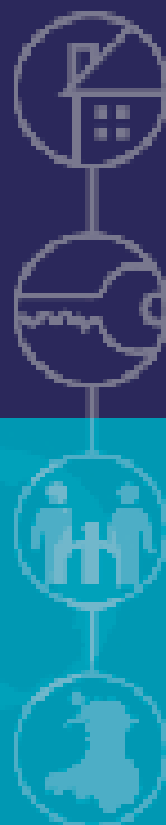


Social Housing Rents in Wales





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Introduction

1. The background to the project

This report sets out the results of research commissioned by Welsh Assembly Government into the pattern of rents and service charges in the social housing sector in Wales.

The research was commissioned as part of the Action Plan which implements the National Housing Strategy, 'Better Homes for People in Wales', approved by the Assembly in July 2001. The research was carried out by the Centre for Housing and Planning Research, in the Department of Land Economy at the University of Cambridge.

In the National Housing Strategy, the Assembly identified a number of issues concerning the pattern of rents charged by social landlords (local authorities and housing associations) in Wales, and these were set out in Section G13 '*Social Housing Rents and Affordability*', of the National Housing Strategy.

The text of Section G13 is attached as an Annex to this Introduction, for the convenience of the reader

These concerns were summarised in the introduction to the National Housing Strategy in the following terms:

Fairer Social Housing Rents

A coherent pattern of affordable rents is integral to our aim to give tenants greater choice over where they live. ***We want a social housing sector that has an equitable rent structure that reflects the overriding principle that tenants should pay comparable rents for comparable homes and services, thus providing increased opportunity for tenants in selecting where they want to live.***

While the difference between local authority and registered social landlord rents is not as marked in Wales as it is in other parts of the UK, it is evident nonetheless that the pattern of rents across Wales' social housing sector is not consistent. Moreover, within some landlords own stock there is little relationship between the rent charged and the value of what is on offer – in terms of size, quality or location.

We will work with social landlords to identify anomalies in renting systems and tackle these by developing more equitable structures.

(Better Homes for People in Wales: A National Housing Strategy for Wales, National Assembly for Wales, 2001, p.11)

The research aimed to collect data on the actual rents and service charges charged by every significant social landlord in Wales, to establish the basis of each landlord's policy for setting rents and the factors which the policies took into account, and to set rents and service charges in the broader context of affordability, including the heating costs of homes.

2. The research programme

The research project contained five main elements:

1. A review of existing data collected by Welsh Assembly Government as part of its strategic, regulatory and statistical roles.
2. The collection of current rent policies from each social landlord, together with each landlord's mechanism for reviewing and changing rents. This was intended to enable:
 - A review of the rationale behind existing rent setting policies, and the extent to which they conform to existing statutory and regulatory guidance.
 - An analysis of the extent to which the existing pattern of rents actually charged conforms to the rent setting policy of the landlord.
 - An assessment of the existing mechanisms for the review of rents and their alteration.
3. The collection, from each social landlord, of an agreed range of property attributes in order to enable the fair comparison of rents across a landlord's stock, between social landlords, and between social rents and capital values and market rents. This stage of the project was intended to enable:
 - The identification of the property related element of the total rental charge, separated from any service related element, in order to enable 'like for like' comparisons between different social landlords to be made.
 - The identification of the key property and location attributes which influence current social housing rents.
4. A detailed analysis of current social housing rent levels, and a fair comparison of these both within and between the council and RSL sectors and against market rents and capital values. Such an analysis and comparison required:
 - The identification of the property related element within the total rent charged by each social landlord

- The identification, through hedonic analyses of price, of the property and location attributes which most influence the structure of sub-market rents, and of open market rents and values

5. A summary and critical examination of social landlords' rent policies and review procedures, drawing out their relative strengths, weaknesses and differences.

These elements would then form the basis of a critical review of existing rent setting policies, their relationship to current rent differentials, and the mechanisms adopted by landlords for their review, including their procedures for consulting with their tenants.

This critique was intended to examine the strengths, and weaknesses, of the range of rent setting policies currently employed by social landlords within the policy context of the National Housing Strategy, which seeks to achieve 'an equitable rent structure that reflects the overriding principle that tenants should pay comparable rents for comparable homes and services, thus providing increased opportunities for tenants in selecting where they live'.

3. The research methodology and data collection

All 22 local authorities and the 33 largest housing associations were asked to supply details of the weekly rents and service charges for each of their properties, by bedsize and by address

While many landlords were able to respond relatively promptly and accurately, there were a significant number where repeated reminders and chasing were required in order to elicit any response. Others had great difficulty in supplying the data requested, although the Project Steering Group had agreed that the data requested represented the minimum data that every social landlord would have to hold in order to manage its housing stock.

These difficulties could be partly attributed to the continuing use of outdated, 'legacy' computer systems, particularly where information was held on different databases. In these circumstances, it was not uncommon, for instance, for the addresses in the rent account not to match with those in the housing management system. Particular difficulties were experienced by those local authorities where the housing function is split between two or more departments. Typically, rent accounting might be handled by a finance department, the letting and tenancy management by a housing department (or section within a larger department) and the maintenance of the stock by a building department. All three might have independent, and incompatible, databases. In the end, the project team were successful in obtaining the relevant data from all 55 landlords.

