

Dadansoddi ar gyfer Polisi



Analysis for Policy



Llywodraeth Cymru  
Welsh Government

SOCIAL RESEARCH NUMBER:

21/2019

PUBLICATION DATE:

30/04/2019

# Rent Policy Review

## Emerging Findings Report

Mae'r ddogfen yma hefyd ar gael yn Gymraeg.

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## Rent Policy Review

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April 2019

Views expressed in this report are those of the researchers and not  
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## **Introduction**

- 1.1 The Welsh Government introduced a new rent policy for social landlords in April 2014 for Registered Social Landlords (RSLs) and April 2015 for local housing authorities (LHAs). The policy aimed to remove anomalies in rent setting between and within the social landlord sectors whilst maintaining the capacity of the sector to invest in existing and new stock.
- 1.2 A team from The Urban Institute at Heriot Watt University, Steve Wilcox and Peter Williams conducted research to determine whether the Welsh Government Rent Policy is fit for purpose and achieves its original objectives, particularly in the context of external developments.
- 1.3 The research objectives were to examine:
  - the implementation of Rent Policy and its impact on social landlords
  - the wider impact on social landlords including on the value of their stock and their capacity to deliver housing and other Welsh Government objectives
  - external influences which impact upon the Welsh Government rent policy, social landlords, their tenants and lenders
  - the future of the rent policy including in relation to equality and diversity, sustainability and protection of the interests of Welsh Government, social landlords, current and future tenants and lenders
  - how well the Rent Policy model operates and whether the policy and model require modification
  - the views of tenants on rent levels, rent affordability and the Welsh Government Rent Policy.
- 1.4 This Emerging Findings report presents the findings to date from the research. Final verification and checking is required before the findings themselves can be considered final. The full and final Report is expected to be published in Summer 2019.

## **Background**

- 1.5 Rent setting by social landlords can be controversial in terms of perceived fairness between tenants of the same landlord, between tenants of different social landlords within the same area, and between tenants in different local authority areas. Rents need to be adequate to cover repairs and maintenance and rental income in the housing

association sector influences borrowing capacity to finance investment in new and existing stock.

- 1.6 The rise in social rents since the 1980s has increased dependency on Housing Benefit, which also provides comfort for lenders, who perceive it as the government underwriting the landlords' rental stream. However, since 2010 the UK Government's policy of fiscal consolidation in the aftermath of the Global Financial Crisis has led to restrictions on Housing Benefit, such as the Removal of the Spare Room Subsidy and the Benefits Cap. The introduction of Universal Credit represents another important consideration, as it replaces Housing Benefit for working-age claimants.<sup>1</sup>
- 1.7 These policies cut across the boundaries of the competencies of the UK and Welsh governments. Whilst housing policy (including rent policy) is devolved, social security (including Housing Benefit and Universal Credit) is reserved. Although social security is financed directly by the Department for Work and Pensions, under the Statement of Funding Policy (2015) and the Concordat between the DWP and the Welsh Government (2013) policies adopted by the Welsh Government that lead to a disproportionate increase in non-devolved expenditure in Wales (compared to England) may be clawed back by the Treasury.
- 1.8 The end of the Housing Revenue Account subsidy system for local housing authorities on 1 April 2015 provided the opportunity to reform rents across both housing association and local authority landlords.

### **The rent policy**

- 1.9 The current rent policy in Wales implements the findings of the Essex Review of affordable housing in Wales subject to further developments arising from consultation and experience. The new policy aims to overcome deficiencies identified in the Review to create a fair and transparent system which overcomes service charge anomalies and provides incentives for investment.
- 1.10 The rent policy adopts a 'national target average rent' for average overall rent towards which landlords are expected to converge. The policy is intended to reduce discrepancies between local authority and housing association rents, which inhibit the creation of a coherent single social housing tenure. The framework for social housing rents applies consistently to all social landlords (see 1.11 below) and reflects the type,

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<sup>1</sup> When this research was commissioned, the Government was proposing to limit eligible social housing rents to Local Housing Allowance rates. However, the proposal was withdrawn in autumn 2017.

size, location and quality of tenants' homes. It also takes account of local housing and labour market conditions and affordability, creating a more equitable distribution of rents for social sector tenants while ensuring the viability of individual social landlords.

