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Rent Policy Review

Final Report

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Rent Policy Review

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Glossary

CPI	Consumer Price Index
DHP	Discretionary Housing Payment
HA	Housing Association
MMR	Mid Market Rent
LHA	Local Housing Authority
LSVT	Large Scale Voluntary Transfer Housing Association
RPI	Retail Prices Index
SAP	Standard Assessment Procedure
TRB	Target Rent Band
VFM	Value for Money
WHQS	Welsh Housing Quality Standard

1. 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 This chapter outlines the objectives of the research, the background to the rent policy, the rent policy itself, wider influences that may impact on the policy, and the existing knowledge of the implementation of the policy.

Research aims and objectives

1.3 This research aims to review the current Welsh Government Rent Policy to determine whether it is fit for purpose and achieves its original objectives, particularly in the context of external developments.

1.4 The research objectives are to examine:

- the implementation of Rent Policy and its impact on social landlords and social tenants
- 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 and comparability, the rent review policy, the role of the Welsh Government in rent setting and rent affordability
- an analysis of the affordability implications of future rent policy.

Background

Rent setting

1.5 Rent setting by social landlords is 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.

1.6 Whether rents are adequate to cover repairs and maintenance has long been an issue. Of greater importance since the 'new' financial regime was introduced for housing associations in 1989, and especially since grant levels were reduced under this new regime, has been the role of rental income in generating housing association private sector borrowing capacity in order to finance investment in new and existing stock. Borrowing capacity is typically based on the tenanted market value of property, which is in turn based on the net present value of anticipated future rental income. Thus higher rent levels are a means for levering in additional finance for development.

1.7 The upward pressure on social rents since the 1980s has also increased dependency on Housing Benefit, which also provides comfort for lenders, who perceived 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.[1]

1.8 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. Discretionary Housing Payments are funded by the UK Government, but Welsh local authorities set their own criteria for their use.

1.9 Moreover, 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. The reduction of social rents by 1% p.a.

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[1] When the current research was commissioned, the Government proposed to limit eligible social housing rents to Local Housing Allowance rates, but the proposal was withdrawn in autumn 2017.

in England could potentially impact in this way and affect Welsh Government's budgets. The Welsh Rent Policy should also be considered in the context of the Supported Housing Review (2016) and the Equalities Act (2010).

1.10 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 Essex Review of Rent Policy

1.11 The current rent policy in Wales implements the findings of the Essex Review of affordable housing in Wales (Essex, et al, 2008) 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. The defining approach of the new rent policy is to provide a framework for rent setting, rather than attempting to set rents on individual properties. It is also intended to be revenue neutral, so that total rental income remains unchanged.

1.12 In order to protect housing associations' borrowing capacity and investment potential, the rent policy adopts a 'national target average weekly rent.' This set using the HA average to allow for the convergence of rents towards the HA average rather than the average of both sectors. The rent policy began for housing associations in 2014/15 and for local authorities in 2015/16 (after they had left the HRA subsidy system).

External influences on rent policy

Wider Welsh Government objectives

1.13 Supporting private borrowing through appropriate rent levels and safeguarding organisational viability are necessary for social landlords to meet future housing needs and contribute to the target of delivering 20,000 new homes from all sectors (13,500 social rented) set out in the programme for government (Welsh Government, 2016a, 2016b). The policy is developed further in *Prosperity for All* (Welsh Government, 2017), which includes a commitment to end the Right to Buy to preserve the stock of social housing. Moreover, the policy should also support Welsh Government's Wellbeing Objectives such as "improv[ing] access to secure, safe, efficient and affordable homes" (The Welsh Government. 2016c).

Relationship with UK Government

1.14 HM Treasury's (2015a) Statement of Funding Policy (SOFP) states that 'where decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the UK government…the body whose decision leads to the additional cost will meet that cost' (HM Treasury, 2015a, p. 6). A concordat between DWP and the Welsh Government (2012) committed each to good communication with each other and to alert each other regarding proposals for new policy initiatives and changes to existing policies that would directly impact on the other's areas of responsibility. Social rents regulated by the Welsh Government and Housing Benefit are inextricably linked. 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 while Welsh rents are rising. However, it is worth considering whether the relative rent movements should be assessed over a longer period, rather than just post the English decision to reduce rents by 1% a year for four years.

1.15 If HM Treasury considers expenditure on Housing Benefit in Wales to be disproportionately higher than in England, HM Treasury reserves the right to reduce Welsh Government budgets by a compensating amount, potentially reducing funds for other elements of the programme for government. This Rent Policy Review will consider the potential for this situation to arise.

Welfare reform

1.16 The recent decision 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) (HM Treasury, 2015b) has lifted a considerable risk from social landlords. While this has been widely welcomed, were this or a similar policy to be introduced in the future, it would reframe the nature of debate on rent policy, with potential impacts especially for social landlords in BRMAs with relatively low market rents compared to social rents, which are commonly in less prosperous areas.

1.17 The UK Government has now withdrawn its proposal to extend the 'shared accommodation rate' to the social sector (HM Treasury, 2015b). This would have impacted on single social tenants aged under 35 by limiting their eligible rent for Housing Benefit to that of shared accommodation – a property type that is extremely rare in the social sector. The removal of 'automatic' entitlement of people aged 18-21 to housing

support (a decision reversed in March 2018) was a further source of concern among landlords at the time of the study fieldwork.

1.18 The UK Government's impact assessment of the Welfare Reform and Work Bill concluded that the existing £26,000 benefit cap had increased incentives to work and the proposed reduction to £20,000 in Great Britain and £23,000 in Greater London further increase these incentives (DWP, 2015). The lower cap was deemed to strike a balance between claimants' and taxpayers' interests. In a 'static environment' this was estimated to increase the number of claimants affected from around 30,000 to 120,000 across Great Britain. Affected claimants not moving into work would have their benefits reduced by a median of £50 per week. £800m would be available for Discretionary Housing Payments over a five-year period.

1.19 The impact assessment showed issues in relation to equalities mainly related to gender: 64% of claimants affected would be single women, the majority of whom will be lone parents. The existing cap disproportionately affected black and ethnic minority households, at least in part because these households are more likely to live in larger households. Government suggested mitigation would be achieved through flexibility of delivery of mainstream services and the use of Discretionary Housing Payments.

Supported Housing Review

1.20 The Supported Housing Review (Blood et al, 2016) estimated that by the end of 2015:

- 651,500 accommodation based supported housing units in Great Britain,
- 6% of these in Wales,
- 71% of the supported accommodation units across Great Britain housed older people,
- housing associations provided 71% of all units.
- in Wales, 55% of supported housing for older people provided by housing associations; 41% by local authorities.

1.21 Welsh Social Rent Policy applies to sheltered housing for older people, but not to other forms of supported housing.

1.22 There was considerable concern amongst providers about the UK Government's intention to continue to fund core rent and service charges for supported accommodation through Housing Benefit or Universal Credit, but to limit payment to the level of the

applicable Local Housing Allowance rate. Additional ‘top up’ funding for higher costs of this provision would be provided to the Welsh Government (Freud, 2016).

1.23 The UK Government withdrew the proposal to apply LHA rates to social housing (including sheltered accommodation) and issued a policy statement and consultation on the future funding of supported housing (DCLG/DWP, 2017). The statement provides for a ‘Sheltered Rent’ which would have regard to eligible service charges and come into effect in 2020 in England. The UK Government aims for a model of sheltered rent that ‘keeps the funding for sheltered and extra care housing in the welfare system’ (DCLG/DWP, 2017, p. 20) and has committed to work with the Welsh Government to ensure that this new approach works with Welsh supported housing. The Welsh Government (2017) highlights concern regarding definitions and consistency in application of the terms ‘specified’ and ‘supported’ housing used for the Supported Accommodation Review which differ from terms used in Wales.

Human Rights Act and Equalities Act

1.24 The Human Rights Act 1998 defines public functions and the duties of public authorities in relation to those functions (lesislation.gov, 1998). Case law has established that the allocation, management and termination of social housing fall under this definition and although not all RSL activities will be covered by the Human Rights Act, setting rent levels is a public function. (Welsh Government 2017).

1.25 The Equality Act (legislation.gov.uk, 2010) identifies protected characteristics against which discrimination is illegal. Under the Act, the public sector equality duty (PSED) to eliminate unlawful discrimination; advance opportunities and to foster good relations came into effect on 5th April 2011. This should be achieved through removing or minimising disadvantage; taking steps to meet needs and encouraging people from protected groups to participate (Equality and Human Rights Commission, 2017).
Implementation of the Rent Policy

The Rent Policy

1.26 The rent policy was implemented for RSLs in April 2014 and for LHAs in April 2015. Here the existing data on the implementation of the rent policy are reviewed. Detailed quantitative analysis of social rents and their movement since the implementation of the rent policy is discussed later in this report. Here we highlight some key broad trends which have emerged.

Table 1.1: Policy expectations for rent increases

TRB	Expected Rent Increase	Discretion
Above	Less than CPI +1.5%	Plus up to £2.00 p.w. for some properties if rent restructuring
Within	CPI +1.5%	Plus up to £2.00 p.w. for Business Plan commitments or for some properties to achieve differential in stock
Below	CPI +1.5% plus up to £2.00 p.w.	

Note: TRB = target rent band
Source: Welsh Government (2016d)

1.27 The then Minister 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 target rent bands (TRBs) as shown in Table 1.1.

Table 1.2: Number of RSLs above within and below Target Rent Band, 2014/15-2018/19

TRB	2014/15	2015/16	2016/17	2017/18	2018/19
Above	5	5	4	2	1
Within	25	25	30	31	32
Below	7	6	2	3	3

Source: (Rent Policy Tables prepared by KAS issued with notification letter from Welsh Government to landlords annually 2014 to 2018)
Note: TRB = target rent band
Base = 37 for 2014/15; 36 for other years

1.28 Table 1.2 shows that the majority of RSLs were within the TRB at the start of the period. There has been movement toward the TRB from RSLs above and below the band. One RSL has fallen out of the target rent band.

Table 1.3: Number of Local Housing Authorities above within and below Target Rent Band, 2014/15-2018/19

TRB	2014/15	2015/16	2016/17	2017/18	2018/19
Above	1	0	0	0	0
Within	1	2	2	5	5
Below	9	9	9	6	6

Source: Rent Policy Tables prepared by KAS issued with notification letter from Welsh Government to landlords annually 2014 to 2018
Base = 11

1.29 Table 1.3 shows that the majority of LHAs were below their target band in 2014/15. Several LHAs have moved towards the TRB but a majority are still below target level. This slow movement reflects the safeguards which were put in place to protect tenants from too steep a rise in rent.

Table 1.4: Non-Compliant RSLs: Variation of RSL mean rents from Target Rent Bands

Year	Below (£ p.w.)	Below (%)	Above (£ p.w.)	Above (%)
2014/15	-1.88	-2.50	1.81	2.3
2015/16	-1.55	-1.97	1.29	1.6
2016/17	-0.53	-0.70	0.98	1.2
2017/18	-0.53	-0.63	0.50	0.6
2018/19	-1.57	-1.80	0.06	0.1

Source: (Rent Policy Tables prepared by KAS issued with notification letter from Welsh Government to landlords annually 2014 to 2018)

Table 1.5: Non-Compliant LHAs: Variation of local authority mean rents from Target Rent Bands

Year	Below (£ p.w.)	Below (%)	Above (£ p.w.)	Above (%)
2014/15	-3.63	-5.0	0.43	1.0
2015/16	-4.45	-5.6	-	-
2016/17	-3.39	-4.1	-	-
2017/18	-4.27	-5.0	-	-
2018/19	-3.72	-4.2	-	-

Source: (Rent Policy Tables prepared by KAS issued with notification letter from Welsh Government to landlords annually 2014 to 2018)

1.30 Tables 1.4 and 1.5 show the average extent to which rents are above or below the TRB for RSLs and LHAs in pounds per week and as a percentage. Of organisations which were below the TRB, on average, RSLs have been closer to the target band than LHAs in each year, both in percentage and monetary terms. The percentage and monetary level to which RSLs are below the TRB have reduced annually, except in 2018/19. For LHAs, the percentage and monetary gap below the TRB have fluctuated each year. RSLs which are below the TRB came very close, with an average of only £0.53 in 2017/18 although the figure for 2018/19 has risen to £1.57. LHAs are further from the TRB, with a mean shortfall of £3.72 in 2018/19. The largest amount which any LHA is below the TRB is £11.02 in 2018/19.

1.31 Only one LHA was above the TRB in 2014/15 and this was only by £0.43 per week. None have been above since then. More RSLs were above the TRB level but the percentage and monetary value above the target have fallen each year. In 2018/19 only one RSL is above the TRB and this by only £0.06 per week.

1.32 It can be concluded that 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 (over £11.00 per week in one case) are not being forced to move at a speed which would adversely impact on their tenants. The remainder of this report goes on to explore whether the rent policy has met its original aims including reflecting local market and stock condition and affordability while safeguarding viability and promoting investment.

The report

1.33 The remainder of the report is structured as follows. The research methodology is detailed in Chapter 2. The findings of a comprehensive landlord survey are reported in Chapter 3. The views of tenants are discussed in Chapter 4, followed by the findings of nine landlord case studies and six stakeholder interviews in Chapter 5. A quantitative model of rent setting is established in Chapter 6 and options for changing the parameters to better reflect affordability are examined in Chapter 7. Conclusions and recommendations follow in Chapter 8.

2. Methodology

Online survey of landlords

2.1 An online survey was developed and made available for landlords to complete in Welsh or English. The survey link was emailed out to all 47 landlords with properties covered by the Welsh Government rent policy.

2.2 The survey was undertaken during July 2017, with follow-up qualitative telephone interviews with 32 landlords taking place between July and September 2017. The telephone interviews collected more in-depth information about landlord views on the policy implementation and impacts.

2.3 A further nine landlords were selected as case studies, based on segmentation analysis (described below) with the remaining five landlords not able to engage in the qualitative research during the fieldwork period.

2.4 A total of 44 completed surveys were received from 47 organisations. As two organisations each completed on behalf of group structures (containing a total of five individual entities), this was a 100% response rate.

Table 2.1: Survey response rate, by landlord type

Provider	Sample	Returns	Response rate
LHA	11	11	100%
RSLs	36*	33	100%
Total covered	47	44	100%

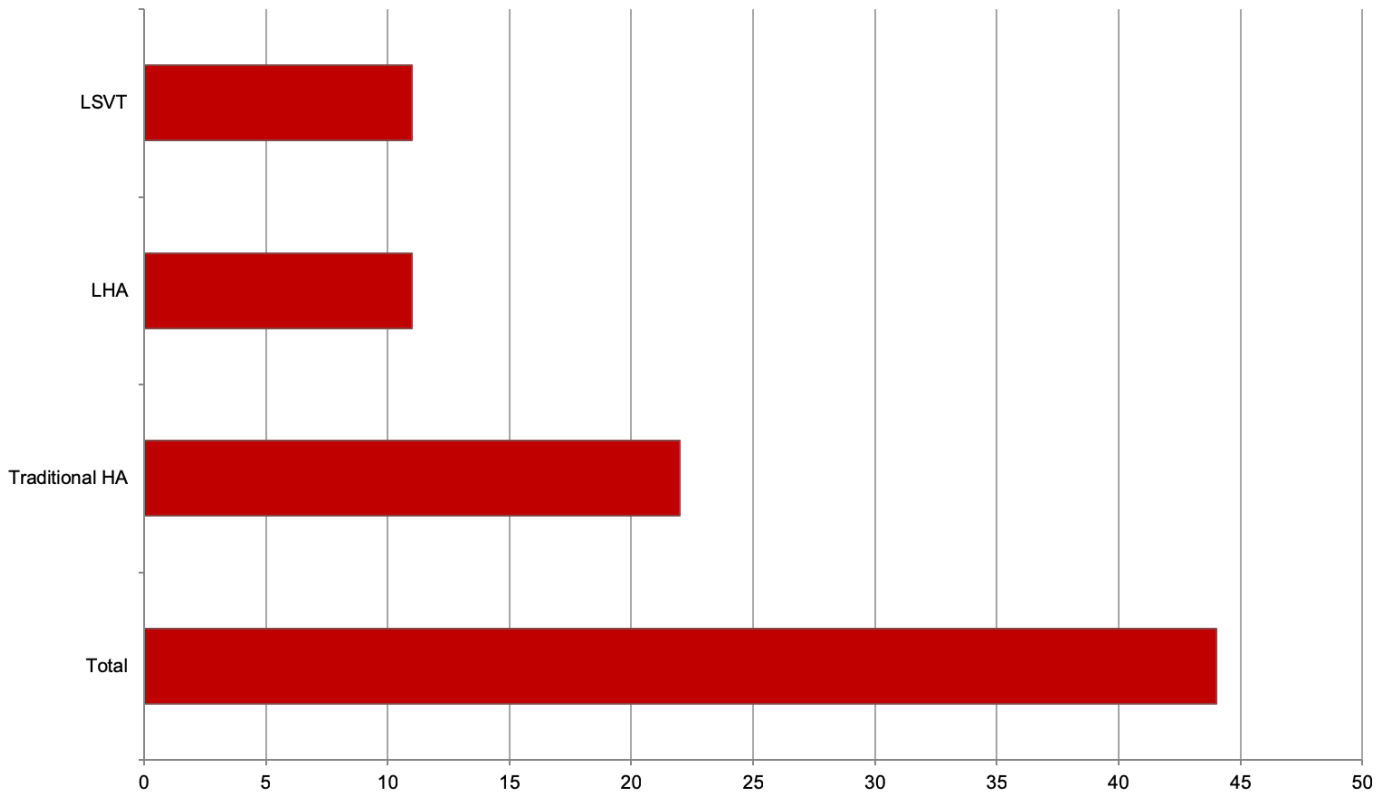
* 33 RSL returns cover 36 providers

Landlord type and location

2.5 Figure 2.1 shows the profile of the 44 landlords[2]. Responses were received from 22 traditional housing associations and 11 Large Scale Voluntary Transfer housing associations, which were previously local authority landlords. There were 11 Local Housing Authority landlords with retained stock.

[2] **Question:** To be able to compare different landlords, we'd like to collect some information about your organisation. Is it a… Response options: A Large Scale Voluntary Transfer (LSVT) housing association? A traditional Housing Association (HA)? Local Housing Authority (LHA) – a local authority which holds housing stock? ('Other' option also provided)

Figure 2.1: Landlord type



Source: Rent Review survey, July 2017

Focus groups with tenants

2.6 The original aim was to undertake six focus groups with tenants across Wales. These would enable the research to take place in a number of settings and with different types of tenants. The tenants were sampled to capture their views taking account of demographic and household composition, location, type of social housing (local authority or registered social landlord), and whether they were in receipt of housing benefit.

2.7 Analysis of the National Survey of Wales (NSW) data revealed that the sample of social tenants agreeing to be re-contacted for further research was geographically widely dispersed. This meant the scope to recruit focus groups that met the criteria above was not possible in smaller rural authorities.

2.8 A review of the sample dataset indicated that it would be feasible to conduct three focus groups – one in each of Cardiff, Swansea and Wrexham, areas that all had at sufficient contacts from the NSW. The sample frame was also increased by using the 2016-2017 and the 2017-2018 survey data. This enabled the focus groups to include people who paid full rent or people who were on Housing Benefit. It also allowed a mix of age groups.

In-depth interviews with tenants

2.9 In addition to the people whose views were captured in the focus groups, 20 in-depth interviews were conducted with tenants more widely dispersed throughout Wales. This enabled the inclusion of a wider range of local areas and people in very remote areas. These 20 interviews included four interviews with Welsh speaking tenants (in Gwynedd, Denbighshire and Powys). The remaining 16 interviews covered a range of locations to capture lower rent areas like the Welsh Valleys and more dispersed settlements like areas of Mid-Wales. Interviews were undertaken with tenants in Caerphilly, Conwy, Flintshire, Isle of Anglesey, Merthyr Tydfil, Monmouthshire, Neath Port Talbot, Powys, Rhondda Cynon Taf and Torfaen.

2.10 Advance letters were sent out to householders to invite them to participate, before potential respondents were invited to participate by telephone. Respondents were recruited based on broad quotas to ensure a mix of respondents from different household types, locations, type of social housing (local authority or registered social landlord) and whether in receipt of housing benefit.

2.11 A total of 43 respondents participated across the focus groups and in-depth interviews. The characteristics of the respondent sample are shown in Table 2.2 to Table 2.4. This shows a mix of respondents across age, sex, household type and location, with a spread of tenants in council and housing association properties. Tenants paying part or full rent (who were expected to know more about their rent) were purposefully sampled, so there were fewer tenants on full housing benefit.

Table 2.2: Age and sex of tenants in qualitative research

Age	Female	Male	All
16-24	2	1	3
25-34	3	2	5
35-44	4	1	5
45-54	8	5	13
55-64	3	5	8
65-74	2	3	5
75+	2	2	4
All	24	19	43

Table 2.3: Household type and Housing Benefit (HB) receipt - tenants

Household type	Full HB	No HB	Partial HB	All
Couple	0	9	2	11
Family	1	7	5	13
Single person	8	6	5	19
All	9	22	12	43

Table 2.4: Household type and type of social landlord - tenants

Household type	Council	Housing Association	All
Couple	6	5	11
Family	7	6	13
Single person	10	9	19
All	23	20	43

The Case Studies

2.12 The purpose of the case studies was to allow more detailed insights into the impacts of rent policies on a sample of landlords that together broadly covered the spectrum in Wales. It allowed us to pursue issues in greater depth and to bring these out to enrich the study and make it better informed.

Case Study Selection

2.13 The detailed survey data collected from housing organisations was used to conduct a segmentation analysis to determine if there were ‘natural groupings’ on which case study selection could be based. Cases were grouped into clusters where they are significantly similar to each other, and significantly different from other clusters.

2.14 The variables used in the cluster analysis model, based on the survey results were as follows:

- landlord type
- the perceived negative or positive impact of the concentration/spread of the stock
- whether average rents are within the Target Rent Band
- views on the effectiveness of transition arrangements

- the perceived level of negative impact on tenants of Local Housing Allowance on rents, in properties with service charges (based on the number of property types with a negative impact expected)
- the perceived level of negative impact on tenants of Local Housing Allowance on rents, in properties without service charges (based on the number of property types with a negative impact expected)
- the overall perceived impact of the Welsh Government policy (based on the sum of scores across all items - the ability to widen rent differentials, flexibility/control over rents, the level of rent increase that can be applied, the actual rent level charged and the affordability of rents)
- the number of welfare reform mitigation measures in place
- the overall perception of how well the rent policy has achieved its aims[3]
- for housing associations, the number of local authorities operated in.

2.15 The rationale for selecting these variables was to cover a range of landlord characteristics, experiences and views across the survey results. A cluster analysis was undertaken on these attributes looking at possible models with 3 or 4 clusters. The 3-cluster model separated the respondents more evenly – with 20 in cluster 1, 17 in cluster 2 and 7 in cluster 3. This was more useful than the 4-cluster model which offered more complexity but no greater clarity.

Cluster 1 Profile

2.16 More LSVTs, more negative and more adversely impacted by location; 8 of the 11 LSVT associations were in Cluster 1, along with 9 of the 22 traditional housing associations and 3 of the 11 local housing authorities. These landlords typically operate in more urban areas and in a single location, though some had 2-4 locations.

2.17 There was a mix of urban LHAs and middle-sized RSLs in this cluster and more LSVT associations than in the other clusters. 11 of the 20 landlords said that their mix of locations had a negative impact on their rent policy (often due to being in a single local authority).

[3] This was based on the sum of scores across all the policy effectiveness items – reflecting local variations in affordability and housing market values, reflecting variations in the type/size of the stock, reflecting variations in quality and location, providing a more equitable distribution of rents for social tenants across Wales, ensuring viability for individual social landlords, being fairer to tenants in terms of the rents charged for equivalent homes across landlords and providing convergence of rents over a period of time.

2.18 These landlords were generally well-prepared, in terms of business planning and mitigation, with very mixed views about the impact of the rent policy – half positive and half negative. They were also generally more negative about the rent policy's effectiveness than the other clusters.

Cluster 2 Profile

2.19 LHAs, rural landlords, landlords that were more positive about impacts and those who were using the rent policy, including 8 of 11 LHAs, were in Cluster 2. There was a mix of preparedness in terms of business planning and mitigation for welfare reform in this cluster. They tended to have adopted the rent matrix and had already de-pooled service charges.

2.20 However, there was a mixed profile with half not yet within the Target Rent Band (TRB) and some uncertainty about how effective transition had been. There were also expressed mixed views about how the spread/concentration of rents impacts on local rent policy – 6 said the impact was positive, 10 said there was little impact and 1 said this was negative.

2.21 There were more landlords in this cluster that with rents further from the TRB than in the other clusters. Overall, Cluster 2 landlords were generally more positive about the potential impact and effectiveness of the policy.

Cluster 3

2.22 Group structures and multi-LA providers. Cluster 3 landlords operated in more locations and were all traditional housing associations. There were 7 landlords in this cluster, mainly national providers or landlords with a 'Group' structure operating in 5+ locations.

2.23 These landlords were all within the target rent band and so often said they did not know how effective the transition arrangements had been. They were more positive about the impact their locational spread had on their local rent policy.

2.24 These landlords are generally well-prepared in terms of planning, analysis and mitigation activity and positive about the potential impact of the policy. They are less positive about the effectiveness of the policy meeting its aims, though.

Final Selection

2.25 The principles behind the selection were determined in consultation with the Welsh Government but the identities of the organisations were not revealed to Government. To select the nine case studies, the organisations were grouped into the three clusters as a

first stratification stage. Then a detailed analysis matrix was produced including the survey data behind the clusters plus secondary data on stock size, rurality and rent convergence status. A proportionate number of landlords were then selected from each cluster – so there were more Cluster 1 and Cluster 2 organisations. This secured a spread across Wales which in turn allowed a much greater mix by geography and type of organisation.

2.26 One of the proposed case study organisations – a housing association – was unwilling to participate and we therefore included another largely similar organisation in the same region of Wales. The case studies therefore covered 6 housing associations, of which 2 were LSVT and 3 local authorities. Geographically, South East, South West, the Valleys, Mid and North Wales were covered as well as smaller associations including Welsh speaking alongside larger group structures.

Stakeholder interviews

2.27 Six interviews were undertaken with national stakeholders representing or with knowledge of social landlords, local authorities, tenants, regulation and finance. The purpose of these interviews was to:

- identify and assess the impact of external influences on social landlords
- inform any recommendations about the future of rent policy
- assess the impact of external influences.

Affordability

2.28 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).

2.29 Assumed incomes were based on:

- A lower income based on the minimum wage for an adult working 40 hours per week in 2017/18
- A higher income based on the local lower quartile income for one adult working full time in each local authority area in 2017.

2.30 Affordability was measured in two ways:

- Rent to income ratios (gross rents against net income including housing benefit).
- Residual income levels (after rents over out of work Income Support/ Universal Credit personal allowances).

2.31 A further assessment was made of the income level required to escape housing benefit dependency.

Components of the rent model

2.32 The final part of the project examined the components of the rent, particularly in the light of criticisms of the model identified in the landlord survey and case studies, considering:

- The effect of the rent uprating policy of the Welsh Government and its interaction with the rent model was examined in relation to trends in earnings and policy elsewhere in the UK.
- In addition, the part of the model that allows rents to be increased by an absolute maximum of £2 per week over the general percentage increase was examined in relation to its impact on different property types (sizes).
- The flexibility of the model was also examined, particularly in the light of the policy on grant rates for new developments.
- The role of SAP ratings in the model as a proxy for quality was also examined, in particular of the light of the role that incentives to improve stock might play.
- Finally, the role of locational factors and the role of dampening were also considered.

2.33 The analysis sought to quantify the extent and severity of weaknesses in the model, in terms of the numbers of landlords affected and the consequences of the impact. It further discussed how any deficiencies identified might best be addressed.

Limitations

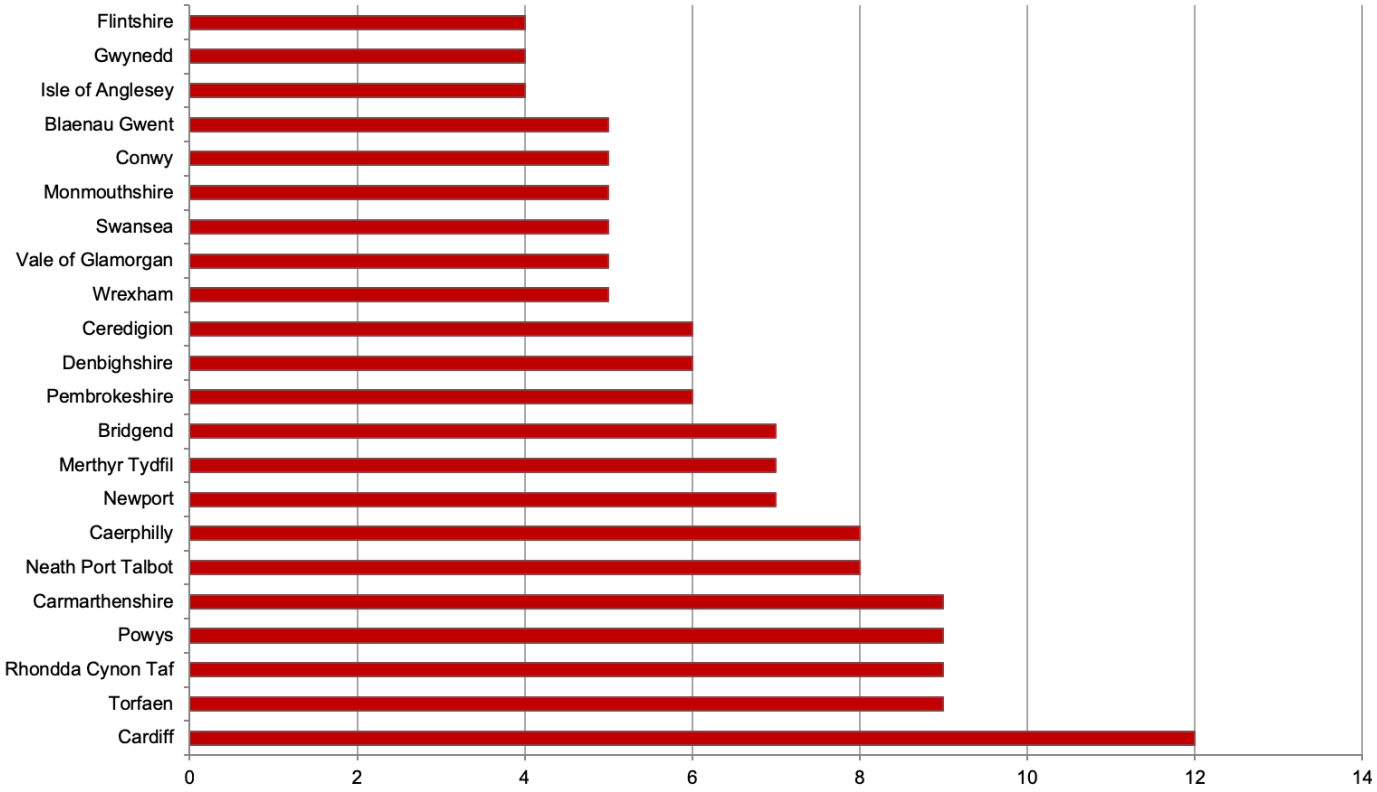
2.34 The research was conducted in 2017 and 2018 during which time a number of major policy changes took place. These included the UK Government's abandonment of its policy to limit eligible rents for housing benefit at Local Housing Allowance rates, and the radical changes to the proposed reforms to the funding of supported accommodation. Both these changes were announced after the national landlord survey, case studies, and all but one of the stakeholder interviews had been completed.

3. Landlord survey findings

Stock location

3.1 Figure 3.1 shows the spread of local authorities that providers reported having stock in, with 12 providers (almost one in three landlords) having stock in Cardiff while just four landlords had stock in each of Flintshire, Gwynedd and the Isle of Anglesey[4].

Figure 3.1: Location of stock



Source: Rent Review survey, July 2017 (multiple responses given)

3.2 Among the RSLs, the average (mean) number of local authorities that landlords said they operated in was 5.2 among traditional housing associations and 1.6 among LSVT associations, with a range from a single local authority to operating in as many as 15 local authority areas.

[4] Question: Which of the following areas describes where you have stock? (please tick all that apply) Response categories as shown in the figure, ranked by number reporting.

3.3 Looking across Broad Rental Market Areas (BMRAs) showed similar results, with LSVT associations operating across an average (mean) of 1.6 BMRAs and 5.1 among traditional housing associations. The range of locations was from landlords operating in a single BMRA to a landlord with stock in 16 different BMRAs.

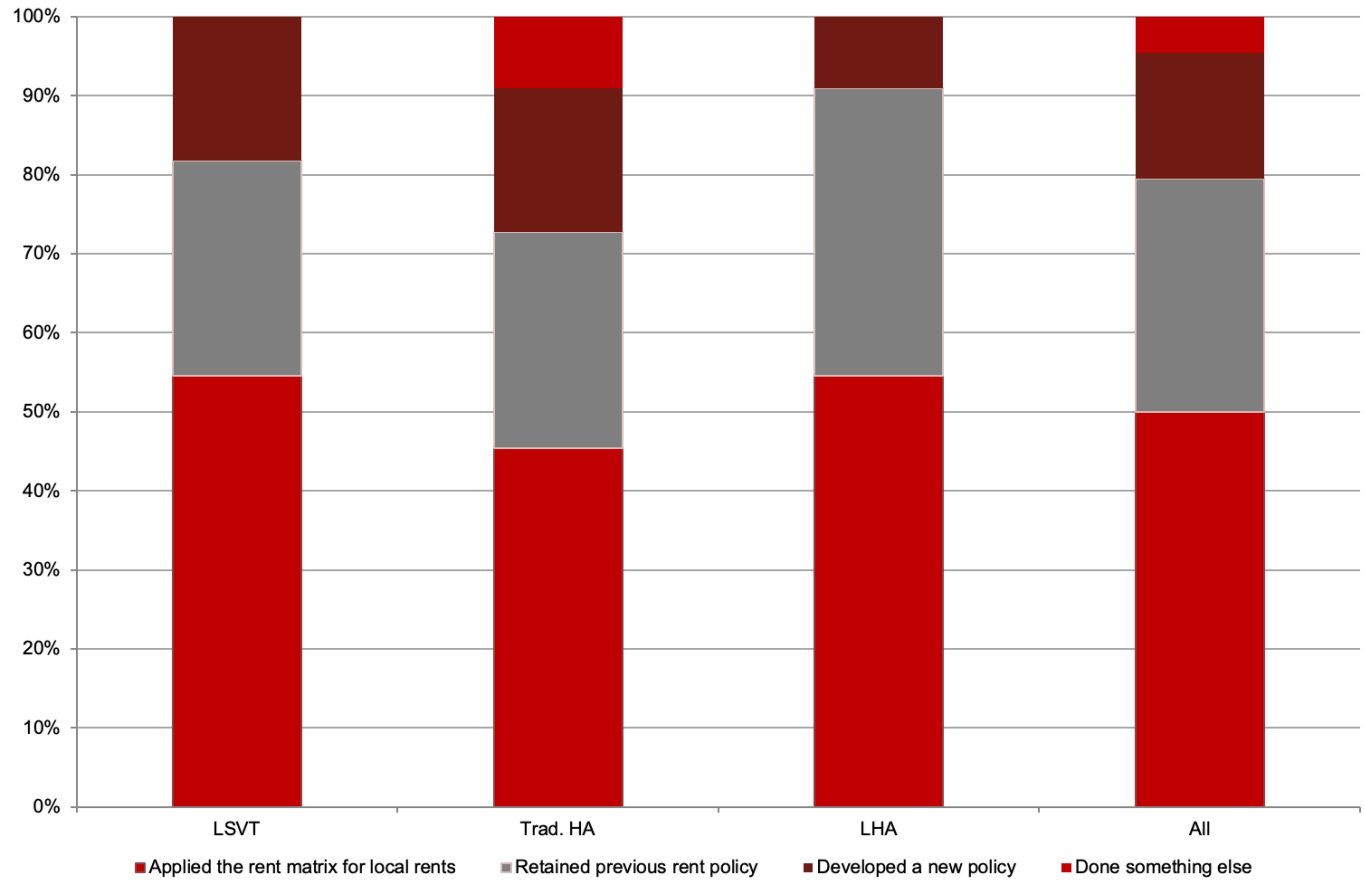
Implementation

How have social landlords implemented the rent policy?

3.4 Overall, 22 landlords were using the Welsh Government rents policy, 13 had retained a previous policy and seven had developed a new policy while two landlords said they had done ‘something else’. One of these two landlords had modified an existing policy to align with the Welsh Government policy while providing a more meaningful local policy. The other landlord had done modelling work to develop a new policy but had not taken this forward yet.

3.5 LSVT associations and local housing authorities were slightly more likely to say they used the rent matrix while traditional housing associations reported a broader mix of approaches.

Figure 3.2: How landlords have been applying the Welsh Government rent policy, by landlord type

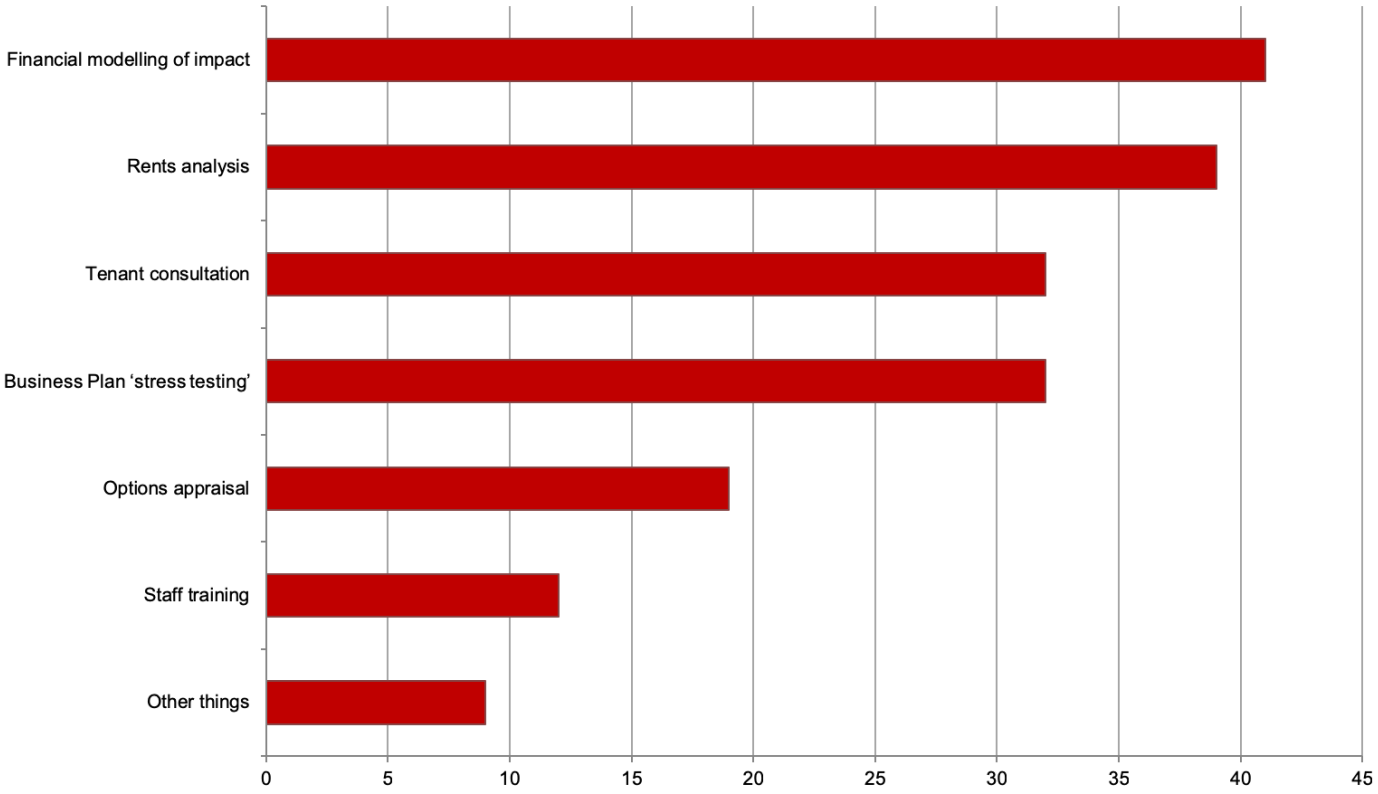


Source: Rent Review survey, July 2017
Question: Which of the following best describes how you have been applying the Welsh Government rent policy? Have you… **Response categories:** Applied the rent matrix for local rents; Retained your previous rent policy; Developed a new policy; Done something else

3.6 Landlords reported having undertaken lots of preparation for the implementation of the Welsh Government rent policy, with most (41 of 44) having modelled impacts, undertaken rent analysis (39) and stress testing (32) and more than two-thirds (32 of 44) having consulted tenants. Just under half had undertaken an options appraisal (19) with slightly fewer (12) saying that they have done staff training.