Landlords were asked to supply data on their general needs housing stock, and to exclude specialist supported housing. In some cases, this was interpreted by local authorities as excluding all property designated for the elderly. Where there were obvious discrepancies between the numbers of properties for which landlords had supplied data, and the size of their housing stock from the most recent statistical returns, landlords were asked to check the difference and to supply any missing data. However, it was not possible for the project to check the data supplied against the landlord's own records, and there may still be instances where data are missing, particularly for a proportion of the local authority Housing Revenue Account (HRA) stock.

Some landlords had considerable difficulty in supplying basic information on their housing stock. In some cases, not all properties had postcodes. In other cases, the data might be held on different, and often incompatible, computer systems. In such cases, it was also common for the data supplied not to match: lists of addresses for one function were often different from lists of addresses supplied from another function. For example, in one local authority the rent data was held on the rent account, administered by one department, but this did not have any details of the bedsizes of the properties. Neither were these held by the housing department. The only source of information on bedsizes was a database which had been independently built up by the maintenance department for its own purposes.

Service charges were a particular source of difficulty. The use of service charges is much more common among housing associations than it is among local authorities. However, in order to compare the weekly charge to tenants, it is necessary to add together the rent and any service charges to give the total weekly charge. Only in this way can like be compared with like across the two sectors. Among the local authorities, only Cardiff has attempted to identify service charges on a systematic basis.

However, many landlords also use the rent account to make a weekly collection of other charges, for example water rates and charges for the supply of heating (typically for district heating and central boilers in sheltered housing schemes). In some instances, landlords could not break down charges for heating between the consumption of fuel (not a service charge) and the supply and/or maintenance of the heating system itself (a legitimate service charge). We have excluded water rates (and charges for maintenance of cess pits or septic tanks) where these were separately identified. We have also attempted to divide heating charges between small charges, typically one or two pounds per week, on the assumption that these represented service charges for the supply or maintenance of the heating system, and larger charges, in excess of two pounds per week, assuming that these reflect charges for fuel consumed. This is necessarily a rough and ready division.

Addresses were collected in order to enable the geographic pattern of rents to be analysed. This is most conveniently done at the postcode sector level. Postcode sectors are defined by the first two letters and the first two digits of a postcode (eg, LL41 3) and represent geographic areas containing an average of 3,000 addresses. The only defined area in the postcode system that is smaller than the postcode sector is the postcode unit, which is the full postcode, representing an area of only 15 properties on average. It was felt that this level of detail was unnecessary for the project, and also that this level of detail might allow individual properties to be identified.

Indeed, in many postcode sectors there are only one or two properties owned by social landlords. It was clear that in some cases these were isolated single properties, in some cases with rents significantly above, or below, the average. In the maps which are presented in this report, all postcode sectors containing three properties or less have been suppressed.

One local authority, Bridgend, was unable to supply postcodes for the addresses of its housing stock, and therefore appears as a blank in the detailed analysis of rents by postcode sector presented later in this chapter.

4. Data issues and problems

Two other points need to be noted about the quality of the data.

The first is that 2002/03 was a fifty-three week rent year. Periodic tenancies normally run from Mondays, and rent is therefore normally due on to be paid on Mondays. Once every seven years there are fifty three Mondays in a calendar year, and 2002/03 was one of these. The financial year began on Monday 1 April 2002, and ended on Monday, 31 March 2003.

When this occurs, landlords essentially have two choices. They can either recover the annual budget over 53 weeks rather than 52, with each week's rent being slightly lower than it would have been in a normal fifty two week year, or they can maintain weekly rents at the same level as normal, and simply collect an additional week's rent in the course of the year.

The situation is complicated by the practice of many social landlords, particularly local authorities, to offer 'rent free' weeks, usually either at Christmas or over the summer holiday period. Some local authorities offer four 'rent free' weeks in a normal year, collecting 52 weeks' rent income in 48 weeks actual payments. In the event of a 53 week rent year, these landlords typically collect 49 or 51 weeks' rent.

The situation is still further complicated by the different accounting practices between local authorities and housing associations. Local authorities generally, but not exclusively, account on a cash basis. Cash received during the accounting year is attributed to that year's accounts as income. In these circumstances, charging the extra week's rent represents a one-off 'windfall' to that year's Housing Revenue Account. Housing associations however generally account on an accruals basis. Cash received during the year from rents is attributed on a daily basis: the week's rent received on Monday, 31 March 2003 would have one seventh attributed to 2002/03, and six sevenths to 2003/04.

We have attempted, where possible, to express all rents on a common, 52 week basis, although the variety of charging practices, and the different accounting practices, have meant that this has not always been achievable.

The second point is that 2002/03 saw the introduction of Supporting People. Social housing landlords were required to identify those elements contained within rents or service charges which represented the provision of personal services to tenants. These elements are in future to be met from Supporting People grant, for those tenants entitled to Housing Benefit, and paid directly as a service charge by those tenants whose income is sufficient.

In the case of housing associations, this was relatively straightforward, since housing associations already identify service charges separately from rent. The introduction of Supporting People largely required the division of already existing service charges between those relating to the building, and those relating to the provision of personal services to tenants.