- 1.11 The new policy was implemented for housing associations from April 2014 and for local authorities from April 2015 after exiting the HRA subsidy system. The disaggregation (or de-pooling) of service charges from rents was to be completed by March 2016.
- 1.12 The 2016 Draft Social Housing Rent Standard and Guidance requires social landlords to set average weekly rents (AWRs) within Target Rent Bands (TRBs) and applies to social landlords (LHAs and HAs) in Wales with more than 100 self-contained general needs or sheltered housing units. It also allows a transition period for landlords to move to the TRB.
- 1.13 The Draft Rent Standard specifies the range of rent increases allowable for landlords whose rents are within, below or above the TRB. Landlords must self-certify compliance, submit data on rent and SAP (Standard Assessment Procedure) performance as a proxy for quality and consult tenants on changes to their rent policies. There are provisions for exceptional circumstances where the rent standard cannot be met within expected timescales and for types of property not covered by the policy. The associated Draft Guidance on the Social Housing Rent Standard (Wales) includes a detailed explanation of the steps landlords should take to raise rent levels.

### **External influences on Rent Policy**

- 1.14 A key element of the research was to consider external influences that impacted on the rent policy. These influences were:
  - The *wider Welsh Government objectives* of delivering 20,000 new affordable homes (including 13,500 homes to be delivered by social landlords) over the current term of government and the broader Welsh Government Wellbeing Objectives, such as improving access to secure, safe, efficient and affordable homes.
  - The *relationship to the UK Government*: Rent Policy can potentially have an impact on the relative levels of government spending between Wales and England through additional benefits spending where England has adopted a policy of rent reduction/controls while Welsh rents are rising.
  - *Welfare Reform*: The decision in October 2017 not to go ahead with proposals to base eligible rents in the social sector on the Local Housing Allowance rates that are set for Broad Rental Market Areas (BRMAs) has lifted a considerable risk from social

landlords. Although this decision has been welcomed by social landlords, the roll-out of Universal Credit and further reduced Benefit Caps are expected to continue to have a significant impact on social tenants.

- *Supported Housing Review*: Welsh Rent Policy applies to sheltered housing for older people, but not to other forms of supported housing. There has been concern about the potential impact of welfare reform<sup>2</sup> on sheltered and supported accommodation. In August 2018, following a lengthy review the UK government also dropped outline proposals to have a separate rent policy and Housing Benefit arrangements in respect of sheltered housing.
- It is also important that rent setting, as a public function, meets the provisions of The Human Rights Act 1998 and the Equality Act (legislation.gov.uk, 2010). The review has considered the impacts of the rent policy from an *equalities* perspective.

## Research methods

1.15 The research deployed a range of research tools and approaches to examine the research questions. These were:

- An *on-line survey of landlords*, with 44 returns being completed by 47 landlords. As two organisations each completed on behalf of group structures (containing a total of five individual entities), this represented a 100% response rate.
- Of these landlords, 32 also participated in a *qualitative follow-up interview*, with a further nine taking part in more in-depth case studies.
- Nine *case studies* were selected using cluster analysis to identify groups of landlords, based on landlord type, location, whether within the Target Rent Band (TRB) and their perceptions of the rent policy. This ensured a spread of case studies across Wales which in turn allowed a much greater mix by geography and type of organisation.
- Six interviews were undertaken with *national stakeholders* representing or with knowledge of social landlords, local authorities, tenants, regulation and finance.
- An *analysis of affordability of rents* under the rent model was conducted. The analysis covered 12 cases involving six property types (from bedsits to 4-bed properties) and nine household types (for example, single, lone parent with one child, couple with four children).

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<sup>2</sup> Notwithstanding the removal of the proposal that it would be subject to the LHA cap.

- Finally, *qualitative research with tenants* was conducted through a series of three focus groups (in Wrexham, Cardiff and Swansea) and 20 in-depth telephone interviews across Wales.