3.7 The 'something else' that organisations had done included analysis of their own rent policy to check alignment with the Welsh Government rent policy, with a couple of landlords also holding off changing their policy due to the need for further stress testing or due to concerns about the future of the Welsh Government policy in the light of the English rent cut. Other activities mentioned by single landlords included engaging consultants, a full review of property attributes and consultation with other landlords.

Figure 3.3: What landlords have been done to prepare for the implementation of the Welsh Government rent policy



Source: Rent Review survey, July 2017 (multiple responses given)
Question: Which, if any, of the following did your organisation do to prepare for the implementation of the Welsh Government rent policy? **Response categories** as presented in the figure

3.8 The main benefits[5] of using the rent matrix approach that landlords identified were clarity, transparency and comparability. Having a 'common framework' was felt to be beneficial and using an approach meeting Welsh Government guidelines was felt to be more defensible to tenants. Other advantages also commonly mentioned included the increased rental income to deliver the Welsh Housing Quality Standard (WHQS) and new-build development.

3.9 The main disadvantages of using the Welsh Government rent matrix were identified as:

- Reduced rental income (among those who faced a restricted TRB)
- Limited flexibility – mainly in relation to the narrowness of the TRB

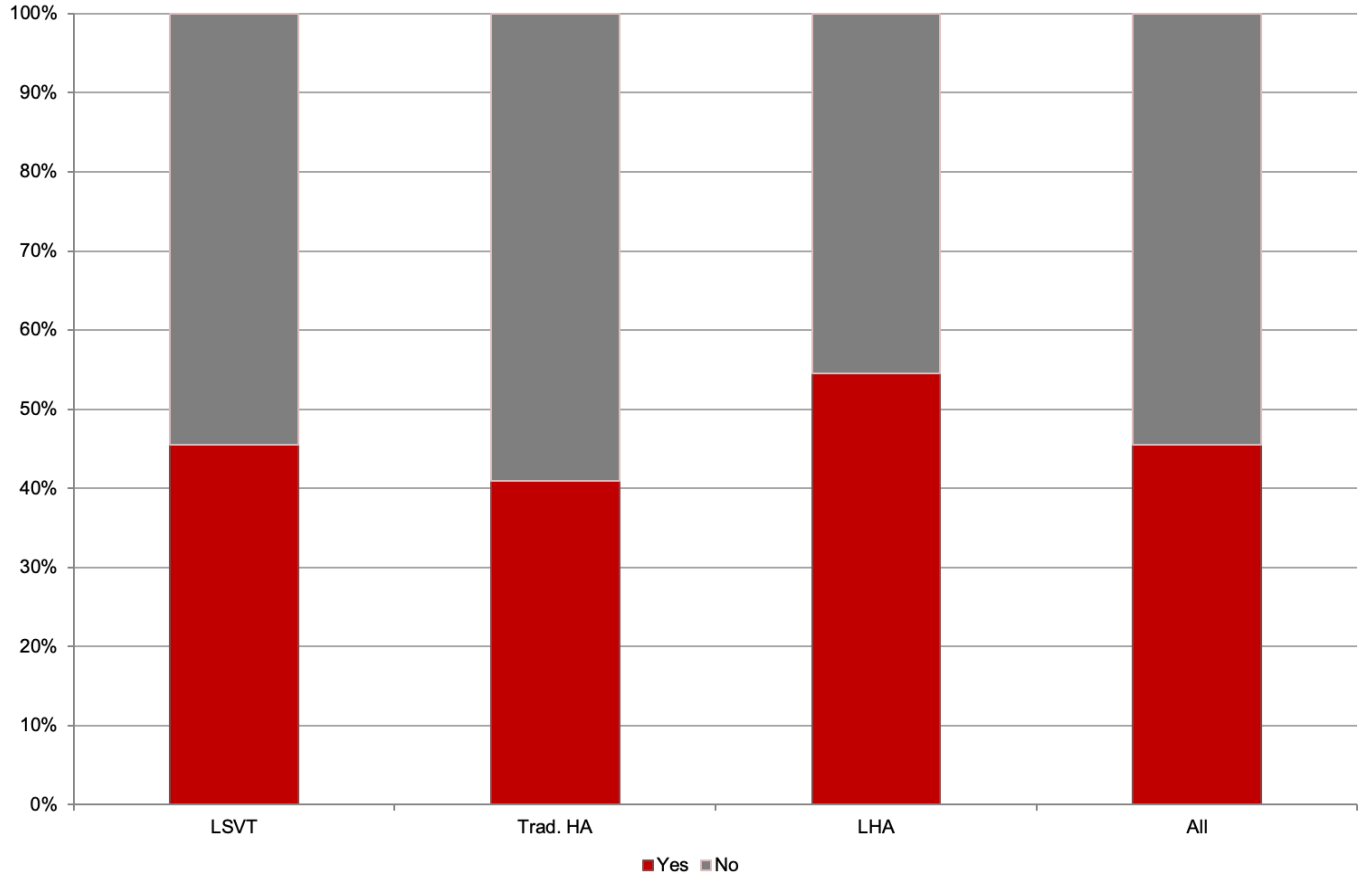
[5] **Questions:** What have been the advantages that approach? What have been the disadvantages of that approach? (Follow-up questions to: Which of the following best describes how you have been applying the Welsh Government rent policy? Have you… Applied the rent matrix for local rents; Retained your previous rent policy; Developed a new policy; Done something else?)

- The matrix being overly simplistic – in terms of the rents chargeable for flats versus houses, not reflecting local demand or local market effects, and there not being an affordability aspect
- The TRB was noted to sometimes be higher than the Local Housing Allowance for some properties, so at odds with the planned policy (at the time of the survey) to restrict Housing Benefit at the Local Housing Allowance rate
- Uncertainty about the precise method used to determine the matrix and the volatility of the matrix results
- The 'last-minute' updating of the matrix each year also caused considerable frustration.

How has the rent policy been linked to local rent setting policy?

3.10 Just under half of landlords were using the rent matrix to set their rents **at the individual property level**, with LHAs more commonly using the rent matrix than LSVT or traditional housing associations. There were a couple of landlords applying the policy overall, but not at the individual property level.

Figure 3.4: Whether landlords are using the rent matrix to set rents at an individual property level, by landlord type

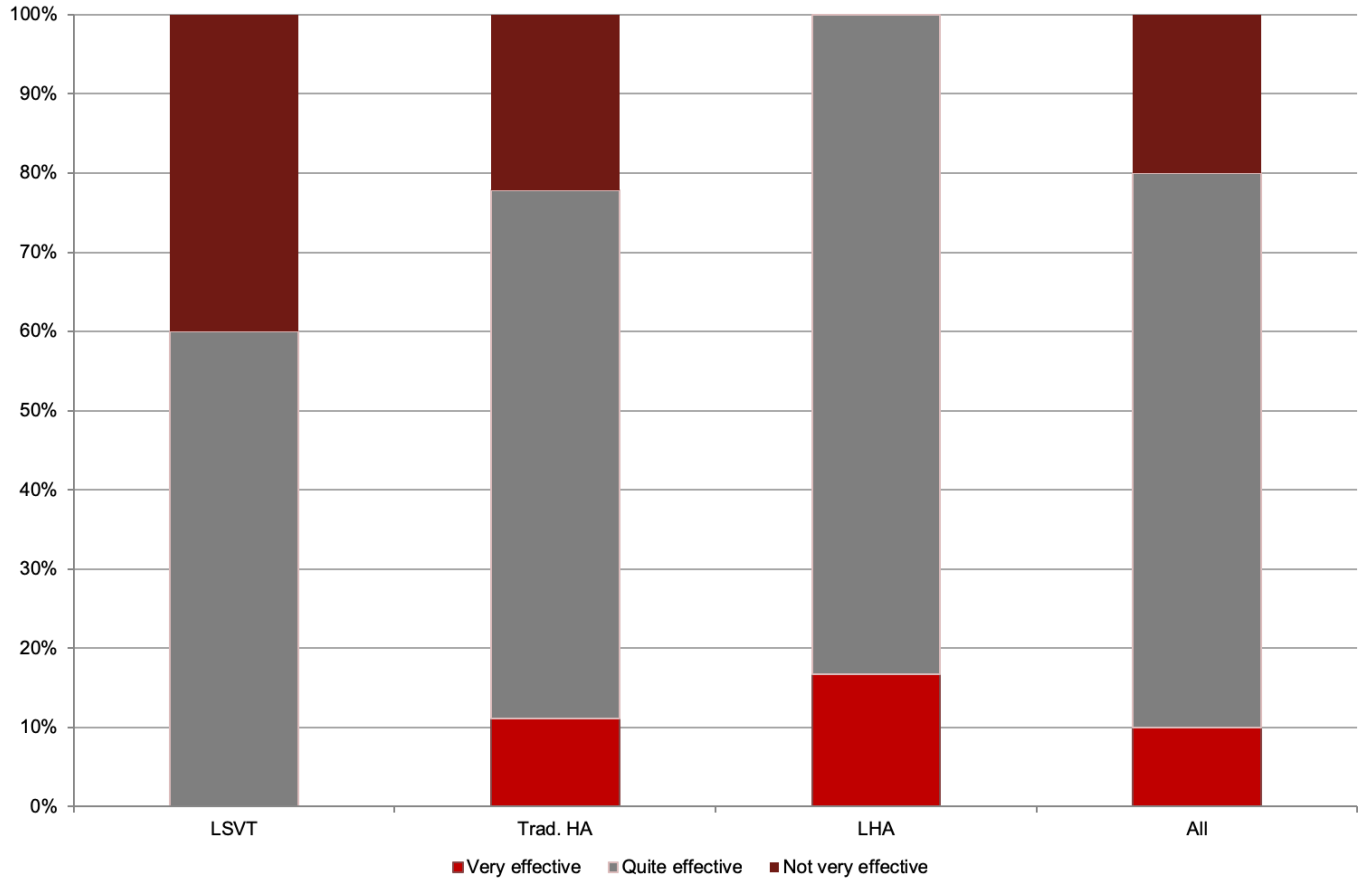


Source: Rent Review survey, July 2017 (multiple responses given)

Question: Are you using the rent matrix to set rents at an individual property level? Response categories as in figure

3.11 Most of those using the rent matrix at the individual property level said that it was effective, though the LSVTs using the rent matrix were least likely to say so.

Figure 3.5: Landlords views on the effectiveness of the rent matrix, by landlord type



Source: Rent Review survey, July 2017 (multiple responses given)
Question: How effective is using the rent matrix? **Response categories**: Very effective; Quite effective, Not very effective; Not at all effective

3.12 Where landlords said that using the rent matrix was 'not very effective', the main reasons given were:

- Issues relating to the locational index/damping – which suppressed rents in the Valleys in particular –
- Concern about the volatility of the locational index year-on-year, due to changes in wages, rents/house prices or a combination of these
- That it encouraged a 'fairly mechanical' approach, which did not require landlords to develop their own thinking or consider local issues/factors
- Methodological concerns about individual elements of the matrix – e.g. SAP ratings being a 'blunt tool' as a proxy for housing quality, or even an unnecessary

element, the lack of nuance in the measure so that flats and houses, new-build, bungalows and sheltered housing did not have their own target rent levels

- Issues about the fairness of the matrix – particularly relating to SAP ratings and the locational matrix, both of which were felt to disadvantage landlords who needed to invest in properties in poorer condition and/or lower-demand stock.
- Again, the annual increase was mentioned as causing uncertainty, which in turn discouraged landlords to refine their rent policy locally. This is because of the limited time available after the annual rent policy announcement each year to allow for genuine tenant engagement to take place.

3.13 Landlords using their own rent policy within the overall Target Rent Band had often committed to tenants as part of pre-transfer ballot agreements, or had designed an approach based on local circumstances. There were also some landlords transitioning to their own rent policy over a longer period, due to pre-transfer ballot commitments or because of the need to 'iron out' long-term legacy issues relating to local government reorganisation.

What impacts have there been on local rent policy?

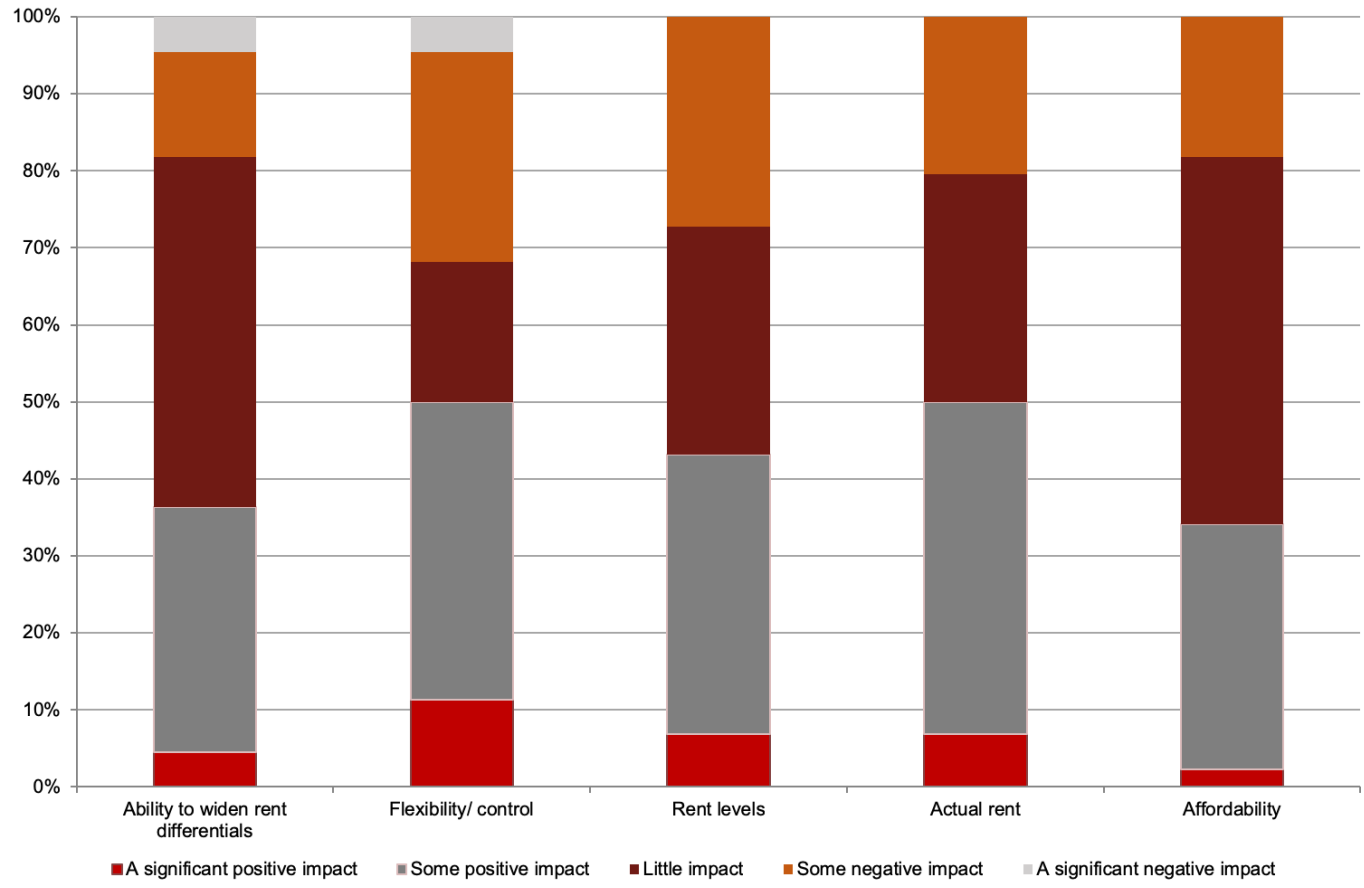
3.14 The Welsh Government policy had many aims which were explored in the survey. The first set of these aims related to the impact of the policy on local decision-making on rents and affordability for tenants. The survey asked landlords "What impacts, if any, has the Welsh Government rent policy had on the following…"

- The ability to widen rent differentials within your stock?
- The flexibility/control you have over rents?
- The level of rent increase that you can apply?
- The actual rent levels that you charge?
- Affordability of rents for tenants?

3.15 Overall, landlords were more commonly positive rather than negative, but between one in five (eight landlords) and one in three (fourteen landlords) gave a negative assessment on some aspects of the impact on local rent policy and affordability.

3.16 Almost half of landlords (20 of 44) said there was 'little impact' on the ability to widen rent differentials, with a similar number (21) saying there was little impact on the affordability of rent for tenants.

Figure 3.6: Perceived impact of Welsh Government rent policy on local policy decisions and tenant affordability



Source: Rent Review survey, July 2017
Response categories as shown in the figure

3.17 LSVT associations more commonly gave a negative impact assessment on the measures above, with between three and six associations (of 11) giving negative responses on each of these five areas of impact. For example, six LSVT associations (more than half of 11) said there was a negative impact on flexibility/control, compared with six traditional associations (less than a third of the 22) and two local housing authorities (one in five) gave a negative response.

3.18 Across the measures presented in Figure 3.6, there was a greater concentration of negative views about the impact on local rent policy among landlords with stock in Cardiff and Carmarthenshire, followed by landlords with stock in Merthyr Tydfil, Pembrokeshire and Rhondda Cynon Taf.

3.19 There were more negative responses on flexibility/control, with 14 negative responses overall, representing just under one-third of landlords. Those giving negative responses were more likely to mention the need for less control on rents, or even complete freedom from control.

3.20 The constraints of the rent policy and the challenges of the (then) proposed Local Housing Allowance cap were also raised by a number of landlords in the qualitative discussion. Other negative impacts discussed in the qualitative interviews included:

- Limited investment and constrained convergence where rents are not increasing enough or increasing too slowly to allow investment
- Limited flexibility due to the size of the Target Rent Band
- Concerns about future uncertainty – whether the rent policy will continue and the future expected limits of the Local Housing Allowance cap on Housing Benefit
- Affordability concerns for tenants as rents increased over time while incomes did not.

3.21 15 of 44 landlords (around one in three) reported that the rent policy had a positive impact on rent affordability for tenants, with almost half (21) reporting that it had little impact. Around one in five (eight landlords) felt the rent policy had been negative for rent affordability.

3.22 When asked about other impacts, the most common themes identified were:

- Ten landlords felt the policy gave them **less** certainty about the future, while six felt it gave **more** certainty to plan for the future
- Seven landlords reported that it had encouraged investment and active development
- Eight landlords expressed the view that the policy encouraged a consistent approach, 'feels fair' and was defensible
- Three landlords felt that it encouraged rent increases, while a further two perceived that landlords 'hide behind' the policy
- Three landlords raised the issue of delays in the announcement of the policy each year here.

3.23 When asked about possible future impacts, landlords raised the following possible future impacts[6]:

- The impact of the proposed Local Housing Allowance cap[7] was felt to be more critical than the rent policy (13)

[6] Questions: What other impacts has the rent policy had for your organisation (good or bad)? What further impacts do you foresee in future?
[7] As noted above, this proposal was later withdrawn.

- Uncertainty about the future Welsh Government rent policy and concern about this (11)
- The need for the policy to look at affordability in future (5)
- The rent policy needing to be more flexible in future (5)
- Specific issues with the short-term nature of the annual policy announcement (4)
- Concerns that they may need to build less/develop less in future (2).

3.24 The importance attached to the anticipated (but later withdrawn) introduction of the Local Housing Allowance cap is illustrated in these responses:

> "Given that our rents are mostly close to or above the Local Housing Allowance cap the relevance of Rent Policy as directly applying to us will become less in future years. Instead, unless the Policy moves away from increases, it is the application of changes to the cap which will have greater relevance to the financial viability of the organisation and the affordability of rents to tenants." (LSVT landlord, 5000+ properties).

> "The impact of LHA [Local Housing Allowance] is significant and makes Welsh Government rent policy ineffective, with welfare reform having a much greater impact than the policy itself." (LSVT landlord, 5000+ properties).

3.25 One landlord suggested mitigation targeted at the sheltered stock, in the light of uncertainty about the Local Housing Allowance and service charges:

> 'A reduced rent level for supported or sheltered stock to try to minimise the impact of on-going increases for tenants who are feeling the effect of rent and service charges'. (LHA)

3.26 In the qualitative interviews, many landlords pointed out that, although the current Welsh Government rent policy had not had a negative impact on rent affordability so far, rising inflation in future alongside limited wage growth may mean affordability may become more of an issue. Some landlords were particularly keen to see affordability included as a consideration in the Welsh Government rent policy. Affordability is discussed in more detail below in relation to 'wider impacts' in Appendix C.

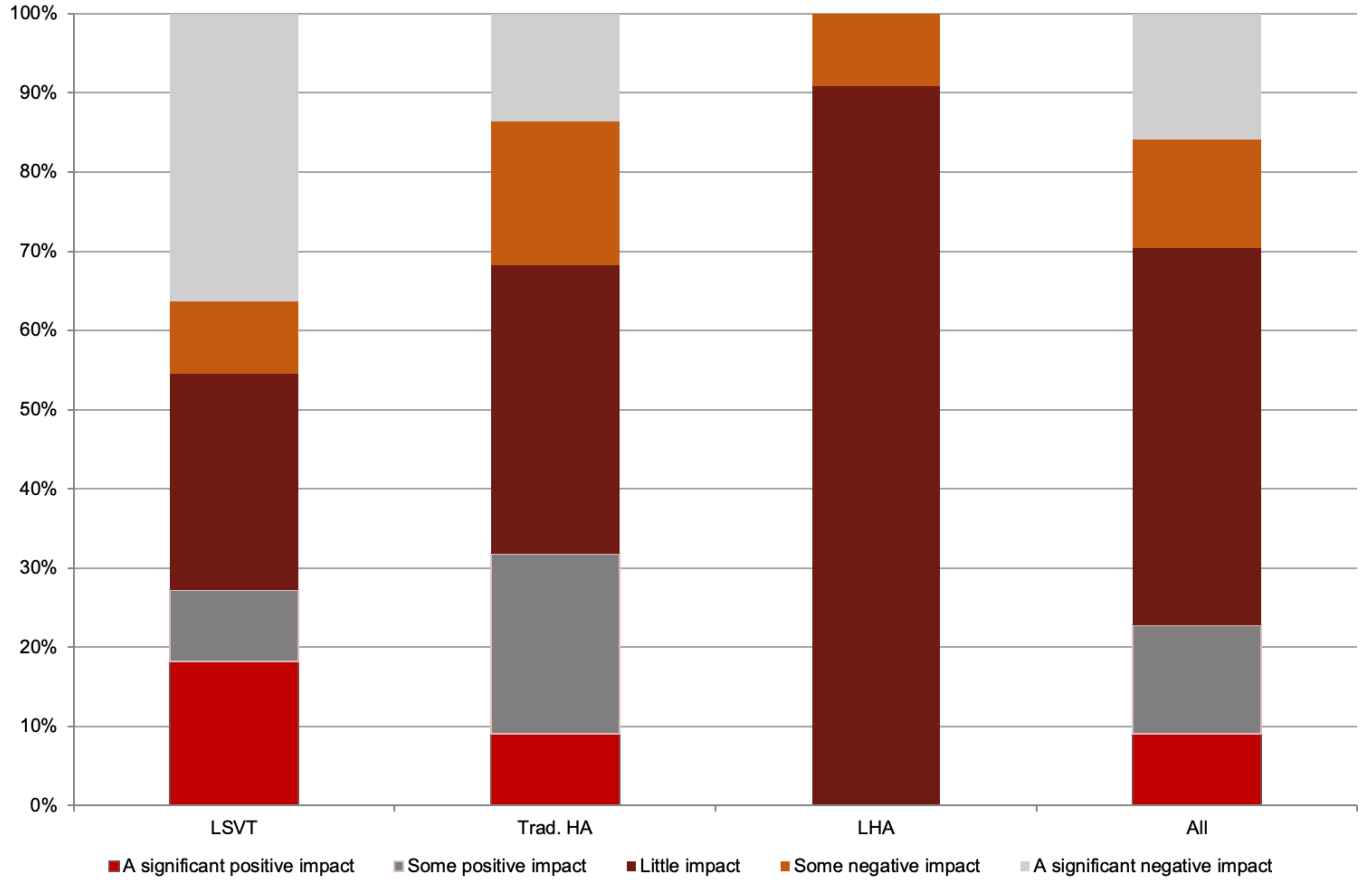
The impact of location

3.27 The survey asked "What impact does the concentration/spread of your stock have on your local rent policy?" Overall, most landlords (31 of 44) reported a positive or little impact of the concentration or spread of their rents on their rent policy. LSVT associations were more likely to report that location had a negative impact, with almost

half reporting this, compared with one in three traditional housing associations and just one local housing authority.

3.28 The landlords reporting they were adversely affected by their location were those that were located in areas with very low local rents and low rates. These provided little room for rents to increase before breaching the anticipated Local Housing Allowance cap.

Figure 3.7: Views on the impact of location on their local rent policy, by landlord type



Source: Rent Review survey, July 2017 (multiple responses given)
Response categories as shown in the figure

3.29 In the qualitative interviews, some landlords discussed the possibility (for their own organisation or for others) to mitigate against the potential impact of the proposed Local Housing Allowance cap by offsetting rent freezes or limits on rent increases in some areas with higher rent increases elsewhere, where there is more 'headroom' up to the Local Housing Allowance rate. Some associations were already using this strategy to avoid rents in smaller properties going above the Local Housing Allowance rate, while others were considering this strategy for the future.

3.30 Other associations were less keen on this 'differential rent increase' strategy and expressed concerns that the proposed Local Housing Allowance policy would adversely influence local rent policy so that rents were unfairly increased for larger households to

benefit single people. Some landlords were considering looking at the scope for introducing differential rents for working people and people on Housing Benefit, but admitted that issues of fairness made such an approach problematic.

3.31 The associations operating in fewer, lower-rent, areas (typically the Valleys) did not have the scope to use differential Local Housing Allowance rates across different areas to achieve an average rent within the TRB while also mitigating against the possible negative impacts of the proposed Local Housing Allowance cap.

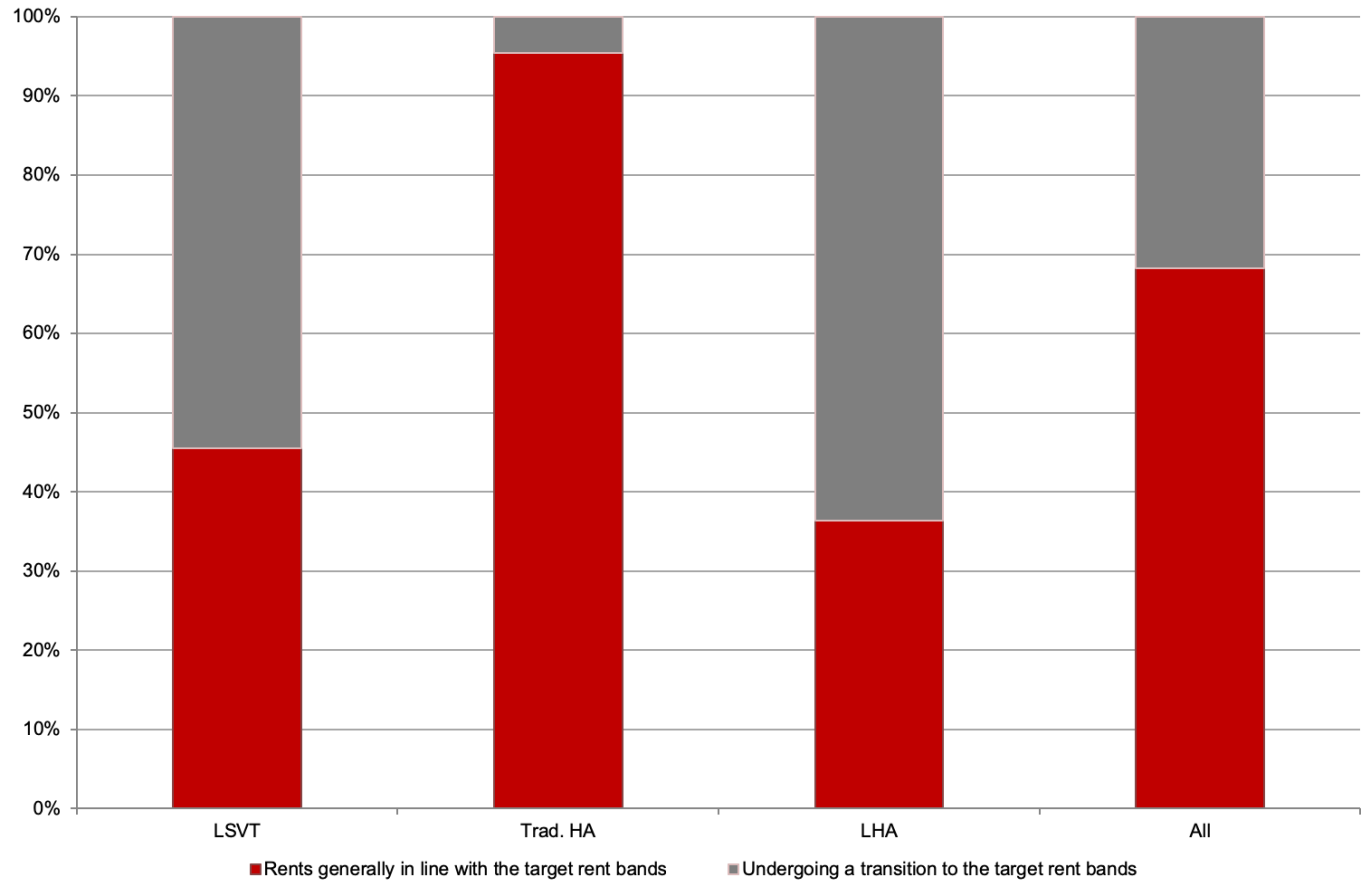
3.32 The landlords who reported being more negatively impacted by the location of their stock were more concentrated in Carmarthenshire, Blaenau Gwent, Merthyr Tydfil, Pembrokeshire, Powys and Torfaen.

Transitional arrangements

How effective were the transitional arrangements, which aimed to protect tenants, social landlords and funders from changes in their financial affairs?

3.33 At the time of the survey (in July 2017) 70% of landlords had rents that were generally in line with the TRB while the rest were transitioning towards it. LSVT associations and LHAs tended to be those still transitioning their rents (Figure 3.8).e

Figure 3.8: Whether rents are generally in line with the target rent bands, by landlord type (all landlords)



Source: Rent Review survey, July 2017
Question: Are your average rents... **Response categories:** generally in line with the target rent bands or... are you undergoing a transition to the target rent bands? (An 'other option was allowed but not used)

3.34 Of those for whom the transitional arrangements were most relevant, who were still transitioning to the TRB (14 landlords):

- One said transitional arrangements had been 'very effective'
- Nine said these had been 'quite effective'
- Three said transitional arrangements were 'not very effective'
- One landlord said transitional arrangements were 'not at all effective'.

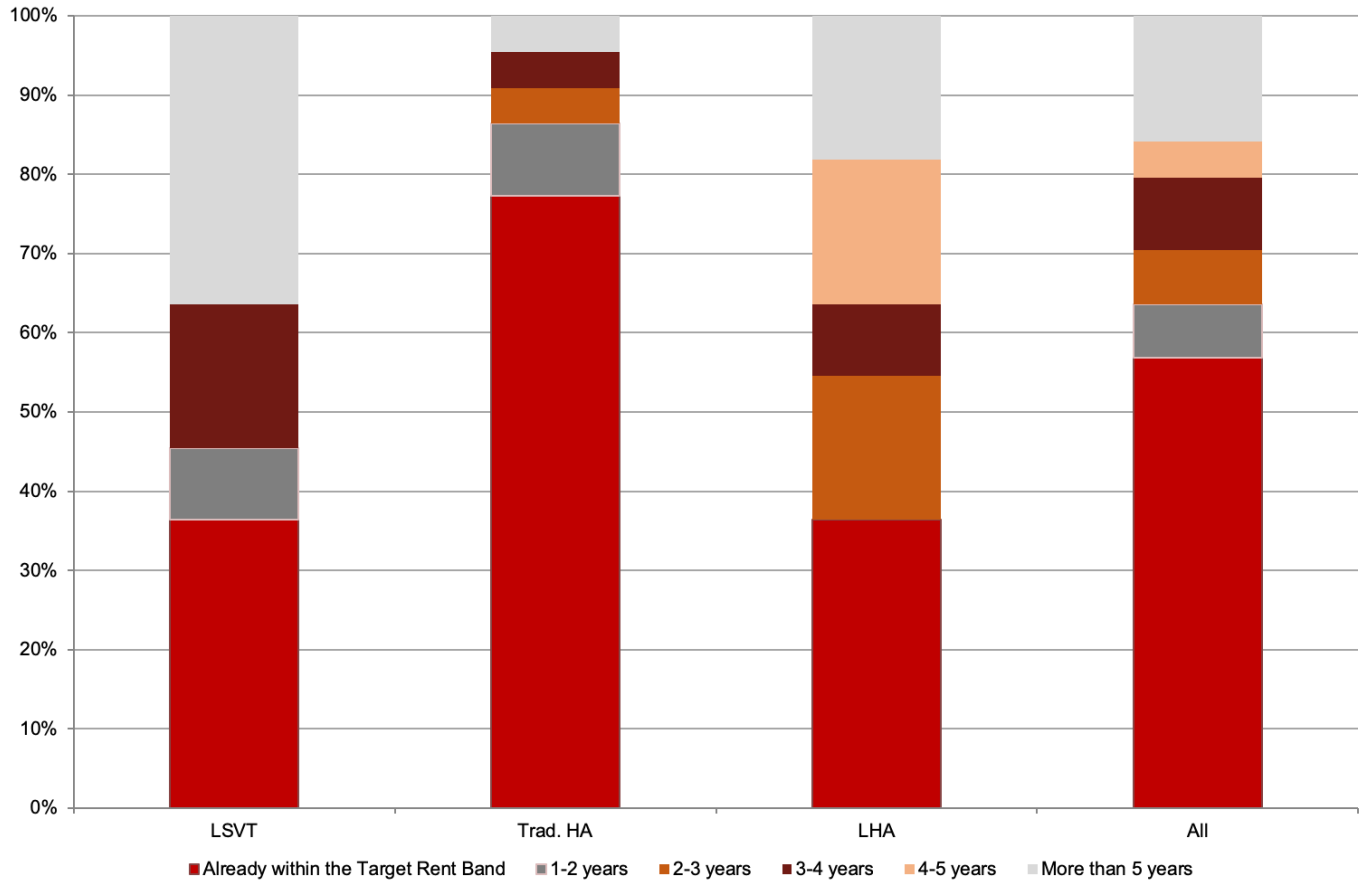
3.35 Two of those who felt that the transitional arrangements were not effective were local housing authorities and two were LSVT associations. Issues highlighted in the survey, among those more negative about transition, were that local political decisions (not to apply the full transitional amount) had undermined the policy, that low inflation meant that convergence was slow and that there was a perceived lack of sanctions for those landlords which were consistently charging rents outside the TRB.

3.36 Other issues discussed in the qualitative interviews were the pace of transition being hampered by pre-transfer rent commitments and low stock turnover rates (since new tenancies could go straight to the target rent, lower turnover adversely affected the pace of transition).

3.37 When asked about the process of convergence to the **local** rent policy, landlords were split as follows –

- More than half (25) were already within the Target Rent Band
- Six landlords said local rents will converge within 1-3 years
- Six landlords said local rents will converge within 4-5 years
- Seven landlords will take longer – mainly due to distance from the target rent, combined with low tenancy turnover and also stock transfer commitments for one landlord.

Figure 3.9: When rents are expected to converge with local rents policy, by landlord type



Source: Rent Review survey, July 2017
Question: When do you expect your local rents to be fully converged to your local rents policy? Response options as in the figure

3.38 Local rent convergence may not have happened yet, even if rents were already within the Welsh Government TRB. Four LSVT associations, one traditional association and two

local housing authorities said it would take more than five years for their local rents to fully converge to the local rent policy (Figure 3.9).

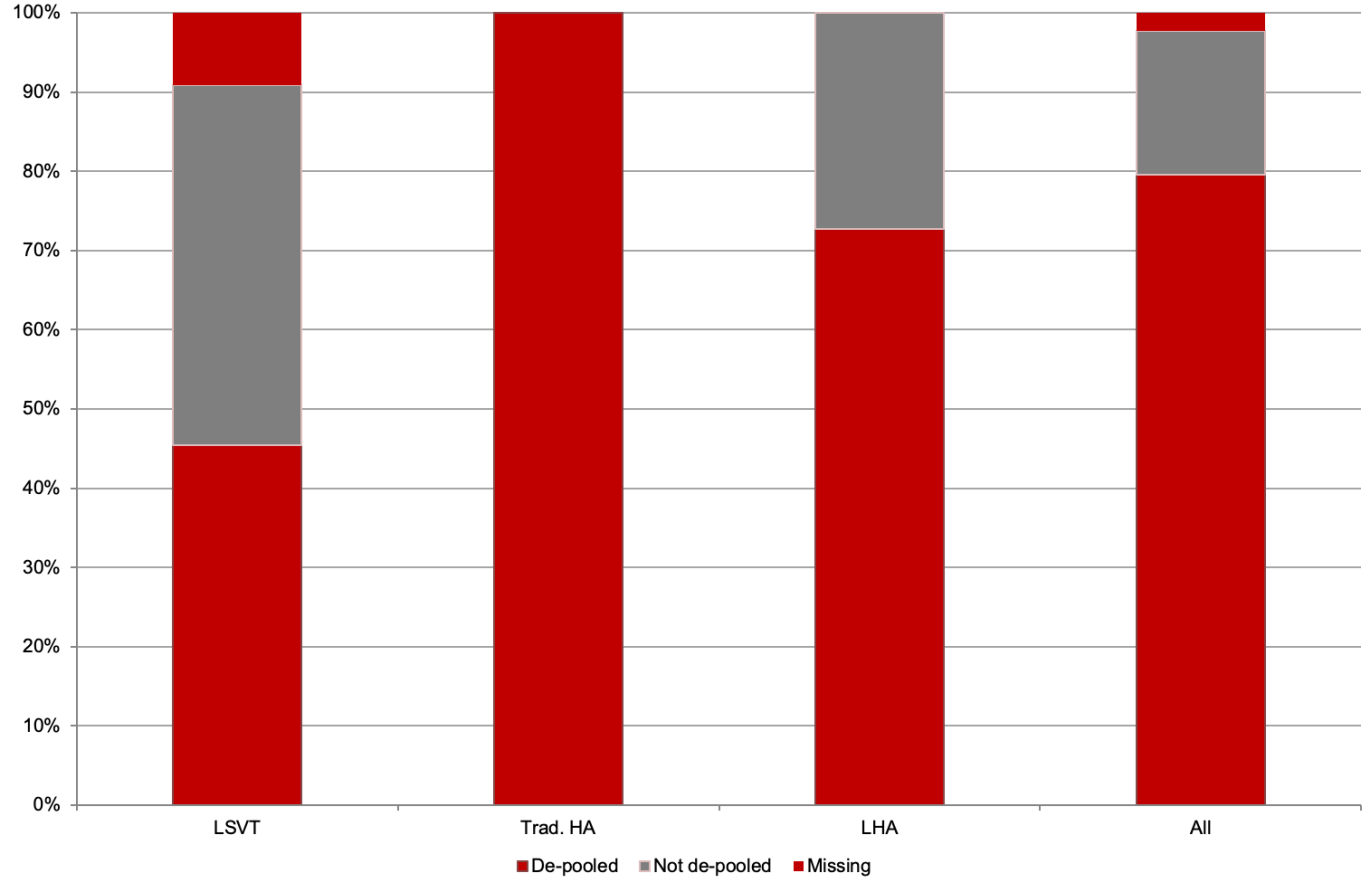
3.39 The main factors identified in the slow transition towards the local rent policy[8] were there being some very low rent properties that would take a very long time to transition (approaching 20 years for some properties) unless they became void. The Welsh Government rent policy, alongside stock transfer commitments, has limited annual rent increases in these unusually low-rent properties. One landlord also had a dilemma that they had some properties that were in the lower half of the Target Rent Band but **also** above the Local Housing Allowance rate.