For most local authorities however the process was much more complex. Traditionally, many local authorities have 'pooled' the costs of services across the whole of their housing stock. The costs of wardens in sheltered housing, or of concierges where these are provided in high rise flats, are split over the whole housing stock, and all tenants have paid a small element of rent for the provision of these relatively expensive services to a small proportion of tenants. Local authorities have therefore had to identify the costs of providing these services, usually involving complex problems of identifying and attributing overhead costs. All social landlords also had to decide what proportion of these services were actually providing personal services to individual tenants as defined in the Supporting People regulations. This is not a simple process. For example,

wardens in sheltered housing may perform a wide range of duties, many of which have developed over the years without necessarily being formally included in job descriptions, and almost certainly without any 'timesheet keeping' approach to attributing the proportions of time spent on different activities. Landlords have therefore had to exercise judgement as to the proportion of time which can reasonably be attributed to the provision of personal services.

It is clear, from interviews with landlords, that these judgements have differed widely. In some cases, the majority of wardens' time was felt to be concentrated on housing management type work, in others the majority, if not all, was judged to be used in providing personal services to tenants. Local authorities making the judgement that the majority of wardens' time was felt to be concentrated on housing management type work also tended to retain a pooling approach to the non Supporting People element of the work of these staff. Some however were taking the opportunity to identify these remaining costs as service charges. This approach would bring the charging practices of these authorities onto a similar basis to that operated by housing associations.

These decisions were in many cases still being undertaken during the course of the year 2002/03, and therefore the data available on rents and service charges will not reflect the position that will finally emerge as the provisions of Supporting People take full effect.

In the longer run, Supporting People will also affect the nature of housing provision, and the future use of existing stock. In the first phase of Supporting People the personal service element can be split among all tenants currently receiving some part of the service. The personal care element of the work of a warden in a sheltered housing scheme can therefore be divided between all the tenants living in the scheme. The first review of Supporting People will however require the identification of the actual package of support received by each individual. At this point, it will no longer be possible to divide personal service among all tenants, and these charges will only be attributed to those tenants actually in receipt of the service.

A number of landlords expressed the view that this would effectively mean the end of sheltered housing as a physical building type, and would instead require the development of a peripatetic, rather than block based, warden service. Some had already begun to plan ahead on this basis.

5. The structure of the Report

Chapter 1 outlines the current legislative background and the subsidy and regulatory constraints on rent setting by landlords in the local authority and housing association sectors and discusses the different approaches to rent setting in the two sectors.

Chapter 2 analyses the pattern of rents at five descending levels of detail:

- The national pattern, comparing the range of rents within the two sectors for each bedsize of property
- The national distribution of rents within each sector, by bedsize of property
- Each sector, comparing the range of rents charged by each landlord for each bedsize of property
- The geographic pattern of rents across Wales, for each sector, by bedsize of property
- The difference between average rents in each sector, in each postcode sector in Wales, by bedsize

Chapter 3 discusses the pattern of rents in the private sector, and compares private sector rents to rents in the social housing sector.

Chapter 4 discusses the pattern of house prices in the owner occupied market and their movement over the immediate past.

Chapter 5 outlines the complex relationships between earnings, the welfare benefit system in the form of Tax Credits, and the affordability of rents in the social housing sector.

Chapter 6 outlines the problem of fuel poverty, explains the SAP rating system for houses, and discusses the implications for the WHQS if tenants who are dependent wholly upon benefits are to be taken out of fuel poverty.

Chapter 7 discusses some of the distortions and 'perverse incentives' which rent regulation can create.

Chapter 8 summarises the findings and conclusions of the project.

Appendix 1 gives background information on the process of restructuring rents currently being undertaken in England, where a different regulatory regime for the housing association sector, which encouraged competitive bidding for Social Housing Grant, had led to a chaotic pattern of rents. The Appendix discusses some of the drawbacks of the formulaic approach now adopted for rent setting in England.

Chapter 1

Rent setting: the national policy context

1. The National Housing Strategy

The National Housing Strategy, *Better Homes for People in Wales*, adopted in July 2001, sets out the current strategy of Welsh Assembly Government towards rents and rent setting policy across the social housing sector.

The Strategy summarises the intention to achieve ‘fairer social housing rents’ in the following terms:

- “A coherent pattern of affordable rents is integral to our aim to give tenants greater choice over where they live. *We want a social housing sector that has an equitable rent structure that reflects the overriding principle that tenants should pay comparable rents for comparable homes and services, thus providing increased opportunity for tenants in selecting where they want to live.*
- While the difference between local authority and registered social landlord rents is not as marked in Wales as it is in other parts of the UK, it is evident nonetheless that the pattern of rents across Wales’ social housing sector is not consistent. Moreover, within some landlords own stock there is little relationship between the rent charged and the value of what is on offer – in terms of size, quality or location.
- We will work with social landlords to identify anomalies in renting systems and tackle these by developing more equitable structures.”

Better Homes for People in Wales develops these aims in more detail in section G.13 of the Strategy, ‘Social Housing Rents and Affordability’:

- “We recognise the important connections between social housing rent levels and tackling social disadvantage. Where rent levels are fair and affordable, tenants will have a greater incentive to get off benefits and move into work. Affordability is considered an important issue in the social housing sector in Wales. This is because many Welsh tenants still face difficulties in meeting their housing costs, with some critics claiming that policies often fail to take account of non core rent costs such as service charges and utility bills. In addition to affordability issues, there remain concerns about the fairness and consistency of rents. We are concerned about indications that suggest the broad pattern of rents across Wales’ social housing sector is not always a coherent one.