### **The implementation of Rent Policy**

- 1.16 By July 2017, almost 70% of landlords had rents in line with the TRB. Transition had been less effective where there was a lack of political will or high-level support for transition, and where rents were felt not to have transitioned quickly enough due to inflation and the limits of the policy.
- 1.17 Just under half of landlords are using the Rent Matrix to set rents on individual properties, with most reporting that it is effective; offering clarity, transparency and comparability and is easily understood by tenants
- 1.18 Those who were more negative (often LSVT landlords) felt that the policy had constrained rent increases/income and was inflexible. Some had seen volatility in the matrix year-on-year and felt that the locational index, with damping, was both volatile on a year-on-year basis and regressive because it forced down rent increases in lower demand, lower rent areas, so constraining the ability of landlords to invest.
- 1.19 Overall, the mechanisms for moving rents to within target bands appear to have been largely successful. By 2018/19 only a few landlords' rents are outside the TRBs, mostly to a minimal extent. At the same time, movement has not been abrupt and so the few landlords which still have a significant way to go (some £10.00 per week in one case) are not being forced to move at a speed which would adversely impact on their tenants.
- 1.20 The Minister has set the annual uplift for social rents at CPI +1.5% for the period 2014/15 to 2018/19. Landlords are then expected to increase their average rents by varying amounts depending on whether they are above, within or below their TRB. Landlords which need to increase rents so that their AWR falls within the TRB may additionally increase rents by up to £2 per week in order to attain convergence.
- 1.21 The discretion to add a maximum of £2 per week to the annual uplift in rents is also available to landlords with rents within the TRB, provided that their rents do not increase beyond the upper limit of their TRB. In practice the widespread application of this discretion has meant that average rents for the sector as a whole have increased (on average over four years) by 1% above the level of the standard uplift.

## **Transitional arrangements**

- 1.22 Local rent policies and service charge de-pooling has often taken longer than anticipated due to commitments made before transfer ballots (among LSVTs and LHAs) and where the distance to the TRB and service charges involved are significant.
- 1.23 Landlords were generally positive about the protection afforded by the transitional arrangements, with positive impacts of the policy on stock valuation and borrowing terms. There were concerns expressed for the future, with the need to consider affordability for tenants the need for a longer-term policy term (for example for five years), to provide greater certainty for landlords and funders.

## **The wider impact on social landlords**

- 1.24 Local authorities were clearly able to deliver on business plans and this was also largely the case for associations. However, there were some clear tensions around the combinations of Local Housing Allowance (when it was assumed this would have an impact), local market situations and the potential for charging rents that reflected local reality. The case study research found that valuations have been maintained and even in some cases improved.
- 1.25 Landlords have generally taken advantage of the annual uplift in rents albeit in some cases there were limits in how it might be applied. The policy was devised to ensure that it did not put viability at risk and that had been achieved. However, as was evident from the case studies this is not to say there were no critical views of the policy or suggestions as to how it might be improved.
- 1.26 Most case study landlords said they were able to deliver the supply planned, but they could do more if the rent policy was more flexible. Some recognised the tensions between increased development capacity and the capacity of tenants to pay higher rents. There was little discussion of intermediate and market rent housing though we know from elsewhere that the planned cross subsidy was important. Again, this reflected a timing issue that landlords were more concerned about the social housing sector given planned welfare reforms. One landlord reported that because development costs were relatively even geographically, it was not viable to build in some low demand areas as they could not charge sufficiently high rents.
- 1.27 In general, there was no evidence to suggest the policy was blocking the delivery on policies such as the Welsh Housing Quality Standard. Clearly, higher rents would allow quicker progress, but landlords recognised the need to balance off competing



objectives. On the wider policy agenda around local economies and housing markets it was less clear how the rent policy impacts. Although landlords were alert to the fact that rents can have an important impact on local residents, it was difficult to determine a great sense of efforts to interweave these with an understanding of local economies and markets. There was some comment on the lack of alignment in specific policy areas, but generally landlords did not appear to have strong intelligence on the local context and were content to apply the policy without that detailed information relying instead on their own feedback mechanisms via tenants. No doubt this would be less true with respect to intermediate and market products where such engagement is absolutely necessary.