Service charges

3.40 Some landlords were also still in the process of de-pooling rents from service charges. Although four out of five landlords said that their service charges were de-pooled from rents, there was considerable variation between landlords, with half of LSVT landlords still to de-pool rents.

[8] **Question**: When is it likely to be? And why might it take this long? (Asked of those who say that it will take more than 5 years for local rents to be fully converged to their local rents policy)

Figure 3.10: Whether service charges are de-pooled from rents, by landlord type



Source: Rent Review survey, July 2017
Question: Are your service charges completely de-pooled from rent for all properties? Response categories – Yes; No

3.41 Of those who reported that they had not yet de-pooled rents, most said these would be de-pooled by 2018-2019, with some de-pooling work underway and in progress[9]. A few landlords were less certain about timings, due to issues with stock transfer ballot commitments.

3.42 The main issues/concerns identified with rent de-pooling were where there were significant service charges that needed to be incorporated into rent over a reasonable period, as affordability was a concern. As mentioned above, commitments made to tenants prior to a stock transfer ballot also meant that some landlords needed to conduct a comprehensive tenant consultation process before fully de-pooling service charges. A few landlords were particularly concerned about service charges in sheltered

[9] Questions asked of those who said they have not de-pooled rents: Please can you explain where you are in the de-pooling process and when you anticipate to complete the exercise? What are the main issues/concerns with de-pooling service charges from rents?

accommodation and how these might be de-pooled in a way that avoided considerable financial hardship for elderly tenants on fixed incomes.

3.43 During the qualitative interviews, some landlords discussed the measures that were being put in place to 'future proof' new developments by 'designing out' service charges. Although 'designing out' service charges limited the need for additional service charges on top of rents, it was not without negative impacts. There was one example given of the practice of concreting over common green areas around housing to enable the removal of estate management costs and associated service charges.

3.44 Landlords also spoke about the need to have 'honest' discussions with tenants about what they valued and what that costs, in terms of service charges. There was also a focus on tenant consultation and looking at 'Value for Money' and what service standards tenants were getting for the service charges paid. Some landlords felt that this had improved performance by casting a light on efficiency.

3.45 The focus on 'Value for Money' was identified as a complex area, though, with specific reference to fire safety provision in the aftermath of the Grenfell Tower fire, which happened during the survey period. Landlords were looking at cladding, sprinkler systems and other fire safety issues. They were making budget provision for these, whilst also looking to the Welsh Government for guidance on the financing of additional fire safety provision.

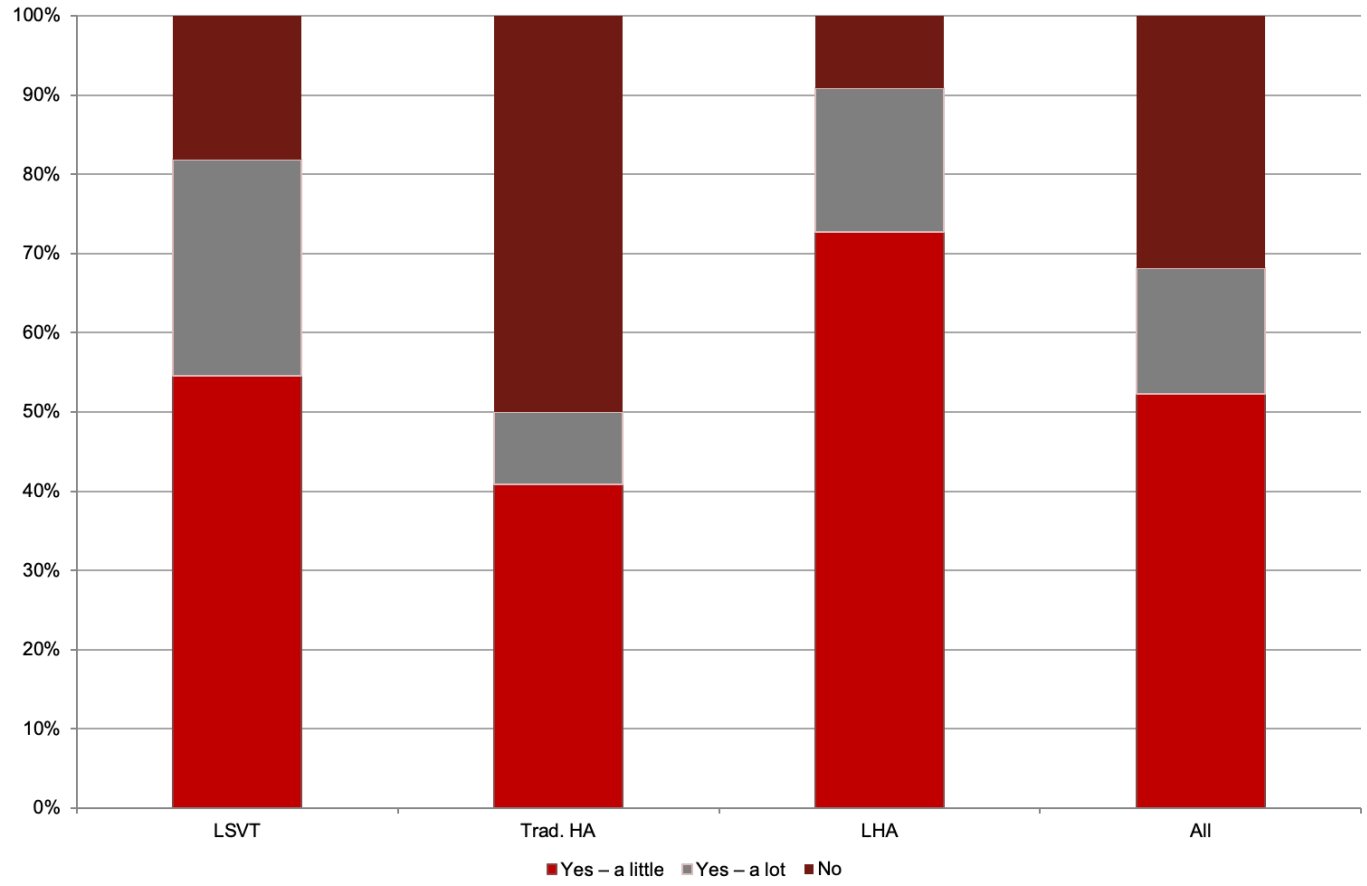
Have the transitional arrangements offered protection for – tenants, landlords and funders?

3.46 As shown above, most landlords were positive about the transitional arrangements in place. In the qualitative interviews, the positive aspects of the transitional arrangements highlighted were the way in which the policy limited the adverse impact on tenants, landlords, and funders. The fact that the policy gave landlords adequate time to reach the TRB was important, and the scope to use the £2 additional uplift as well as the ability to increase the rent of void properties to the TRB were helpful.

3.47 The survey asked landlords whether their tenants had been affected by the rent policy, with most landlords reporting that tenants had been affected – 23 reported tenants had been affected 'a little' and seven reported they had been affected 'a lot'. Around one in three landlords felt that tenants had not been affected by the rent policy.

3.48 LSVT associations and local housing authorities more commonly reporting that their tenants had been affected by the rent policy, compared with traditional housing associations (Figure 3.11).

Figure 3.11: Whether tenants have been affected by the Welsh Government rent policy, by landlord type



Source: Rent Review survey, July 2017
Question: Have your tenants been affected by the rent policy? Response categories as in the figure.

3.49 The seven landlords reporting that their tenants had been impacted 'a lot' by the Welsh Government rent policy had stock in the following areas – Cardiff, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Neath Port Talbot, Newport, Pembrokeshire, Rhondda Cynon Taf and Swansea.

3.50 When asked to expand on the issue of tenant impacts[10], eleven landlords reported that the rents had increased significantly or above inflation while six said the increase in rents had been limited.

[10] Question: Have your tenants been affected by the rent policy? If yes, please explain how?

3.51 A few landlords said that arrears were stable, which they took to be a good sign. A few did, however, raise specific concerns about affordability now and in the future. However, a few landlords also said that the rents were fairer now due to greater differentials, between houses and flats, for example. Others felt the impact of the Welsh Government rent policy had been marginal, particularly where they had local policies in place.

Protection for landlords and funders

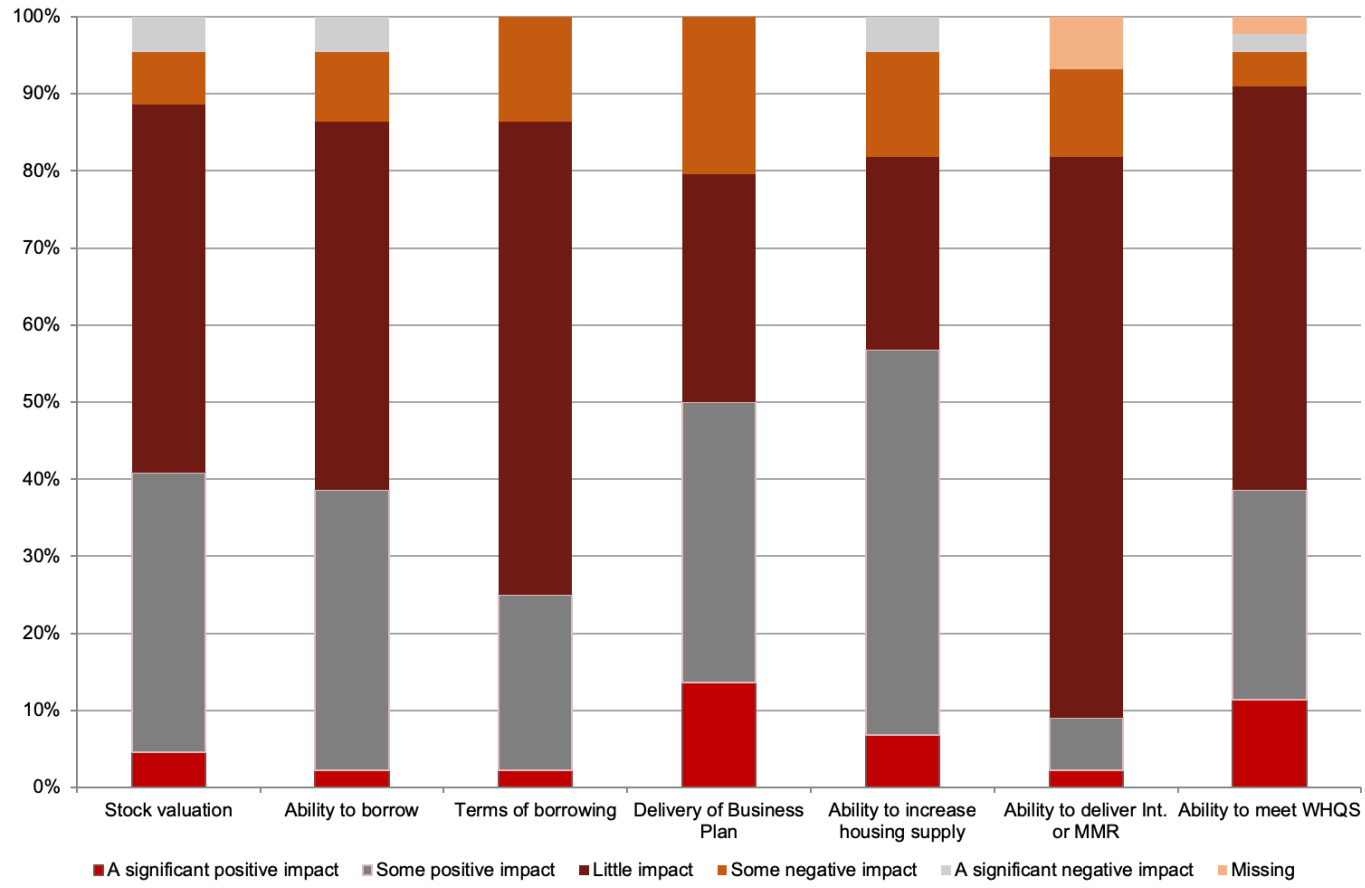
3.52 Landlords were generally more commonly positive rather than negative about the perceived impact of the rent policy on business planning, access to finance and development. The survey asked "How much of an impact, if any, do you think the Welsh Government Rent Policy has had on the following?" –

- The valuation of your housing stock
- Your ability to borrow
- The terms of your borrowing
- Your ability to deliver your business plan
- Your ability to build/increase housing supply
- Your ability to deliver intermediate or market rented units
- Your ability to meet WHQS by the agreed timescale and maintain thereafter

3.53 Most positive views were expressed in relation to being able to build/increase supply and other financial indicators – 25 of 44 landlords (over half) reported there had been a positive impact on their ability to build/increase housing supply and 22 (half) reported a positive impact on their ability to deliver their business plan valuation. 18 were positive about stock valuation and 17 on the ability to borrow and the ability to meet and maintain the WHQS.

3.54 Housing associations were generally more negative about the perceived impact on the business than local housing authorities. Between zero and four LSVTs gave negative scores on the various business impact measures while between one and five traditional associations did (compared with between zero and two local housing authorities).

Figure 3.12: Perceived wider impacts of the Welsh Government rent policy on business plans, investment etc.



Source: Rent Review survey, July 2017

3.55 In the qualitative interviews, housing associations more commonly spoke about the need for greater flexibility in the rent policy, with some wanting complete control of rent setting. On business plan impacts, traditional housing associations were more commonly negative than LSVTs associations in relation to increasing supply and providing mid-market rented properties while LSVTs were more negative about their stock valuation, ability to borrow and terms of borrowing.

3.56 The landlords who gave negative scores across the measures in Figure 3.12 more commonly had stock in – Carmarthenshire, Pembrokeshire, Blaenau Gwent, Caerphilly, Cardiff, Ceredigion, Merthyr Tydfil, Neath Port Talbot, Rhondda Cynon Taf and the Vale of Glamorgan.

3.57 In the qualitative interviews landlords commonly highlighted the fact that the assessment they made in the survey about the financial impacts of the rent policy was based on the situation **at that time**. They were less optimistic about the future financial picture due to concerns about the roll-out of full service Universal Credit, the impact of the proposed Local Housing Allowance cap and also uncertainty about the funding for supported

housing provision. Since the survey was conducted, the UK Government has announced that it no longer intends to extend the Local Housing Allowance cap to social tenants, and the proposals to reform the financial support for supported accommodation have been amended. These changes may provide some stability for rents in future.

3.58 A commonly expressed concern was the short-term nature of the rent policy, with landlords looking for longer-term commitment. Many landlords felt that annually updating the matrix created uncertainty and wanted the policy to operate for the life of the term of government (i.e. until May 2021 and then at 5-yearly intervals).

3.59 The main positive financial impacts highlighted in the qualitative interviews included:

- Increased rental income, which had a positive impact on viability
- The associated ability to invest in existing properties and new-build developments
- Greater flexibility on rents (for some).

3.60 Negative impacts, on the financial side, were perceived to relate to issues of future certainty. Again, landlords pointed out that their current – relatively positive –assessment of the impact of the rent policy on the business plan may not hold in future, depending on the potential impacts of the Local Housing Allowance cap or an adverse change in the Welsh Government rent policy.

3.61 Enabling landlords to make rent increases of CPI+1.5% plus £2 had provided financial benefits to many landlords. Some landlords said it had helped them to plan and invest by having some certainty about income, but others were more inclined to highlight the **short-term** nature of the policy.

3.62 Some landlords were increasing rents at the maximum **only** where they needed to in order to converge on the TRB, while others were using the maximum (CPI+1.5% plus £2) wherever they could to maximise investment opportunities. Some landlords suggested that uncertainty about the ability to put rents up in future may have led to higher rent increases in recent years. Freezing rents or cutting rents as in England was the 'worst case scenario' envisaged for the future but there was little evidence that landlords felt this was likely to happen.

3.63 The **timing of the announcement** about the rent matrix each year was raised by many landlords as a negative feature of implementation that had led to uncertainty. A commonly expressed view was the need for a longer lead-in and a longer planning period to provide greater clarity and certainty for landlords and lenders. As one respondent commented:

"It's no good talking to us in December about rent changes and expecting us to be able to do consultation. We need transparency and consistency." (Traditional Housing Association, with less than 2,000 properties)

Meeting the original policy aims

To what extent has the current rent policy delivered on the original aims?

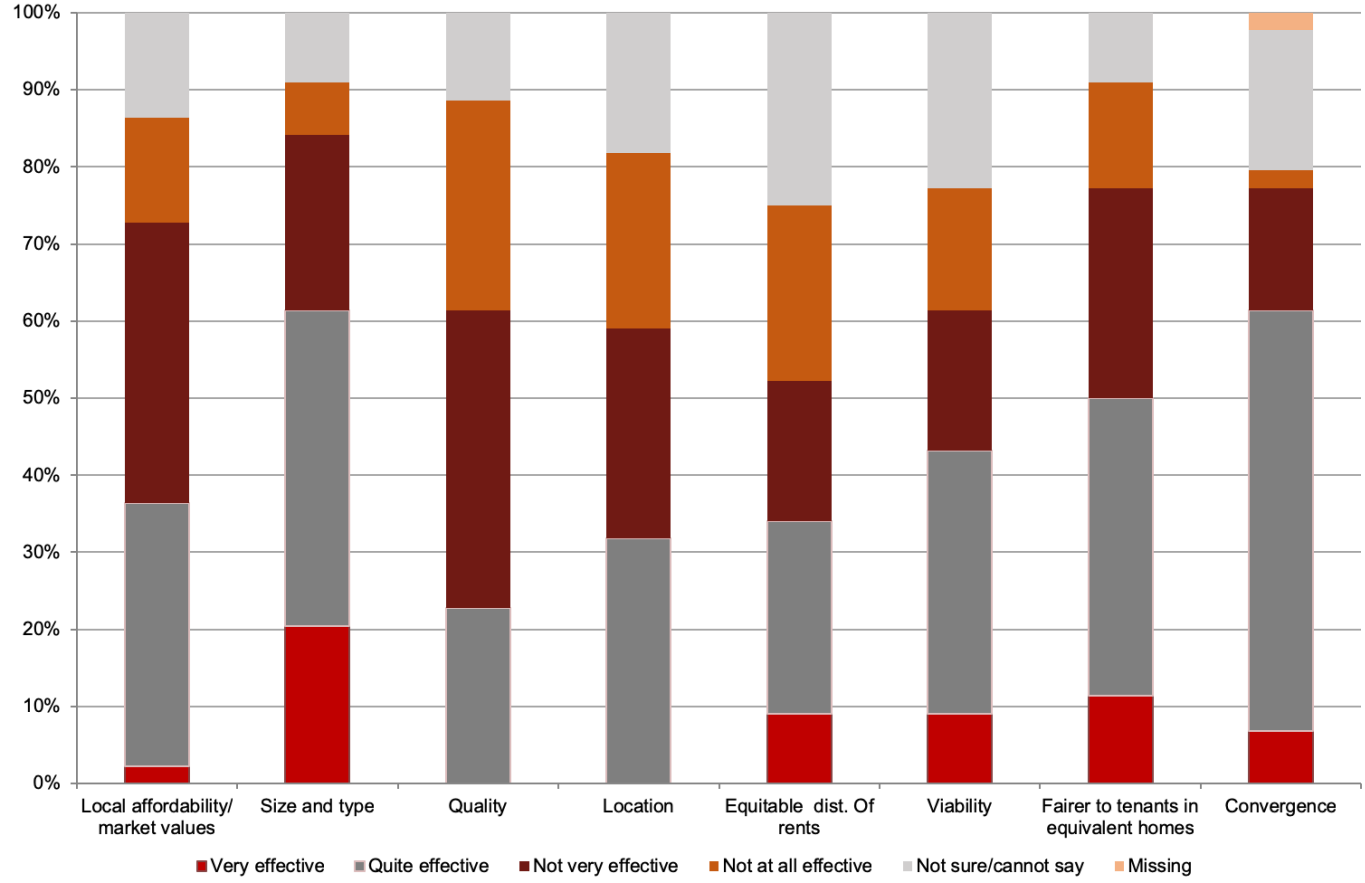
3.64 The survey asked respondents to consider whether the rent policy had met the original aims. Respondents were asked: "The current rent policy had several aims, which are listed below. From your experience so far, how effective has the policy been in achieving these aims?". The individual aims identified in the survey were as follows:

- Reflecting local variations in affordability and housing market values
- Reflecting variations in the type/size of social landlord's stock
- Reflecting variations in the quality of social landlord's stock
- Reflecting variations in the location of social landlord's stock
- Providing a more equitable distribution of rents for social sector tenants across Wales
- Ensuring the viability of individual social landlords
- Being fairer to tenants in terms of the rents charged for equivalent homes across social landlords
- Providing for the convergence of rents over a period of time.

3.65 The perceived effectiveness of the policy was mixed, with more positive views on the effectiveness in providing for convergence of rents over a period of time and reflecting variations in the size and type of social landlord's stock. Other measures were more generally viewed as having been 'not very effective'.

3.66 Landlords were more negative about the effectiveness of the rent policy on reflecting variations in the quality of social landlord's stock, reflecting variations in the location of social landlord's stock and providing a more equitable distribution of rents for social sector tenants across Wales.

Figure 3.13: Perceived effectiveness of the rent policy, all landlords



Source: Rent Review survey, July 2017

3.67 In terms of variation by landlord type, housing associations tended to be more critical than local housing authorities and less inclined to say that the policy had been effective. Uncertainty about the likely effectiveness was, however, spread across landlord types.

3.68 Those giving a 'not at all effective' assessment were more commonly LSVTs, although local housing authorities were more negative on the effectiveness of the policy in reflecting local variations in affordability and market values (3 said the policy is not at all effective) than on other policy aims.

3.69 LSVTs were commonly more negative on the effectiveness of the policy in reflecting variations in quality (6 indicated 'not at all effective') and variations in location (5 said 'not at all effective'), on ensuring viability for social landlords (five said 'not at all effective') and providing a more equitable distribution of rents across tenants (four said 'not at all effective').

3.70 Other housing associations were also most negative on issues of equitable rents (six felt the policy was 'not at all effective'), on location (four 'not very' or 'not at all effective') and quality (with four providing 'not very' or 'not at all effective' responses).

3.71 The landlords that were more negative about the overall effectiveness of the rents policy, across the measures in Figure 3.13, more commonly had stock in Cardiff, Carmarthenshire, Powys, Rhondda Cynon Taf, Torfaen, Bridgend, Caerphilly, Merthyr Tydfil, Neath Port Talbot, Blaenau Gwent, Newport, Pembrokeshire and Swansea.

3.72 Some of the drivers behind the more negative views on policy effectiveness explored in the qualitative interviews were:

- The perceived 'redistributive' effect of the locational matrix, with some landlords feeling that the locational matrix had a negative impact on viability, was not fair and produced variable results year on year
- Convergence was felt to be limited, by some, as only the average rents needed to be in the TRB – there was still felt to be considerable variation between landlords within the same local authority
- Some landlords were maximising rent increases (or observed that others were) which they felt would have a negative impact on affordability
- Several landlords felt that SAP was not a good measure of condition, was a 'blunt tool' or was unfair (as those needing to invest had to charge lower rents so were even less able to invest)
- The treatment of new-build properties, bungalows and sheltered properties was felt by some to create anomalies
- There were significant local sub-area variations in demand not captured (though some local policies did capture this)
- Some felt that the Local Housing Allowance cap had 'overtaken' the rent matrix, so the matrix could not be effective in meeting its aims.

3.73 Positive aspects of policy effectiveness identified were:

- That the Welsh Government approach had been more collaborative and supportive than observed in England
- The approach is pragmatic, with inevitable choices having to be made
- Some landlords thought that the policy had allowed them greater flexibility to increase rents.

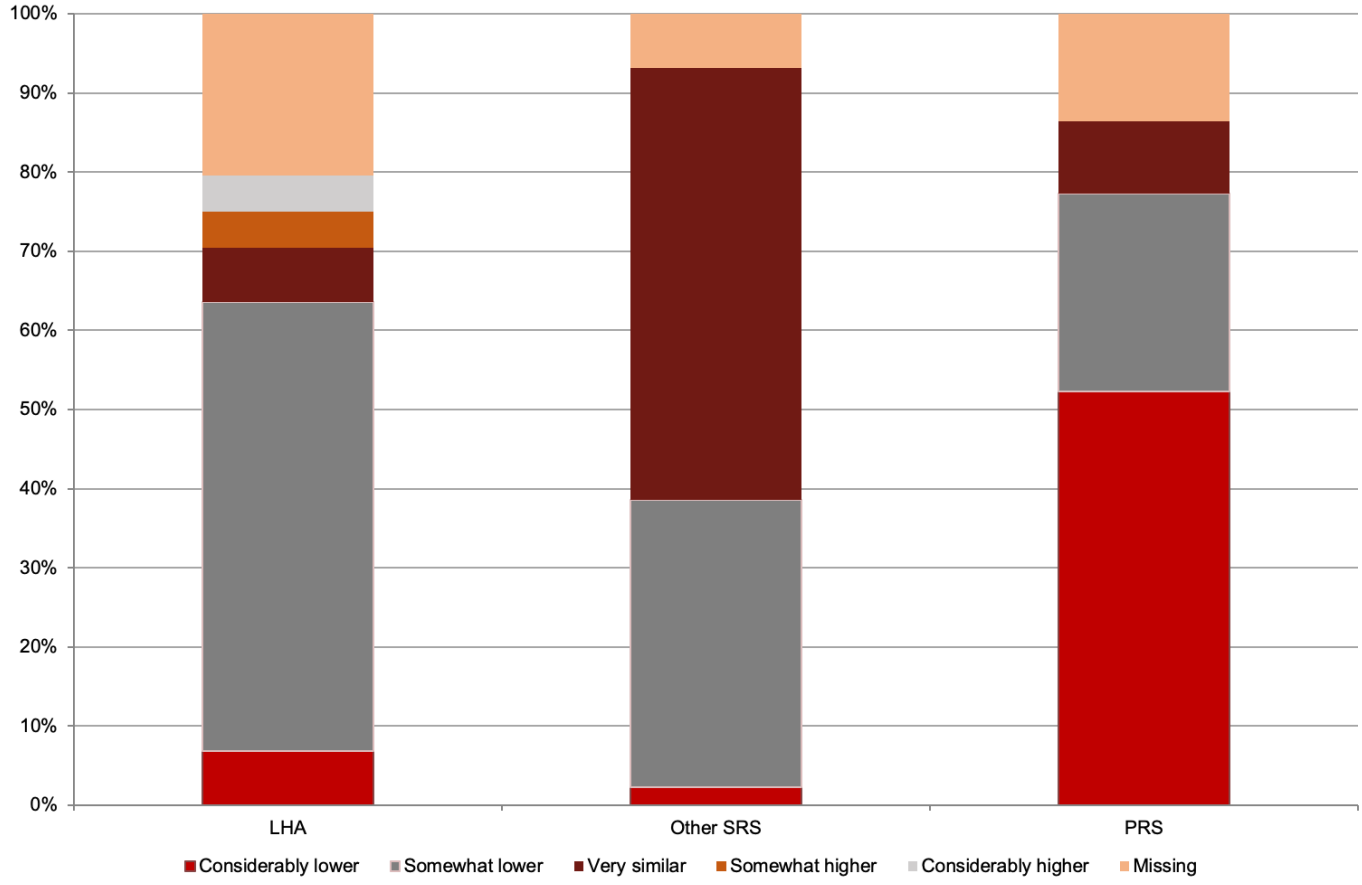
Rent convergence and comparability

3.74 Two of the main aims of the policy outlined above were '*providing a more equitable distribution of rents for social sector tenants across Wales* and *being fairer to tenants in terms of the rents charged for equivalent homes across social landlords.'*

3.75 The survey asked landlords how their rents compared to other social landlords, the Local Housing Allowance rates and the private rented sector. On convergence, just over half of landlords (24) reported their rents are 'very similar' to other social landlords. Around one in three (16 landlords) felt their rents were 'somewhat lower' than other social landlords. A few landlords had higher rents, though, more similar to the PRS. This was the case for two traditional housing associations, one LSVT association and one local housing authority.

3.76 More commonly, landlords reported their rents as being 'somewhat lower' than Local Housing Allowance rates, although two landlords felt their rents were 'considerably higher' and two 'somewhat higher' than the Local Housing Allowance. A further nine local authorities did not offer a response – mainly traditional landlords with stock spread across several BRMAs, for whom the answer was that it depended on the location.

Figure 3.14: How rents compare with other landlords and the Local Housing Allowance

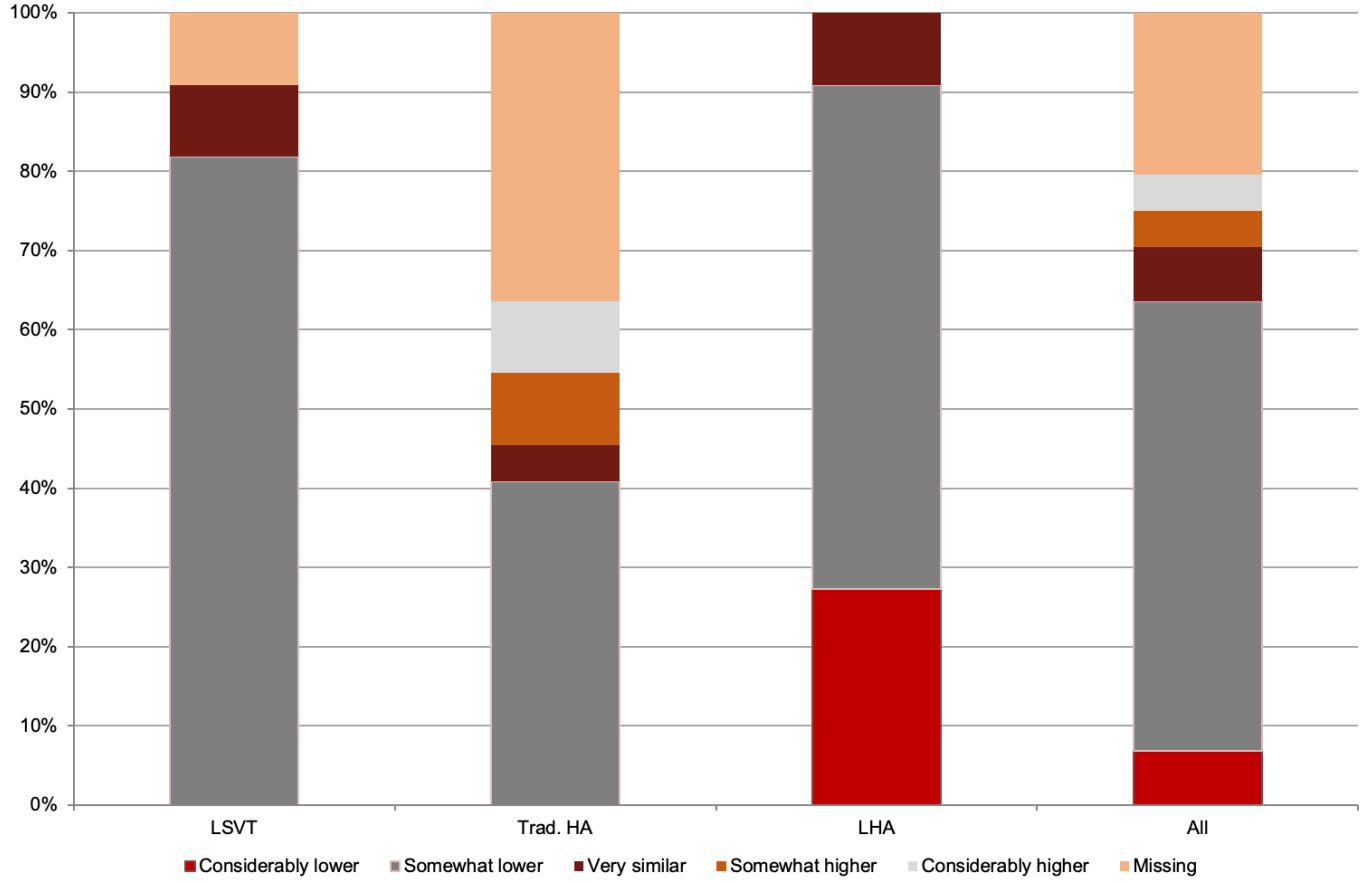


Source: Rent Review survey, July 2017
Question: How do your rents compare to the following…. The Local Housing Allowance rates(s) in the BRMA(s) where you operate?; Other social landlords operating in the local area?; The private sector? Response categories as in the figure

3.77 LSVT associations more commonly had rents very similar or somewhat lower than the Local Housing Allowance rate (Figure 3.15). Local Housing Authorities also had lower rents, with some considerably below the Local Housing Allowance rate.

3.78 Traditional housing associations more commonly had higher rents compared with the Local Housing Allowance rate in the BRMA(s) they operate in (or did not respond). Those not answering tended to have stock spread across a number of areas, operating in an average of 6 local authorities, so had a more complex experience of the Local Housing Allowance rates across their stock.

Figure 3.15: How rents compare with Local Housing Allowance rates, by landlord type



Source: Rent Review survey, July 2017

The overall average rent policy

Does the original policy intention not to implement a change in the overall average level of rents continue to be justified?

3.79 Some landlords (although not the majority) felt that the overall average target rent bands placed an unhelpful constraint on the balance of rents. Some landlords felt the locational indicator skewed results and there was an adverse impact of the damping on their (or other landlords') rents. These landlords felt that the matrix results reinforced some social

problems, limiting rents for landlords in lower demand areas, so limiting investment opportunities there. This is shown in more detail in the section on 'Wider impacts' in Appendix C.

3.80 When asked about what they would like to see in the future rent policy[11], many landlords wanted to see **more flexibility** for landlords to set their own rents (15 of the 44 respondents), with a similar number wanting to see more flexibility around the outer limits of the TRB, or in the policy's application locally (16 landlords).

3.81 Four landlords said they thought there was enough flexibility and the remaining nine identified other issues but did not specifically mention flexibility. Where landlords emphasised the need for greater flexibility, this was commonly in the context of local decision-making based on analysis of affordability. Examples of what some landlords would like to see were:

> "A flexible rent policy, not set by Welsh Government, which allows each landlord to set their own rents in return for a commitment to be clear and transparent about affordability." (Traditional HA, 5,000+ properties)

> "More flexibility and less prescription. More focus on allowing us to set affordable rents which we think we can collect. Landlords know their areas and know what is affordable." (LSVT, 2,000-5,000 properties)

> "The real control on rents going forward will be the Local Housing Allowance benefit cap. Therefore the WG rent policy should be relaxed to enable RSLs to manage their rents in line with the challenge of the cap, the need for affordability and the need for keeping the business sustainable in the long term." (Traditional HA, fewer than 2,000 properties)

> "More flexibility at the local level. Within a % of guideline rents but no cap at individual property level. Too prescribed and controlling." (LHA)

> "Do not link Welsh Government rent policy and the Local Housing Allowance rates. UK Government pressure to constrain rents but Welsh rents are lower. Keep flexibility - there is enough flexibility but not sure people are using it. More Guidance on that might be useful." (LHA)

[11] Question: What changes, if any, would you like to see in the rent policy in future?

3.82 Some believed that landlords should **not** be left without controls on rents:

> "To ensure safeguards exist for tenants it is important for there to be a limit on the maximum rent increase a particular tenant can face." (Traditional HA, fewer than 2,000 properties)

> "We would like to see some local flexibility around rent levels and increases but would caution against a complete removal of oversight." (LSVT, 5000+ properties)

> "Any changes to the rents policy needs to meet the conflicting agendas of raising sufficient income to allow for investment in the current housing stock and the development of new social housing as well tackling the issue of financial hardship faced by tenants through higher rents and welfare reform". (LHA)

Summary of survey findings

Implementation

- Around half of landlords are using the Welsh Government rents policy, with most reporting that it was effective; offering clarity, transparency and comparability and easily understood by tenants
- 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 regressive, forcing down rent increases in lower demand, lower rent areas.

Transitional arrangements

- By July 2017, almost three-quarters of landlords had rents in line with the Target Rent Band. Transition had been less effective where there was a lack of political will or high-level support for transition, and where rents were felt to not have transitioned quickly enough due to inflation and the limits of the policy.
- Local rent policies and service charge de-pooling has often taken longer due to commitments made pre-transfer ballot (among LSVTs and LHAs) and where the distance to the target rent and service charges involved are significant.

Protection for landlords, funders and tenants

- 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 and also the need for a longer-term policy term, to provide greater certainty for landlords and funders.

Meeting policy aims

- Views on the effectiveness of the rent policy in meeting policy aims were more mixed, with 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 but more negative views were expressed about rents reflecting variations in quality and location and there being an equitable distribution of rents across Wales.
- 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.
- Some landlords raised methodological concerns about the use of SAP rating to proxy condition/quality and anomalies between new-build properties and others and between bungalows and houses. The timing of the announcement, in December each year, was also raised as a negative feature of implementation.

The overall average rent policy

- There were some landlords (though not the majority) who 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 adversely affected by the locational matrix and damping.
- Some landlords (around one in three) would like to see complete autonomy in rent setting, while a similar proportion would like to see some flexibility around the limits of the Target Rent Band.

4. The views of tenants

Introduction

4.1 The overall aim of the research with tenants was to understand tenant views on the affordability of the review of the rent policy and its impacts. This aspect of the work sought to gain an understanding of:

- tenant awareness, understanding and attitudes towards Welsh government rent review proposals;
- tenant understanding that social landlords have flexibility around rent levels
- views on impacts of rent policy changes on affordability;
- how and why these views were held according to the circumstances of the tenants (taking account of demographic and household composition, location, whether they are in receipt of housing benefit, and whether they were tenants of local authority or RSL social housing;
- how the views of tenants compare with those of landlords.

Views on rent levels

4.2 The most common word tenants used to describe rents was 'reasonable' :

"I think they are quite reasonable rents, because they always come out and do the repairs quickly […] and they just recently put in new kitchens" (Older person, Council, North Wales)

"It's alright. It is £98 a week for three bedrooms. Private rents locally would be a lot higher, I think" (Couple with older children, Council, South East)

"The rents are reasonable, because we get all the amenities that we need, like the hedges and the grass cut" (Older person, Council, North Wales)

"They are quite fair rents – they're not extortionate" (Family, LSVT HA, South East)

"The rent is reasonable, considering what some of the others round here are paying" (Family, LSVT HA, South East)

"The landlord puts our rent up every year, but its only around £2 a week. We are now paying £92 a week. I'd say it's probably OK compared with what the private rents are in the area (Older person, HA, North Wales)

4.3 Some respondents were more critical, saying rents were ‘increasing’, ‘expensive’ and ‘ridiculous’. This was commonly associated with the negative impacts of welfare reform:

> “To me, it seems a little bit expensive […] Until we are settled and find a job, we are on benefits and they have applied the Benefit Cap at £385, but they have increased the rent from £119 to £126. At the same time, they decrease the benefits” (Family, Council, South East)

> “For me, it is quite frustrating because I pay the Bedroom Tax for my extra bedroom. My pension is deferred for four years, so they will get another four years of bedroom tax from me” (Older, Council, South East)

> “The Bedroom Tax is outrageous” (Older, Council, South West)

> “Bedroom Tax is an issue – they charge you extra money if you have an extra room. People have been living in their house for years, they have no choice and are being forced out, and they really don’t want to leave” (Family, Council, North Wales)

4.4 A few in-depth interviewees with long-standing health problems had also seen their Employment Support Allowance (ESA) or Personal Independence Payment (PiP) reduced, which led to a change in circumstances and benefit recalculations and delays. One disabled tenant said her rent was ‘still up in the air’ due to her PiP payment being reduced recently, which has a knock-on effect on her Housing Benefit entitlement, which has not yet been resolved. The family have had experience of wages being arrested due to ‘bureaucratic screw-ups’.

4.5 It was difficult for respondents to separate out the impacts of decisions taken by local government/their landlord or the Welsh Government from decisions taken at UK Government level about welfare reform and entitlement. Although a few tenants referred to decisions made in Westminster as having a negative impact on Wales, it was far more common for tenants to refer to issues and concerns with Housing Benefit/other welfare benefits as a composite set of problems/issues that they faced.

4.6 There were also some older tenants who were struggling a little with the rent:

> “I wish it (the rent) could be less” (Older person, LSVT HA, Valleys).

> “The rents are still increasing every year though, it’s unfair. It’s been around £5 a week most years and we are now paying £97.11 a week. It’s difficult to afford on a pension.” (Older couple, HA, North Wales)

Views on rent comparability

4.7 Council and local housing association rents were generally felt to be broadly comparable, among those who felt able to express an opinion. In the focus groups, some comparisons identified higher rents in HA stock, but participants sometimes put this down to differences in size/type, space standards or having a garden.