We will aim to:

- work in partnership with local authorities to achieve fair and transparent rent systems which deliver affordable rents;
- continue to regulate registered social landlords' rents to achieve levels which are affordable, whilst enabling registered social landlords to be financially viable and deliver a good standard of service;
- compare and seek to address unjustifiable differences between the rent levels of local authorities and registered social landlords; and
- ensure that where anomalies are identified a restructuring process is agreed with the landlord that achieves an equitable structure within a timescale that is not to the detriment of the majority of its tenants."

2. Rent setting policy in the local authority sector

The powers of local authorities to set rents in their own stock are defined in section 24 of the Housing Act 1985:

- "24. – (1) A local housing authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses.
- (2) The authority shall from time to time review rents and make such changes, either of rents generally or of particular rents, as circumstances may require.
- (3) In exercising their functions under this section, a local housing authority shall have regard in particular to the principle that the rents of houses of any class or description should bear broadly the same proportion to private sector rents as the rents of houses of any other class or description.
- (4) In subsection (3) "private sector rents", in relation to houses of any class or description, means the rents which would be recoverable if they were let on assured tenancies within the meaning of the Housing Act 1988 by a person other than the authority."

(Subsections 3 and 4 of the above section were added by section 162 of the Local Government and Housing Act 1989.)

In practice, since their introduction in 1989, subsections 3 and 4 have been more honoured in the breach than in the observance. In many parts of Wales, there are insufficient properties let on assured tenancies to provide adequate comparisons or sufficient market intelligence. Information on the rents of assured tenancies is effectively limited to those tenancies where the tenant is in receipt of Housing Benefit, rather than those achieved in the open market. It is known that the Rent Officer Service experiences

considerable difficulty in obtaining comprehensive and reliable data on the actual rents achieved in assured lettings.

Subsections 3 and 4 of the Act have also been effectively ignored by the government in England, where the current process of rent restructuring across the social housing sector sets the rent of every property by reference to a formula based on a mixture of local earnings and the open market capital value of the property itself.

3. Rent setting and Housing Revenue Account subsidy

In practice, the rents of local authority houses are set in a two tier process. The first tier, determined by the Assembly, sets the amount of subsidy which the local authority will receive. This substantially determines the total amount of income which the local authority must recover from all its tenants. The second tier of the process is the policy of the local authority as to how it chooses to distribute this total between all its houses.

The amount of subsidy which each local authority will receive is determined by a formula. This compares the income to the HRA (primarily from rents) with the expenses of the HRA (primarily the costs of management, maintenance, debt charges and rent rebates). If the costs are greater than the income, subsidy makes up the deficit. However, in order to control public expenditure, the formula is applied to a 'notional' HRA, in which the level of rents (on the income side) and the costs of management and maintenance (on the expenditure side) are determined by the Assembly. (If this were not done, a local authority would be free to set low rents, and leave costs uncontrolled, safe in the knowledge that taxpayers would make up the difference.)

The Assembly has determined for 2003/04 that a reasonable level of expenditure on management and maintenance is £1,255 per property in every local authority area in Wales. It appears unlikely that the reasonable costs of management and maintenance are in practice identical everywhere in Wales, but there appears to be no useable evidence to the contrary.

The allowance for management and maintenance (determined by the Assembly), the amount of rent rebates (mainly varied by the rate of unemployment) and the amount of debt charges (determined by the authority's past pattern of borrowing) together form the main elements on the cost side.

The Assembly then determines an average rent for each local authority which it considers reasonable and appropriate, known as the 'guideline' rent.

The income which the local authority would receive if it charged its average rent at the guideline, together with a number of other minor forms of income, is then deducted from the cost side of the formula. If costs exceed income (as they do for every local authority in Wales), then the Assembly pays subsidy to make up the difference.

The income from rents is less than the assumed costs of managing and maintaining the stock and the costs of debt charges in two local authorities, Merthyr Tydfil and Rhondda Cynon Taf. In these cases, part of the subsidy paid by the Assembly is meeting the cost of providing the houses, the 'housing element' of subsidy.

In all other local authorities in Wales, the income from rents exceeds the assumed costs of managing and maintaining the stock and the costs of debt charges, and this excess reduces the remaining subsidy payable by the Assembly, the 'rent rebate element'.

4. Rent setting by local authorities

The local authority, knowing the fixed level of subsidy which it will receive, is then free to decide whether to set its average rent at the guideline, or below, or above, the guideline.

A number of Welsh local authorities have chosen to set rents below the guideline, and to forgo the additional rent income.

However, if a local authority chooses to increase its average rent by more than the change in subsidy, this would lead to an increase in the public expenditure cost of rent rebates, above the level allowed for by the Assembly. This extra cost is not eligible for subsidy, and must be met from the additional rent income. The net gain to the HRA from an increase in rent above the change in subsidy would therefore be perhaps only 30-40p for every £1 increase in rents. Consequently, there is a strong incentive for local authorities to limit rent increases to the change in subsidy.

This was not the case prior to 1996, and before 1996 a number of local authorities increased their average rents by more than the guideline increase. It is the current policy of the Assembly to bring average local authority rents in each area into line with the benchmark rents in each area which control the maximum rents chargeable by housing associations.

- “By setting Housing Revenue Account System (HRAS) guideline rents, we are able to exert significant influence to help ensure a more rational distribution of overall average rent levels across Welsh local authorities. Actual rents, however, are the responsibility of individual authorities.”

Source: National Housing Strategy para. G.13.1

The Assembly therefore sets an annual guideline rent increase for each local authority individually. The guideline increase is set at a level which will bring the actual average rent charged by the local authority (i.e. the guideline rent plus or minus any variation decided upon by the local authority) into line with the benchmark rent over a number of years.