### **Meeting policy aims**

- 1.28 The rent policy relating to rent structures was regarded by most – but not all – stakeholders and landlords as having strengths, including transparency, consistency and fairness, all of which are valued by tenants.
- 1.29 Views on the effectiveness of the rent policy in meeting policy aims were mixed. More positive views expressed about the policy meeting the aims of rents converging and the policy encouraging rents to reflect variations in property size and type. In contrast, more negative views were expressed about rents failing to reflect variations in quality and location and there being an equitable distribution of rents across Wales.
- 1.30 Housing associations and LSVT associations in particular expressed less positive views about the effectiveness of the rent policy. Concerns stemmed from the perceived redistributive impact of the matrix and subsequent constraint on rents in poorer, low rent areas alongside continued local variations hidden by rents meeting the average TRB.
- 1.31 Some landlords raised methodological concerns about the use of SAP rating to proxy condition/quality and anomalies between new-build properties and others felt that there should be greater weighting given to bungalows (which currently have the same weighting as houses) given their high demand. The timing of the announcement, in December each year, was also raised as a negative feature of implementation.
- 1.32 Tenants were generally unaware of differences between local social landlord rents. Most suggested that social rents were far lower than private rents and some suggested that rents were higher for housing association tenants in their area. However, some tenants also identified quality as higher in the housing association stock in their area. Tenants generally felt that the relationship between size and type and the rent was fair

but some were very frustrated by the dwelling quality. The more common view was that properties should meet a minimum standard, though, in terms of energy efficiency and condition, rather than lower rents being charged for poorer quality properties.

### **External influences**

- 1.33 Stakeholders and landlords see welfare reform as being of great importance to the sector's ability to meet Welsh Government housing investment targets relating to new build and the Welsh Housing Quality Standard.
- 1.34 Welfare reforms have impacted on social tenants, with those experiencing affordability concerns far more likely to be tenants who were paying the 'Bedroom Tax', who had their benefits capped or who had lost benefits due to the transition from Disability Living Allowance to Personal Independence Payment, down-grading of their level of Employment and Support Allowance.
- 1.35 The roll out of Universal Credit is another concern, as the evidence (for example statistics released by Community Housing Cymru) suggests that where it has been introduced it has led to a rise in rent arrears. Landlords believe that both the six week (now reduced to five) delay and the default position of paying housing assistance directly to tenants are the causes of this problem. Two stakeholders noted that the Scottish Government had used its powers to allow tenants to opt for payments to be made directly to the landlord. (In Northern Ireland payment to landlords is the default position.) One stakeholder expressed surprise that the Welsh Government had not been more vocal lobbying for it to be granted a similar power to that enjoyed by its Scottish counterpart. As it stands, the switch to Universal Credit across Wales from 2018 was expected to create uncertainty and limit landlords' borrowing capacity.
- 1.36 Other external factors raised by stakeholders and landlords included the impact of Brexit on the economy and the environment in which lenders were willing to lend as well as the likely loss of finance for housing from the European Investment Bank. Labour market change, in particular, the shift towards zero-hour contracts and the 'gig' economy were highlighted, along with a general decline in tenant incomes. Broader demographic changes were also discussed, including shrinking and ageing populations in many areas.
- 1.37 The local government context was also highlighted such as pension costs, particularly among LSVT landlords which still mostly operate within the local government scheme and the broader context of local government reform.

## The future of the rent policy

- 1.38 The long-term nature of the rent policy is important as it gives certainty and transparency and allows for the development of business plans. In general, the scheme was seen as fair and easy to explain to tenants.
- 1.39 Some landlords (though not the majority) felt that that the overall average rent policy framework placed an unhelpful constraint on rents and there needed to be greater flexibility in rent setting. This was most strongly felt among LSVT associations particularly those adversely affected by the locational index and damping. Some landlords and other stakeholders felt that the calculation of target rents, which take into account earnings and house prices, limited the headroom for rent rises in low demand areas, despite the fact that all organisations had similar cost bases.
- 1.40 Particular issues raised by case study landlords included:
- There is a need for the DWP and the Welsh Government to clarify whether it is more important to build more homes or to keep the social security bill down by limiting rent increases.
  - A number of authorities were close to breaching their rent rebate subsidy limitation cap<sup>3</sup> and if all rents were at target there would be a breach, especially if service charges were taken into account.
  - The maximum £2 flat rate rent increase (over and above the inflation-linked increase) affects tenants living in smaller units disproportionately and should instead be expressed as a percentage of the rent.
  - Concern about the volatility of the locational index year-on-year due to changes in wages, rent/house prices or a combination of these.
  - Further debate on shared accommodation was overdue.
  - Landlords wanted earlier notification of changes along with a long-term strategy.
- 1.41 Suggestions for reform arising from key stakeholders reflected a number of landlord concerns:
- The rent policy is insufficiently flexible.
  - SAP ratings are a poor indicator of quality (although the opposite view was also expressed).