4.8 In the cities, social rents were compared very favourably with the private rented sector.

> "Well, if you base it on private rented, it's reasonable, but I don't consider private rental to be reasonable […] That makes X Council, at £108 (a week) reasonable" (Pensioner, Council, Urban location)

> "Compared to my friends who are in private housing, I pay less than them. One of my friends pays £735 (a month) for a 3-bedroom property, compared with £538, but it may depend on the area" (Family, HA, Urban location)

4.9 In some other locations, there was felt to be less of a difference between private renting and social renting. In one urban setting, the insecurity of the PRS was discussed as a major concern, which made social renting attractive. One resident in Mid Wales also noted 'Once you're with the Council, you're there for life'.

4.10 Some residents identified other locations as comparatively cheaper – such as the Valleys, compared with Cardiff – or more expensive, comparing nearby English local authorities with Wrexham.

Service charges

4.11 Those who were paying service charges were mainly paying for communal grass cutting, though there were also a few sheltered housing residents paying for communal areas, laundry services, wardens and heating.

4.12 Where they were paid, service charges were generally felt to be reasonable and transparent but a few respondents were not happy with the level of service provided (e.g. cutting grass but leaving clippings behind, or not attending regularly enough), or felt that people were charged for services that they didn't use or that charges were unfair.

> "There is a very minimal service charge. There is a community alarm and grass cutting. It's about 50p a week for the community alarm and 75p for grass cutting. It's very reasonable given how low the rents are". (Single, Council, Mid Wales)

> "You sometimes get charged for facilities that you don't use" (Older person, HA, South West)

"We get charged something like £1.80 a week for them to come out and mow the grass but they missed mine out last time!" (Family, HA, North Wales)

"They charge 89p a week (for grass cutting). It's wrong, I think". (Older person, Council, North Wales)

"I saw a leaflet recently saying that the older residents living in the flats on the estate would have to pay for extra things like the cleaning of communal areas, waste collection, etc. I was outraged. Some of them are struggling to pay their rent, let alone charging more on top" (Family, LSVT HA, North Wales)

4.13 Some concerns were also raised about inequity in relation to estate management services, with some tenants suggesting that some other estates seem to get more services than they do. A few tenants raised issues about the lack of fencing around communal areas, also, which was felt to mean that shared gardens were not safe for children to play in.

4.14 Although most of those paying service charges said that they received detailed information about what these were for, one or two said that this was not the case.

"There is ground maintenance, TV aerials, lights… all listed out on the rent (letter). It's quite cheap – hardly anything" (Young couple, HA, North Wales)

"The service charges are all in with the rent. We get a letter each year that breaks down the rent and service charges" (Family, LSVT HA, South East)

"They send you a yearly bill, with charges, but it is not clear what it is for" (Older person, HA, South West)

Quality of service

4.15 Respondents were fairly positive about the value for money of the rent paid. Older tenants were generally more positive:

"I can't say that I can fault them. Since moving in, I have had a new kitchen and bathroom and they are now doing the windows" (Older person, HA, Mid Wales)

"It's not too bad – about £58 a week (rent) and then the rates on top of that. But they are pretty good at repairs and things like that. They are putting new roofs on now, and new bathrooms and kitchen units (Older person, Council, North Wales)

4.16 One respondent in Swansea receiving partial Housing Benefit said that the rent was **not** good value for money as it was 'a bit high' but also said the physical condition of the property was 'good' and that repairs were dealt with 'straight away', and that customer

care was ‘ten out of ten’. So, in this case, the rent alone drove their view about poor value for money.

4.17 For a number of respondents, the physical condition of their property was an ongoing problem which meant they had negative views about the value for money of their rents. Common issues identified were:

- the poor condition of the property on moving in
- dampness and mould
- lack of adequate fencing around gardens
- exterior property condition
- some ageing bathrooms and kitchens
- poor quality or dangerous workmanship
- disputes over who has responsibility for repair works
- delays and inconvenience experienced during upgrading works.

4.18 The value for money offered by repairs and maintenance services for the rent paid varied considerably, with some tenants speaking about repairs being done within hours or one or two days and others waiting weeks for an appointment. Contractors that were ‘cowboys’ doing sub-standard work or failing to show up were the issues highlighted by those with negative views on value for money.

4.19 On balance, it was more common for tenants to report having reasonably modern facilities, and a fairly positive experience of getting works done (e.g. prompt repairs service, good choice in units/fittings, quality materials). However, a few tenants do feel that the rent charged is poor value for money.

> “The bathroom upstairs was getting damp and, I’ve got to be fair, I’d never been with a housing association before […] They were out like that (snaps fingers) and they had it fixed within the week” (Family, HA, South East)

> “I think they are just taking the mick (charging the rents they do)” (Family, Council, North Wales)

4.20 There were, however, several examples of extremely bad experiences of getting works completed, though with tenants being left without toilet facilities, workmen not showing up, ‘botched’ or dangerous work.

> “The workmen can take forever to come. You’ve waited in all day for them and they don’t show up!” […] “And then you’re pegging out washing and they’ve been and put a

card through your door!" (An exchange in one of the focus groups between two different family respondents, Council tenants)

"As of this week, X Council were quoting three week's minimum (for repair works) unless it was a gas leak!" (Older person, Council, South East)

"Generally, the windows and doors that they put in aren't of a great quality. I had a front door replaced and you can see daylight through it, but apparently that is normal according to the Council!" (Family, Council, South West)

"They call them 'Council Cowboys' in [X area]" (Older person, Council, South West)

"[…] When I have had works done, the contractors have been a nightmare. But if I have any problems I have contacted those in charge of the renovations and they have resolved that" (Family, Council, South East)

4.21 Some tenants also felt that money was also wasted through what they perceived to be inefficient working practices. There were several examples given of workmen coming out to do repairs without the right materials because they did not have full information about the nature of the problem. One Council tenant had five visits before his door was eventually fixed.

4.22 Some Council tenants, particularly in urban areas, who knew of others in housing association properties felt that the physical standard of HA properties was considerably better and housing association tenants were, on balance, more positive about their property condition and the experience of getting repair works done.

"To be honest with you, I have many friends who moved to housing associations and when we talk with each other we find a really big difference between us and them. When someone has a Council house they just cry, because they are so old!" (Family, Council, South East)

"That makes me sick, that does (that HA properties are in better condition). The Council are still rotting in their own mildew. It's wrong." (Single, older tenant, Council, South West)

4.23 Customer care experiences were generally viewed favourably:

"My housing officer is a lovely lady […] They are good, that way" (Family, Council, North Wales)

"The Housing Officers are quite good. They are very polite and everything. It is just getting something done that takes the time" (Couple with older children, Council, South East)

"The Council here are brilliant – they really help you. […] They are ten out of ten" (Couple with older children, Council, South West)

"They are really nice and they listen to what you want" (Family, LSVT HA, South East)

"They are pretty good - if I need to get in touch with them, I phone them up (Family, Council, Mid Wales)

"They are very nice – once you get through (on the phone). It takes time to get through sometimes. I know they must be very busy…" (Older person, Council, North Wales)

4.24 However, some tenants were more negative saying that they needed to 'nag' to get anything done, that they had received poor service or felt that staff lacked respect. One older tenant in one focus group was appalled when she contacted the Council to report a leak in her toilet cistern, as the call handler made a joke about her with colleagues while she was on the phone, implying that the tenant was incontinent. This was the worst example of customer care reported.

4.25 A few tenants with longstanding property issues felt there was a lack of accountability for poor service. Some spoke about a tortuous, exhausting process to have repairs issues resolved.

"For everything, you have to nag and nag and nag" (Family, Council, South West)

"I hardly see them. […] It is not easy – you have to chase after them" (Pensioner, LSVT HA, Valleys)

"I had water pouring through my chimney, well, the roof, near the chimney. I called to report the problem and couldn't get through. I called every day and spoke to someone eventually and reported the problem. I had to call a few times again and tell them. Someone did come out eventually, but it actually took three months to get repaired, after three inspectors looked at it!" (Family, LSVT HA, North Wales)

"There needs to be more accountability from the people you speak to. People need to take more responsibility and think 'this is my job to report this'. […] They should get back to you within 24 or 48 hours. Not be passed from one person to another to another" (Family, Council, South West).

4.26 One of the sheltered housing residents had seen their level of service reduced in recent years. This was attributed to cuts within the Council's social care budgets.

> "When I moved in, they were getting money from the Council for a warden and now they just come a couple of days a week" (Older person, HA, Mid Wales)

What is worth paying extra for?

4.27 When asked whether there was anything that would be worth paying extra for, a few tenants identified estate management (e.g. grass cutting) as worth paying a bit more for. One person said they would like heating to be included in the rent. He had previously lived in a property where the rent covered his heating costs and felt that this made budget management much easier.

4.28 Improving the physical condition of the properties was more generally felt to be a basic level of service, for which there should **not** be an additional cost.

> "You should not have to live in dampness or mould if you are paying rent" (Family, Council, South East)

> "If the property is falling down, I wouldn't appreciate paying any rent! As long as it is fit enough to live in, you pay for what you get (Older person, Council, North)

4.29 A couple of tenants said it would be better to have improvements/better facilities and pay more rent, though.

> "We could really do with a bin store for the bins because they are left on the footpaths. That would be worth paying a little bit more rent for" (Couple with older children, Council, South East)

Deciding what to charge for rents

4.30 One aspect of the rent policy review explored with tenants was what factors should be considered in deciding on the structure of rents. Property size was generally felt to be the factor that should drive rent the most, with some discussions about overall space versus number of rooms, and whether houses and flats should have different rents. Most tenants felt that the differentials based on property size were appropriate, but a few were less sure.

> "Size has got to come into it, because someone staying in a small property shouldn't be paying the same as someone somewhere bigger" (Family, HA, South East)

> "It is not fair at all. There should be more of a difference by size" (Couple with older children, Council, South East)

4.31 New build versus older properties also caused some debate – with the recognition that older houses may have better space standards and be more desirable whereas newer houses may be more energy efficient but of poorer quality.

> "Should these have a higher rent (new properties). They are new, fresh and lovely but maybe not more expensive" (Family, disabled tenant, Council, North Wales)

> "I think you can have a nice, four-bedroom new house and a nice four-bedroom old house. There should not be a difference in price because one is old and one is new. If they are in the same City they should be the same price" (Family, HA, South East)

4.32 Affordability and the cost of heating were also felt to be important, especially for tenants on benefits.

> "Affordability for tenants, for me comes top because it has to be affordable for anyone who is in there, really" (Family, Council, South West)

> "I think the affordability more than anything, that is important in deciding on the rent" (Older couple, Council, South East)

4.33 When asked whether more energy efficient properties should have higher rents, views were mixed. Some felt that it was fair to ask for more rent if people were saving money on heating, or offer a discount to people with inefficient heating whereas others felt energy efficiency should be improved as a matter of course. There was a similar view on condition – rather than having a lower rent for a poorer condition property there was more generally felt to be the need for a minimum standard.

> "Energy efficiency should be better across the board. They should do their best to improve it." (Family, LSVT HA, South East)

4.34 Location caused some debate, with some feeling that poorer areas should not have lower rents, as this causes social problems. However, one respondent felt people should have lower rents in areas with more social problems as they had to put up with more, on a daily basis.

> "I have ex-offenders near me, and young people who have been in trouble. […] It encourages integration if rents are not related to location. No place is the same – you have to respect communities" (Family, Council, Mid Wales)

4.35 Another view was that higher rents should be paid by those choosing to live in towns/nearer to shops and other facilities, though some disagreed and felt that social renters in cities should not pay more:

> "I think location is important. You don't want to be too far from the shops and the bus routes so rents should reflect that" (Older person, Council, North Wales)

> "They can afford to drive a brand-new car and fill it with petrol and do the hour commute because they are paying half the rent we are" (Family, HA tenant, urban location, reflecting on the rents in the Valleys)

4.36 Some tenants felt that they did not have choice about the location of their property, and so discussions of 'choice' in relation to social housing was not appropriate. Some anomalies were also identified, with tenants providing examples of people in flats paying more than people in houses within the same local authority. There were also some views that there is not much difference between different sizes of property and that this was not fair, because it was felt that differences in size should be reflected in higher or lower rents. Others felt differences were justifiable in terms of overall space standards, having a garden, or some other property features.

4.37 Several of the tenants involved in the research reported living in overcrowded properties and were waiting for a transfer to a larger property. For these tenants, any additional charge for more space is a secondary consideration to their housing needs, exacerbated as their children get older.

The comparability of local rents

4.38 Another aspect of the rent policy review, on aligning local rents, was also explored. Setting rents in line with the private sector or other social landlords was not generally felt to be that important, though tenants felt rents were broadly similar across the social sector.

> "I don't think we should set our rents to be in line with other landlords, but it would make sense if the Government said that they had to be in line in such and such area" (Older person, Council, South West)

Consultation about rent increases

4.39 Council tenants generally said that they received information about their rent increase by letter, without further consultation. A couple of Councils had 'drop-in' sessions, though, and several HA tenants had been invited to participate in rent consultations but only a couple had attended (finding it interesting). Those not participating said the location or the timing of the event had not suited them, or they had long-standing health issues. One respondent very involved in his local HA said that his HA struggled to get more than a handful of tenants to attend 'rent forum' type events.

4.40 Those receiving letters felt that these were clear about how much the rent would go up by and why, justifying rent increases through increased costs or outlining service charges. A few said that the letters say 'Just pay up, or else' rather than providing information about what the rent pays for. Several respondents suggested that tenants didn't have a choice about rents 'They give you your bill and you just have to pay it, don't you?' and 'It is just something you have to pay'.

4.41 Rent increases were described as 'a few pounds' a week extra each year, or £4-£5 of an increase. Most tenants felt the rent increases were reasonable/minimal whereas a few felt that they were not, as these increases amounted to a significant part of their income. This impacted most on those affected by the Bedroom Tax/Benefit Cap.

> "Rents go up a small amount each year. It just goes up by inflation, which is fine" (Family, LSVT HA, South East)

> "The rent went up (this year) about a pound (a week). It went up a minimum amount. It goes up every April. You expect the rent to go up every year". (Single, disabled, Council, Mid Wales)

> "When we were with the Council, we were paying £55 a week, and now we are paying £87 a week six years later and it's going up again soon" (Family, LSVT HA, North Wales)

> "It always seems to go up by more than inflation […] When we were paying full rent it was harder to keep up, then we had to borrow money" (Family, Council, South Wales)

> "They tend to put the rent up by about £2 a year, so it goes up gradually. They'll do that in the April and then they will put a 'fair rent' in with the statement saying what they have done to the house, which they have done nothing really. […] They are looking for my rent to go up from £92 to £105 (a week) (Older person, HA, South East)

The Welsh Government's role

4.42 It was very uncommon for tenants to be aware about the Welsh Government's role in rent setting, the Target Rent Band or the uprating of rents in relation to CPI+1.5%. However, the vast majority of tenants were positive about the Welsh Government having some involvement in rent setting. This was felt to be important so that landlords didn't 'take the Mickey' and charge very high rents, and to ensure that standards were similar across Wales.

"Well, they are our Government, so they should have some say in what goes on to try and keep our rents fair" (Family, LSVT HA, South East)

"I think that's quite good. In case our landlord tries charging too much." (Young couple, HA, North Wales)

"I know that they (the Welsh Government) have a target of what the rent can go up by. Imagine if there was no cap – the rents would shoot up" (Older tenant, LSVT HA, Valleys)

"I thought it was just down to the landlords. I think that is probably a good thing – but it is just a case of whether it is enforceable or not, whether anything would happen (if a landlord charged more than the TRB)" (Couple with older child, Council, South East)

"I think it is a good idea (limiting rent increases to CPI+1.5%) or there would be lots of people charging too much and the rent would go up too quickly" (Family, Council, Mid Wales).

4.43 In this respect, the views of tenants differed markedly from the views expressed by landlords. Many landlords wanted more flexibility or even complete autonomy, in rent setting, while tenants across Wales were keen to see the Welsh Government have a role in overseeing rent increases to ensure that rents remain affordable for tenants.

4.44 Some tenants who were affected by welfare reform were very negative about the role of the Welsh Government, or the unfairness of the 'system' generally. This reflected a common lack of understanding that the UK Government and not the Welsh Government decides welfare policy:

"They (the Welsh Government) don't care – they all live in their big houses and they don't care about us" (Single older tenant affected by Bedroom Tax, HA, South East)

"This Universal Payment is messing everything up. Everybody goes onto one payment and the Social are taking 8-12 weeks to transfer them and they are going without rent and everything" (Older tenant, HA, South East)

4.45 On the issue of rents increasing by CPI + 1.5%, several tenants expressed the view that costs of rents, Council Tax, buses, food shopping etc. were all going up at a faster rate than wages or benefits, so affordability was a concern (particularly for those on benefits).

"Also, I think we should consider that the prices increase but the incomes stay the same, so people find it difficult" (Family, affected by Benefit Cap, Council, South East)

> "Other things, like wages, are not going up. If you get any benefits, or anything – they've been stagnant and there have been caps on certain wages, like the police and nurses. So, it seems across the board that wages and benefits have not gone up but the rents and things have. It's marginalising, if you know what I mean? So, we're worse off at the end of the day". (Family, Council, North Wales)

4.46 One tenant felt that the additional £2 charge should not be encouraged for those rents at the lower end of the TRB and that it should be CPI+1.5% everywhere. Another respondent voiced some cynicism about the research – whether the Welsh Government had plans to 'average us all out and have us paying the same'.

4.47 The views of tenants were generally to limit the extent of the rent increase as much as possible, given the low rate of increase of incomes. This may be at odds with the views of many landlords, who were hoping for the rent uplift of CPI + 1.5% to continue to enable investment and to support development.

What rent pays for

4.48 When asked what they think their rent pays for, most tenants discussed repairs, improvements and maintenance of the stock, as well as estate management – 'keeping up standards'. It was far less common for tenants to talk about the costs of running the business, although some did mention staff wages and covering costs. In this respect, the views of tenants are very different from those of landlords, who see business viability as critical to rent policy (and flexibility in rent setting key to this).

4.49 Only a small number of tenants identified investing in future housing as what rents pay for. One tenant said that the rent probably contributes to new building but did not support this. This is an interesting perspective, with rent seen as almost like a mortgage, with the rent paid for the individual property occupied rather than for the common good.

> "Well, it pays for the roof over our heads – this house. What else? It probably goes towards building new houses, flats etc. but I don't agree with this, why should our rent be paying for this, I don't understand it". (Older couple, HA, North Wales)

4.50 When prompted, tenants discussed local new-build properties (which varied from none to 'not enough' to lots). The need for more family-sized housing was identified by those who were overcrowded.

4.51 Tenants were not always aware of what share of new building was social housing. There was a perception that most new-build properties were HA rather than Council properties, although a few Council tenants said their Council were building. In rural areas nearer to

England, there was felt to be pressure on affordable housing from higher income people from higher value areas of England.

4.52 Tenants were more likely to think of rents as paying for the upkeep of the current property, while landlords were looking longer-term to the viability of the business and the ability to provide more affordable housing for those in need. This inevitably means there is a tension between tenants wanting very modest rent increases while some landlords see a need for rents that reflect the demands put on the sector.

Tenants views on affordability

4.53 There were a range of views on the likely affordability of rents, in different scenarios. Some people felt that rents were reasonable and affordable across the board, particularly those who made comparisons with private renting.

> "Most working families could afford what we pay each month" (Family, LSVT HA, South East)

> "It's quite alright, actually. We manage fine to pay the rent and have a little left at the end of the month to do something nice with the family" (Family, Council, Mid Wales)

4.54 Some felt that **working families** were likely to find rents affordable if two people were working but changes to Child Tax Credit have an impact, with some people ending up 'working for nothing'.

4.55 Others felt that on a modest wage (e.g. minimum wage), even with two people working a family would struggle with rent, Council Tax and childcare costs etc.

> "It is not very easy to afford as I'm not working. When I am back at work it should be easier" (Family, HA, North Wales)

> "I think they (the rents) are alright as long as the wages are alright. It depends what your job is" (Family, LSVT HA, South East)

4.56 Rents, alongside other family expenses, including childcare costs, pose challenging for those on modest incomes, with wages not felt to be increasing at the same rate as costs.

4.57 On the one hand, people expressed the view that **pensioners** should get help with their rent, but examples were given of pensioners struggling because their works pension took them over the Housing Benefit threshold and they paid full rent.

> "I'd say for pensioners, like me, yes, it's affordable. I manage OK. I wouldn't be able to afford the private rent for a two bed - £115 a week. No way!" (Older person, HA, North Wales)

4.58 **Single people** on the minimum wage were felt most likely to struggle from just having the one income. Again, having all of the costs of running the home alongside the rent was discussed - 'I do feel sorry for young people nowadays'. This was identified as a disincentive for young people – 'that's why a lot of them don't want to work'.

> "I would have thought they'd find it difficult with just one income coming in" (Family, Council, Mid Wales)

> "If you lived on one wage… a single person would struggle. Everything is going up. Council Tax, Water, Gas, Electric, Food… all the major bills" (Family, LSVT HA, South East)

4.59 By and large, tenants did not consider affordability in relation to household costs and outgoings but rather in terms of the level of income of the household. So, households with a single income source were felt to be more likely to have affordability issues. This is explored more in the affordability section below, which considers residual incomes and household size.

4.60 Affordability was also a key issue for those on benefits – with the Bedroom Tax, Benefit Cap and Universal Credit identified as critical issues, as well as changes to disability benefits and conditionality/fitness for work tests that effectively reduce disabled people's incomes.

> "The Bedroom Tax – I want to mention it. It's awful. Because there are only two of us in the house, I have to pay an extra £20, as it's a three-bed house". (Family, LSVT HA, North Wales)

Conclusions

4.61 The conclusions are grouped below under the main research questions explore in the work with tenants.

Tenant awareness, understanding and attitudes towards Welsh government rent review proposals –

- Tenant awareness about the Welsh Government's role in rent policy in Wales is patchy, but tenants were still able to take a view about what they thought was important in setting rents.
- Although tenants agreed that property size (or space, like gardens etc.) should drive rents, there was a lack of consensus about how to take account of property type, location and age in rent setting.

- On the issue of property condition and energy efficiency, there was support for a minimum standard rather than rent reductions for tenants with poorer quality homes or less efficient heating.
- Tenants generally wanted to see modest rent increases in future, with ongoing concerns about the cost of living.

Views on impacts of rent policy changes on affordability:

- Although tenants most commonly felt that their rents were 'reasonable', alongside property size, affordability for tenants was viewed as among the most important factors in deciding rents.
- Some tenants struggled with rents, particularly where there was a sole earner in the household, their benefits were capped or they were subject to the Bedroom Tax. The increase in rents (and other household costs) alongside limited wage and benefit increases was highlighted as a concern for affordability.
- There were concerns expressed about the impact of welfare reform on rent affordability, with a lack of understanding about the role of the Welsh Government in welfare reform.

How and why these views were held according to the circumstances of the tenants:

- There was a considerable level of agreement among tenants about rent setting and affordability. Tenants in properties where landlords were felt to have not resolved problems of property condition were more critical about rent increases, though.
- Tenants were generally positive about the value for money of their rent, though some experienced very poor quality housing or poor service, particularly relating to larger repairs. Council tenants tended to be more negative than HA tenants, with the few tenants involved in consultation on rents being HA tenants.
- Tenants in urban areas commonly viewed rents as 'reasonable' in comparison to the rents charged in private renting. However, these tenants still wanted to see a role for the Welsh Government in encouraging restraint around rent increases.
- Tenants adversely affected by welfare reform were most negative about the rent policy and the Welsh Government, despite decisions about benefits being made by the UK Government.

How the views of tenants compare with those of landlords

- Tenants strongly supported the role of the Welsh Government in rent policy, with concerns that without involvement that rents might increase disproportionately.
- Most tenants did not have a full appreciation of what rents paid for, linking rents to maintenance and improvement but less to investment or costs. Although repairs and improvements may be worth paying more for, there was felt to be a need for a basic, minimum standard of property condition and energy efficiency.
- Tenants were less focused on future investment or the sustainability of the sector compared with landlords. A few tenants highlighted concerns about the supply of housing for homeless households or families but the role of rents in maintaining the viability of the sector in future was a concern for landlords rather than tenants.

5. Case studies and stakeholder interviews

Introduction

5.1 This chapter provides discussion offering greater granularity around the issues of rent policy. It is based on telephone interviews with nine housing organisations and six representative bodies.

5.2 The purpose of the case studies was to allow more detailed insights into the impacts of rent policies on a sample of landlords that together broadly covered the spectrum in Wales. It allowed us to pursue issues in greater depth and to bring these out to enrich the study and make it better informed.

5.3 The Case Studies were put in place to help develop a better understanding of the wider context around Rent Policy:

- How does the rent policy impact upon the valuation of social landlord's housing stock and their borrowing ability? To what extent does this impact upon the ability of social landlords to deliver on their business plan commitments?
- Taking into consideration rents, service charges and Local Housing Allowance rates, to what extent is there capacity or the ability for social landlords to deliver social, intermediate and market rented housing across all local authority areas/BMRAs in Wales?
- To what extent does the rent policy impact on social landlords' ability to deliver Welsh Government policies particularly where there are different economic or housing market areas?

5.4 The case studies were conducted by telephone using a semi-structured questionnaire which was pre-circulated to participants to allow them time to prepare for the discussion. Where requested, the interviews were carried out in Welsh through a qualified and accredited translator.

The Findings

5.5 In this section, we report back on the findings thematically based on the headings in the schedule of questions. Within each theme, the analysis is generally presented for each type of organisation separately. Issues specific to areas/types of organisations are also identified. We then conclude by returning to the specific research questions. The schedule of questions can be found in Appendix B.

Background issues raised by landlords

5.6 Interviewees were given the opportunity to highlight any special background housing issues about their organisation. Issues raised by the organisations, along with a brief description of organisation characteristics are noted below.

5.7 The three local authorities were in different parts of Wales. All had substantial stock though very little or indeed none of it was built post 1990. However, there is an expectation that house building activity will resume in all three authorities. In all cases they were the largest landlord in the locality. Two were urban authorities and one was rural. Two of the three had achieved WHQS for all of their stock (subject to acceptable fails) and the third was making good progress towards it.

5.8 In terms of the associations, the LSVTs were at either end of the rent spectrum – high/low rents and both were relatively young as organisations. Both highlighted that they had vulnerable groups of tenants – low incomes, older and younger people and either poor quality stock or lack of smaller homes. Welfare reform was a threat to both. For different reasons, both have slipped towards the bottom of the rent bands.

5.9 Traditional non-LSVT associations, were made up of three groups plus a stand-alone association that had undergone some recent changes. One group highlighted the high number of small homes, the second its desire to have rent freedom given the proposed Local Housing Allowance cap (now withdrawn) while the third noted low market rents in their area and the high percent of tenants not on benefits relative to other associations. The stand-alone association, which operates principally in rural areas, was now WHQS compliant, although like others associations interviewed it had quite a few 'acceptable fails' which it intended to reduce over the next few years. Rents were reported to be mostly 20-25% below local private rents, although there were likely to be exceptions in low demand areas. A relatively low proportion of the association's tenants were on benefits. The introduction of the 'bedroom tax' had been managed and its impact on the association and tenants had been minimised. All associations were concerned about Universal Credit, which was expected to result in the doubling of rent losses to around 4% of rental income. The now withdrawn proposal to limit eligible rents to Local Housing Allowance levels was also a source of concern.

Implementing the Rent Policy

5.10 This section relates to questions 2-5 in the schedule. Interviewees were asked to outline their current rent policy, their experience of transitioning to the Welsh Government's Rent Policy, progress towards de-pooling service charges, and whether they considered that there were alternatives to using SAP ratings as a proxy for quality.

5.11 Two of the three local authorities had adopted the rent matrix though one of these did not include the SAP rating measure (it had previously used floor area and may use SAP rating for new homes – the authority was close to being compliant with WHQS and felt it could set aside the SAP issue at present) and the other still has a high proportion of homes below target rent levels. The third used its own model linked to housing benefit plus a charge per bedroom/by type of property. Vacancy is the typical trigger for moving an individual property to target.

5.12 The location measure was also a problem – the logic of paying more for better areas was accepted but then the question of who defines better has to be addressed. Others were more concerned that its effects could be regressive, forcing lower rents in low demand areas which it was felt added to the downward spiral. One felt SAP was less of an issue after WHQS was achieved. On rents, one commented that applying the flat rate increase of £2 did mean that it was proportionately a bigger increase for cheaper/smaller homes.

5.13 On service charges, progress towards de-pooling was being achieved and in one case it was suggested it had been completed. However, as this was often done on change of tenancy the progress could be slow. Another commented that it wasn't planning to de-pool grounds maintenance of common areas as this would be too difficult/too costly.

5.14 Of the housing associations, one LSVT had applied the policy (freezing rents on homes above target) the other hadn't though its rents were aligned to conform to the TRB and it used the formula for annual adjustment. This LSVT association was content that their income was aligned with the business plan and felt it gave them an internal discipline to manage costs. Of the traditional housing associations, the stand alone association was moving from guideline to WG rent policy though concerned about how the now withdrawn Local Housing Allowance policy would impact given its rents were slightly high. Of the three groups, none had adopted the policy though all were closely aligned. There was seen to be no particular advantage of using it and their own policies gave them added flexibility. Indeed, one issue to emerge strongly from the case studies and other research was this question of flexibility even if it was using your own policy within the government's TRBs it was seen as very important by all case study respondents. Two associations still used the old Welsh Government benchmark rent framework. Both had intended to

develop a new rent setting policy, but this had been postponed until the outcome of the Welsh Government's present review was known.

5.15 One association commented at length on the problems posed by TRBs and the constraints on putting up rents (£2 per week increase beyond CPI plus 1.5%) given the overall envelope and the application of local indices in single local authorities.

5.16 On a wider front, there was widespread dissatisfaction with the rent settlement process – it was seen as too late in the financial year and surrounded by too much uncertainty. This in turn encourages associations to maximise where they can and when they can which partly runs in the face of the overall intention, a point that emerged strongly in the wider survey data.

5.17 On de-pooling a number of organisations had always kept rents and service charges separate. Others had completed the de-pooling process while a third group were in the process of doing this though the timescales over which it was to be accomplished varied and were not always clear. However, all accepted the logic of such a move and the greater clarity it introduced.

5.18 On SAP ratings there was considerable debate. It was seen as a narrow measure and encouraged associations to focus on improving the SAP rating rather than other aspects of quality. There was the issue of defined 'acceptable fails' inside WHQS and whether that should be taken into account. Other alternatives canvassed were using age of the property and WHQS compliance in general. All were really agreeing this was a complex area but one which needed revisiting.

Impacts of rent policy

5.19 This section refers to the questions 6-13 in the interview schedule. These questions were designed to capture the impact of the rent policy on issues including the local labour market rent arrears, demand for property, fairness of rents between properties and locations, borrowing capacity and investment.

5.20 The local authorities saw no particular tension around housing and labour markets given that the rent policy was adjusted for local conditions. However, in one area with above average high house prices and below average wages did mean there were limits as to what could be done regarding rents. The association which had not adopted the policy believed that there was little deliberate relationship with the local housing or labour markets, although there might be an indirect relationship since rents were largely within the target bands.

5.21 In most but not all cases, arrears have been increasing though it is not always clear what has driven this. Clearly there were concerns that Universal Credit would make matters worse. Some tenants were taking in lodgers, and others were downsizing to help to pay the rent.

5.22 In terms of negative impacts upon specific groups one local authority highlighted the young, the old and the disabled in smaller properties while another flagged up more positively that it was felt by tenants that there was a better structure to rents even though location was not reflected.

5.23 It was clear from two of the authorities that the rent policy had given them more capacity to build new homes and improve existing ones. Authorities had bought back right to buy properties and one had expanded its welfare support functions.

5.24 Rent policy had generally helped in terms of valuations and borrowing power had increased. However, there was a cap in place and although talks were underway regarding pooling such borrowing capacity this was unresolved at the time of the interviews. It was also the case that where an authority was close to the top of the rent band this would be a problem.

5.25 For the stock transfer associations one expressed concern that rent policy metrics failed adequately to take into account high priced areas with low wages and the impacts this would have on tenants. This was partly a data problem which it was hoped the review could unpick. In the other LSVT its large stock meant it was able to bring downward pressure on PRS rents. The target rent for specific types of property were close to Local Housing Allowance rates and the LSVT's rents were aligned with JRF living rent standards.

5.26 Both LSVTs agreed that to date the policy had not driven arrears but that welfare reform would and UC was already biting in some areas. Both were undertaking checks on financial viability given the planned regime and trying to work out strategies to ensure viability and at the same time support tenants. Neither thought there had been any impact on lettings/departures. One suggested there might be impacts of the Local Housing Allowance cap on specific types of properties. Neither were of the view that the policy impacted disproportionately on any specific group and both wanted more flexibility so they can make adjustments within the overall envelope, e.g., in more remote areas or where stock was expensive to maintain.

5.27 In terms of development, rent policy has been a positive allowing both LSVT organisations to deliver more on WHQS and supply. One highlighted the need to keep increases above CPI plus 0.5%. One was clear it had also helped in terms of borrowing power though it emphasises this was in conjunction with cost control

5.28 Of the four traditional associations the interaction with housing and labour markets was an issue with the suggestion from one that the policy impeded local flexibility, not least because of the damping mechanism applied. There was general agreement that the policy was having little or no impact on arrears or on movements into and out of tenancies. In terms of fairness there was no great concern that rent policy made that worse albeit that if organisations tried to take full advantage of the policy they might amplify differentials. All stressed the need for balance.

5.29 The impacts on development for these associations were often more to do with the potential impact of welfare reform than rents. Indeed, the Rent Policy has in some cases stimulated development in lower rent areas. However, 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. For this landlord flats were seen as being more viable as the cost of building was lower than for other forms, notably bungalows which were not viable financially despite being in high demand. Another association argued that rent policy was too inflexible and did not compensate for cost differentials in development. In terms of finances rent policy was seen as positive by three of the four in that Wales got a good deal and organisations have some flexibility. The fourth felt it had constrained increases and weakened cash flows.

5.30 Finally, with respect to other issues it was suggested that the rent policy was only under review because of welfare reform even though it was agreed it did need tweaking. Another mentioned land supply and for the need for the Welsh Government to release more public land.

The Case for Reform

5.31 This section refers to questions 14-17 in the interview schedule. These relate to identifying the strengths and weaknesses of the rent policy, and to identify any ideas for overcoming any weaknesses.

5.32 All the local authorities liked the long-term nature of the policy because it gave certainty and transparency and allows for the development of their business plans. One noted it

was much easier to operate under a Welsh Government policy in this area than having to justify their own stance. One highlighted the fact that if there were no rent policy and it was managed via the Local Housing Allowance cap then the authority could put up its rents quite substantially. In general, the scheme was seen as fair and could be explained to tenants. However, all were concerned about the lack of flexibility and constraints of staying within the envelope; this meant they had been unable to make the full range of desirable adjustments.

5.33 There were a number of suggested reforms. First, that DWP and the Welsh Government should resolve whether it was more important to build more homes or keep the welfare bill down. Second, it was noted a number of authorities were close to breaching their rent rebate subsidy limitation cap[12] and if all rents were at target there would be a breach, especially if service charges were taken into account. Third, the £2 flat rate increase discriminated against smaller units and should be expressed as a % of the rent. Fourth, further debate on shared accommodation was overdue and finally all wanted earlier notification of changes along with a long-term strategy. It was clear welfare reform was the big issue. There were some positive views on the ways the rent policy had been implemented.

5.34 The LSVT associations echoed some of this. They felt the policy was relatively simple and transparent and they liked the central direction. However, there were deemed to be flaws in the metrics and the tensions between the rent bands and the policy rent process. One argued there should be no negative consequences if you fall out of the band but remain with a justifiable policy position. The other suggested that the calculation of target rents, taking into account earnings and prices, very much limited the headroom for rent rises in low demand areas despite the fact that all organisations had similar cost bases.

5.35 In terms of reforms, one pointed to the case for higher grant rates in areas where market rents and social rents are uncomfortably close. Both argued for local/regional flexibilities so that rents could be fine-tuned to a greater degree. There was some debate on the Local Housing Allowance and whether it was soundly calculated in areas with little data. One suggestion was that there should be a link between numbers of tenants on target rents which are higher than Local Housing Allowance in terms of the distribution of DHP

[12] When an LA increases its average weekly rent above a limit set by the Welsh Government, 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).

– subject to having demonstrated VFM. Another suggestion was that the distribution of Local Housing Allowance caps was too wide and should be shrunk with adjustments at the top and the bottom. Linking rents to Local Housing Allowance levels was seen as a potential disaster. Both were planning for the future taking into account Local Housing Allowance albeit staying with the rent policy guidelines.

5.36 For the most part the traditional associations recognised that the policy brought consistency, was easy to operate and offered a degree of flexibility. All wanted more flexibility and freedom (with responsibility) so that rents could be better adjusted to local circumstances. One wanted the rent policy removed and two others asked the question that given Local Housing Allowance did they need a rent policy? The fourth wanted the policy to be in place for a reasonable term The organisations wanted freedom to manage rents across areas and to be controlled via investment requirements, Local Housing Allowance and overall regulation. The combination of the then proposed Local Housing Allowance caps in areas of low values and low quality and the limits on benefits that flow from that put associations in very difficult positions in terms of the rents they set. One association was planning to increase rents in higher Local Housing Allowance areas and keep them down elsewhere while at the same time looking to see how it might reduce service charges and pass more responsibility to residents.

5.37 All wanted more certainty about what the policy will be in medium term, especially on up-rating, and all complained about the late notice typically December for implementation in April and with consultation required.

5.38 An association argued that while they can reduce rents by more than £2 they can't 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.

5.39 Specifically, it was argued that locational indices should not change annually, the £2 a week should be more flexible, there should be re-reconsideration of the dampener which means rents can be out of line with local markets and bungalows should be added in (though they are already in the scheme but perhaps less explicitly than landlords recognise?). One association argued that uprating policy should be fixed for a 'reasonable term' – for example for five years to allow for financial planning.

Conclusions

5.40 It is evident from these case studies how varied the operating context is between landlords and by type of landlord. Here we have separated out local authorities, stock transfer associations and traditional associations because it became evident that though there were some similarities, not least in terms of what they wanted in the future, some striking differences risked being downplayed if they were dealt with as a group together.

5.41 The case studies were driven by the three research questions. It is evident from the responses reported on above that the answers to these questions gives a very mixed picture. Our conclusions are grouped in relation to each of these three questions.

Question 1: How does the rent policy impact upon the valuation of social landlord's housing stock and their borrowing ability? To what extent does this impact upon the ability of social landlords to deliver on their business plan commitments?

5.42 On the first the general sense is that valuations have been maintained and even in some cases improved. Local authorities were clearly able to deliver on business plans and this was largely the case for associations but there were some clear tensions around the combinations of Local Housing Allowance, local market situations and the potential for charging rents that reflected local reality. All landlords had taken advantage of the annual uplift in rents albeit in some cases there were limits in how it might be applied. The policy had been devised to ensure 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 weren't views as to negative aspects of the policy and ways it might be improved

Question 2: Taking into consideration rents, service charges and Local Housing Allowance rates, to what extent is there capacity or the ability for social landlords to deliver social, intermediate and market rented housing across all local authority areas/BMRAs in Wales?

5.43 On the second it was less clear though most would say they were able to deliver the supply planned. It was more a case of they could do more if rent policy was more flexible. Some recognised the tensions between increased development capacity and the somewhat lagged 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.

Question 3: To what extent does the rent policy impact on social landlord's ability to deliver Welsh Government policies particularly where there are different economic or housing market areas?

5.44 In general, there was no evidence to suggest the policy was blocking the delivery on policies such as the WHQS. Clearly higher rents would allow quicker progress but landlords recognised the need to balance off competing objectives. However, on the wider policy agenda around local economies and housing markets it was less clear. Though landlords were alert to rents and their consequences for 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 areas but generally it did not feel as though landlords had 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.

Stakeholder Interviews

5.45 Six interviews were undertaken with national stakeholders representing or with knowledge of social landlords, local authorities, tenants, regulation and finance. The purpose of these interviews was twofold:

- To identify and assess the impact of external influences on social landlords.
- To inform any recommendations about the future of rent policy.

Equalities Act

5.46 The Equalities Act 2010 obliges social landlords to ensure that their rent policy (which is a public function) does not discriminate. We asked the stakeholders whether this should be reflected in national rent policy, or whether it should be left to individual landlords.