In the case of two local authorities, Ceredigion and Vale of Glamorgan, the guideline rent is already equal to the benchmark rent (adjusted to take account of past rent increases in excess of the guideline). In 2003/04, the average local authority rent actually charged in these two areas was equal to the housing association benchmark rent.

It is important to note the difference in the financing systems of local authorities and housing associations. In the case of a housing association, if the benchmark rent increases at inflation plus 0.5%, then the rent income to the housing association will have increased by one half of one percent in real terms. In the case of a local authority, if the guideline rent is increased at inflation plus 0.5%, then an equivalent amount of subsidy is withdrawn from the local authority, and no change in income in real terms will occur. In the case of local authorities, for additional resources to become available, the management and maintenance allowances would need to be increased in real terms, above the rate of inflation.

5. Rent setting policy in the housing association sector

In terms of legislation, housing associations are free to set rents for their assured tenancies at any level up to the level of market rents. However, because all housing associations have received grants from public expenditure for the express purpose of enabling them to set rents below the market level, the policies of the appropriate regulatory bodies and government departments exercise the dominant influence in determining the overall average level of rents in the sector.

In Wales, the policy of the Assembly is that all housing associations wishing to receive Social Housing Grant for new development must comply with its rent benchmarking system.

Theoretically, non developing housing associations are free to set rents at any level they may choose, but in practice all housing associations set rents within, or with reference to, the benchmark rent system. In interviews conducted as part of this project, senior executives of housing associations expressed the view that if housing associations ceased to develop, and set rent increases above the benchmark, this would merely result in greater regulation by the Assembly.

The rent benchmarking system sets maximum average rents for each local authority area in Wales, grouped into five bands. The bands are:

Table 1.1: Benchmark rents

		2003/04 benchmark	Maximum 3b5p rent
Band A	Isle of Anglesey	£48.55	£53.95
	Blaenau Gwent		
	Carmarthenshire		
	Ceredigion		
	Gwynedd		
	Merthyr Tydfil		
	Pembrokeshire		
	Powys		
	Rhondda Cynon Taf		
Band B	Conwy	£49.87	£55.36
	Denbighshire		
	Flintshire		
	Neath Port Talbot		
Band C	Bridgend	£51.41	£56.76
	Caerphilly		
	Torfaen		
	Wrexham		
Band D	Newport	£52.15	£58.16
	Monmouthshire		
	Swansea		
	Vale of Glamorgan		
Band E	Cardiff	£53.61	£59.54

The benchmark is the simple average of the maximum rents of six defined house types:

- 1 bedroom 2 person flat
- 2 bedroom 3 person flat
- 2 bedroom 3 person house
- 2 bedroom 4 person house 580
- 3 bedroom 4 person house
- 3 bedroom 5 person house
-

one of which, the 3 bedroom 5 person house type, also has a fixed maximum rent.

A housing association wishing to develop in a particular Band must specify the maximum rent which it would charge for each of the six property types, irrespective of whether it. The system is therefore concerned with setting a maximum limit to rents, and not with the actual rents charged. A housing association could (theoretically) charge less than the declared maximum. 5% of properties in the six property types can be excluded from the benchmark rent calculation.

The rents of 1b1p flats, and the rents of 3b6p (and larger) houses are not constrained by the benchmark rent calculation, although very small and large units only form a small part of the overall dwelling mix.

The benchmark system is also not concerned with the actual mix of houses built by a housing association, and therefore the average benchmark rent will not be the same as the actual average rent charged by a housing association in a particular area. For example, if a housing association chose to build only 3 bedroom 5 person houses in Gwynedd, then its actual average rent would be £53.95, even though the benchmark rent is only £48.55. Provided that a housing association does not exceed the maximum rent for a 3b5p house, and provided that the average maximum rent of the six house types does not exceed the benchmark, the housing association is free to set whatever rents, and differentials between different property types, it chooses.

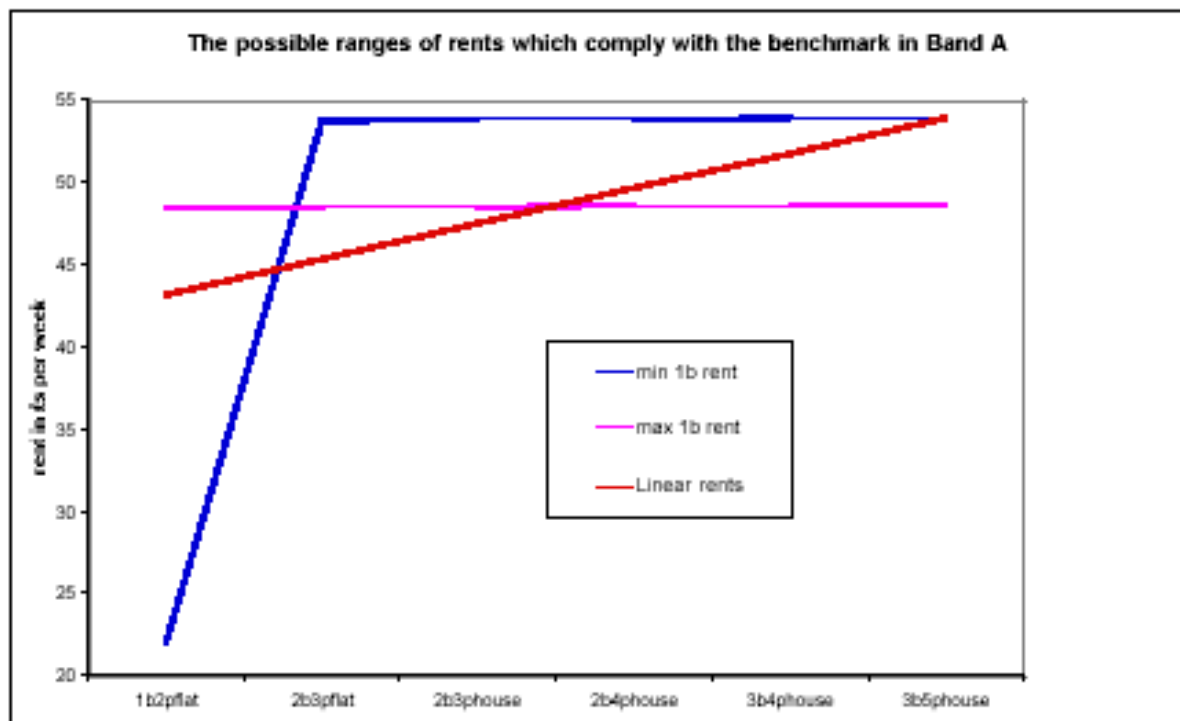
However, the Assembly advises housing associations that:

- “(Benchmark) returns must be subject to consistent treatment across the entire stock. Differentials between property types should be consistent across local authority areas.”

In practice however, the room for choice is much more constrained than appears at first.

The Figure below shows the theoretical ranges of rents which could be set by a housing association in Band A which would comply with the benchmark system, while maximising rent income to the association. The Figure shows that if the rent of a 3b5p house is set at the maximum of £53.95 per week, then a conventional differential in rents between properties of different sizes will result, arithmetically, in a rent of £43.15 for a 1b2p flat. A steeper differential between the 3b5p house and the 3b4p house will have the effect of raising the rent of the 1b2p flat. Setting a low rent for a 1b2p flat would have to be compensated for by a flatter structure of rents for the remaining property types. Setting the rent of a 3b5p house below the maximum allowable would require an almost flat rent structure if rent across all property types is to be maximised at the benchmark.

Figure 1.1: The constraints on rent setting



The range of choices in rent setting can therefore be summarised:

- Setting the 1b2p flat rent as low as possible results in all other rents approaching the maximum allowable rent for the area.
- Setting the 1b2p flat rent as high as possible forces the other rents (which must be higher) close to the required average benchmark.
- Setting the rent of the 3b5p house to the maximum reduces the amount chargeable as rent on the other properties.

Since all the rent setting illustrations have the same average rent, if a housing association has its properties evenly distributed between the six property types, then its total income from rents will be the same whichever rent setting policy is adopted. A housing association would benefit from setting rents close to one of the extreme pricing schemes if it owned a greater proportion of the smaller, or of the larger, property types.

6. Rent setting by individual housing associations

These considerations are not at all theoretical for housing associations in deciding on their rent setting. All housing associations are acutely aware of the need to maximise rental income, and rent setting policies are consciously adjusted to maximise rental income.

In some cases, housing associations have developed computer programmes in order to maximise the income from rents whilst staying within the benchmarks. It is worth quoting at length from one housing association's rent setting guidance to illustrate the effect of the regulatory system on rent setting:

RENT SETTING POLICY (EXTRACT FROM ONE RSL's POLICY)

- *"To set the rents for the forthcoming year initially compare the current RSL average rent on the six specified property types to the new Benchmark rent. If the current rent is less than the new Benchmark, there is scope for potential increases. To facilitate this process increase the £ per point figure, for instance by RPI. By entering the new figure produced in cell K3 the matrix will automatically adjust all the rents in the framework in line with this increase. At the same time, the input of the new £ per point figure will trigger the calculation of the RSL average rent on the six properties required for Benchmarking purposes (see table: NAW Benchmark Calculation – location cell J5). Continue to adjust the £ per point figure until the RSL average rent produced on the six property types equals as closely as possible the NAW Benchmark rent. If no such match can be achieved it may be necessary to adjust the actual property attribute totals, although this should be the exception. It should be remembered that adjustments to one*

field in the points attributes table can have unintended consequences and produce inappropriate or illogical rent differentials.

- *The exception to the automatic update process outlined in 4.1.5 relates to the specific rent that applies to the £ bedroom house (5P). Currently, in both the RSL Rent Matrix and the NAW Benchmark Calculation, this figure must be entered manually for both the New Build and Rehab figures. However, the figure must be based on an actual points attributes totals. The points must initially be adjusted until a figure is arrived at which is as close to the NAW 3 bedroom house (5P) rent as is possible, whilst obviously ensuring that the Benchmark rent for the six property types is not exceeded. In making these further modifications to the £ per point figure and/or adjusting the points attributes totals caution must be exercised to safeguard against illogical rent outcomes .g, a higher rent on a 2 bedroom house as opposed to a 3 bedroom house. Such outcomes are possible and thus this process of achieving a workable fit between RSL policy rents and NAW Benchmark requirements needs to be approached with extreme care. This point applies especially to the issues surrounding the 3 bedroom house (5P) but also to the other five benchmark property types. The RSL figure cannot exceed the Benchmark rent and all calculations must be rounded down to the nearest tenth rather rounded up. All attempts must be made to get the difference between the NAW Benchmark rents and the RSL's average rent to zero."*

This is not an isolated case. Several housing associations have adopted the practice, if not the policy, of adjusting attribute points in order to maximise rent income. Senior executives at a number of housing associations were of the view that the pressure to maximise rent income within the constraints of the benchmark system meant that they were probably in technical breach of their formal rent setting policies.