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<sup>3</sup> When a LA increases its average weekly rent above a limit set by the Welsh Government (using the methodology agreed by Department of Work and Pensions), it will only receive subsidy on rebates up to the limit and will have to fund the cost of additional rebates above the limit rent itself (through the rents of tenants not in receipt of rebates).

- The Welsh Government should consider revising the Welsh Housing Quality Standard as the current one ends in 2020.
- Affordability should be built into the model and there should be a greater concern for Value for Money.
- There should be a new review of rent policy from first principles.

1.42 Around one-third of landlords would like to see complete autonomy in rent setting, while a similar proportion would like to see some flexibility around the limits of the TRB. In terms of reforms, one case study landlord argued for higher grant rates to be applied in areas where market rents and social rents are uncomfortably close. There was a need identified for local/regional flexibilities so that rents could be fine-tuned to a greater degree to fit local circumstances. Many landlords were planning for the future by taking into account eligible rent levels under Local Housing Allowance (before this policy was abandoned) albeit staying with the rent policy guidelines.

1.43 The views of tenants on landlord autonomy were quite different, with most feeling that the Welsh Government's involvement in rent setting was important to stop landlords from 'taking the Mickey'. Tenants were generally unaware of the Welsh Government Rent Policy, or the specification of the rent uplift. However, when the role was explained to them, they were supportive of limiting the level of the uplift as much as possible, and some tenants were concerned with the rising costs of living, alongside stagnant wages and benefits.

### **Affordability**

1.44 Ultimately, views on affordability are a matter of judgement. There is no consensus on what is, or is not, affordable.

1.45 Affordability was assessed against three measures: rent to income ratios, income over Income Support or Universal Credit personal allowances after rent has been paid ('residual income'), and the earnings required to move beyond benefit dependency. In addition to a baseline analysis of the affordability of the rent matrix rents in 2018/19, an alternative analysis was undertaken to show the different results that would apply under the Universal Credit (UC) regime. Further analysis examined impact of alternative uplift scenarios on affordability in 2021/22.

1.46 Most tenants felt that their current rents were 'reasonable' and that they could afford to pay them. Tenants who struggled to pay their rents were often those affected by the Bedroom Tax or the Benefit Cap. Other tenants who struggled to pay their rents had

lost income recently due to being moved from one benefit to another or having lost benefits after a re-assessment for Personal Independence Payment or Employment and Support Allowance. It was also the tenants' view that single people, those in the minimum wage and households with a single income would struggle to pay their rent. This general feeling that rents are currently affordable did not stop tenants from also being concerned about future rent increases. In this context it should be noted that all of the affordability analyses for this project included an examination of the affordability of rents for households with single (full time) minimum wage earnings.

- 1.47 The analysis of 2018/19 rents and incomes found that, with one minor exception, only in the case of single people and childless couples did the rent to income ratios exceed 25% with (full time) minimum wage incomes, and for single people this also leaves the household with a residual income (over Income Support levels) of more than £100 per week. For childless couples (who have higher levels of Income Support allowances) residual incomes ranged from £90 to £108 and averaged at just under £100. Moreover, in no case did single people or childless couples qualify for Housing Benefit with minimum wage incomes.
- 1.48 At minimum wage incomes families with one or two children, with only a few exceptions, rent to income ratios fell within the 20%-25% range. For lone parents with one child in the two highest rent areas the ratios were 25.5%, while for couples with two children the ratios were just below 20% in the two lowest rent areas. While in no case did lone parents with one child qualify for Housing Benefit at minimum wage incomes, only in a couple of the lowest rent areas did lone parents with two children, or couples with one or two children, fail to qualify for Housing Benefit. Nonetheless, their residual incomes ranged from £118 to £136 per week. Couples with one child, with their higher Income Support allowances had residual incomes of £93 a week, and a little higher in the three lowest rent areas where they did not qualify for housing benefit. Couples with two children had residual incomes of £102 per week, while lone parents with two children, and their lower allowance levels, had residual incomes of £125 per week.
- 1.49 In all cases larger families qualified for housing benefit at minimum wage income levels, regardless of the level of the rent. Rent to income ratios for lone parents ranged from 18%-22%, and averaged at just over 20%. For couples with three children rent to come ratios averaged at just under 20%, and were between 18%-20% in over two thirds of all areas. For couples with four children average ratios were 19%, and only in the case of Cardiff was the ratio marginally higher at 20.1%. At the minimum wage income levels

the residual incomes for lone parents with three children were £134 per week, while for couples with three and four children they were £110 and £120 per week respectively. One downside for larger families is that Housing Benefit dependency extends much further up the earnings scale, exceeding £570 per week for couples with three children and an average Welsh rent, and £680 for couples with four children.