5.47 There were varying degrees of awareness of the Act among the stakeholders, and most sectors had clearly not treated it as being a priority issue but rather absorbed it as part of the operating environment. Nonetheless, there was complete agreement that it should be taken seriously, none of the stakeholders suggested that the rent policy should be used as a means of securing its objectives, and none suggested that the regulator should take the lead on compliance either. Nonetheless, one stakeholder noted that the national rent policy would, in any case, be subject to an equalities impact assessment.

5.48 Most respondents believed that responsibility should lie primarily with social landlords themselves, one noting that they have to comply with the law anyway, and another that equalities should be 'in their DNA'. Several stakeholders suggested that transparency in rent setting was important for providing reassurance to tenants that the system was consistent.

5.49 Two respondents pointed to Tai Pawb, a charity, which accredits social landlords with a Quality in Equality & Diversity (QED) watermark. This does not in itself guarantee that equalities objectives are being met, but signals that procedures exist that seek to ensure that they are. The two-stage process costs members £4,812 and non-members £6,255 and accreditation lasts for three years.

Welfare reform

5.50 Welfare reform is an on-going concern among stakeholders and seen as being of great importance to the sector's ability to meet Welsh Government housing investment targets relating to new build and the WHQS.

5.51 Almost all of the interviews were conducted before the UK Government announced that it no longer intended to extend the limitation on eligible rents for Housing Benefit/ Universal Credit purposes that currently applies to the private rented sector, i.e. 30% of median market rents in the Broad Housing Market Area.

5.52 However, it is worth recording responses, not least because one national stakeholder who was interviewed after the announcement indicated that many people in the social housing sector believed that it was 'too good to be true' and might well resurface in another form.

5.53 The policy was variously described as having been likely to have 'dismal' and 'very extensive' impact which would 'put supply of housing at risk', increase homelessness. As is well known, its impact would have been uneven, being 'difficult for some and particularly difficult for others.' It would affect low demand/ cost areas and smaller properties the most. It was noted that it is the one bed properties for which there is a particular need. The application of LHA limits on eligible rents would have brought with them the extension of the Shared Accommodation Rate to single social tenants aged under 35. This would have caused serious problems. Developing sharing schemes is one option that was under consideration by some landlords, although the difficulties in getting people who are unrelated and unknown to one another to share successfully would have

created (and indeed does create) legal and management problems. Making such schemes consistent with allocations policy was a further challenge.

5.54 Stakeholders suggested that preparedness in the sector varied greatly. Some landlords had conducted stress tests and begun to explore ways of mitigating its impacts through measures such as shared accommodation, and encouraging tenants to build up savings in advance of its implementation. One stakeholder suggested that landlords would be able to restructure rents by reducing them on smaller properties which are close to or above the proposed cap, and raising them on larger properties which are below it.

5.55 Other aspects of welfare reform remain a concern. The policy to end to 'automatic' entitlement for 18-21 year olds was described as being 'potentially catastrophic for young people', although the exemptions were 'good and positive'. However, the likely impact on the sector was judged to be relatively small because the measure would affect relatively few social tenants. In any case, this policy has now been withdrawn.

5.56 The roll out of Universal Credit is another concern, as the evidence suggests that where it has been introduced (in four Welsh local authority areas at the tie the research was undertaken) it has led to a rise in arrears. Both the six-week (now reduced to five) delay and the default position of paying housing assistance directly to tenants were seen to be the problem. Two stakeholders noted that the Scottish Government had used its powers to retain payment directly to the landlord. The Welsh Government does not have the power to do this, and one stakeholder expressed surprise that it had not been more vocal lobbying to be granted a similar power. As it stands the switch to Universal Credit across Wales in 2018 was expected to create uncertainty and limit landlords' borrowing capacity.

5.57 There were mixed views on whether welfare reform would inhibit the ability of social landlords to deliver on WHQS and new build targets, with most stakeholders who had an opinion tending to hedge their bets. One reason for their reticence is that it is difficult to assess the impact of welfare reform separately from other factors such as the policy on increasing rents and, in the case of local authorities, the borrowing cap.[13]

Rent policy in England and rent increases in Wales

[13] The UK Government announced in the Autumn Budget 2018 that the borrowing cap is being lifted in England and Wales. The Welsh Government is working with LHAs to terminate HRAS Voluntary Agreements which were used to set the borrowing cap for each Welsh LHA.

5.58 The policy in England requiring social landlords to reduce rents by 1% per year was a source of concern. Due to its possible effect on the Welsh block grant some stakeholders had been concerned that it would mean that the Welsh Government would feel obliged to limit increases, so undermining borrowing capacity. The UK Government's announcement that the rent reduction policy will end in 2020 was, according to a stakeholder interviewed after the announcement, 'really welcome'.

5.59 Most stakeholders 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.

Other external factors

5.60 Other external factors raised by at least one stakeholder included:

- Impact of Brexit on the economy and the environment in which lenders were willing to lend
- 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
- Demographic change, including shrinking and ageing populations in many areas
- Pension costs, particularly in LSVT landlords which still mostly operate within the local government scheme
- Local government reform
- The decline in tenant incomes.

Fairness and future of rent policy

5.61 The rent policy relating to rent structures was regarded by most – but not all – stakeholders as having strengths, including transparency, consistency and fairness, all of which are valued by tenants. Interestingly, one stakeholder suggested that some local authority tenants welcomed the increase of their rents relative to housing associations because they had felt like the 'poor relations' in the social housing family, and would receive inferior services as a result. However, another stakeholder thought that very few tenants were aware of the rent policy. On the other hand, another stakeholder suggested that same tendency meant that the policy was 'unfair to all [local authorities]'.

5.62 The rent policy was in some senses seen as convenient. It allowed landlords to 'blame' rent issues on the Welsh Government and to a degree avoid blame themselves. One commentator suggested that there were real tensions between increased development capacity flowing out of broadly increasing rents and the underlying impoverishment of tenants as lower wage inflation and welfare reforms took them in the opposite trajectory. This led to a call for a new Essex review with rent policy being seen in its wider context. .

5.63 The following reforms were suggested by at least one stakeholder:

- The rent policy is insufficiently flexible.
- SAP ratings are a poor indicator of quality (although the opposite view was also expressed).
- The Welsh Government should consider revising the Welsh Housing Quality Standard as the current one ends in 2020.
- Affordability should to 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.

6. Affordability of Welsh matrix rents

6.1 This chapter provides an assessment of the affordability of the Welsh Matrix rents that provide the framework against which social landlords in Wales must set their own local rent policies.

6.2 Affordability is a complex issue, especially in the context of the HB system, and there is no consensus on how to define an affordable rent. This chapter reports on analysis that utilised three indicators:

- Rent to income ratios (gross rents against net income including HB)
- Residual income levels (after rents over out of work Income Support levels)
- Income level required to escape housing benefit dependency.
- A fourth measure (net income after housing costs - AHC) was also included to aid interpretation of the residual income measure.

6.3 A fuller discussion of affordability, and the affordability indicators, is included in Appendix D.

6.4 The affordability analyses have been undertaken for twelve cases, based on household type and property size:

1 Single under 25 bedsit
2 Single under 25 1 bedroom
3 Single over 25 bedsit
4 Single over 25 1 bedroom
5 Couple over 25 1 bedroom
6 Lone parent + 1 child 2 bedroom
7 Lone parent + 2 children 3 bedroom
8 Lone parent + 3 children 4 bedroom
9 Couple + 1 child 2 bedroom
10 Couple + 2 children 3 bedroom
11 Couple + 3 children 4 bedroom
12 Couple + 4 children 5 bedroom

6.5 In each case affordability has been based on two alternative household income levels. The lower income level is based on the hypothetical scenario of one adult working full time (40 hours per week) at the level of the minimum wage. For the year 2018/19 this is based on the minimum wage level set in April 2018 – of £7.83 per hour (giving £295.20 for a forty-hour week). The higher income level is based on published statistics of lower

quartile earnings for one adult working full time in 2018 in each local authority area (based on place of residence derived from the Annual Survey of Hours and Earnings). Those earnings levels vary from just £353.80 per week in Pembrokeshire, up to £420.00 per week in Monmouthshire.

6.6 In all cases the affordability analyses relate to working age households, and do not cover retired households. This is because no data is available on the numbers of households above working age in the social rented sector. While some 50,000 households aged 65 or over in the sector are in receipt of HB, there is no information on the numbers not in receipt of housing benefit, or on the income distribution of those older households.

6.7 The results of the affordability analyses based on these scenarios are illustrative rather than definitive, but they do provide two benchmarks that provide a guide to the affordability for households with earnings above, below, and between, the minimum wage and lower quartile levels.

6.8 The full results of the analyses are set out in Appendix E. In each table the areas with the highest and lowest rent to income ratios (separately based on lower quartile local earnings and minimum wage) are highlighted by being set out at the bottom of each table (as well as in the main alphabetical listing of all areas).

6.9 This chapter is structured as follows. The affordability analysis begins with an examination of the 2018/19 matrix rents under the Housing Benefit (HB) regime. It then moves on to examine the impact of Universal Credit (UC) which is replacing the existing tax credit and housing benefit regime. It continues with an examination of the affordability of matrix rents in 2021/22 on the basis of alternative policies on the annual uplift of the matrix rents over the intervening years. This is followed by a brief examination of the changes being made to UC allowances. The main differences between the results reported here and earlier emerging findings are summarised. Some conclusions are drawn in the final section.

Affordability under the Housing Benefit Regime (2018/19 Matrix rents)

6.10 This section provides a summary of the analysis of affordability of 2018/19 matrix rents under the Housing Benefit regime.

Rent to income ratios

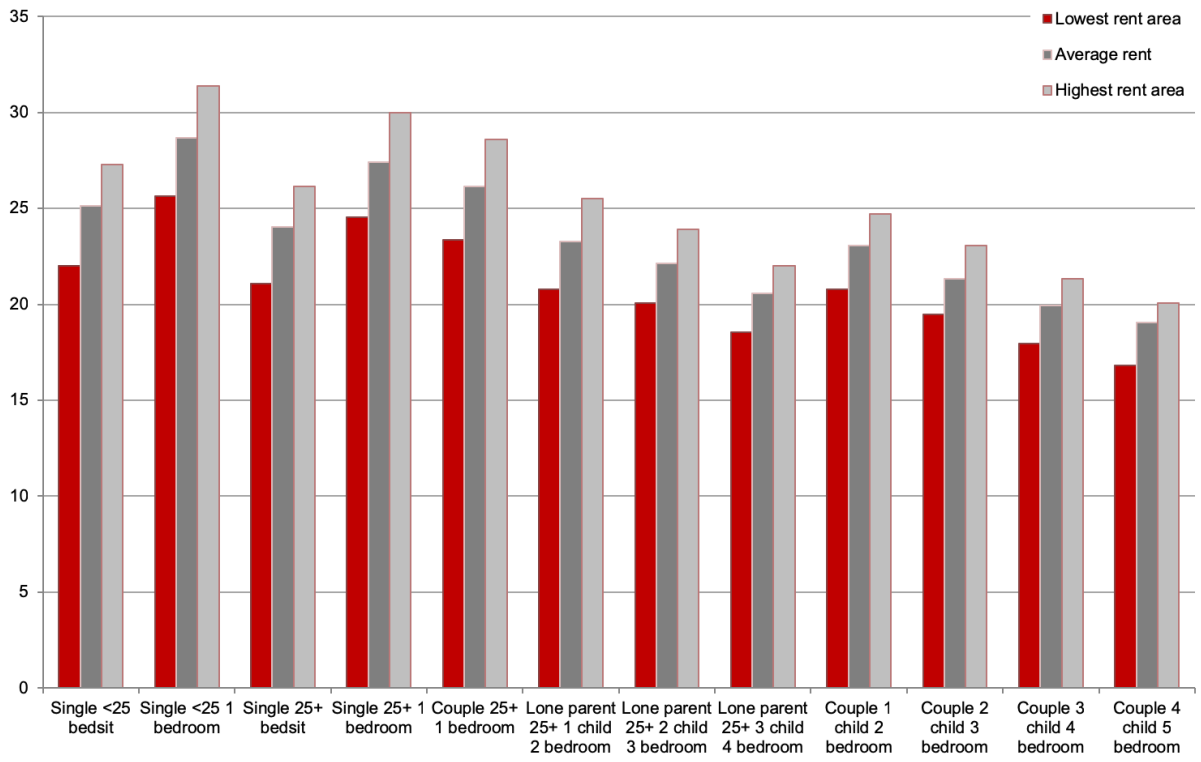
6.11 Rent to income ratios vary by household type, as well as in respect of rent and income levels. Families with children have additional income from child benefit, and for all income levels below £500 per week, they also receive income from child tax credits. As a result

of those higher levels of income, as well as higher levels of HB allowances, rent to income ratios are lower for families with children, than for childless households, as can be seen in Figures 6.1 and 6.2.

6.12 Ratios for single people and childless couples with minimum wage incomes in 1-bedroom dwellings frequently exceed 25%; and in one case reaches 31% (single people in Monmouthshire). In contrast in only two cases do rent to income ratios for households with children reach 25% (lone parents with one child in Cardiff and Monmouthshire). The ratios are lower still for larger families, and for a couple with four children and a minimum wage income in a five-bedroom dwelling the highest ratio is 20.1% (Cardiff). As would be expected, and as can be seen in Figure 6.2, ratios are lower for each family type for those households with lower quartile level earnings.

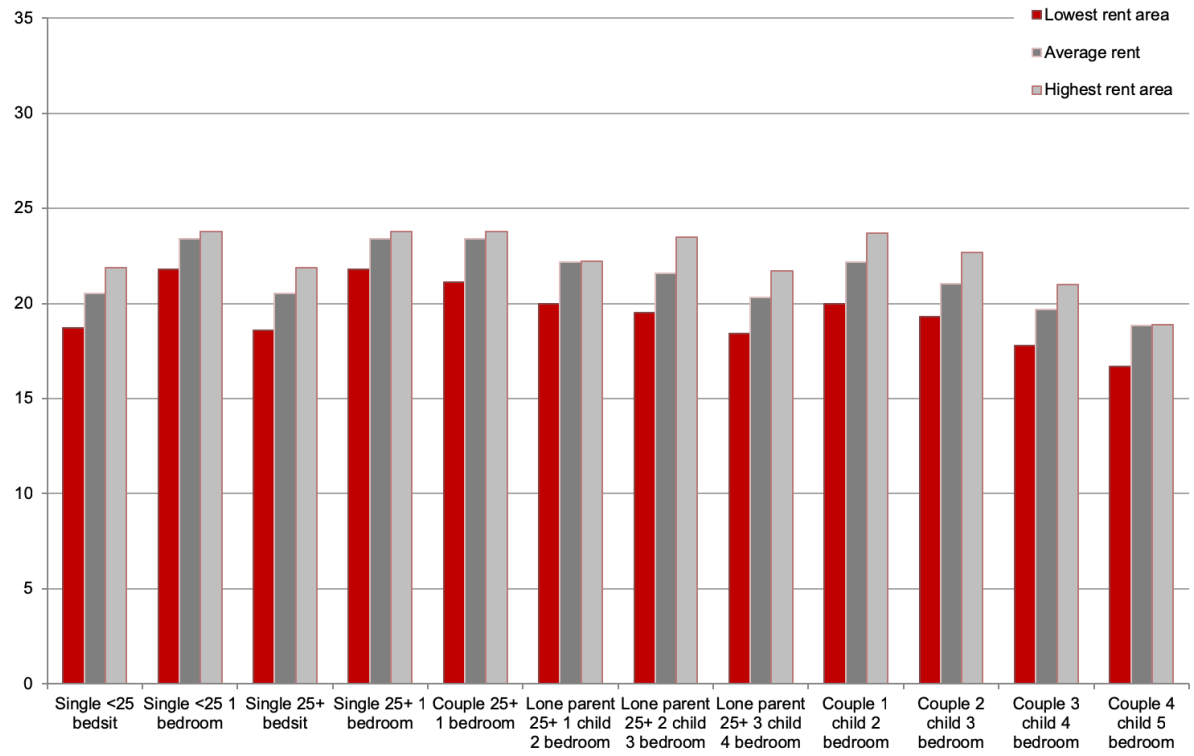
6.13 Single adults aged under 25 have lower personal allowances in the HB calculation, so for a given level of income would receive less HB than single adults aged 25 or over. However, rent to income ratios for younger single people are identical to those for older single people, as in none of the cases illustrated here are they eligible for HB, and thus the lower HB allowances for younger single people have no role in determining their incomes, and thus their rent to income ratio.

Figure 6.1: Rent to income ratios: minimum wage, 2018/19



Assumptions and source: Appendix E, Annex 1

Figure 6.2: Rent to income ratios: lower quartile earnings, 2018/19



Assumptions and source: Appendix E, Annex 1

Residual incomes

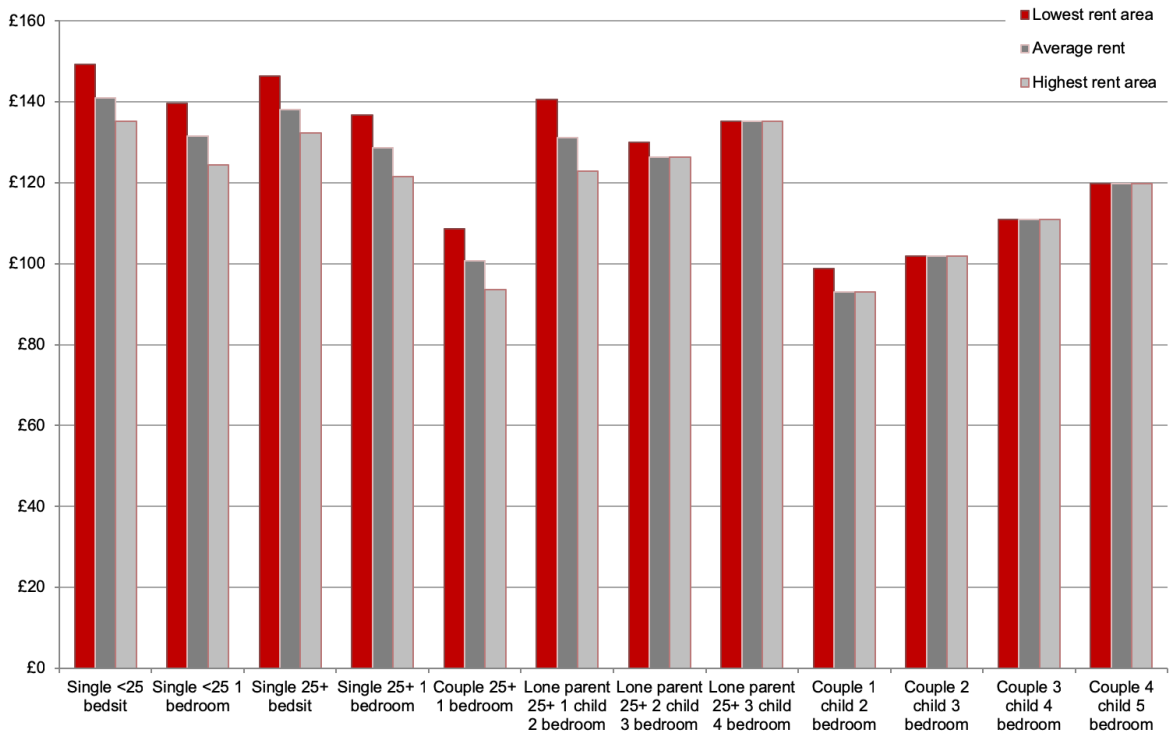
6.14 The measure of residual incomes used shows the amount by which income after housing costs exceeds the basic out of work Income Support allowances. It can therefore be used to identify the extent to which employment is rewarded. It does not take account of either council tax or the Council Tax Reduction Scheme; or in other words any net costs for council tax are one of the expenditures that has to be covered by the stated residual income. To aid the interpretation incomes after housing costs are identified separately in the supporting tables. It should be noted that because people aged under 25 have lower personal allowances in Income Support, they would have a higher residual income than someone aged 25 or over whose after housing cost income was the same.

6.15 Figure 6.3 shows the levels of residual incomes for households with minimum wage incomes. The figure shows the lowest, average and highest rent levels. One point to note is that whenever a household is eligible for HB, then at any given gross income level, the level of the residual income is identical, regardless of the level of the gross rent. In this case all families with two or more children are eligible for HB at the minimum wage income level, apart from lone parents with two children in Blaenau Gwent and Merthyr Tydfil. Couples with one child are entitled to HB in all areas, other than in Blaenau

Gwent, Merthyr Tydfil, Neath Port Talbot and Rhondda Cynon Taf (where the two-bedroom matrix rents are between £4.53 and £9.40 below the Welsh average).

6.16 Residual incomes for younger single people (see Appendix E, Annex 1) are higher than those for older single people as, while their after housing cost incomes are identical. Consequently, the gap between their in- and- out of work incomes is greater. Similarly, the residual incomes for lone parents are higher than those for couples with children, as the Income Support allowances for lone parents are lower than those for couples, so again the gap between their in- and out- of work incomes is greater.

Figure 6.3: Residual incomes: minimum wage, 2018/19



Assumptions and source: Appendix E, Annex 1

6.17 For single people and lone parents' residual incomes (at minimum wage earnings levels) are always more than £100 above income support levels. While this is also the case for couples with three or more children, residual incomes are somewhat lower than £100 for childless couples (in seven areas), and for couples with one child (in all areas). For couples with one child residual incomes are £93.02 per week above income support levels (except in the four areas where they are not eligible for HB where they are between £0.94 and £5.82 higher). For couples with two children residual incomes are £101.97 per week above income support levels.

6.18 While lone parents may incur child care costs in order to work, those costs will potentially be partly offset by the child care cost allowances that form part of the child tax credits

regime (although we note that 10 Welsh local authorities are piloting schemes offering 30 hours of early education and childcare per week to eligible 3- and 4- year olds).

6.19 Residual incomes are clearly higher at lower quartile incomes, although the differences for families with children are limited due to the partial offset of lower levels of working and child tax credit awards against those higher levels of earnings. Nonetheless couples with one child (with two exceptions by small amounts) or two children always have residual incomes in excess of £100 per week.

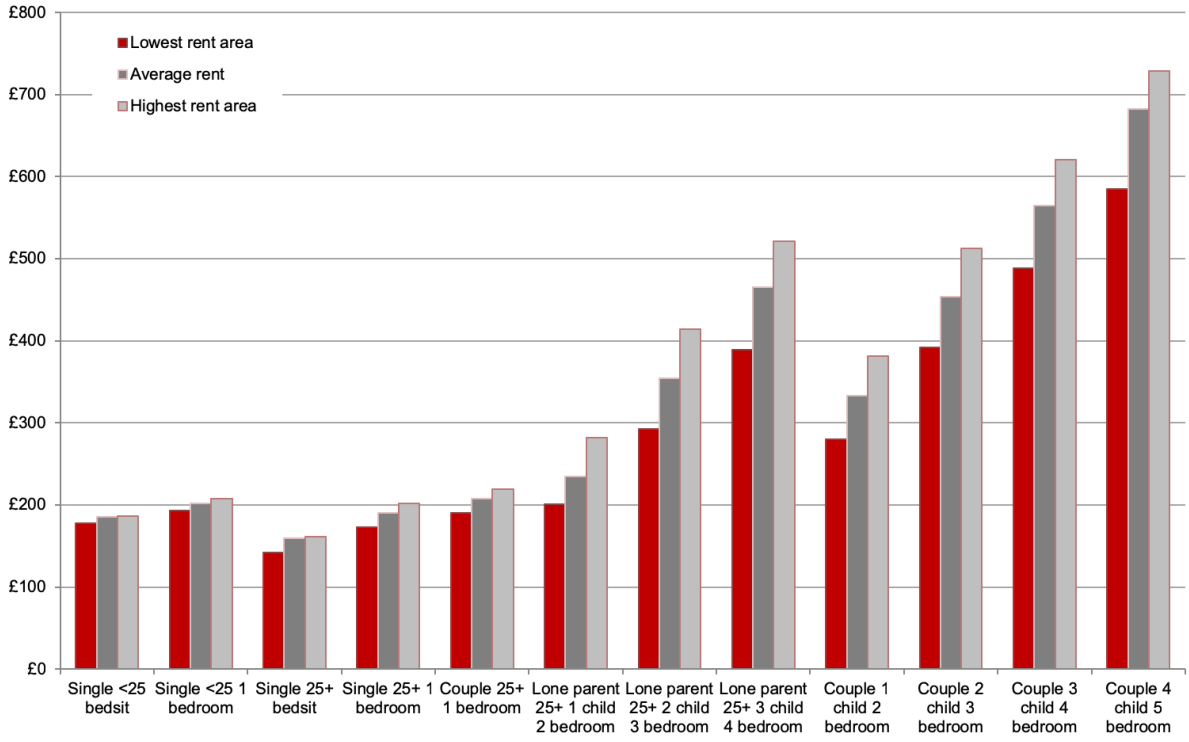
Leaving housing benefit dependency

6.20 The significance of the income point at which households cease to be eligible for housing benefit, is that as incomes rise above that level they are no longer subject to the HB taper, and their residual incomes rise much more quickly (see Figure D.3 in Appendix D).

6.21 Both because of higher levels of HB allowances, and the higher rents for larger properties, HB eligibility extends much further up the income scale for larger families. For single people, couples, and for lone parents with one child, eligibility expires with earnings some way below the level of a minimum wage income. For larger families not only are the earned incomes required to escape HB eligibility much higher, there is a significant difference (of over £100 per week) between the incomes required against the lowest and highest rents for each property size, as shown in Figure 6.4.

6.22 Thus for a couple with two children, in a three bedroom dwelling, the income required to escape housing benefit dependency ranges from £391.79 in the case of the lowest rent (Blaenau Gwent) up to £513.04 in the case of the highest rent (Cardiff). For larger families the income required to escape housing benefit dependency are greater than lower quartile earnings, and in the case of a couple with four children in a five bedroom property, the income required to escape housing benefit dependency ranges from £584.58 in the case of the lowest rent (Blaenau Gwent) up to £729.12 in the case of the highest rent (Cardiff) (Appendix E, Annex 1).

Figure 6.4: Incomes required to cease housing benefit eligibility, 2018/19



Assumptions and source: Appendix E, Annex 1

Conclusions

6.23 Ultimately views on levels of affordability are a matter of judgement. There is no consensual view on what is or is not affordable. Indeed, drawing a line in the sand is inherently difficult in the UK given the role of the housing benefit regime.

6.24 As seen above it is only in the case of all categories of single people and childless couples living in one-bedroom properties that rent to income ratios exceed 25% with minimum wage incomes nationally, and usually leaves the household with a residual income (over Income Support levels) of over £100 per week. For larger families, the HB scheme means that residual incomes remain the same across the whole range of rents from one area to another (at minimum wage levels). However, the higher rents do make it far less likely that working households will be able to escape dependency on housing benefit.

The impact of Universal Credit on affordability

6.25 The roll-out of Universal Credit (UC) is already affecting some people's affordability outcomes and will increasingly do so as more people are transitioned onto the scheme. This can be seen in the following analysis of the impact of UC on the affordability of 2018/19 matrix rents.

6.26 The detailed results of the affordability analyses examining the impact of the UC regime, against the current housing benefit and tax credit regime, can be found at Appendix E, Annex 2. The analyses show the results for average Welsh rents for all local authority areas.

6.27 There are multiple concerns about the administration of UC, and its potential impacts on tenant hardship and rent arrears. The focus here, however, is on the direct impact of the structure of UC on affordability.

6.28 The key difference between UC and the current HB regime is that it includes the equivalents of tax credits and housing within its singular structure. It follows that UC has a far less sharp 'poverty trap' as there is only a single taper to reduce UC as earnings rise, rather than the two separate tax credit and housing benefit tapers that often overlap.

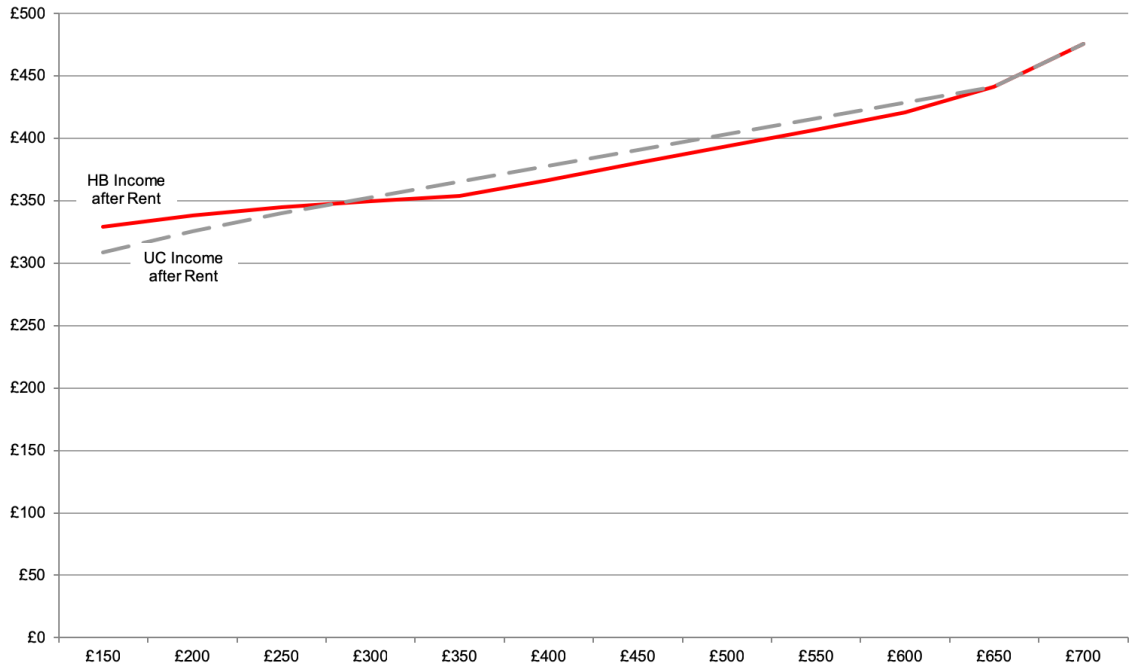
6.29 There are also differences in the levels of the personal allowances between UC and the current schemes, with the UC scheme having lower levels of allowances for all families with children, and in particular for lone parents.

6.30 Consequently, lone parents, are quite likely to be worse off under UC than they are under the current HB regime (albeit that there is some transitional protection for existing claimants at the point they transfer to UC). However, the extent to which this is the case varies with the level of rent, and with the numbers of children in the household.

6.31 In this context Figure 6.5 illustrates the case of a lone parent with two children, and a rent of £100 per week, and shows that they are only better off under UC once their gross earnings exceed £300 per week.

6.32 The other point to note is that at lower income levels lone parents are far more likely to be worse off, and this applies in particular to lone parents working part time with hourly earnings at minimum wage levels, or only a little higher. Couples with children can also be worse off at very low levels of part time earnings, but to a far lesser extent than lone parents. At full time minimum wage earnings levels and above they are in all cases better off under UC.

Figure 6.5: Impact of Housing Benefit and Universal Credit schemes on weekly net income after housing costs, 2018/19

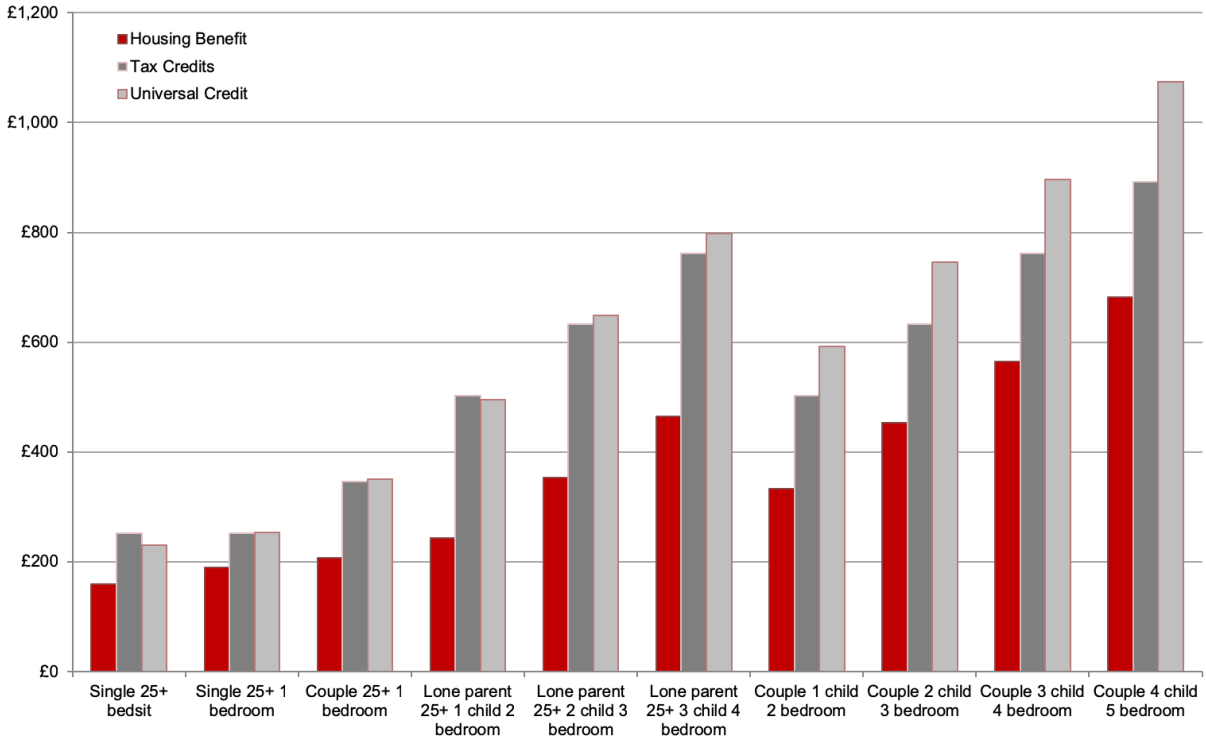


Source: authors' calculations based on 2018/19 scale rates
Assumption: Lone parent with 2 children living in 3 bed accommodation paying rent of £100 per week.

6.33 Thus, with the exceptions noted above, UC tends to reduce rent to income ratios, and improve households' disposable incomes (although less than might be suggested by the 'residual income' figures in our tables as these also reflect the lower levels of personal allowances the UC scheme provides for families with children).

6.34 In contrast, as a result of the less severe poverty trap, UC eligibility extends much further up the income scale than is the case with housing benefit. This is illustrated in Figure 6.6. It follows that the UC regime, with all its administrative difficulties, will apply to a greater proportion of working age households in the social rented sector than is currently the case for housing benefit. This issue is of particular concern for larger families where UC eligibility extends beyond £800 per week – a level of earnings only achieved by some 10% of all earners in Wales.

Figure 6.6: Gross weekly earnings level at which benefit dependency ceases, 2018/19



Assumptions and source: Appendix E, Annexes 1 and 2 (HB and UC); authors' calculations (Tax Credits)
Note: Rents are Welsh average for these properties

Affordability in 2021/22 on alternative levels of annual rent increases

6.35 Affordability in 2021/22 was assessed on the basis of three alternative levels of annual rent increases in the three years from 2019/20 to 2021/22 – CPI + 0.5%, CPI + 1.0% and CPI + 1.5%. The affordability measures applied were the same as with the earlier analyses and in all cases they assumed that the UC regime would be fully operational in 2021/22. It should be noted that in practice average rents have increased ahead of the current CPI + 1.5% formula in the years to 2018/19, due to landlords' use of the provision to increase rents by up to an additional £2 per week.

6.36 The analyses included all local authorities as well as Welsh average rents. Pending any decisions on reforms to the current structure of the rent matrix (discussed in the following chapter) the analyses were based on annual uplifts to the current 2018/19 rent matrix.

6.37 Using April 2018/19 as a base year, average earnings are forecast over three years to be 9.5% higher in 2021/22 based on the Office for Budget Responsibility forecast of March 2019. Tax allowances have been projected to increase in line with CPI in 2020/21. Universal Credit and other welfare benefit allowances have been assumed to remain frozen for 2019/20 (apart from work allowance which was adjusted upwards in line with policy), and then to increase in line with CPI, and for 2020/21 and 2021/22.

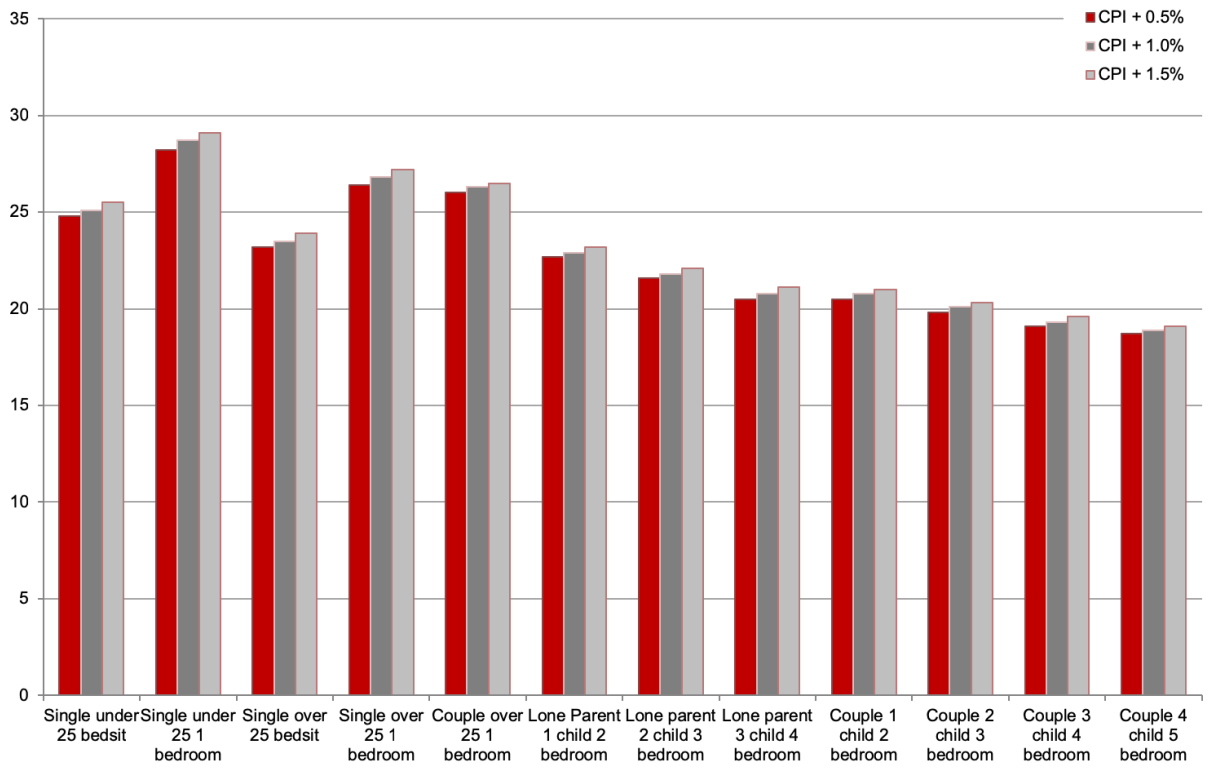
6.38 The results of the analysis of the impact of the alternative rental uplifts are set out below, first showing the levels of rent to income ratios under each scenario, then the levels of residual incomes above UC personal allowances, and finally the income levels at which household cease to be eligible for UC.

Rent to income ratios

6.39 Rent to income ratios vary by household type, as well as in respect of rent and income levels. Families with children have additional income from child benefit, as well as higher levels of UC allowances. Consequently, rent to income ratios are lower for families with children than for childless households as shown in Figure 6.7, with the situation in individual local authorities detailed in Appendix E, Annex 3 (CPI + 0.5%), Annex 4 (CPI + 1.0%) and Annex 5 (CPI + 1.5%).

6.40 Ratios for single people and childless couples with minimum wage incomes in 1-bedroom dwellings frequently exceed 25% on all scenarios. In contrast rent to income ratios for households with children are always below 25% (although they reach 24.9% in Cardiff and Monmouthshire for lone parents with on child on the CPI + 1.5% scenario). Ratios are lower still for larger families, although in most cases they remain above 20%, except in the case of couples with three or four children. For couples with four children rent to income ratios only exceed 20% in Cardiff (on the CPI + 1.5% scenario).

Figure 6.7: Rent to income ratios: minimum wage, 2021/22



Assumptions and source: Appendix E, Annexes 3, 4 and 5

6.41 Rent to income ratios are somewhat lower at lower quartile earning levels, but the differences are more limited in areas such as Pembrokeshire and Ceredigion where the lower quartile earnings are less than £35 above minimum wage levels. In contrast lower quartile earnings are much higher in Cardiff (£73 above the minimum wage), and as a result at those income levels the rent to income ratios for Cardiff are not the highest in Wales for households without children.