In other cases, housing associations have chosen as a matter of conscious policy to set all the rents of the relevant property types at the benchmark, irrespective of minor variations in age, condition, amenity or location.

7. The effect of different rent setting policies on rent differentials

Social landlords in Wales employ a variety of different rent setting policies in order to set the rents of individual properties within their stock.

The 33 housing associations included in this study all had a formal policy on rent setting which they were able to supply. For non-developing housing associations, which were also ones with very small stocks, these tended to be very simple, and focussed primarily on charging rents which would

recover costs. Developing associations are naturally active in setting the rents of new dwellings as these are completed, and must set rents which comply with the rent benchmarking system if they are to continue to develop with Social Housing Grant.

Essentially, housing associations have adopted three approaches to rent setting. The first two are very similar, and are used, with variations, by nearly all developing housing associations. These two approaches both use some form of 'points' system for differentiating the size, amenities and, in most cases, the location of different properties.

Some points schemes were relatively elaborate, and had been worked out in consultation with tenants. Others were relatively crude, simply setting rents by property type with some adjustment for physical condition. One line of approach starts from the 'top down', first determining the total budget to be recovered from rent income, and then distributing this downwards to properties using the points system. The other starts from the 'bottom up', adjusting the 'pounds per point' until the desired budget total is reached. Both approaches end up at the same position.

Many housing associations had adopted some system for reducing rents in areas such as small towns, villages and isolated rural communities in order to reflect the higher costs of living, inaccessibility and lack of amenities in these locations. One housing association in North Wales commented that social housing tenants appeared to prefer to live in the coastal towns, where access to jobs, supermarkets and amenities was available, rather than in the inland villages. These preferences clearly run counter to the pattern of house prices, which are often higher in the villages and rural areas. Indeed, the lack of amenities such as supermarkets or cinemas might be a positive attraction for wealthier homebuyers with car transport.

The only significant alternative to these approaches is that adopted by Mid Wales HA, which uses the capital values of its stock, annually valued on an Open Market with Vacant Possession basis. Rents are set at the benchmark rent for the highest value property, and all other rents are then set in proportion to the relative capital value of the individual property, using a simple formula of x p per £100 of capital value. The association commented that over the years the ' x ' in the formula has consistently reduced, thereby reducing the differential between rents and raising overall rent income within the benchmark total, and now stands at 5p per £100 of capital value.

All the housing associations interviewed for the project emphasised that rent differentials were being reduced by the need to increase overall rent income, primarily in order to cross-subsidise development, while staying within the rent benchmarks. Indeed, many admitted to being in effective breach of their formal rent setting policies in adjusting the differentials between rents that the financial situation required.

Nevertheless, all developing housing associations had a rent setting policy which had been established, or at least reviewed, within the past seven or eight years.

The situation with most local authorities however was quite different. More than half of all local authorities were unable to supply any formal rent setting policy, and many of the remainder merely referred to rents as having been set originally in accordance with rateable values. In some authorities, particularly those created following local government re-organisation by the amalgamation of smaller authorities in 1996, there was considerable uncertainty as to the basis on which rents had previously been set in the constituent authorities. Only two of the local authorities created by amalgamation post 1996 appeared to have adopted a coherent policy to harmonise rents. Others had discussed the issue, but action had been effectively shelved. This reflected partly the political problem of 'gainers' and 'losers' under any restructuring of rents, and partly an expectation, or hope, that some form of central guidance would be forthcoming. Officers were obviously aware of the rent restructuring system adopted in England, and were reluctant to press elected Members on the issue until the position in Wales became clearer.

Key points

Chapter 1 sets out the legislative and regulatory framework within which the two groups of social landlords set rents.

A key finding of the study was that the process of rent setting is in practice largely dominated by the different subsidy and regulatory arrangements in each sector, and the chapter attempts to give a clear explanation of the functioning of the Housing Revenue Account (HRA) subsidy system for local authorities, and of the rent 'benchmarking' system which applies to housing associations. There is an important difference between the two sectors. For housing associations, a rent increase above the rate of inflation will automatically result in the association having more money to spend on management and maintenance, or on helping to keep rents down on new developments. For local authorities, a rent increase above the rate of inflation may only result in a reduction in the subsidy paid by the Assembly. Only if the Assembly decides to increase the management and maintenance allowances by more than the rate of inflation would the local authority have more resources to spend: a policy which would then require more subsidy to be paid by the assembly.

Current Assembly policy is to move the average local authority rent towards the housing association 'benchmark' rent. This has already been achieved in Ceredigion, Monmouthshire and Vale of Glamorgan, and other local authority rents will gradually be adjusted to the 'benchmark' over the next few years. This will have the effect that roughly half of all local authority dwellings will then have rents above the housing association 'benchmark', despite being older and often in poorer condition than housing association homes. Very few housing association dwellings will have rents above the 'benchmark', and most will have rents either at the 'benchmark' or below.