- 1.50 It should be borne in mind that while the rent to income ratios were highest for single people and childless couples, in their cases they do not need to make any provision for the upkeep of any children and thus have fewer demands on the balance of their income. In that sense the higher rent to income ratios for those households do not in practice necessarily pose any greater affordability constraints on their living standards.
- 1.51 Looking ahead affordability outcomes will change as Universal Credit (UC) is introduced. As seen above respondents to the Review have already voiced their concerns about the difficulties associated with the way in which UC is administered. However, the structure UC scheme, with its integration of the Housing Benefit and tax credit elements of the current welfare regime, will in the main marginally improve affordability in terms of rent to income ratios and residual incomes, except for households – and lone parents in particular – with very low levels of part time earnings. Against that it will also result in benefit dependency extending much further up the income scale. Over time there will also be losses for larger families, as increasingly allowances will be based on a maximum of two children.
- 1.52 Taking the roll out of UC into account an assessment of the affordability of Welsh matrix rents in 2021/22 was undertaken, examining three alternative options for annual uprating over the intervening period, namely CPI + 0.5%, CPI + 1.0% and CPI + 1.5%.
- 1.53 In general terms it must be observed that while the higher rents inevitably impacted negatively on affordability, the differences were very limited. In particular for all households, other than single people, with a full-time minimum wage, their eligibility for UC on any rent uplift scenario meant that there was no difference in their residual incomes (above the level of their UC personal allowances). For couples (without children) their residual incomes were fixed at £111 per week, while for households with 1 child their residual incomes amounted to £161 per week. Families with more children received the same level of UC support, but had higher residual incomes based on the additional child benefit they received.

- 1.54 For single people in bedsit dwellings, at average Welsh rents, rent to income ratios ranged from 24.0% up to 24.7% on the three uplift scenarios, while for single people in one bed dwellings, the average ratios ranged from 27.2% up to 28.2%. Only on the two higher uplift options did the ratios in the areas with the highest rents (Cardiff and Flintshire) reach 30%. For couples in a one bedroom dwelling average ratios ranged from 26.2% up to 26.8%, but in all cases remained below 30%.
- 1.55 Rent to income ratios for families with children were lower again. For lone parents with once child they ranged on average from 23.6% up to 24.2%, but only on the two highest uplift scenarios did they reach 25% in the two areas with the highest rents. For lone parents with two children (in a three bedroom dwelling) average ratios ranged from 22.3% up to 22.8%, while with three children (in a four bedroom dwelling) they ranged 21.1% up to 21.8%. In all cases the ratios for couples with children were at least 1% lower than the corresponding ratios for lone parents in the same size dwelling. For couples with four children on all scenarios average ratios were below 20%, except in Cardiff where they ranged from 20.1% up to 20.6% on the alternative uplift scenarios.
- 1.56 While the levels of UC eligibility meant that differences in residual incomes for couples and households with children with minimum wage incomes did not vary with rent levels, the downside of UC is that eligibility extends much further up the income scale. For a couple with two children earnings of some £780 per week would be required to move beyond UC eligibility for an average Welsh rent – a level estimated to be achieved by less than 25% of all those in full time work in Wales. For a couple with three children the earnings required would be around £940 per week, while for a couple with four children the earnings required would be around £1,120 per week. In contrast fewer than 10% of all those in full time work in Wales are estimated to earn over £1,000 per week in 2021. However, this much higher level of UC dependency is inherent in the structure of the scheme, and the levels of earnings required to move beyond UC dependency were only a little different for the alternative levels of annual rental uplift.