6.42 The other point to note is that while affordability in terms of rent to income ratios is always slightly more problematic with the higher rental uplifts, the differences between the three uplift options are relatively modest.

Residual incomes

6.43 The measure of residual incomes used in this analysis is of the disposable income after net rent payments that is above the level of the maximum UC allowances (see 6.17 above).

6.44 Figure 6.8 shows the levels of residual incomes for households with minimum wage incomes, for average Welsh rents under the three alternative uplift scenarios. One point to note is that whenever a household is eligible for UC, then at any given gross income level, the level of the residual income is identical, regardless of the level of the gross rent.

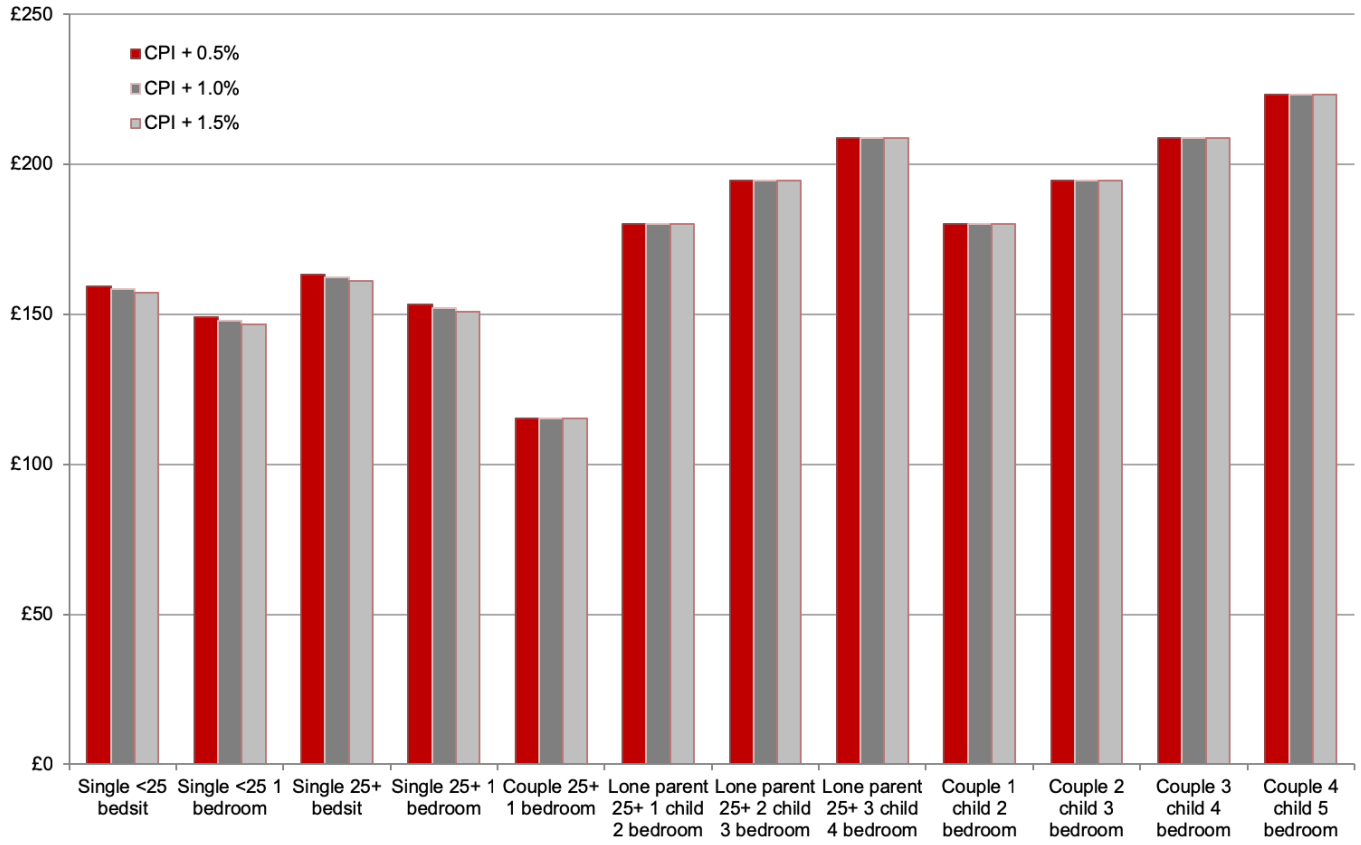
In this case only single people, and young single people, who are ineligible for UC at the minimum wage income level, whose residual incomes are impacted by variations in rents at this income level.

6.45 It should also be noted that residual incomes for younger single people (lower quartile earnings) are higher than those for older single people, while their after housing cost incomes are identical, because younger single people have lower levels of UC allowances, and thus the gap for them between in and out of work incomes is greater. This does not hold for those earning the minimum wage because it is set at a lower rate for under 25s.

6.46 Moreover, such is the structure of the UC allowances that at any given income, the level of residual incomes only varies for families with children by virtue of the different levels of child benefit payable based on the number of children in the family.

6.47 While lone parents have the same residual incomes as couples with the same number of children, their net disposable incomes are considerably lower, mirroring the lower level of their UC personal allowances. Thus, at 2021/22 levels, the UC allowances for lone parents are some £43.36 lower than those for couples with children. Moreover, lone parents are more likely to incur child care costs in order to work, albeit that those costs may be partly offset by the child care cost allowances that form part of the UC regime.

Figure 6.8: Residual incomes: average Welsh rents, 2021/22



Assumptions and source: Appendix E, Annexes 3, 4 and 5

6.48 Residual incomes are clearly higher at lower quartile incomes, although the differences for couples and families with children are limited due to the partial offset of lower levels of UC awards against those higher levels of earnings. For all families with children levels of residual incomes vary based on the local levels of incomes, but are the same for all levels of rental uplift. For example, for couples with two children, they range from £202.90 per week in Ceredigion, which has the lowest level of lower quartile earnings among our selection of authorities, up to £220.90 per week in Monmouthshire, which has the highest earnings.

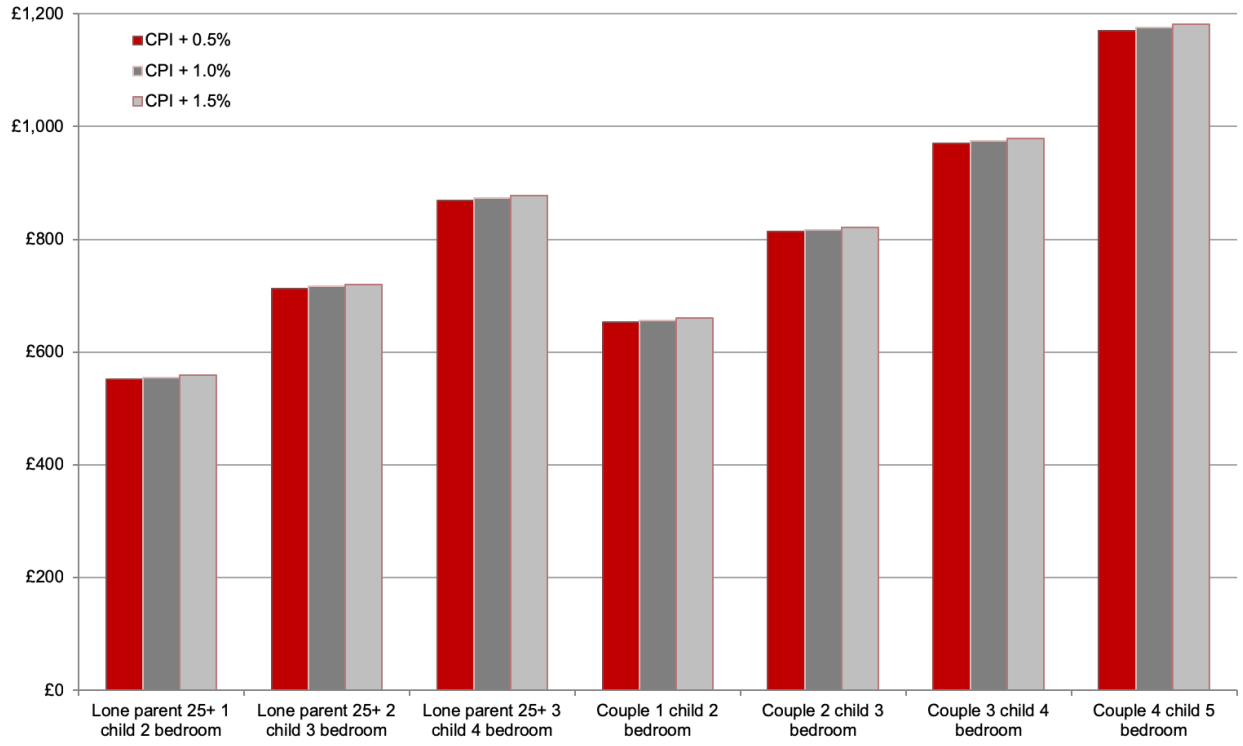
Leaving Universal Credit dependency

6.49 The significance of the income point at which households cease to be eligible for UC, is that as incomes rise above that level they are no longer subject to the UC 'taper', and their residual incomes then rise much more quickly. While, as seen above, the UC 'poverty trap' is far less severe than that under the current housing benefit and tax credit regime, a consequence is that it extends much further up the income scale.

6.50 This is not such a great concern for single people or childless couples due to the lower levels of their UC allowances. For single people eligibility expires with earnings some way below the level of a minimum wage income, while for couples without children eligibility expires below the level of local lower quartile earnings. (The closest is Ceredigion where UC entitlement expires just below (£3.30) that level.)

6.51 Taken together, the more shallow UC 'poverty trap', the higher levels of UC allowances and the higher rents for larger properties result in UC eligibility extending much further up the income scale for families with children, and particularly for larger families, as shown in Figure 6.9 which illustrates the position for average Welsh rents under each of the three alternative rent uplift scenarios.

Figure 6.9: Incomes for families with children to cease Universal Credit eligibility, 2021/22



Assumptions and source: Appendix E, Annexes 3, 4 and 5

6.52 If the extent of UC dependency for families with children is very marked, particularly given the tendency for working households in the social rented sector to have relatively low earnings compared to households in other tenures, it must also be noted that the extent of UC dependency only varies to a limited degree between the alternative rental uplift scenarios. Essentially high levels of UC dependency in the social rented sector is an unescapable feature of the UC regime.

6.53 There is, however, rather more variation in the levels of income required to escape UC dependency between the higher and lower rental areas within Wales. Thus, in the case of a couple with two children, and a rental uplift scenario of CPI + 1.0%, the level of earnings required to escape UC dependency ranges from £789.67 per week in Blaenau Gwent up to £844.15 per week in Cardiff (against £817.35 per week in respect of average Welsh rents).

Changes to Universal Credit Allowances

6.54 The affordability analyses outlined above are all based on families with children born before April 2017, but over time an increasing proportion of families will have children born after that date and subject to lower levels of UC allowances. Post April 2017 the higher allowance for a first child (worth almost £11 per week) is abolished for new claims, and UC allowances are only provided for a maximum of two children born after that date for new claims. In January 2019 the UK Government announced that the planned extension of this two-child limit, which had been due to come into effect from February 2019, would not proceed and that all children born before that date will continue to be supported by Universal Credit. The full impact of this policy will therefore not be felt until the 2030s.

6.55 The lower levels of UC allowances for these two adjustments have been analysed using all three uplift scenarios against both lower quartile and minimum wage levels of earnings in Appendix E, Annexes 6-8.

6.56 These changes do reduce the incomes available to affected households. However, for those who remain in receipt of housing assistance through UC, the level of rent does not affect the level of after housing cost (AHC) income. AHC income is reduced by the same amount across every local authority area and on every rent rise scenario. The change does rise rent to income ratios (because AHC income is lowered), and this varies according rent levels, and therefore between areas and according to different rent uplift scenarios.

Minimum wage

6.57 For families (couples and lone parents) with one or two children with the minimum wage assumption this sees increases in rent to income ratios of rather less than 1.0%. Ratios exceed 25% in the case of lone parents with one child in the two highest rental areas (Cardiff and Monmouthshire) on uplifts of 1% or more, whilst being at exactly 25% for these areas on the CPI + 0.5% scenario.

6.58 The impacts on families with more than two children are far greater, and they see income losses of £66.34 per week in the case of families with three children, and £121.82 per week in the case of families with four children. Rent to income ratios increase by over 2% for families with three children, and by 3.5-4% for families with four children.

6.59 Rent to income ratios for lone parents with three children reach 25% in Cardiff on the CPI + 1% uplift scenario and exceeds it in Cardiff and Monmouthshire on the CPI + 1.5% uplift scenario (albeit marginally). Rent to income ratios for couples with four children, however, do not reach 25% on any of the scenarios.

Lower quartile earnings

6.60 Losses arising from the lower levels of UC allowances impact in much the same way for households under the lower quartile earnings assumption.

6.61 Reductions in weekly AHC income are £10.87 for both lone parents and couples with one or two children. These rise to £66.35 for lone parents and couples with three children and to £121.82 for couples with four children.

6.62 Nonetheless, these reductions in AHC income are not sufficient to raise rent to income ratios to 25% on any rent uplift scenario. Lone parents with three children reach 24% on the CPI + 1% and CPI + 1.5% uplift scenarios in Cardiff (both these scenarios) and Monmouthshire (CPI + 1.5% only). The highest rent to income ratio for couples with children is 23.5% for those with four children on the CPI + 1.5% rent uplift scenario.

Differences with emerging findings

6.63 Results of an earlier iteration of the analysis presented in this chapter was summarised in The Emerging Findings Report (Littlewood, et al, 2019), and we summarise the main differences between those emerging findings and those reported here.

6.64 Some of the assumptions used have been revised in this report, as the result of quality assuring the original data:

- Earnings data for 2018 has replaced that for 2017.
- The lower minimum wage rate has been applied to adults aged under 25.
- The Lone Parent Family Premium, for which very few households are now eligible, has been removed from the Housing Benefit simulations.
- The Universal Credit simulations for 2020/21 rent scenarios use revised rent and earnings projections and benefit rates to bring them into line with 2019/20 rates

(including the uplifted work allowances). The revised outputs are therefore not directly comparable with the original 2021/22 simulations.

6.65 Some technical adjustments have been made to the HB and UC simulation models. National Insurance and/ or tax thresholds and benefit tapers were updated, and Council Tax and Council Tax Reduction Payments have been removed.

6.66 The revised HB affordability estimates are detailed in Appendix E, Annex 1. The use of updated earnings data and the adoption of the lower under 25 minimum wage have resulted in small (generally less than 1%) changes in lower quartile rent to earnings ratios, and a rise in the affordability ratios for young single adults by around 1%, and minor changes in the ranking of local authorities according to affordability. The removal of the lone parent family premium from the model had little effect on HB entitlement other than for lone parents with two children who were receiving small amounts of benefit. Generally, the technical adjustments had modest impacts on affordability indicators. A likely typographical error accounts for an isolated substantive change relating to the earnings required by a couple with four children in Blaenau Gwent were over-estimated by some £5.

6.67 The UC affordability estimates, which are detailed in Appendix E, Annex 2, have changed only modestly as a result of the changes noted above. The only substantial change arose from the correction of an error concerning the use of the under 25 UC personal allowance for those aged over 25. Consequently, UC entitlement increased considerably with knock on effects on the level of earnings required to exit UC.

6.68 The three rent uplift scenarios (Appendix E, Annexes 3-5) are affected by the changes noted above, but do not affect any of the key findings.

Summary: impact of alternative levels of rent increases on affordability

6.69 As seen above it is only in the case of single people and childless couples in one-bedroom dwellings that rent to income ratios frequently exceed 25% with minimum wage incomes, and in all cases this also leaves the household with a residual income (over UC levels) of well over £100. Single people in bedsit dwellings, and lone parents with one child, only incur rent to income ratios in excess of 25% in a few cases in the areas with the highest rents. Although lower levels of UC allowances affecting children born after April 2017 lower AHC incomes they cause rent to income ratios to rise above 25% in only a few cases.

6.70 For childless couples and families with children the UC scheme means that residual incomes remain the same across the whole range of rents from one area to another, and under all rental uplift scenarios, varying only based on the number of children in the family. Against that it is a characteristic of the UC regime that levels of benefit dependency extend much further up the income scale, especially for larger families.

6.71 Ultimately views on levels of affordability are a matter of judgement. There is no consensual view on what is or is not affordable. Indeed, drawing a line in the sand to define affordability is inherently difficult in the UK given that the role of the Universal credit regime. The higher the rents, the less affordable they become – but the impact is gradual and there is no obvious 'tipping point' at which affordability suddenly becomes far more severe.

6.72 Hence the variations in the affordability measures under the three alternative rental uplift scenarios are quite limited. This makes it difficult to identify a preferred rental uplift policy based solely on considerations of affordability. Other issues need to be considered, such as the relationship over time between earnings and rents, the relationship between social sector rents in England and Wales, and the balance between rental levels and the investment capacity of social sector landlords. These issues are considered in the following chapter.

7. Annual uprating and the structure of the rent matrix

7.1 This chapter first examines the arrangements for the annual uprating of social rents, and then moves on to consider the structure and component elements of the matrix methodology, taking note of the various observations made by landlords in the surveys undertaken for this project. It uses the actual 2018/19 rents, which are collected via annual returns from Welsh social landlords on stock held by local authorities and registered social landlords as at 31 March each year, as a baseline.

Annual Uprating

7.2 The policy up to and including 2018/19 was for the matrix rents to be uprated by CPI plus 1.5% annually. This was seen as a broad equivalent to RPI plus 1%, based on the previously dominant inflation measure. In 2019/20 rents were allowed to rise by CPI only as an interim measure until the Welsh Government considers the recommendation of its independent review of Affordable Housing Supply. Decisions about the future levels of annual uprating need to consider the future levels of earnings growth, beyond those estimated for the affordability analyses undertaken in the previous section.

7.3 On average over the two decades to 2008 average earnings in Wales increased by 1.2% over RPI, and 2.1% over CPI. However, in the years from 2009 to 2016 on average earnings fell by 1.0% against RPI, and 0.6% against CPI. While throughout the whole period social sector rents have increased well above inflation, in the years running up to 2007 average rents nonetheless increased less rapidly then earnings.

7.4 However, post 2007 this has no longer been the case, and rents have continued to rise in real terms, while real earnings have fallen. Consequently, average rent to income ratios for Welsh social sector rents are now at historically high levels.

7.5 Median earnings in Wales were some 8.2% lower in 2018 than in 2007 (Table 7.1). In the years to 2023 the Office for Budget Responsibility has forecast that real earnings in the UK will rise at annual rates of between 0.5% and 1.3%. If Welsh earnings were to rise by the amounts forecast by OBR, then in they would be 4.8% below their 2007 level in 2021 and still 2.3% below their 2007 in 2023 level in real terms, although the gap has narrowed. A general caveat is that economic forecasts at present are made in the context of considerable uncertainty over Brexit and are therefore to be treated with more caution than is usually the case.

Table 7.1: Forecast increases in Welsh weekly median earnings, 2018-2023

	Forecast growth in real earnings (%)	Earnings (2018 prices, £ per week)	Earnings in 2007 (2018 prices, £ per week)	Difference (£ per week)	Difference (%)
2018	-	509.00	550.63	41.63	8.2
2019	1.0	514.09	550.63	36.54	7.1
2020	1.1	519.74	550.63	30.89	5.9
2021	1.1	525.46	550.63	25.17	4.8
2022	1.1	531.24	550.63	19.39	3.6
2023	1.3	538.15	550.63	12.48	2.3

Source: Calculated from Annual Survey of Hours and Earnings; OBR *Economic and Fiscal Outlook*, March 2019, Table 1.1
Note: Median gross weekly earnings for Wales. 2018 = actual figure. 2019-2023 calculated from Office for Budget Responsibility forecasts for earnings and CPI at March 2019. 2007 figure uprated to 2018 prices using Bank of England inflation calculator.

Social sector rents in England and Wales

7.6 The lower levels of earnings growth now pertaining, and forecast for the coming years, inevitably raise a question about whether a return to the CPI + 1.5% rent policy is justified. This must also now be seen in the context of the UK Government's policy to adopt a CPI + 1% annual uplift policy for social rents in England, following a four-year period (from April 2016) of reducing rents by 1% annually.

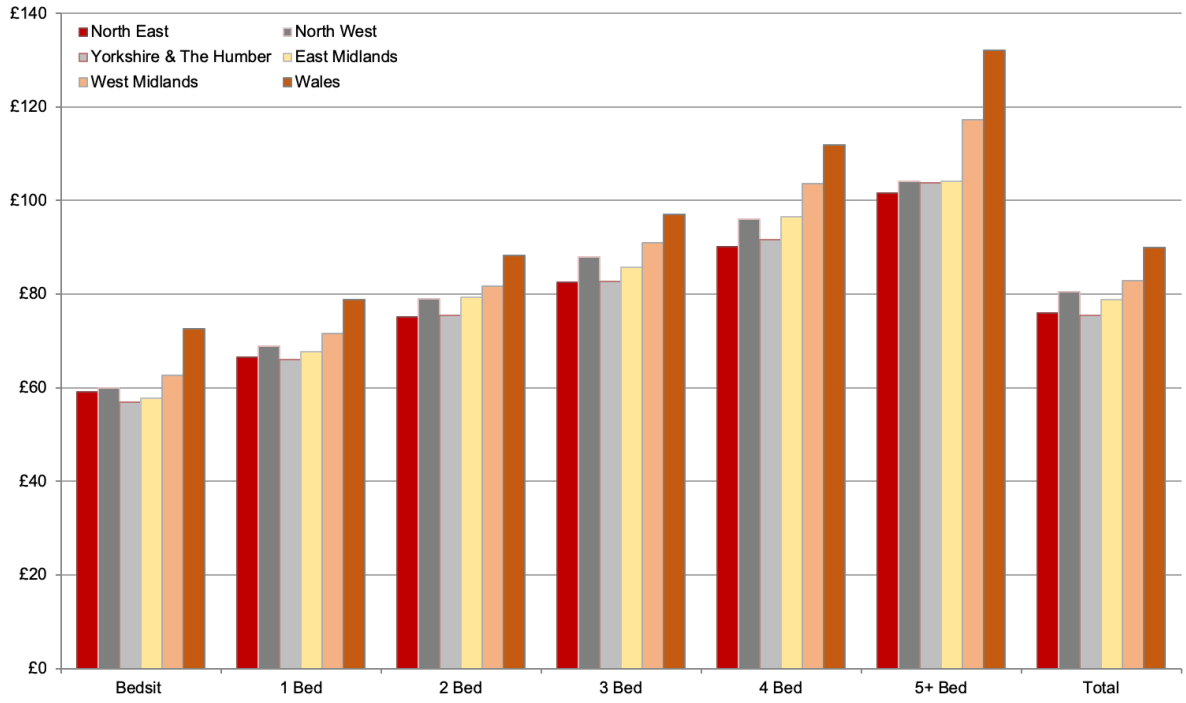
7.7 Over the years since the 1999 devolution settlement average council rents in Wales increased less rapidly than in England. However, this is based on a very crude measure, as the impact of large-scale stock transfers and right to buy sales over time have significantly changed the mix of retained council dwellings in each country. While it also appears that housing association rents in England increased more rapidly than in Wales over the years since 1979, the picture is less clear due to the lack of a consistent measure balancing the changing mix of fair, assured and 'affordable' social rents in each country.

7.8 In either case the extent of the differences in long-term rates of rent increase between the two countries are in the process of being substantially eroded by the application of the four years of social sector rent reductions in England that will continue into 2019/20. In this context our analysis has examined the relationship between Welsh social sector

rents, and those in the northern and midland regions of England. These regions were chosen for comparison because they have similar levels of earnings.

7.9 In 2018/19 average Welsh rents were higher than those in each of the five English regions with which broad comparisons were made. This applied to each bedroom category. The difference was somewhat smaller in the West Midlands (as shown in Figure 7.1).

Figure 7.1: Social rents for Wales and English Regions £ per week, 2018/19



Source: Wales data: Baseline = 2018/19 actual rents collected as part of annual stock and rents data collection. England 2018/18 data estimated from: MHCLG Local Authority Housing Statistics data returns for 2016 to 2017: local authority housing; Homes and Communities Agency Statistical Data Return 2016 to 2017: private registered provider social housing stock.

7.10 This comparison in social sector rent levels should be seen in the context of the levels of earnings in Wales and each of the regions of, and these are set out in Table 7.2 below. As can be seen earnings in Wales are lower than in the North West, and the midlands regions, and a little higher than in Yorkshire & The Humber.

7.11 They are closest to earnings in the North East, being a little lower in respect of lower quartile earnings, and a little higher in respect of median earnings. However as can be seen from Figure 7.1 for all sizes of dwellings Welsh rents are a little higher than those for the North East.

Table 7.2: Earnings in 2017 in Wales and English regions

Area	Weekly Gross Earnings	
	Lower Quartile	Median
North East	£375.20	£504.10
North West	£378.00	£514.50
Yorkshire & The Humber	£371.40	£502.30
East Midlands	£380.60	£515.50
West Midlands	£380.60	£517.40
WALES	**£374.00**	**£505.90**

Note: All figures are for full time earnings based on place of residence, derived from Annual Survey of Hours and Earnings.

7.12 The relationship between Welsh and English regional rents will change over time, reflecting differences in future rent policies in the two countries. The English policy for increases is now set at -1% (in cash terms) in 2019/20, and at CPI + 1% thereafter. Here we set out a comparison of the Welsh and English regional rents in 2021/22 on the basis of the adopted rent policy in England and the three alternative options for Welsh rent uplifts considered in the earlier affordability analyses (i.e. CPI + 0.5%, CPI + 1.0% and CPI + 1.5%).

7.13 It should be noted that the English rents are for social rented housing only and exclude affordable rents that have become increasingly used. This allows a like-with-like comparison to be made between social rents in Wales and England.

Table 7.3: Average Welsh and English regional social sector rents in 2021/22

Wales	Bedsit	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	ALL
CPI + 0.5%	78.56	85.19	95.48	104.93	121.02	142.87	97.26
CPI + 1.0%	79.72	86.44	96.88	106.47	122.79	144.96	98.68
CPI + 1.5%	80.88	87.70	98.30	108.03	124.59	147.08	100.13
England							
N East	62.02	69.96	78.85	86.70	94.68	106.74	79.81
N West	62.96	72.42	83.07	92.33	100.94	109.33	84.61
Yorkshire & The Humber	59.77	69.37	79.24	86.92	96.31	109.00	79.31
E Midlands	60.70	71.03	83.38	90.05	101.39	109.41	82.89
W Midlands	65.83	75.19	85.83	95.60	108.77	123.11	87.12
England	77.63	82.26	94.08	103.56	122.53	141.08	95.01

Source: Wales data: Baseline = 2018/19 actual rents collected as part of annual stock and rents data collection. England data: MHCLG Local authority housing statistics data returns for 2016 to 2017 (for general needs and sheltered units); National Statistics Statistical Data Return 2016 to 2017: private registered provider social housing sock in England (general needs only).
Notes: Wales data: (a) include general needs and sheltered units, and all social landlords; (b) bedsits are self-contained accommodation only; (c) projections assume stock remains unchanged; (d) no allowance is made for the discretionary £2; (e) CPI 2019/20 = 2.4% (actual CPI for Sept 2018); 2020/21 = 2.0% (OBR 2019 and 2020); 2021/22 = 2.0% (OBR 2019 and 2020). England data: (a) exclude 'affordable rent' properties; (b) 2018/19 figures projected from published 2016/17 figures based on 1% reduction each year; (c) projections assume stock remains unchanged; (d) changes applied to 2019/20 is a 1% reduction; (e) 2020/21 uses CPI + 1%, with 2.0% CPI of 2.0% (OBR figures for 2019 and 2010); (f) 2021/22, uses CPI + 1%, with 2.0% CPI of 2.0% (OBR figures for 2019 and 2010).

7.14 Under all the above scenarios, Welsh rents remain above rents in the five English northern and midland regions. This holds across every bedroom size, and indeed for England as a whole.

7.15 On the smallest uplift scenario (CPI + 0.5%) average Welsh rents would be between £10.14 and £17.95 higher in Wales than in the selected English regions. The smallest difference is between the Wales and the West Midlands (£10.14). The difference is £12.65 in the North West and £14.47 in the East Midlands, £17.95 in Yorkshire & The Humber, and £17.45 in the North East.

7.16 Under the CPI +1.5% scenario average Welsh rents are between £13.01 (West Midlands) and £20.82 (Yorkshire and The Humber) higher than in the selected English regions.

7.17 Rent differentials also differ between property types within regions. For example, the differential between Welsh rents and those in the North East are greater for larger (4 and

5 bed) and the smallest (bedsit) properties and smallest for 1-, 2- and 3- bed properties. In the West Midlands, the difference is largest for Bedsits and 5-bedroom properties, and smallest for 2 and 4 bed properties.

Rents and earnings

7.18 Table 7.4 presents the growth of rents on the different scenarios which can be compared by forecast earnings growth. It is important to note that the relationship between rent increases and earnings are sensitive to forecasts of both inflation (which form the basis of rent uplift policies) and earnings. Interpretation is made still more difficult by the additional uncertainty that should be attached to forecasts as a result of Brexit.

Table 7.4: Index of forecast earnings and rental growth, 2018/19 – 2021/22 (2018/19 = 100)

	Earnings forecast	CPI	CPI+0.5%	CPI+1.0%	CPI+1.5%	England
2018/19	100	100	100	100	100	100
2019/20	103.1	102.4	102.9	103.4	103.9	99.0
2020/21	106.2	104.4	105.5	106.5	107.5	102.0
2021/22	109.5	106.5	108.1	109.7	111.3	105.0

Source: CPI and rent assumptions see Table 7.3. Earnings forecast from *Economic and Fiscal Outlook*, March 2019, Table 1.1 and relate to calendar year

7.19 On all three annual rental uplift scenarios, other than CPI + 0.5% Welsh rents would rise ahead of forecast earnings growth, and ahead of English regional rents over the three years to 2021/22, even without taking into account the extent to which average Welsh rents increase above the level of the annual uplift, due to the use of the additional £2 per week provisions.

7.20 A policy of annual increases of CPI + 1.5% would see Welsh rents rise by around 1.8% further ahead of earnings by 2021/22. In 2021 Welsh earnings would still be some 4.8% lower in real terms than they were in 2007 (Table 7.1). Moreover, it is not difficult to imagine that in time HM Treasury (and DWP) could consider some financial or regulatory action if the Welsh Government continued with its current CPI + 1.5% policy.

7.21 A policy of CPI + 1.0% would see Welsh rents rise by a little more than earnings by 2021/22. A policy of CPI + 0.5% would see earnings rise a little way above rents by 2021/22. A caveat in each case is that these calculations do not take into account any £2 addition above the inflation-related increases which has been a feature of policy.

Conclusions

7.22 Policy on annual rental uplift must clearly strike a balance between concerns about affordability, and landlords' financial viability and investment capacity. Ultimately this is a judgement call and research can do no more than inform a decision. Factors to consider, as well at the overall movements in rents and earnings, and the relationship between Welsh and English social sector rents, are the affordability implications for tenants discussed in the previous section, and the extent to which landlords' rental capacity would be constrained by the policy decision on annual rental uplift.

7.23 There are two key points. First, while the affordability analyses showed only limited differences resulting from the alternative uplift scenarios, it also flagged the negative impact of UC on affordability for large families subject to the limits imposed on maximum levels of child allowances. Secondly (as shown below), there are now no landlords with rents above the upper limit of their matrix target rent bands, and the overwhelming majority have the potential to increase their rents above the level of the policy set for uprating the rents matrix, while still keeping their rents within the matrix boundaries.

7.24 Taking all these factors into account the research does allow us to suggest that there is a case for setting annual matrix increases at no more than CPI + 0.5% in the years to 2021/22, in order to limit the extent to which rents continue to rise ahead of earnings. Thereafter the increases could rise to CPI + 1.0%, provided that it is by then clear that average earnings are set to at least match that level in the following years.

7.25 It would prudent for any adopted rent policy to be subject to some adjustment should a disorderly Brexit cause severe economic disruption as most economic assessments suggest that it would (e.g. Bank of England 2019).

The structure of the rent matrix

7.26 Linked to the annual uplift policy in Wales are the provisions for additional rent increases of up to £2 per week, provided that this would not take their rents above the upper end of their rent band. Beyond 2019/20 this £2 policy will apply only to two local authorities with rents below the lower level of their TRB (Isle of Anglesey and Pembrokeshire), and beyond 2020/21 it will only apply to Pembrokeshire.

7.27 It has been suggested that the £2 policy bears disproportionately on the rents of smaller dwellings, and that there should be some variation in the required increases, based either on the size or the rent level of dwellings within the landlords' stock. If this was felt to be an issue, it could be accommodated, by for example, setting the required additional rent

increase at £1 per week for bedsits/I bed dwellings, £1.50 per week for 2 bed dwellings, and £2 per week for 3 bed (+) dwellings.

7.28 At the other end of the spectrum there are now no social landlords whose rents are above the higher end of their rent band. It follows that all social landlords can now, at the very least, fully increase their rents in line with the national rental uplift policy. Indeed, the great majority can increase their rents some way beyond the level of the national policy for the rent matrix uplift, as going into 2019/20 only three landlords will have rents less than £1 a week below the upper level of their matrix rent band.

The structure and composition of the Matrix

7.29 The 'matrix' was constructed to provide a common framework for social sector rents in Wales and to offer a fairer set of arrangements so that tenants of different landlords were closer to paying a similar rent for the same type/quality of homes. The matrix sets out indicative rent figures for each size and type of dwelling in each local authority area in Wales, taking into account a range of locational variables based on local earnings, private rents and house prices.

7.30 The indicative rents generated by the matrix are then used to derive an average rent for the stock of each individual landlord based on the location and composition of their stock. The matrix rents are then adjusted to take account of the SAP ratings for each landlord. The SAP adjusted average figure (which could also be expressed as a rent envelope for their whole stock) then provides the centre point in the rent band, that gives individual landlords the discretion to vary their rents by 5% (+/-) against that overall average.

7.31 The indicative rents set out in the matrix are no more than that. Individual landlords are free to set the rents for each individual dwelling as they see fit provided that in overall terms, they remain within their designated rent band. It is nonetheless clear that a number of landlords have decided to adopt the indicative rents as the basis for setting the rents for each property.

7.32 One common theme in the survey responses was that landlords sought more flexibility in the rent policy. Given the total flexibility that they have to set rents for individual properties, the call for more flexibility can only mean *either* that some landlords do not realise the extent of the flexibility that already have; *or* that they are arguing for the ability to charge average rents at levels above (or below) their designated rent bands.

7.33 One of the arguments put forward for flexibility to charge rents linked to the rent bands relates to the structure of grant rates for new developments. When the rent policy was

first devised it was envisaged that this would then be reflected in the grant rate policy for new developments. In practice this has not happened, and as a result there is clearly a tension between the Welsh Government's rent policy, and its policy in respect of grant rates. While it can clearly be argued that they should ideally be consistent, it would be more logical to review the grant rate policy, than to introduce a division in the rent policy between the provisions for new and existing dwellings.

7.34 The two features of Cals for Table 7.1 and 7.4he rent matrix that were the focus of most comments in the interviews were the locational factors, and the arrangements for SAP ratings. These are discussed in turn below. A further point raised was in respect of bungalows, which it was argued should have a higher weighting in the rent policy. It is not clear, however, whether the respondent that raised this issue was aware that at the moment bungalows are given the same weighting as houses, and thus already rank more than flats. Alternatively, it is an argument that the weighting for bungalows should be greater than the 10% differential currently applied for houses and bungalows relative to flats. Again this is very much a judgement call.

SAP Ratings

7.35 A number of observations were made about the role of SAP ratings in the rent policy. This currently either scales rent up or down, where data from landlords show that their average SAP rating is above or below 65. In practice all social landlords now show average SAP ratings of 65 or over, and consequently only the upward adjustments – providing a 0.3% increase for every point the SAP rating exceeds 65 – now apply.

7.36 Some respondents argued that given all Welsh social landlords now have average SAP ratings that meet, or exceed, the standard (65) required by the Welsh Housing Quality Standard, the SAP element is no longer required as part of the rent policy. Others argued that while it provided an incentive for landlords to continue to raise average SAP ratings, at the same time it reduced the rental income available to those landlords with the lower SAP, and thus their capacity to invest to improve the energy efficiency of their stock. However, none argued against the rationale that higher SAP ratings provided value to tenants in terms of potentially lower energy costs.

7.37 More broadly some argued that SAP ratings were not sufficiently wide ranging to provide an overall measure of property quality. Indeed, that has been acknowledged since the inception of the rent policy, given the absence of a robust and independent measure of the quality of the stock of each landlord.

7.38 There is also a technical issue about the SAP ratings, given that there have been minor changes between the SAP 2009 and 2012. The differences between the two measures are, however, limited, and only apply in respect of dwellings with LPG, solid mineral or biomass heating, and to an even more limited degree to electricity heated dwellings are particularly limited.

7.39 Given the limited differences between the ratings for most forms of heating (and with the main differences relating to the relatively scarce solid mineral and biomass heating systems) it could be considered that these minor anomalies, between the two rating systems, can be disregarded. A full schedule of those differences can be seen in Table 7.5 below.

Table 7.5: The relationship between SAP 2009 ratings and SAP 2012 ratings

SAP 2009	SAP 2012 for main heating fuel types					
	Mains gas	Electricity	Oil	LPG	Solid Mineral	Biomass
1	1	-3	(-11)	(-9)	(-5)	3
10	10	6	(-1)	1	5	12
20	20	16	10	12	15	22
30	30	27	21	23	26	32
40	40	37	32	34	36	42
50	50	47	43	45	47	51
60	60	58	54	56	57	61
70	70	68	65	67	67	71
80	80	78	76	78	78	81
90	90	89	87	89	88	91
100	100	99	98	100	99	100

Source: The Government's Standard Assessment Procedure for Energy Rating of Dwellings (2012 Edition)
Note: Figures in brackets should be treated with caution

7.40 The primary issue is thus the decision as to whether it is still considered desirable to provide a continuing incentive for landlords to further improve the energy efficiency of their stock, and from a tenant perspective to vary the rents to reflect the differences in their potential energy costs – reducing the costs for those with less efficient homes.

Locational Factors

7.41 A number of comments were made by stakeholders about the locational component of the matrix. While the broad principle that there should be a factor for locational values in the matrix was supported, within that two particular concerns were raised. One concern was about the impact of lower locational values restricting the rent-based investment

capacity for impacted landlords, given that their operating costs, and stock investment requirements, are not inherently lower than for landlords operating in other areas. Another was about the way in which the locational index varied from year to year, and the difficulty this imposed on landlords financial planning.

The structure of the locational index

7.42 The location index is based on four local authority level factors – house prices, private rents, and place of work and place of residence earnings. The house price and private rent components were included so that rents would, at least to some degree, reflect variations in market values across Wales. The earnings components were included so that rents would also to some degree reflect the affordability potential of households in each area.

7.43 To limit the extent of year on year volatility the locational index is based on rolling average of three years data for each component element. A policy decision was also taken to limit the extent of social sector rent differentials across Wales, so the locational index is also dampened by a third – so that it expresses only 66% of the differentials derived from the undamped value index. Thus for 2018/19, taking the all Wales average to be 100%, the undamped index would have ranged from 81.6% in Blaenau Gwent up to 113.4% in Cardiff, whereas the damped index ranges from 87.7% in Blaenau Gwent up to 108.9% in Cardiff.

7.44 One factor involved in the use of market value components in the index is the desire to avoid social sector rents overlapping with the costs of market housing in low value areas. Were only earnings factors included the range of rents across Wales would be even less than with the current damped index (for 2018/19 ranging from 95.0% in Blaenau Gwent up to 103.3% in Cardiff.

7.45 However, 2017/18 data shows that even with the current locational index Blaenau Gwent matrix rents for one- and two- bedroom houses are higher than private sector lower quartile rents. The matrix rents for one-bedroom houses are also very close to the level of median rents. In making these comparisons it must be recognised that there are likely to be differences in quality between social sector properties compared to those at the lower end of the market, and also that the private sector rent data does not distinguish between flats and houses. These factors will tend to exaggerate the proximity between social and private sector rents, a countervailing factor is that the social sector rents exclude service charges, whereas the private sector rents will typically be inclusive.

