent) above the level of Job Seeker's Allowance.

A single woman aged over 25 would have at least £50 per week above the level of JSA, a couple with only one member in work would have at least £60 per week, a single parent in full time work and with one child would have at least £80 per week, and a couple with one member in work and two children would have at least £90 per week left, after paying rent, above the level of JSA.

Rents and heating costs in social housing

Rents and service charges are not the only costs to tenants of occupying their homes. The impact of Council Tax was outside the scope of this study, but there is a much closer relationship between rents and heating costs.

Parts of the social housing stock in Wales, particularly the local authority stock, remains unmodernised: some dwellings do not yet have central heating, many more lack adequate insulation or double-glazing. The combination of homes that are expensive to heat with low earnings or dependency upon benefits, results for many tenants in the danger or reality of fuel poverty.

If a household has to spend more than 10% of its after tax income on heating and hot water it is considered to be in fuel poverty.

The Welsh Assembly Government has set out the principles of its policy approach in its publication *Warm Homes and Energy Conservation Act 2000: A Fuel Poverty Commitment for Wales*, in order "to ensure that as far as reasonably practical no household in Wales should live in fuel poverty beyond 2018".

The policy estimates that some 220,000 households in Wales suffer from fuel poverty, and that over half of these, 115,000, live in social housing.

The Assembly Government has laid down minimum energy cost standards in the Welsh Housing Quality Standard. These require a SAP Rating (See Box) of roughly 60 for a 1 bedroom flat and 65 for a 2 or 3 bedroom house.

SAP ratings

The heating efficiency and economy of a house is measured by means of its SAP (Standard Assessment Procedure) Rating. The SAP energy cost rating of a house is based on the energy costs for space and water heating. The calculation assumes a standard occupancy pattern, and a standard heating pattern. The energy cost rating is adjusted for floor area so that size of the dwelling does not affect the results. The SAP Rating scale runs from 1 to 120: the higher the number, the better the standard.

The SAP rating is therefore sensitive to the quantity of heat required to maintain the dwelling at the standard temperature, to the efficiency with which fuel is converted into useful heat by the heating system and controls, and to the cost of the fuel itself.

Variations in the relative cost of different fuels are one of the most significant elements in the calculation. Dwellings of identical construction and insulation standards will therefore have very different SAP ratings depending upon the choice of fuel.

Heating a house by standard tariff electricity is more than 5 times as expensive as heating an otherwise identical house by mains gas, and these differences will be reflected in the SAP rating of the two properties.

(As a result of the sparsity of settlement across much of rural Wales, 22% of households do not have access to mains gas.)

The project calculated the SAP ratings which would be required in order to ensure that single parents and pensioners were unlikely to suffer from fuel poverty.

A single parent, dependent upon benefit, living in a small 2 bedroom house would require a house with a SAP Rating of 62, but a 3 bedroom house would require a SAP rating of over 75.

A pensioner, dependent on the state pension, and continuing to live in the family home, would continue to need the Winter Fuel Payment to heat any house with a SAP rating less than 75. If it were thought socially desirable that a pensioner living in old people's flats or bungalows should not have to rely on the Winter Fuel Payment to heat such a small dwelling, then the flat would need a SAP rating of at least 71.

The reality at present, however, is that the vast majority of the local authority housing stock, and a substantial part of the housing association stock, fall well below the SAP ratings discussed above.

The range of SAP ratings present in the social housing sector imply very considerable variations in heating costs for tenants. The space and hot water heating costs for a property of 75m² and a SAP rating of 90 are estimated to be £4.50 per week, while a house with the same floor area but a SAP rating of only 40 would cost £12.50 per week to heat to the same standard of comfort, a difference of £7.50 per week or nearly £400 per annum.



The full report is available electronically at www.housing.wales.gsi.gov.uk. If you would like a print out please contact Helen Wyatt at the following address:

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