### **Movements in earnings and English social rents**

- 1.57 Two other factors set the context in which the decision needs to be taken about the future rate at which annual social sector rents in Wales are raised. The first is simply the movement in earnings levels over the last decade, and the anticipated levels of increase in the years ahead. The second is a comparison with social sector rents in England, where the UK Government's policy is to reduce social rents by 1% in cash

terms annually over the four years to 2019/20, and then to increase them at the rate of CPI + 1%.

- 1.58 In the two decades prior to 2007 average earnings in Wales increased by an annual of just over 2% in real terms, on the basis of the CPI measure of inflation. However, since then over the 11 years to 2017 average earnings have fallen in real terms by an annual average of 0.4% compared to CPI. While, at the time of analysis, the forecast by the Office for Budget Responsibility is for earnings to resume their growth in real terms from 2018, they only forecast a real terms rise of 2.2% over the three years to 2021/22, and average Welsh earnings would not be restored to their 2006 level before 2025.
- 1.59 Average Welsh earnings are close to those for the northern and midlands regions of England. They are a little higher than earnings in Yorkshire and Humberside, but lower than in the North East, the North West and both midlands regions. In contrast, following five years when Welsh social sector rents have risen more rapidly than in England, the available data appears to suggest that by 2018/19 Welsh rents have become higher than in all the northern and midlands regions of England. However, this finding must be treated with caution due to the challenges in comparing England and Wales rents data. Moreover going forward overall average English rents will increase ahead of the CPI + 1% uplift policy, due to the continuing increases in the numbers of 'affordable' rent dwellings within the sector.
- 1.60 Social rents in Wales were compared to rents in five northern and midland English regions which have comparable earnings levels. Rent policy in England required rents to fall by 1% each year until 2018/19 and then to rise by CPI + 1%. Using a baseline of 2018/19, Welsh rents were compared to those in England under the scenarios of CPI + 0.5%, CPI + 1% and CPI + 1.5% up to 2021/22. Under all of these scenarios Welsh rents would remain above those in the five English regions. Even with the smallest increase (CPI + 0.5%) Welsh rents would be between 10 and 21 percentage points higher in Wales than in each of the selected regions of England. Further, these calculations do not take into account the £2 flexibility factor in the Welsh system.

### **Decisions about up-rating**

- 1.61 There was general demand among landlords and stakeholders for more certainty about what the policy will be in the medium term, especially on up-rating, and many landlords complained about the late notice (typically December) for implementation in April and with consultation required.



- 1.62 Most stakeholders and many landlords raised the tensions between the beneficial effect on borrowing capacity arising from increasing rents and its deleterious impact on affordability for many tenants. The emphasis varied between type of landlord and the areas in which they operated. Large landlords providing a range of 'products' through active development plans would be likely to favour rent increases more than smaller landlords without large development plans and operating in areas with high levels of poverty. One stakeholder suggested that housing associations should cease to 'celebrate' rent rises and should instead focus more on their cost bases, and asking themselves whether they were delivering value for money. More than one stakeholder questioned the sustainability of the CPI + 1.5% policy for rent increases when CPI had risen (to 3%) whilst wages were stagnating or falling.
- 1.63 One case study association argued that while they can reduce rents by more than £2 they cannot increase them faster than that. This limits the speed with which change can come through the system. Similarly, previous policy pushed up rents above Local Housing Allowance giving little room for manoeuvre now - requiring organisations to shrink their cost base to get inside the TRB.
- 1.64 There is some demand for greater autonomy among some landlords but this is at odds with tenants' views that the Welsh Government has an important role in limiting rent increases. For some landlords, the rent policy was seen as convenient, allowing them to 'blame' rent issues on the Welsh Government and to a degree avoid blame themselves.
- 1.65 Specific recommendations from landlords on up-rating were that locational indices should not change annually, the £2 a week should be more flexible, there should be re-consideration of the dampener which means rents can be out of line with local markets and bungalows should be added in (as distinct from houses). Some felt that the uprating policy should be fixed for a 'reasonable term' – for example for five years to allow for financial planning.
- 1.66 Hardly any tenants had been involved in any meaningful discussion about how their rents were set. Most tenants only receive a letter informing them what the rent will be, which is the most basic form of consultation listed in the Welsh Government's guidance. Some tenants questioned what the point of providing feedback on rents would be, expressing the view that landlords would just charge 'what they liked' anyway.