7.46 The degree of overlap between the matrix and social sector rents in Blaenau Gwent would be greater still if the extent of the locational differentials were damped further than under the current system. If, for example, the locational index was solely based on earnings, the matrix rents for one- and two- bedroom flats would also exceed private sector lower quartile rents, and the matrix rents for one bedroom houses would also exceed median private sector rents.

7.47 There are a number of other areas (Isle of Anglesey, Caerphilly, Carmarthenshire, Gwynedd, Powys and Rhondda Cynon Taff) where the matrix rents for one-bedroom houses also exceed private sector lower quartile rents. Other than for the Isle of Anglesey in all other areas any further dampening of the locational index would deepen the extent of the overlaps between social and private sector rents. Of these the most extensive overlap in social and private rents (but again only for one-bedroom dwellings) is in Powys. This is a result of the rental element for Powys in the locational index being much lower relative to the house price and earnings elements.

7.48 However, aside from the small number of cases outlined above, in the main the locational index does serve its purpose in ensuring that social sector rents do not overlap with those in the private sector. It could provide an even greater margin between private and social sector rents if the extent of dampening in the current index was reduced (so increasing the differential between the rents in high and low value areas), but that would also lead to increased concerns about affordability for high value areas, and increased concerns about social landlords' viability in lower value areas.

7.49 While some concerns were raised by a number of respondents about the structure and complexity of the locational index there was not any consensual or widespread view on if, or how, it might be reformed.

The volatility of the locational index

7.50 There are annual variations in the locational index weightings for each area, but in the main these are quite limited, and only in exceptional cases do the year on year variations exceed 1.0% for any area. In 2015/16 the locational index varied by more than 1.0% compared to the previous year in three local authority areas – Conwy (+1.24%), Denbighshire (-1.33%) and Powys (+1.04%).

7.51 In 2016/17 the locational index varied by more than 1.0% in five local authority areas – by amounts ranging from -1.43% to + 1.08%. However, all variations in 2017/18 were by

less than 1.0%, and only in two areas were variations greater than 1.0% in 2018/19 – Conwy (+ 1.06%) and Monmouthshire (+1.50%).

7.52 Some degree of annual variation in the locational indicators is inevitable, partly reflecting labour and housing market changes over time, but also given the limitations in the data. This is already recognised in the index as the data for each component is based on a rolling three-year average, precisely in order to smooth out year on year variations in the component data.

7.53 While it would be possible to freeze the locational index for a number of years, with only periodic reviews, this creates the problem of much larger potential variations at the point of change. In practice concerns about the impact of such periodic revisions tends to see them put off time and time again. This can readily be seen, for example, with the experience of property valuations for council tax bands. It might also be noted that the social rent policy in England continues to this day to be based on 1999 earnings levels and property values.

7.54 An alternative approach that would limit the extent of year on year variations in the locational index would be to set a 1.0% cap on variations in any one year, with the balance deferred to the following year.

8. Conclusions and recommendations

8.1 This study has examined the implementation and operation of the Welsh Government's Rent Policy, including its impact on landlords and tenants, its compatibility with wider Welsh Government policies, the impact of external influences on it, and what its future should be.

8.2 The study found that almost 70% of landlords had rents within the TRB, although this varied greatly between landlord types. Whilst almost all traditional HAs have rents within the TRB, most LSVT and LHA landlords do not. Around 80% of landlords had depooled rents from service charges, and again these varied by landlord type, with half of LSVT landlords being in the process of de-pooling. Around half of landlords use the Rent Matrix for the setting of individual rents. Most landlords reported that transitional arrangements had been broadly effective.

8.3 The study also found that the Rent Policy had been consistent with landlords' business plans in terms of their delivery of new affordable housing and bringing older housing up to Welsh Housing Quality Standards. These also relate to Welsh Government's affordable housing targets. The Welsh Government's rent uplift policy of CPI + 1.5% (up to and including 2018/19) has clearly been a factor in enabling investment to take place. Moreover, there are clearly tensions between the Rent Policy and the speed at which landlords could deliver investment, and delivery is more difficult in low value areas.

8.4 The UK Government's programme of welfare reform has been a key influence on the operation of the rent policy. The proposal to limit social rents to LHA levels was a cause of considerable concern among landlords and stakeholders, but the policy has now been abandoned. The proposed reforms to sheltered accommodation also caused concern in the sector, but again these have been dropped. Universal Credit remains a concern among landlords because of potential loss of income to tenants and because payment to the tenant rather than the landlord is associated with higher levels of rent arrears, which could affect borrowing capacity in the future.

8.5 Broadly, the policy can be judged to be meeting its objectives of transparency, consistency and fairness. Although tenants were largely unaware of the policy, consistency in rent setting is widely valued by them. Landlords, too, favour the policy of rents reflecting property size and type, but some felt that it did not adequately reflect quality or location. However, some landlords felt that it is not sufficiently flexible.

8.6 The design of the Rent Matrix clearly has some weaknesses, notably the use of SAP ratings as the sole indicator of quality for lack of readily available alternatives. The locational index is also subject to undesirable year-on-year volatility. Further, the weighting given to bungalows (which is the same as houses) does not fully reflect popularity and higher cost of building.

8.7 Assuming minimum wage incomes, the Rent Policy is currently generally consistent with housing affordability expressed by the rent to income ratio, and the residual income above Income Support or Universal Credit personal allowances remaining after the tenant has paid their rent. These measures are consistent with tenants' own perceptions of affordability. Those tenants who did struggle to pay their rent tended to have been affected by welfare reform measures such as the 'bedroom tax' and Benefit Cap.

8.8 However, the Rent Policy is also operating within the context of real earnings which remain below 2008 levels, and the perception among some tenants was that rents do not always reflect value for money. Further, the divergent rent uplift policies of the UK and Welsh Governments has led to Welsh rents being higher than in some of the English regions with similar earnings levels. Such divergence would apply in comparison to all of these English regions with similar earnings levels should above inflation increases continue in Wales.

Recommendations

8.9 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.

8.10 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.

8.11 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, based on the comments received, and the analysis in this paper, there are seven issues that stand out as requiring further consideration.

8.12 The first, and major, issue is the policy to be adopted on the level of annual uplift for the Rent Policy. 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. 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.

8.13 The decisions on rent policy clearly 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 can now be informed by the Affordable Housing Supply Review. It will also 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.

8.14 An increase of CPI + 1.5% would be highly problematic given the growing incompatibility this would create with rents in England. Whilst the choice between CPI + 0.5% and CPI + 1% inevitably involves trade-offs between investment capacity and affordability, there is a case to be made for limiting rises to CPI + 0.5% up to 2021/22 taking into account the divergence with rents in the English northern and midland regions, and the fact that real earnings remain below 2007 levels.

8.15 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.

8.16 The case for a rise of CPI + 1% in future years would be stronger if by then it is clear that the subsequent rent increases would no longer exceed anticipated growth in earnings.

8.17 It would prudent for any adopted rent policy to be subject to some adjustment should a disorderly Brexit cause severe economic disruption.

8.18 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.

8.19 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.

8.20 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.

8.21 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.

8.22 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.

8.23 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.[14] 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.

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Appendix A – Landlord questionnaire

Introduction

The Welsh Government has asked a team of researchers, led by Heriot Watt University to undertake a review of the Welsh Government's Social Housing Rent Policy to ensure it remains appropriate and sustainable.

The review will cover the effectiveness of the current rent policy, implications of wider changes and recommendations for future rent policy.

We are contacting local housing authorities and housing associations to which the rent policy applies to ask them to take part in this survey. After submitting the Survey Monkey response, the researchers will be in touch to arrange a time to discuss the issues more fully by telephone. All the responses provided are treated in confidence and will be reported in an anonymised way.

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About the organisation

1. To be able to compare different landlords, we'd like to collect some information about your organisation. Is it a…

- ◯ A Large Scale Voluntary Transfer (LSVT) housing association?
- ◯ A traditional Housing Association (HA)?
- ◯ Local Housing Authority (LHA) – a local authority which holds housing stock?
- ◯ Other (write in)

2. Is the organisation a registered charity or other type of charitable body?

- ◯ Yes – registered charity
- ◯ Yes – other charitable body
- ◯ No

3. Which of the following areas describes where you have stock? (please tick all that apply)

- [ ] Blaenau Gwent
- [ ] Bridgend
- [ ] Caerphilly
- [ ] Cardiff
- [ ] Carmarthenshire
- [ ] Ceredigion
- [ ] Conwy
- [ ] Denbighshire
- [ ] Flintshire
- [ ] Gwynedd
- [ ] Isle of Anglesey
- [ ] Merthyr Tydfil
- [ ] Monmouthshire
- [ ] Neath Port Talbot
- [ ] Newport
- [ ] Pembrokeshire
- [ ] Powys
- [ ] Rhondda Cynon Taf
- [ ] Swansea
- [ ] Torfaen
- [ ] Vale of Glamorgan
- [ ] Wrexham

4. In which Broad Rental Market Areas do you work in? (please tick all that apply)

- [ ] Blaenau Gwent
- [ ] Brecon and Radnor
- [ ] Bridgend
- [ ] Caerphilly
- [ ] Cardiff
- [ ] Carmarthenshire
- [ ] Ceredigion
- [ ] Flintshire
- [ ] Merthyr Cynon
- [ ] Monmouthshire
- [ ] Neath Port Talbot
- [ ] Newport
- [ ] North Clwyd
- [ ] North Powys
- [ ] North West Wales
- [ ] Pembrokeshire
- [ ] South Gwynedd
- [ ] Swansea
- [ ] Taff Rhondda
- [ ] Torfaen
- [ ] Vale of Glamorgan
- [ ] West Cheshire
- [ ] Wrexham

Your rents

5. What impact does the concentration/spread of your stock have on your local rent policy?

- ◯ A significant positive impact
- ◯ Some positive impact
- ◯ Little impact
- ◯ Some negative impact
- ◯ A significant negative impact

6. Are your average rents...

- generally in line with the target rent bands or...
- are you undergoing a transition to the target rent bands?

Please comment further, if you would like to:

7. Are you using the rent matrix to set rents at an individual property level?

Yes No

8. How effective is using the rent matrix?

Very effective Quite effective Not very effective

Not at all effective

Please explain why using the rent matrix is effective/not effective

9. Please describe how you set your local rents

10. How do your rents compare to the following

	Considerably lower	Somewhat lower	Very similar	Somewhat higher	Considerably higher
The Local Housing Allowance rates(s) in the BRMA(s) where you operate?	○	○	○	○	○
Other social landlords operating in the local area?	○	○	○	○	○
The private sector?	○	○	○	○	○

Or something else? (write in below)

11. Please provide more detail about these differences

Service charges

12. Are your service charges completely de-pooled from rent for all properties?

Yes ○

No ○

13. Please can you explain where you are in the de-pooling process and when you anticipate to complete the exercise?

14. What are the main issues/concerns with de-pooling service charges from rents?

15. How would you rate the likely impact **on tenants** of the limits to Local Housing

Allowance in the following size/type of properties **with service charges**?

	A significant positive impact	Some positive impact	Little impact	Some negative impact	A significant negative impact
	○	○	○	○	○
1-bedroom properties	○○○○○				
2-bedroom properties	○	○	○	○	○
3-bedroom properties	○○○○○				
Flats without a lift	○	○	○	○	○
Flats with a lift	○	○	○	○	○
Houses	○	○	○	○	○

Please provide more details about the impact

16. How would you rate the likely impact **on tenants** of the limits to Local Housing Allowance in the following size/type of properties **with NO service charges**?

	A significant positive impact	Some positive impact	Little impact	Some negative impact	A significant negative impact
	○	○	○	○	○
1-bedroom properties	○○○○○				
2-bedroom properties	○	○	○	○	○
3-bedroom properties	○○○○○				
Flats without a lift	○	○	○	○	○
Flats with a lift	○	○	○	○	○
Houses	○	○	○	○	○

Please provide more details about the impact

Implementation of the Rent Policy

The new Rent Policy was implemented for housing associations in April 2014 and for local authorities in April 2015 following exit from the Housing Revenue Account Subsidy system.

17. Which of the following best describes how you have been applying the Welsh Government rent policy? Have you…

◯ Applied the rent matrix for local rents ◯ Retained your previous rent policy ◯ Developed a new policy

◯ Done something else

Please can you explain your answer above

18. What have been the advantages that approach?

19. What have been the disadvantages of that approach?

20 Which, if any, of the following did your organisation do to prepare for the implementation of the Welsh Government rent policy?

- ☐ Rents analysis
- ☐ Financial modelling of impact
- ☐ Business Plan 'stress testing'
- ☐ Options appraisal
- ☐ Tenant consultation
- ☐ Staff training
- ☐ Other things (please provide details)

21 What impacts, if any, has the Welsh Government rent policy had on the following…

	A significant positive impact	Some positive impact	Little impact	Some negative impact	A significant negative impact
The ability to widen rent differentials within your stock?	○	○	○	○	○
The flexibility/control you have over rents?	○	○	○	○	○
The level of rent increase that you can apply?	○	○	○	○	○
The actual rent levels that you charge?	○	○	○	○	○
Affordability of rents for tenants?	○	○	○	○	○

Please can you explain your answer above

22. What other impacts has the rent policy had for your organisation (good or bad)?

23. What further impacts do you foresee in future?

Transitional arrangements

There were transitional arrangements put in place so that landlords with rents above, within or below the Target Rent Band migrated over to the new system gradually.

24. How effective have those transitional arrangements been for your organisation?

- Very effective
- Quite effective
- Not very effective
- Not at all effective
- Not sure/cannot say

Please can you explain your answer above

25. When do you expect your local rents to be fully converged to your local rents policy?

- Already within the Target Rent Band
- Less than a year
- 1-2 years
- 2-3 years
- 3-4 years
- 4-5 years
- More than 5 years

26. When is it likely to be? And why might it take this long?

27. The current rent policy had several aims, which are listed below. From your experience so far, how effective has the policy been in achieving these aims?

Delivery of the aims of the policy

	Very effective	Quite effective	Not very effective	Not at all effective	Not sure/cannot say
Reflecting local variations in affordability and housing market values	○	○	○	○	○
Reflecting variations in the type/size of social landlord's stock	○	○	○	○	○
Reflecting variations in the quality of social landlord's stock	○	○	○	○	○
Reflecting variations in the Location of social landlord's stock	○	○	○	○	○
Providing a more equitable distribution of rents for social sector tenants across Wales	○	○	○	○	○
Ensuring the viability of individual social landlords	○	○	○	○	○
Being fairer to tenants in terms of the rents charged for equivalent homes across social landlords	○	○	○	○	○
Providing for the convergence of rents over a period of time	○	○	○	○	○

Please can you explain your answer above

Wider Concerns for Social Landlords

28. How much of an impact, if any, do you think the Welsh Government Rent Policy has had on the following?

	A significant positive impact	Some positive impact	Little impact	Some negative impact	A significant negative impact
The valuation of your housing stock	○	○	○	○	○
Your ability to borrow	○	○	○	○	○
The terms of your borrowing	○	○	○	○	○
Your ability to deliver your business plan	○	○	○	○	○
Your ability to build/increase housing supply	○	○	○	○	○
Your ability to deliver intermediate or market rented units	○	○	○	○	○
Your ability to meet WHQS by the agreed timescale and maintain thereafter	○	○	○	○	○

Please can you explain your answer above?

29. Have your tenants been affected by the rent policy?

○ Yes – a little ○ Yes – a lot ○ No

If yes, please explain how?

30. Are any particular groups more or less better-off as a result of the rent policy?

	Better off	Same	Worse off
Older people	○	○	○
Younger people	○	○	○
Disabled people	○	○	○
Men	○	○	○
Women	○	○	○
People from minority ethnic groups	○	○	○
Single people	○	○	○
Families	○	○	○
Low income households	○	○	○
Households on benefits	○	○	○

Other (write in)

31. Why do you say those tenants are better/worse off?

32. How might tenants be affected in future?

Welfare Reforms

33. Which welfare reforms do you consider will negatively impact on your organisation and your tenants?

34. How do you think **your tenants** are likely to be impacted by the Welfare Reforms you identified?

35. How do you think **your organisation** will be impacted by the welfare reforms you identified?

36. Which, if any of the following services do you provide to tenants? (Tick all that apply)

- ☐ Financial inclusion
- ☐ services Welfare
- ☐ reform mitigation
- ☐ Helping tenants into work Other (write in)

37. Are there any other reforms which you are aware of which could adversely impact on the rental income for your organisation or your tenant's ability to pay their rent?

38. What action has your organisation taken so far to mitigate the impact of welfare reforms already in place?

39. What action has your organisation taken so far to prepare for forthcoming reforms (including the application of the Local Housing Allowance and reforms to supported accommodation)?

Future policy

40. What implications does this have on the organisation's key priorities?

41. What changes, if any, would you like to see in the rent policy in future?

42. Is there anything else about the rent policy or the transitional arrangements that you would like to raise?

43. Please provide the name and a contact telephone number of the person we should approach for the follow-up interview by phone.

All your comments are completely anonymous and confidential

Thank you for taking part

Name

Organisation

Phone number

44. If you have any specific comments that you would like us to make the Welsh Government aware of, and you would like to be identified to allow these details to be passed on to them, please provide information here.

Appendix B – Case study and stakeholder interview topic guides

Case Studies

The research is designed to focus on the following;

(a) The impact of rent policy on borrowing capacity

(b) The ability to deliver a range of affordable housing types across Wales

(c) The ability to deliver WG policy in different economic and housing market area

Background (informed by basic data drawn from electronic survey/secondary work).

1. Are there any special background housing issues about your organisation that you wish to raise, e.g. stock mix, number of areas active in, types of residents, WHQS, the history of the organisation, relationships with LA(s), social rents v market rents in your areas and broad impact of welfare reforms?

Rent policy

2. Please outline your current position on rent policy – using existing/new policy/rent matrix/other?
3. Describe your transitions to target rent bands, by type/area, service charges?
4. Please update us on de-pooling progress?
5. Are there alternatives to using the SAP rating measure to capture the quality of homes?

Impacts

6. How does your rent policy interact with local housing and labour market(s)?
7. What impact has this policy had on arrears?
8. What impact has this policy had on applications/departures?
9. Can you describe the impact on fairness/capacity to charge rents which reflect quality/location of dwelling and tenant satisfaction/disadvantaged groups?
10. How has the policy impacted on development programme by type of property/product?
11. What impact has it had on the quality of new build and planned maintenance
12. What impact has it had on finances, value of stock and not least borrowing capacity?
13. Others? Barriers to developing affordable housing? Lower capacity to respond to housing need?

The case for reform

14. What do you see as the strengths and weaknesses of the current government rent policy?
15. How would you suggest tackling these weaknesses?
16. Do you have other suggestions?
17. What plans do you have for the future in rent policy terms?

Stakeholder interviews

We are conducting research for the Welsh Government to review the operation of its social rents policy. We have conducted a survey of all social landlords in Wales and are currently conducting more detailed case studies of 9 landlords.

As part of the project we are conducting interviews with a number of national stakeholders.

The purpose of these interviews is:

- To identify and assess the impact of external influences on social landlords.
- To inform any recommendations about the future of rent policy.

1. Equalities Act

Does rent policy need to respond to the Equalities Act?

- The Equality Act 2010 obliges social landlords to ensure that their rent policy (= a public function) does not discriminate. Does this need to be reflected in national rent policy, or should it be left to individual landlords?

2. LHA cap: impact on tenants

What is the impact of the extension of the LHA cap to social tenants likely to be?

What patterns in terms of geography, types and sizes of property will be impacted?

In particular what are the implications for sheltered and supported housing (likely to be hardest hit due to service charges)?

Should rent policy be adjusted to reflect these impacts?

3. Restrictions on housing support for 18-21s.

What is the impact of the end to automatic entitlement to housing support for 18-21 year olds likely to be?

Should rent policy be adjusted to reflect these impacts?

4. Shared Accommodation Rate: impact on tenants

What is the impact of the extension of the Shared Accommodation rate to single social tenants aged under 35?

(How) should rent policy be adjusted to mitigate these impacts?

5. Impact of welfare reform on landlords and lenders

Does welfare reform threaten to undermine the financial stability of individual social landlords?

Does it threaten to undermine the ability of the sector to deliver Welsh Government targets on new housebuilding and meeting the Welsh Quality standard?

Are there any regional/ property types variations?

Can rent policy be adjusted to mitigate these impacts?

6. Supported Accommodation Review

From April 2019 LHA rates will apply to all supported accommodation.

What are the implications for landlords and tenants in Wales?

Can rent policy be adjusted to mitigate these impacts?

7. Impact 1% reduction in social rents in England

How will the UK Government policy of reducing social rents by 1% per year in England impact on the Wales, e.g. through the block grant?

8. Are there any other external influences that we should be aware of?

Appendix C – Landlord survey results on wider policy impacts

Wider impacts

The wider impacts of the policy were also explored, through consideration of the capacity of landlords to borrow and develop (as shown in Figure 3.12 in Chapter 3). That showed that more positive impacts were felt on the ability to increase supply and to deliver the business plan, followed by the stock valuation and ability to borrow, with less impact on the terms of borrowing.

> "Additional revenues generated have allowed us to contribute towards meeting WHQS, provide more affordable homes and increase housing supply."

The positive impact on the delivery of WHQS was greater than on mid-market rent/intermediate renting, though. A few landlords said they would welcome guidance or good practice examples on intermediate renting within/alongside the Housing Revenue Account.

A few other landlords expressed the view that you 'cannot get intermediate renting to work' at Local Housing Allowance rates and so (at the time of the survey) felt that intermediate renting was not a viable option for them. The limits of the Local Housing Allowance on wider development viability were also raised, in relation to certain types of dwelling (smaller properties, sheltered/older people's housing, larger/family housing).

The recent announcements about the proposed halting of the policy to apply the Local Housing Allowance cap in social renting and the announcement that there will be a supported accommodation allowance may encourage more development in future. However, the detail of what an 'appropriate rent' for supported accommodation might be (and what type of sheltered housing would meet the specification of supported accommodation) remains to be seen.

Some landlords said they were trying to 'design out' service charges as far as possible in new-build developments but this was not possible in all cases (e.g. for sheltered provision). It was also often at odds with other policies (e.g. fire safety and communal services).

Where 'wider impacts' of the rent policy were felt to be positive, this related to the financial benefits of being able to increase rents by CPI+1.5% and the additional £2. This had given landlords the scope to invest but there were still some concerns about the future. Some landlords felt that the Local Housing Allowance cap was a 'black cloud' over the rent policy, while others pointed to the risk of a rent freeze or cut like in England (though others felt there was no appetite for this within the Welsh Government).

Landlords identified a range of factors impacting on their capacity to develop and deliver regeneration activity.

- The need for rent increases to fund building at scale (which the policy had so far enabled)
- Nervousness about what the future might hold had led to some risk averse decision-making. There was a common theme of the need for longer-term clarity to inform development plans for new-build.
- The need for the flexibility to switch from social rents to affordable rents was suggested by a few landlords, where intermediate rents were not viable due to the low Local Housing Allowance rate.
- The challenge of regeneration in low rent areas was identified, meaning that low Local Housing Allowance rates might potentially stifle investment.
- Development was constrained in different ways – there was land in deprived areas but lower rents meant this was not viable for development. There was some more expensive, better-located land but rents were also too low to be viable.
- Some noted the need to increase the density of smaller properties to be viable at low rents.
- There was also a lack of supply of family housing and overcrowding in some areas but the view that family housing was not viable to build either.
- Low rents were felt to 'chip away' at service quality and viability and were at odds with the strategic focus on the regeneration of the Valleys and other deprived areas within the cities.
- It was noted that stock could not be remodelled from two and three bedroom properties into one-bedroom properties overnight and decisions might be regretted if the policy changed
- The recent halt on the policy on the Local Housing Allowance cap provides evidence of how policy can change unexpectedly.

A few landlords said they were at or approaching the debt ceiling and were hoping that the Welsh Government would look at the flexibility around development viability and debt ceilings to enable them to deliver additional new-build through additional borrowing.

External influences - Welfare reform

There was a great amount of concern for the future, arising from the various proposed and ongoing cuts to social security. Landlords were concerned about a wide range of welfare

reforms[15], particularly the introduction of Universal Credit full service and the Local Housing Allowance cap, which almost three-quarters of landlords highlighted as having a negative impact. The remaining ten landlords said that all the welfare reforms would have a negative impact. The Benefit Cap and the Local Housing Allowance Shared Accommodation Rate for the under 35s were raised specifically by around one in three landlords and the Bedroom Tax was specifically mentioned by one in four landlords.

The main impacts of welfare reform identified for tenants were[16]:

- Poverty/financial hardship for tenants (mentioned by 26 landlords)
- Eviction/homelessness or tenancy failure (14)
- Rent arrears (11)
- Debts (8)
- Increased anxiety/stress (4)
- Problems due to digital exclusion (2) inability to access housing (2) and enforced sharing (1).

The main impacts of welfare reform identified for landlords were[17]:

- An increase in rent arrears and bad debts (mentioned by 30 landlords)
- More complex tenant needs and a broader range of staff skills to deal with tenants' issues e.g. money advice, debts (19)
- Increased costs and overheads associated with income recovery, void management and maintenance and tenancy sustainment (18)
- Reduced rental income, concerns about cash flow and risk to the viability of the business (15)
- An increase in evictions, abandonment and tenancy sustainment difficulties (9)
- A reduction in the level of service quality/the need for cost cutting (8)
- New-build/development may be threatened (6)
- The stock may need to be re-configured or shared tenancies considered (2).

Landlords summed up the wide array of issues that they would be facing:

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[15] Question: Which welfare reforms do you consider will negatively impact on your organisation and your tenants?
16 Question: How do you think your tenants are likely to be impacted by the Welfare Reforms you identified?
17 Question: How do you think your organisation will be impacted by the welfare reforms you identified?

"Increased court costs, void loss costs, costs of re-servicing voids, increased staff costs (for less return), increased transaction costs to collect differentials between Local Housing Allowance and LA rent levels. Higher requirement for support services and advice. Higher tenancy turnover. Higher debt levels for tenants." (LSVT, 5000+ properties)

"Rental income will be much more vulnerable and less reliable (due to the change from HB to UC), rent arrears will increase, bad debts will increase, there will be increasing pressures on frontline staff, pressures on income will affect our ability to deliver services, eviction and abandonment rates will increase; thus increasing turnover and void costs. This will have a negative impact on community cohesion and sustainability. There will be greater demand on services such as money advice, support services etc. and less money available to fund such services. May impact ability to develop in some areas." (Traditional HA, 2,000-5,000 properties)

"The impact will be a gradual decline in our overall income collections thus impacting on our long-term viability to continue to provide the range of services we currently deploy". (LSVT, 2,000-5,000 properties)

"Increased arrears and bad debts. Increased demand on limited staff and financial resources e.g. Tenancy Support and Homeless Prevention. Viability of some accommodation threatened due to de-pooling of service charges. Increased staff training. Indirect impact on other services including Social Services, Health. Increased demand for new build properties (LHA)

Mitigation strategies and activities

The vast majority of landlords (40 of 44) said they provided financial inclusion services and welfare reform mitigation (42) and two-thirds offered support helping tenants into work (28), while more than one in three offered other services also (17)[18].

[18] Question: Which, if any of the following services do you provide to tenants? (Tick all that apply). Response categories: Financial inclusion services; Welfare reform mitigation; Helping tenants into work; Other (write in).

Landlords were asked what they were doing to respond to welfare reforms that were already in place[19]. A wide range of strategic and operational activities have been put in place, under the following themes.

Increasing or restructuring staffing

One of the most common responses, from most landlords, was to reconfigure staffing to respond to the greater financial hardship experienced by tenants. Landlords have recruited additional staff to meet the challenges of welfare reform – staff to deliver money advice, debt advice and other financial inclusion services, rent collection staff and tenancy sustainment staff.

In some cases, where resources were tighter, landlords have restructured their existing staff complement and conducted staff training to meet the changing needs of the business.

An increased focus on prevention activity

Just under half of landlords reported having taken steps to improve their business intelligence. This included investing in new/additional IT/software solutions to help them to improve their able to identify the tenants at greatest risk.

Other prevention activity included 'active outreach' with staff working to identify those in need of support – tenants just falling into arrears, young people aged under 35 years and people under-occupying their property. Some landlords were actively encouraging and incentivising tenants to transfer to smaller properties.

Some landlords were looking at policies to prevent tenants getting into financial difficulties. A few landlords said they had restructured rents slightly to reduce the rent charge in smaller properties (to ease the impact of the proposed Local Housing Allowance cap) and a few landlords had changed their allocations policies to discourage under-occupancy.

Education and awareness raising activities were reported by some landlords (though a minority). It may be that the timing of the survey, in July 2017, was felt to be too far in advance of the timing of the proposed changes to Local Housing Allowance (April 2019) to merit that strategy.

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[19] Question: What action has your organisation taken so far to mitigate the impact of welfare reforms already in place?

Financial mitigation was also being used to prevent hardship, with local authorities and others making tenants aware about Discretionary Housing Payments and some associations also provided monetary support projects to ease extreme hardship.

Business Planning

Restructuring the business to increase the resource available for additional tenancy support and income recovery had sometimes led to cost-cutting measures. For some landlords, this was described as 'efficiency savings' and better 'value for money' while others felt they had cut costs (or would need to) which would lead to a reduction in service level that was not delivering value for money.

A few landlords said that they had already increased their bad debt provision in anticipation of the negative impact of full service Universal Credit, with Direct Payments. Some landlords had been conducting a revision of their Business Plan and it was quite common for landlords to be developing a wider range of scenarios in their 'stress tests'.

Improving operational performance

As well as reducing costs and improving efficiencies, other measures to increase operational performance were shared. A few landlords mentioned active arrears management strategies, including early intervention (coupled with better IT) and 'nudge' theories to encourage prompt rent payment (e.g. using text alert services).

Although most strategies were built on offering advice and support, there were a few that were more clearly focused on limiting the financial risk to the organisation – requiring rent to be paid by Direct Debit, requiring rent in advance and even a proposed affordability test for new tenants to prevent arrears. Some admitted that the latter strategy was very much at odds with a need-based allocation system, though.

Expanding 'wider role' activities

Some landlords reported that welfare reform had led to an expansion in the range of activities they were engaged in, to include Digital Inclusion projects, with staff undergoing 'Digital Champion' training, as well as employability projects (mainly in larger associations).

Working in partnership

It was quite common for local authorities to refer to the development of strategic partnerships to mitigate against the impact of welfare reform. However, building partnerships with other organisations was a strategy used by some housing associations also, with associations working with the local authority, the third sector and other

associations. Some landlords were sharing financial inclusion services, for example, to reduce overheads.

Several landlords were also involved in partnering arrangements with the DWP through the Direct Payments pilot. Less active than ‘partnering’ were sign-posting activities – referring tenants to other agencies at an early stage, for money/debt advice and energy advice if the association does not have its own provision or to foodbanks or other support providers.

External influences - The Local Housing Allowance cap

At the time of the survey research, there was a lot of activity, planning and development underway in readiness for the full impact of the LHA cap, (at that stage planned for April 2019) to be felt. Activities that landlords were engaged in included information and advice, developing staff roles, piloting/looking at shared tenancy approaches and possible mitigation. However, there were expected to be negative impacts – on financial hardship, rent arrears, bad debt provision, evictions and consequently homelessness.

Landlords with sheltered housing were very concerned about how the Local Housing Allowance cap might impact on their tenants. For example, it may well be the case that the way that services had been designed over recent years, responding to funding constraints by offering flexible care and support, for example, would now put some provision below the scope of the supported housing fund. Sheltered housing was one area where landlords felt there was a need for separate consideration in the rent matrix and wider policy.

Since the survey was conducted, the Government announced that the Local Housing Allowance cap would not apply to the social rented sector and that there would be separate provision for supported accommodation. However, detail of the definition of ‘supported accommodation’ has not yet been provided. It may be that sheltered housing without support or care on-site may be included in that provision.

Some landlords expressed the view that the Welsh Government rent policy alongside the Local Housing Allowance cap created a ‘double whammy’ where those who may be able to be flexible about their rents (across different property types or localities) in order to mitigate the impact of the proposed Local Housing Allowance cap were unable to do so because of the constraints of the Welsh Government rent policy.

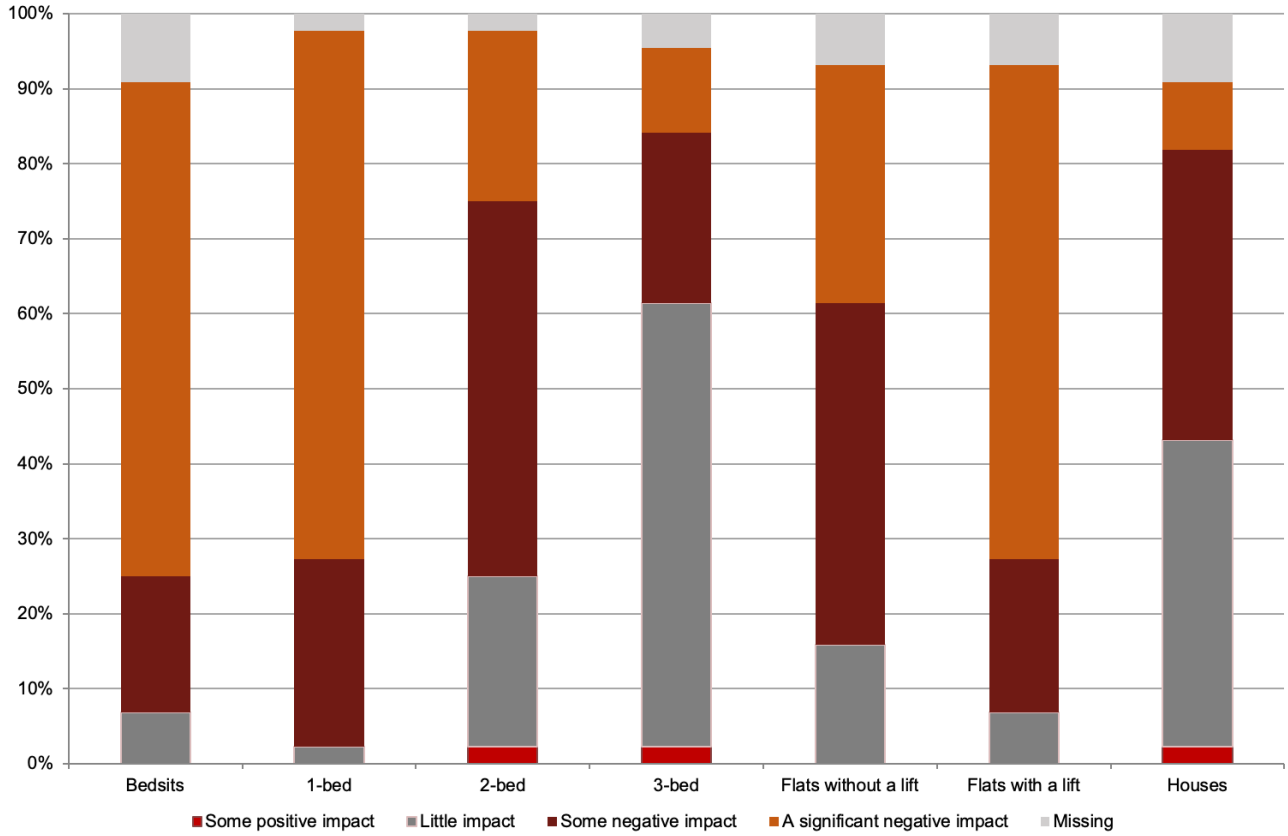
Another perspective on the Local Housing Allowance cap was that it limited the effectiveness of the rent policy, as landlords were responding not just to the policy but with one eye on the Local Housing Allowance rates.

"With the current rent policy, our income will fall. With a more flexible rent policy, we could mitigate this" (Traditional HA, 5,000+ properties)

Potential negative impacts of the Local Housing Allowance cap

For properties with service charges, the most significant negative impact of Local Housing Allowance limits were expected to affect bedsits, one-bedroom properties and flats with a lift. This was also true for properties without service charges, but the negative impact was perceived to be less significant.

Figure C.1: Potential impact of the LHA cap on properties with service charges, by property size and type



Source: Rent Review survey, July 2017
Question: How would you rate the likely impact on tenants of the limits to Local Housing Allowance in the following size/type of properties **with service charges**? Bedsits; 1-bedroom properties; 2-bedroom properties; 3-bedroom properties; Flats without a lift; Flats with a lift; Houses. Response categories as in the figure.

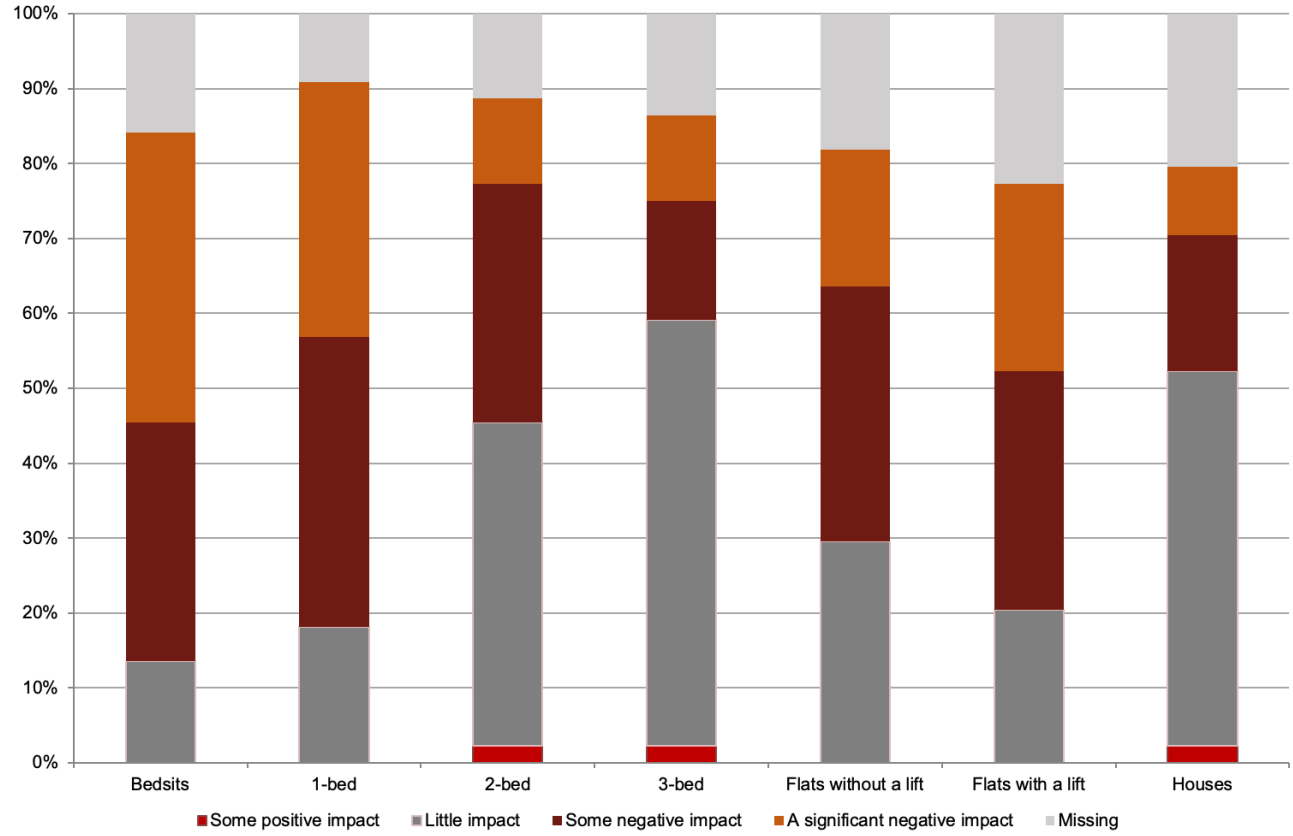
The expected negative impact of the Local Housing Allowance cap on smaller properties and flats with service charges was considerable, with more than two-thirds of landlords expecting a significant negative impact on tenants.

A total of 27 landlords foresaw a negative impact for tenants across more than four of the seven property types asked about (for stock with service charges). Eight were LSVTs, fourteen were traditional housing associations and five were local housing authorities. In 17

of the 27 cases, rents were below or near the Local Housing Allowance cap while in four cases rents were higher than the LHA and in six cases data on rents was missing (these were landlords with a spread of stock across numerous BRMAs).

Properties were still expected to be adversely affected where there were no service charges, but to a lesser degree (Figure A2).

Figure C.2: Potential impact of the Local Housing Allowance cap on properties with NO service charges, by property size and type



Source: Rent Review survey, July 2017
Question: How would you rate the likely impact on tenants of the limits to Local Housing Allowance in the following size/type of properties **with NO service charges**? Bedsits; 1-bedroom properties; 2-bedroom properties; 3-bedroom properties; Flats without a lift; Flats with a lift; Houses. Response categories as in the figure.

There were fifteen providers who expected negative impacts for tenants in more than four of the seven property types, of whom four were LSVTs, nine were traditional housing associations and two were local housing authorities. Most had rents at just below or near the Local Housing Allowance cap.

Having rents close to the Local Housing Allowance at present, coupled with service charges were felt to be a significant challenge for rent affordability in future. Having rents that were very similar to, or above, the Local Housing Allowance rate (see below under rent

convergence), was identified as more common for landlords with stock in Blaenau Gwent, Cardiff, Merthyr Tydfil, Monmouthshire, Powys, Rhondda Cynon Taf and Torfaen.

Planning for the LHA cap and reforms to supported accommodation

When asked what they had done so far in anticipation of **future** welfare reforms[20] many organisations referred to the activities already discussed above. Those who provided additional information most commonly said their response so far was "*Lots of modelling!".*

Other activities included providing information and advice to tenants, although one landlord said they were reluctant to engage tenants 'too early' in case they were giving out incorrect information, as the policy impacts were not clear at that stage.

Risk profiling or identifying tenants who were likely to be affected by reforms was also mentioned. Some landlords were piloting or exploring the potential for shared tenancies for younger, single tenants and some were reviewing their policy on rents and service charges. Some of those with sheltered housing were reviewing service charges and funding mechanisms.

Many landlords were also conducting strategic activities across the local authority or region, including lobbying the Welsh Government and Westminster Government as well as shared research/business intelligence activities.

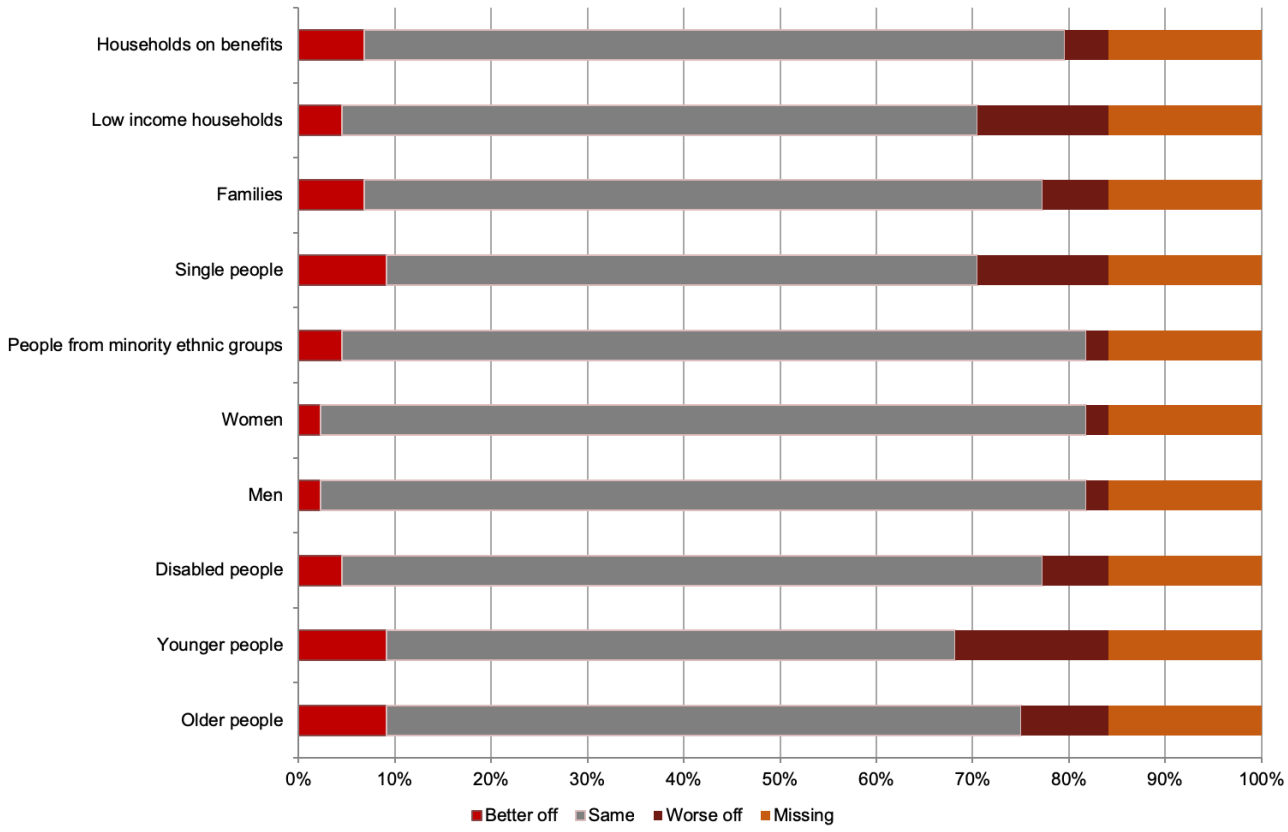
External influences - equalities

In terms of **equalities,** most landlords expressed the view that tenants were similarly affected by the rent policy, but some landlords felt that younger tenants, single people and lower income households would be relatively worse off (Figure A3).

Seven organisations did not provide an answer for this question, spread across a range of providers and across those in a single local authority and more locations. This was mainly because these landlords did not feel able to comment on the likely impacts of the policy, or felt that in order to do so they would need to undertake more detailed analysis.

[20] What action has your organisation taken so far to prepare for forthcoming reforms (including the application of the Local Housing Allowance and reforms to supported accommodation)?

Figure C.3: Whether any particular groups are more or less better-off as a result of the rent policy, all landlords



Source: Rent Review survey, July 2017
Question: Are any particular groups more or less better-off as a result of the rent policy? Older people; Younger people; Disabled people; Men; Women; People from minority ethnic groups; Single people; Families; Low income households; Households on benefits. Response categories as in the figure

Those landlords who provided more information about the differential impact expressed the views that:

- welfare reforms would have a far more detrimental effect on tenants than the rent policy
- those in smaller properties would be worse off (since the £2 allowable increase would be a higher proportion of the rent on a smaller property compared with a larger one)
- everyone benefits or is adversely affected in the same way
- the rent policy had limited impact on tenants
- people not on Housing Benefit, and older people on fixed incomes in particular, would be more adversely impacted.

Appendix D – Definitions of affordability

Defining affordability for working tenant households

There is ready agreement with the broad principle that social sector rents should be 'affordable' for households in low paid work. For example, since the introduction of assured tenancies in 1989 it has been Housing Corporation policy that RSL lettings should be:

> *'accessible to people on low incomes, whether or not they are in paid employment or in receipt of housing benefit. Associations are therefore expected to set and maintain their rents at levels which are within the reach of those in low paid employment.'* [(1)]

On the other hand, there is less consensus on how to define and measure affordability. Multiple measures are now in use, reflecting the diversity of views on how measures should be applied and the appropriate levels at which rents and other housing costs should be judged to be affordable, whichever measure is used. That said, there are three main groups of affordability measures in use across the UK:

- **Rent to income ratios** are the most commonly used affordability measures, in large part because thy are simple to understand and apply. They are usually specified on the basis of rent as a percentage of household income, taking into account receipt of housing benefit and other benefit income.
- **Residual income measures** focus on disposable income above a pre-defined standard for non-housing needs such as Universal Credit Personal Allowances. In some instances, 'benefits-in kind" such as the value of free school meals are factored into the analysis.
- **Work incentive measures** look at the connection between taxes, rents and state benefits and if the create work incentives or disincentives for tenants. They typically involve looking at the depth of housing benefit dependency, 'replacement ratios' and effective marginal rates of tax resulting from a combination of tax and benefit deductions from gross earnings.

The purpose of this Appendix is to:

- Consider the background to contemporary discussions of affordability in the United Kingdom,

- Provide a practical guide to the main affordability measures in use today and in particular the three main affordability measures used to analyse the affordability of current and projected rent levels in the main paper.
- Tease the particular characteristics of each type of measure and to illustrate these using calculations based on the UK tax and benefit system relate in 2018/19.

The discussion and figures in this annex generally refer to household incomes but, as with the affordability analysis set out in the main report, any income from earnings is assumed to come from one earner in the household, with tax and national insurance deducted according to the rates that applied in 2018/19. As in the main the figures generally exclude Council Tax and any associated Council Tax Reduction Scheme Rebate.

Limits of affordability

Before examining each of the affordability measures, it should be noted that there are a number of inherent limitations to all affordability measures. Those limitations mean that while affordability is a critical issue, it can never be the sole factor involved in determining views on average rents, or in shaping detailed rent setting policy.

The first limitation is that affordability measures relate to households, while rents must be set for dwellings. Households, with varying characteristics (e.g. size, age, and disability) may appropriately occupy dwellings of the same size. Since the introduction of the national housing benefit scheme to assist low income households in 1972, it has not generally been considered appropriate to charge differential (i.e. income-related) rents for the same dwelling.21

The second limitation is that larger families inevitably require higher incomes for their non-housing expenditures, than smaller households. This is reflected in the levels of Income Support provided for out of work households, and the income thresholds set for households to receive the maximum level of housing benefit. Those income requirements are not in any way related to the patterns of earnings for either different household types, or households occupying dwellings of the same size.

[21] This practice continues in public housing in the Australia and Ireland. In both countries expert opinion is highly critical of the practice which limits the income streams of landlords, making maintenance and borrowing difficult.

On any measure, a given rent and a given level of earnings will consequently give different affordability scores for different household types. With some measures larger families have lower affordability scores (e.g. gross rent to net income ratios), while with some other measures larger families have better affordability scores (e.g. residual income and housing benefit dependency measures.

In any case constructing a rent policy to produce broadly uniform affordability measures can result in a pattern of rent differentials between properties of different sizes that are not desirable. Attempting to equalise rent to income ratios, for example, would result in very high differentials between the rents for smaller and larger dwellings. Attempting to equalise residual income measures would, perversely, result in lower rents for larger dwellings.

The third limitation is that affordability measures do not take account of variations in the wider housing market. Thus, for example, house prices and private market rents vary far more across Wales than levels of earnings.

It follows that while social sector rents are much lower than private rents in most parts of Wales, in some cases they are very close to market rents. This raises concerns about the purpose of social sector housing lettings in those markets, about their viability, and the continuing potential risk from government policy on housing benefit limits (notwithstanding the withdrawal of the proposal to introduce LHA caps).

Thus, if social sector rents are to be competitive, and clearly below market levels, and if detailed rent policies are to set a coherent relationship between rents for properties of different sizes and characteristics, other factors need to be considered, as well as concerns about affordability.

A further limitation is that none of the structured affordability measures take account of the wider impact of the quality and location of the dwelling on the households living standards. For instance, low standards of thermal efficiency impose increased heating costs on households, while dwellings located at some distance from either shops or potential places of employment may impose higher transport costs on households. In that sense a more comprehensive affordability measure would relate to the energy efficiency and location of dwellings, rather than just to their rents.

In this context affordability remains a critical issue, and it is important to understand the characteristics of different affordability measures, and the ways they reflect widely differing household circumstances, in order to reach a rounded view of the contribution they can

make to framing rent policy. Each of the main forms of affordability measure are considered in turn below.

Rent to income ratios

Rent to income ratios are the most commonly used form of affordability measure, and they are used in Australia, Canada and the USA, as well as well as by the European Commission to construct its housing cost 'overburden rate' (2).

In the UK they have been widely used in debates about social sector rents, particularly since the introduction of assured tenancies and rents for housing association lettings since 1989. There are, however, different views both about the most appropriate form of rent to income ratio, and about the appropriate level of those ratios.

One dimension of the UK debate has been an equitable view that social sector rents should correspond with the housing costs freely entered into by home buyers, but adjusted to take account of the fact that home buyers are acquiring a capital asset, as well as seeking the beneficial occupation of the home they are buying. On that basis, for example, Alan Holmans suggested that it might be reasonable to expect tenants to pay rents of some 20% of their incomes (3). Drawing on Family Expenditure Survey data related to all home buyers, rather than just first-time buyers, John Hills suggested that a more appropriate ratio would be 'significantly lower than 16%' (4).

However, it should also be noted that home buyers with lower incomes devote far higher proportions of their incomes to their mortgages and related housing costs. In 2010 the average mortgage costs for home buying households represented 16.5% of their average disposable incomes; but for home buyers within the two lowest incomes quintiles average mortgage costs represented 35.4% of their incomes (5).

Many other views on appropriate rent to income ratios have been expressed, but without there always being any explicit rationale for their selection. It may be noted, however, that a rent policy based on an affordability target significantly higher than reflected in the expenditure choices of home buying households will inevitably limit the numbers of working households that find renting from social sector landlords preferable to house purchase.

Alternative ratio-based measures

As noted in the introduction, there are divergent views on the most appropriate method for measuring rent to income ratios. There are two main alternative rent to income measures:

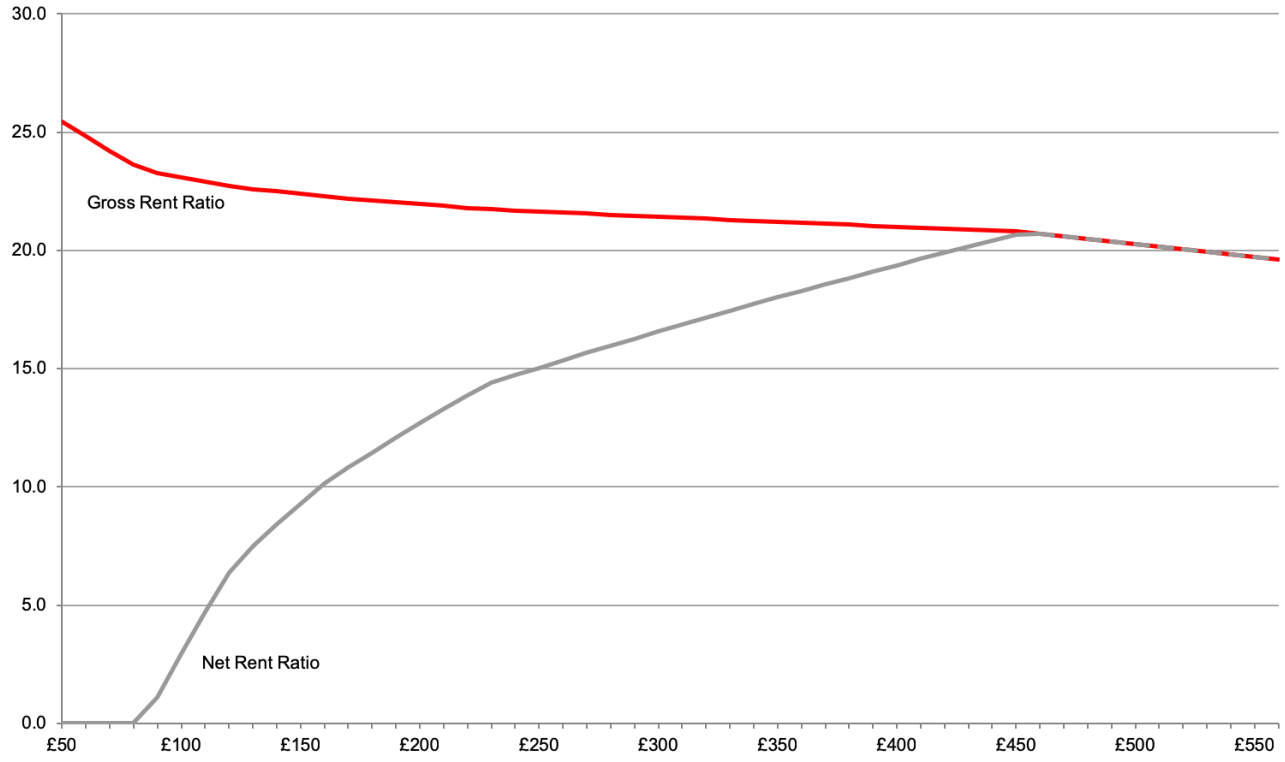
- Gross rents as a percentage of net incomes before housing costs. Net incomes comprise net earnings plus, wherever applicable, child benefit, working tax credit and housing benefit.
- Rents net of housing benefit as a percentage of net incomes, comprising net earnings, and any child benefit or working tax credit.

The net rent to income ratios have the merit of focusing attention on the extent of the poverty trap, and identifying the peak ratios at the income level where tenants cease to be dependent on housing benefit. However, this approach can be unintentionally misleading. This is because peak ratios do not identify those tenants that literally have the greatest affordability problems, in the sense that they have the lowest disposable incomes after they have paid their rent.

The advantage of the ratios produced utilising the gross rent to net income approach is that they meet the 'common sense' expectation that the highest ratios are incurred by those with the lowest incomes. For this reason, these are the rent to income ratio measures used for the purpose of the analyses in the main paper.

Figure D.1 illustrates how the different definitions of the rent to income ratios operate, and in particular shows how they converge at the point where tenant incomes are such that they are no longer eligible for housing benefit.

Figure D.1: Affordability ratios: gross and net measures compared



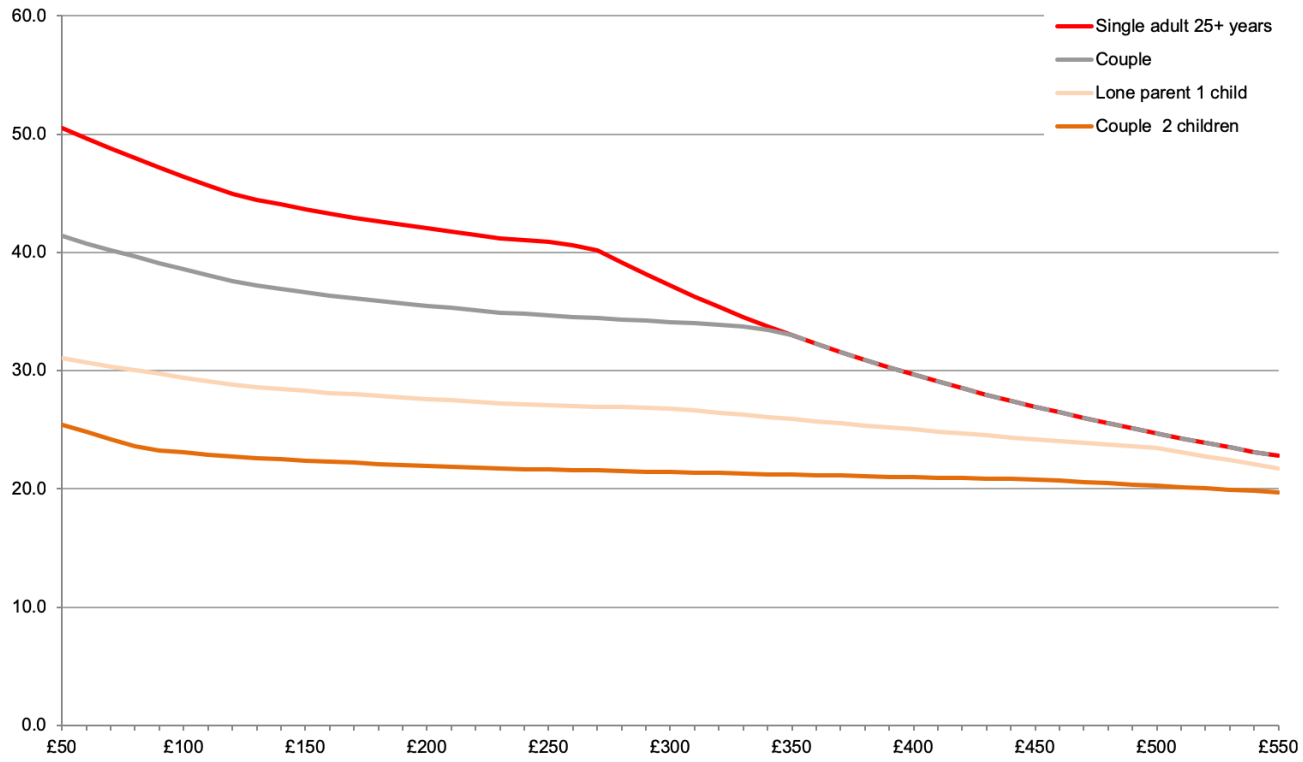
Source: authors' calculations using 2018-19 tax and benefits scale rates
Notes:
Gross affordability ratio = (earned income minus income tax minus national insurance contributions plus social security benefits including tax credits plus Housing Benefit) / Gross Rent * 100
Net affordability ratio = (earned income minus income tax minus national insurance contributions plus social security benefits including tax credits) / (Gross rent minus Housing Benefit) * 100

In either form, the rent to income ratios vary significantly between household types for a given levels of earnings, as a result of the operation of the child benefit, working tax credit and housing benefit schemes. Those schemes all, in different ways, reflect the greater requirements for families with children in respect of non-housing expenditures. Child benefit and working tax credit directly boost family incomes, while housing benefit is provided for families at higher income levels than for single people and childless couples.

The consequence of these benefit provisions is that for any given level of rents and earnings single people and couples will have higher rent to income ratios than families with children. This is illustrated, using gross rent to income ratios in the case of a £100 rent, in Figure D.2. As can be seen from the figure it is only at higher income levels, beyond the range of tax credit and housing benefit, that the ratios converge. Even then there remain small differences, reflecting the operation of the tax system and the impact of child benefit.

It does not, however, follow that rents for bedsit and one bed dwellings should be set significantly lower than those for family size dwellings, in order to (more or less) equalize the rent to income ratios for single people and childless couples with those of families with children. This would be to ignore the purpose of in work benefits, and the higher non-housing costs of families that they are designed to assist.

Figure D.2: Affordability ratios for a range of households (£100/pw rent)



Source: authors' calculations using 2018-19 tax and benefits scale rates

Residual income measures

The shortcomings of simple income have contributed to a growing interest in the use of 'residual income' measures of housing affordability (6).

Such measures are routinely used, for example, in the form of the '**after housing costs'** measures of household poverty published each year by the Department of Work and Pensions (7). The concept of residual incomes also lies behind statements that after paying their rent, tenants should be left with sufficient income to pay for other essential expenditure such as fuel, food, clothing, transport and so on.

There are debates about how residual income measures should be constructed, especially in terms of defining an appropriate baseline for after housing cost incomes. The approach

taken in this study has been to use the basic income allowances for Income Support[22] and the Universal Credit scheme for different household types. This is on the basis that:

- These allowances can be taken to represent the UK Government's implicit view of the minimum income appropriate for different household types[23].
- They provide a practical basis for constructing residual income-based measures of housing affordability.

This is not a wholly satisfactory baseline, as changes in Income Support policy will have a knock-on effect on affordability scores. Historically, Income Support has been uprated by inflation, rather than earning, it has become a less challenging standard relative to average earnings. The 4-year freeze on Income Support and other working age benefits from 2016/17 to 2019/20 may well exacerbate this tendency.

A number of important efforts have been made at constructing independent measures of minimum household income requirements (8). While the JRF's 'Minimum Income Standard' has obtained a measure of support, there is no officially recognised current standard for basic income requirements. Moreover, any shortfalls in residual incomes that are the result of differences between an independently established income standard and the prevailing Income Support levels cannot be tackled by varying rent levels. This is because Housing Benefit was designed to prevent post-rent incomes falling below Income Support rates.

On saying that, the introduction of measures such as the LHA cap for private renters and the 'bedroom tax' for social renters has meant that levels of Housing Benefit received are no longer always sufficient to prevent incomes falling below Income Support levels. This has led to a growing number of households with incomes below their applicable Income Support allowances.

For working households that claim housing benefit, levels of residual income above the Income Support thresholds are determined by the characteristics of the housing benefit scheme, particularly the 'earnings disregards' (earned income that is excluded from the means-test) and 'tapers' (the percentage by which benefit is reduced as income rises).

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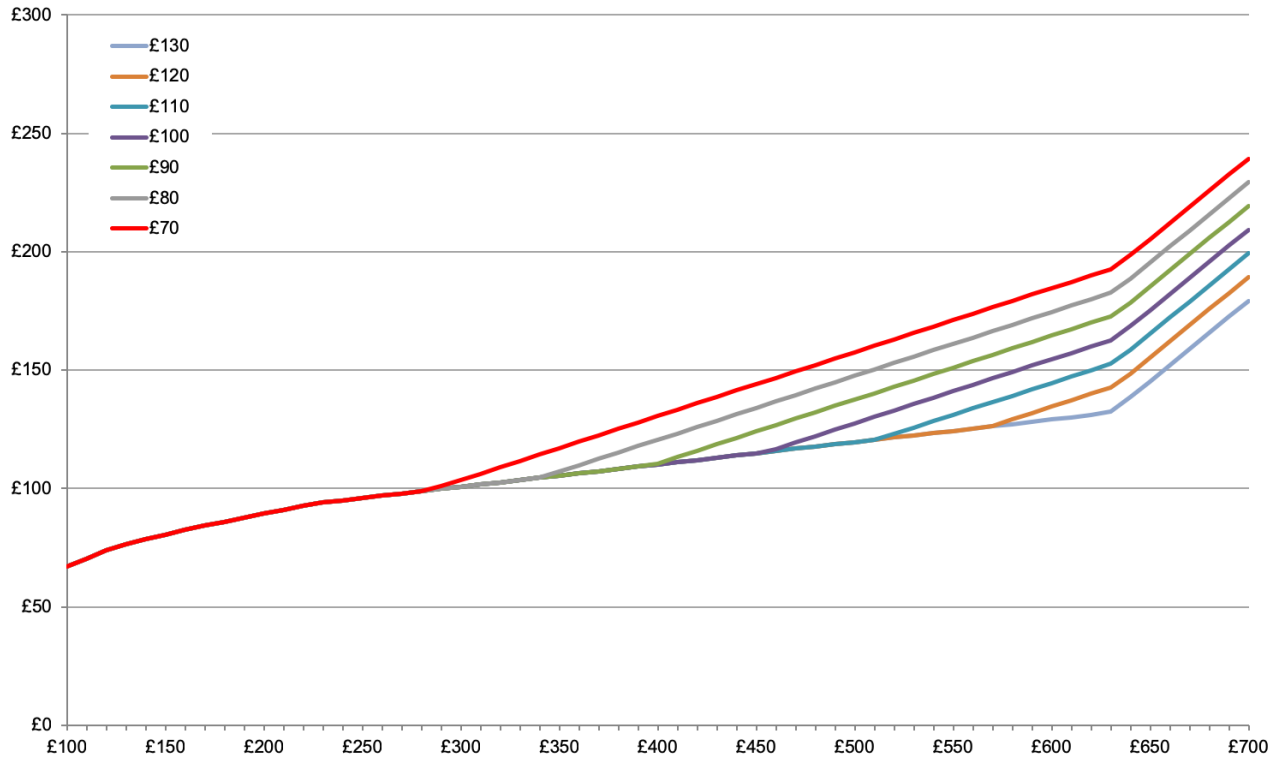
[22] The Income Support allowances correspond with allowances for other 'out-of-work' benefits for people of working age such as Employment and Support Allowance (ESA) and Jobseeker's Allowance (JSA). The also form the basis for the Housing Benefit Applicable Amounts.
[23] Whilst Universal Credit is being phased in, relatively few households received it in 2017/18 and in any case the scheme is undergoing changes as it is introduced.

Unless, some limit is imposed (e.g. by the benefits cap, or LHA rates), higher rent levels result in a '£ for £' increase in the level of housing benefit entitlement.[24] Higher rents therefore make no difference to the net incomes of tenants that are already in receipt of housing benefit. This is illustrated in Figure D.3, which shows the case of a couple with two children. It shows that, for any rent over £70 per week, the residual income measure is the same for any family earning up to £290 per week.

Figure D.3: Residual income measures for a range of rents



Source: authors' calculations using 2018-19 scale rates

Higher rents do, however, reduce the after-housing cost incomes and residual incomes of tenants with higher incomes, especially for those with incomes just above the point where Housing Benefits entitlement ceases.

It is only at higher earnings levels that differences in rent levels have any impact on the residual income measure. This is because at that earnings level the family with a rent of £70 per week ceases to qualify for housing benefit. For tenants with higher rents continuing

[24] This arises from the formula: Housing Benefit = 100% eligible rent *minus* 0.65*(net income *minus* income support allowance)

housing benefit dependency limits the rise in disposable incomes and thus depresses the residual income measure.

Consequently, average residual income measures are of limited value, as rent differences only impact on those households at the higher end of the earnings range. The small changes in the average measure for all households reflect the far greater impact that higher rents are having on households above a given level of earnings. In that sense residual income measures are an indirect measure of housing benefit dependency.

Work incentive measures

The housing benefit scheme has the merit of ensuring that households are generally better off in work than they are out of work, and dependent on Income Support (or equivalent benefits, such as JSA or ESA). Whilst the 'earnings disregards' and the 65% taper ensure that incomes are higher in work than out of work, they also imply that so long as a tenant claims housing benefit they will be only slightly better off in work. Indeed, it is possible for households to be worse off in work if they incur reasonably high travel to work expenses and/or unassisted child care costs. For households with children there are further complications resulting from the overlap of the housing benefit and tax credit schemes.

The earnings disregards are the amounts households are permitted to earn above the level of the housing benefit personal allowances before they cease to qualify for the maximum level of housing benefit. For single people the earnings disregard is just £5 per week, and for couples the standard disregard is £10, whether or not they have any children. Those disregards have been unchanged since 1988. The earnings disregards for lone parent households are higher, at £25, but these should be seen in the context of the much lower levels of personal allowances for lone parents, and the greater likelihood that they will need to incur child care costs in order to work.

Above the levels of the housing benefit personal allowances and earnings disregards, benefit entitlement is reduced by the 65% taper, and net disposable incomes grow very slowly, particularly when the tax credit and council tax reduction schemes tapers apply at the same time. The cumulative impact of the current housing benefit taper rates, in conjunction with the tax and other means tested benefits that reduce net disposable incomes, is shown in Table D.1. The incidence of high marginal rates of cumulative tax and benefit deductions from gross earnings is generally referred to as 'the poverty trap'.

Table D.1: The housing benefit poverty trap, 2018-19 (£)

	With tax credits		Without tax credits	
Extra gross earnings		**1.00**		**1.00**
Less Income Tax @20%	0.20		0.20	
Less National Insurance @12%	0.12		0.12	
Less Tax Credits @41%	0.41		-	
= After tax income		**0.27**		**0.68**
Less Housing Benefit @65%	0.176		0.442	
Less Council Tax Reduction Scheme @20%	0.054		0.136	
= New disposable income		**0.04**		**0.102**

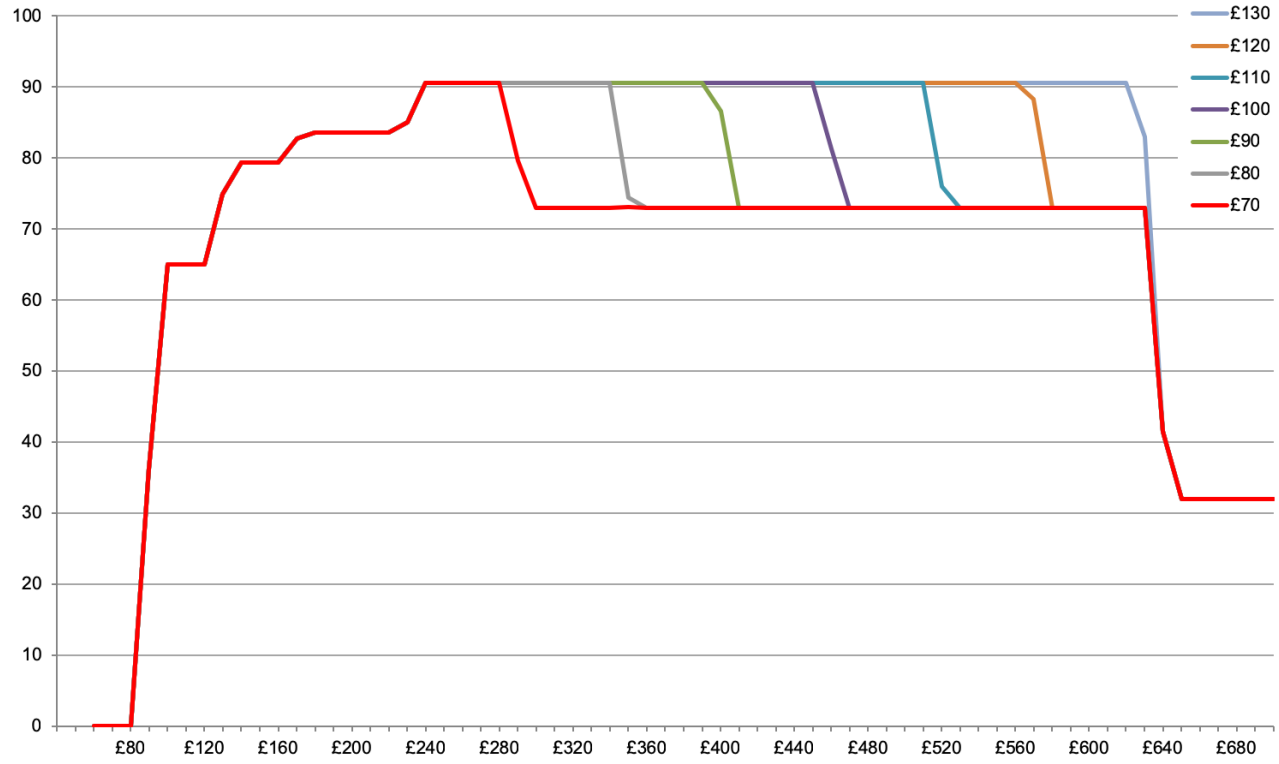
Note: Cumulative deductions from each £1 of gross earnings
Source: authors' calculations- note revised layout of table

The table shows, in particular, that where there is an overlap of the housing benefit and tax credit tapers for families, this can leave them with nine pence disposable income from each £1 additional gross earnings, falling to as little as four pence disposable income if the council tax reduction scheme is taken into consideration. These cumulative deductions from gross earnings can extend over a wide range of earnings, especially for households with higher rent levels (9).

It is only when net incomes are no longer subject to the impact of benefit tapers, that they then begin to rise significantly above Income Support levels. The impact of these features on residual income ratios has already been seen above, and there is a similar effect on the 'replacement ratios', which measure Income Support entitlements as a percentage of net working incomes.

The sharpness and range of the 'poverty trap' inevitably raises concerns about the lack of financial incentives provided for low income households to undertake low paid work. Hence the indicators of the severity and range of the poverty trap are described as work disincentive measures. There are three main work disincentive measures. The first measure is the incidence of housing benefit entitlement in itself, which is used as an indicator in the main rents report. The second measure focuses on the cumulative marginal rates of deduction from gross earnings over each £10 range of gross earnings. The impact of higher rents in extending housing benefit dependency further up the income scale, and thereby extending the range of very high levels of cumulative marginal deductions from gross earnings is illustrated in Figure D.4.

Figure D.4: The cumulative marginal rates of tax and benefit deductions from earnings



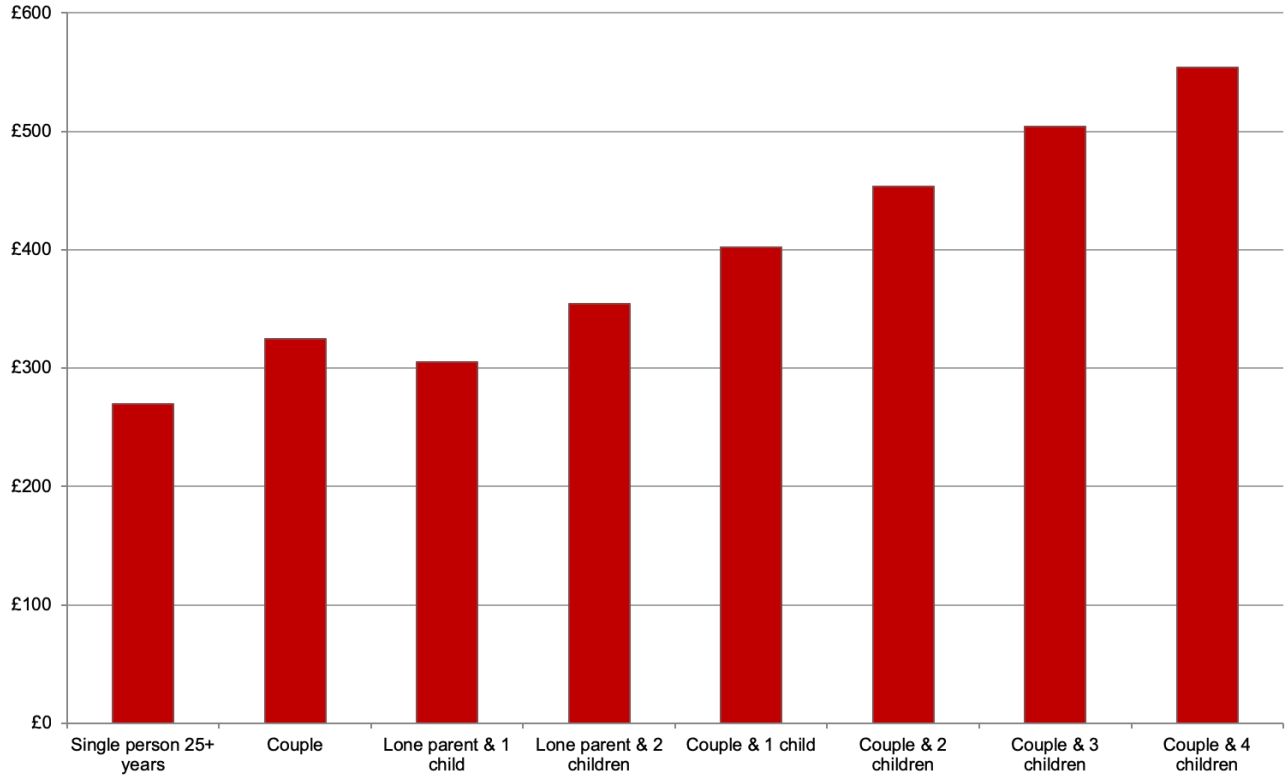
Source: authors' calculations using 2018-19 tax and benefits scale rates.

The third work disincentive measure is 'replacement ratios'. These are more commonly used in economic analyses of work incentives than in housing affordability analyses. The replacement ratio is the ratio between the households' net income in low paid work, compared to their income when out of work and claiming full welfare benefits. The higher net incomes are relative to benefit levels, then the replacement ratio is correspondingly lower.

In practice work disincentive measures tend to extend further up the income scale for larger families, and more so for couples than lone parents with the same number of children. This is illustrated in Figure D.5. Setting aside council tax, it shows that, in the case of a £100 per week rent, a lone parent with two children would need to earn just over £354 per week (gross) before they ceased to qualify for housing benefit, while a couple with two children would need to earn £453 week before they ceased to qualify. A couple with four children would need to earn over £554 per week before they ceased to qualify for housing benefit. The extent of the poverty trap for larger families is also that much more extended as they need to occupy larger dwellings, which in turn will typically have higher rents.

It should also be noted that assuming the eventual full roll out of the new universal credit regime this will have a major impact on benefit dependency and work incentives. On the one hand the integration of housing and baseline benefits, and the removal of the overlapping tapers shown in Table D.1, will result in a much shallower poverty trap, and in many cases higher levels of disposable incomes for working households in receipt of benefit. However, by the same token it will extend that shallower poverty trap much further up the income scale, so that, for example, a couple with two children and a rent of £100 per week would need (based on 2018-19 scale rates) to earn over £745 a week before they ceased to qualify for universal credit.

Figure D.5: Gross weekly earnings required to escape housing benefit dependency (£100/pw rent)



Source: authors' calculations using 2018-19 tax and benefit scale rates.

A concluding observation on affordability measures

Affordability is a critical, if illusive, concept that has a vital contribution to make towards the formulation of rent policies. At the same time, the above discussion should have amply made the point that different affordability measures imply different rent levels for different households, and that other factors also need to be considered when making decisions on rent setting policies.

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(9) S Wilcox, J Perry, M Stephens & P Williams (2017), UK Housing Review 2017 (Table 118), Chartered Institute of Housing.

Appendix E – Schedule of supporting tables

Annex 1	Housing Benefit analysis
Annex 2	Universal Credit analysis
Annex 3	Universal Credit analysis (CPI+0.5% scenario)
Annex 4	Universal Credit analysis (CPI+1.0% scenario)
Annex 5	Universal Credit analysis (CPI+1.5% scenario)
Annex 6	Two child policy (CPI+0.5% scenario)
Annex 7	Two child policy (CPI+1.0% scenario)
Annex 8	Two child policy (CPI+1.5% scenario)