## Recommendations

- 1.67 Overall, the Rent Policy is meeting its objectives, is accepted by a range of stakeholders, and should be retained. There is little to be gained by revisiting the underlying principles of rent-setting through a 'new' Essex Review. However, elements of the design and operation of the policy should be kept under review and improved.
- 1.68 This means that we reject the view of some landlords that they should have full autonomy in rent setting. It is difficult to see how consistency in rent setting, which is widely regarded as being a key component of 'fairness', can be achieved without some co-ordination. Moreover, rent setting at the individual landlord level cannot be separated from wider public policy, particularly in relation to objectives of new affordable supply, investment for minimum quality standards, and the complex interaction between rents, social security benefits and the block grant. The approach of providing flexibility within an overall framework is the right one.
- 1.69 The structure and detail of the Rent Policy inherently involve a series of interlocked judgements, balancing concerns about affordability, landlord viability, and a sense of what is 'fair'. On that basis any element of the policy could be reconsidered. However, on the basis of the comments received, and the analysis in this paper, there are seven issues that stand out as requiring further consideration.
- 1.70 The first, and major, issue is the policy to be adopted on the level of annual uplift for the Rent Policy, as the current policy is soon to expire. This is fundamentally a political choice that can be informed by the research, rather than an issue where the research can provide a definitive answer. One factor the research highlights is the impact of the additional £2 per week provisions, in increasing rents some 1% higher than the standard uplift policy. Taking that into account any policy uplift of CPI + 0.5% or more would see Welsh rents move further ahead of those in the northern and midland regions of England, and even increases of CPI only would see Welsh rents continue to move ahead of earnings.
- 1.71 The decisions on rent policy clearly also need to weigh in the balance their impact on social landlords investment capacities, including their ability to contribute towards the provision of new affordable housing. Indeed those wider issues are now subject to an Affordable Housing Supply Review. There is consequently a case for initially setting a new rent policy for no more than two years, so that the policy can then be revisited taking the findings of that Review into account. At the same time it will then be possible

to further review the extent to which earnings growth in Wales has recovered, and any scope that might give for moving towards a higher rate of annual rent uplift.

- 1.72 Should the Welsh Government opt for an initial annual uplift policy of CPI only or CPI + 0.5%, there is a case for flexible application, for example considering requests for a higher increase on a case-by-case basis, and considering how rent increases interact with the distribution of grant.
- 1.73 The second issue is the lack of fit between the rent policy and the policy on grant rates for new developments. This applies in particular in low demand areas. It would, however, be more logical to review the grant rate policy, so that takes into account the rent policy, rather than to create anomalies between the rents of new and existing dwellings.
- 1.74 The third issue is the extent of annual variations in the locational index within the rent matrix. While those variations are already limited, there is a case for introducing an annual limit of, say, 1.0% in the extent of the variation for any area in any one year.
- 1.75 The fourth issue for the Welsh Government to consider is whether there is a sufficiently compelling case for a higher upward differential for bungalows, relative to flats, than the 10% provision that is currently part of the policy.
- 1.76 The fifth issue is the extent to which some landlords do not appear to understand the policy, and the flexibility it already provides them with. Related to that are concerns about the complexity of the policy, and the difficulty they face when trying to explain it to their tenants. Some landlords complain about the lack of flexibility within the policy, but do not always appreciate what flexibility is available in terms of setting individual rents within the TRB, and on re-lets. It would therefore be helpful if the Welsh Government were to provide some case study examples of the flexible application of the Rent Policy, as was suggested by some stakeholders.
- 1.77 Sixth, there is scope for better, more meaningful, engagement with tenants, which is currently often at the lower end of engagement suggested in the Guidance. However, current budget constraints may limit greater obligations or the ability of some landlords to respond to 'good practice' guidance.
- 1.78 Seventh, several stakeholders, tenants and social landlords raised the issue of Value for Money. Tenants who were less satisfied with the rent charged were those who had considerable problems with the condition of their property or the quality of repairs and improvement works done. This suggests a need for greater focus on Value for Money

alongside affordability. This might involve more specific monitoring of standards, as is the case in England through a [Value for Money \(VfM\) Standard](#). The standard and associated metrics do not explicitly link rents to VfM or link rents to the quality of individual properties, but encourage landlords to demonstrate economy, efficiency and effectiveness.