The report suggests that this anomaly could be overcome by treating the housing association rent for a five person, three bedroom house as an average, rather than as a maximum. Housing associations that wish to have a greater difference between the rents of their most and least desirable properties would then be free to increase the rents of the better properties, provided that there were a matching decrease in the rents of poorer quality properties. This would bring the pattern of rents within the two sectors more into line with each other, but differences in the relative quality of properties will remain until the Welsh Housing Quality Standard is achieved by all social landlords. The combination of regulatory and financial pressures had created very flat rent structures across nearly all social landlords. The difference between the rents of all but the cheapest, and the rents of all but

the most expensive, properties was very small, and in some cases landlords had a policy of charging the same rent for the same size of house, irrespective of differences in location, condition or amenities.

Nearly all housing associations had a reasonably up to date policy for setting rents, but this was not the case for the majority of local authorities. Over half were unable to supply any formal policy document, and many were continuing to rely on outdated methods to set rents, such as rateable values. In some cases, local authorities created from the amalgamation of previous local authorities in 1996 had done little to harmonise rents (or, indeed, levels of service) across their current stock of houses.

One point clearly emerged which is important to rural Wales. Most social landlords with houses in small towns and villages had a policy to reduce rents, by small amounts, in areas lacking amenities such as local shops, post offices or frequent bus services. These reductions were relatively 'token', in that they were not based on any calculation of the additional costs, or disbenefits, of living in isolated areas, but nevertheless they reflect a perception that these areas are less attractive to social housing tenants. In many areas, this runs counter to the values of better off, car owning owner occupiers: capital values are often highest in the villages with fewest amenities.

Chapter 2

1. The social housing stock

Landlords were able to supply data on the rents, service charges, bed sizes and addresses of 223,453 dwellings, as shown in the Table below:

Table 2.1: The social housing stock

Bed size	HA	LA	Total
bedsit	411	619	1030
1 bed	17361	31679	49040
2 bed	18315	55558	73873
3 bed	16712	78013	94725
4 bed	1261	3126	4387
5 bed	185	134	319
6 bed	45	26	71
7 bed	3	0	3
8 bed	4	1	5
TOTAL	54297	169156	223453

The housing association total is very close to the estimate of 55,000 dwellings at 1 April 2001 given in *Welsh Housing Statistics 2001*, (particularly allowing for continued newbuild completions and the balancing omission of supported housing). However, the local authority total of 169,156 is some 18,564 properties short of the 187,720 given in *870 Welsh Housing Statistics 2001*. The local authority figures were supplied to the project during 2002/2003, and there will have been some continuing erosion of the stock through the Right to Buy and demolitions over the intervening eighteen months since 1 April 2001. Nevertheless, it is clear that there remains some under-reporting in the local authority sector. This is almost certainly concentrated in the stock that is designated for the elderly, although not necessarily limited to sheltered housing.

The division between bedsit and one bedroom dwellings also needs to be treated with caution. Many landlords describe all non self contained bedsits with shared bathrooms and kitchens, self contained one person dwellings, and two person dwellings, as 'one bedroom' dwellings. The numbers of bedsits and one person dwellings are likely to be significantly understated.

As far as rents are concerned, this will have the effect of lowering the average rent for one bedroom dwellings below that normally charged for 'one bedroom, two person' dwellings.

The relative size of the two sectors, and the proportion of their stocks by bed sizes is more clearly seen in the Figures below:

Figure 2.1: The distribution of the housing stock by bedsize and sector

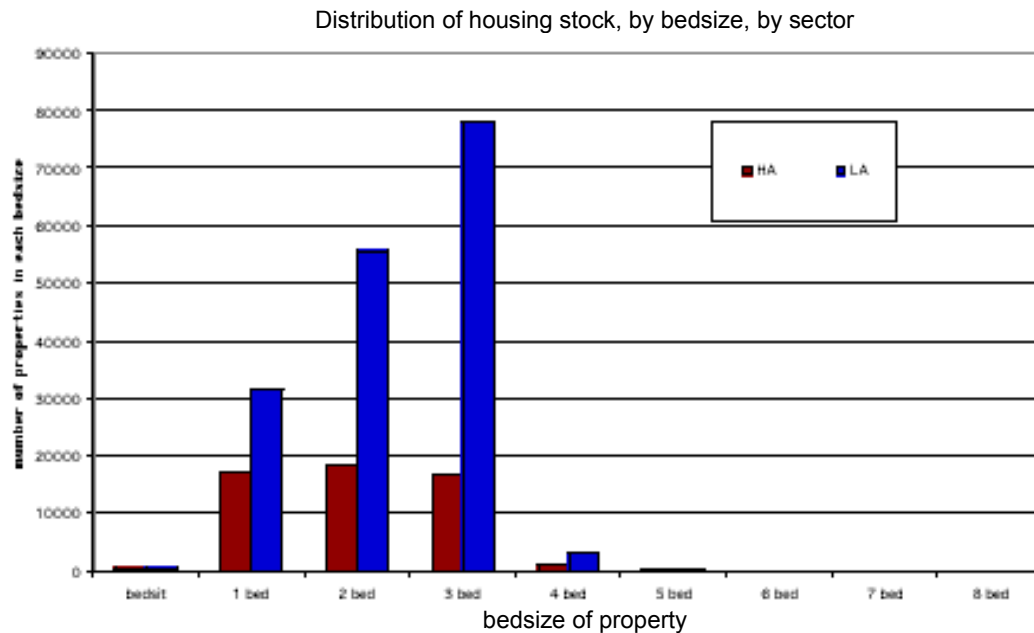
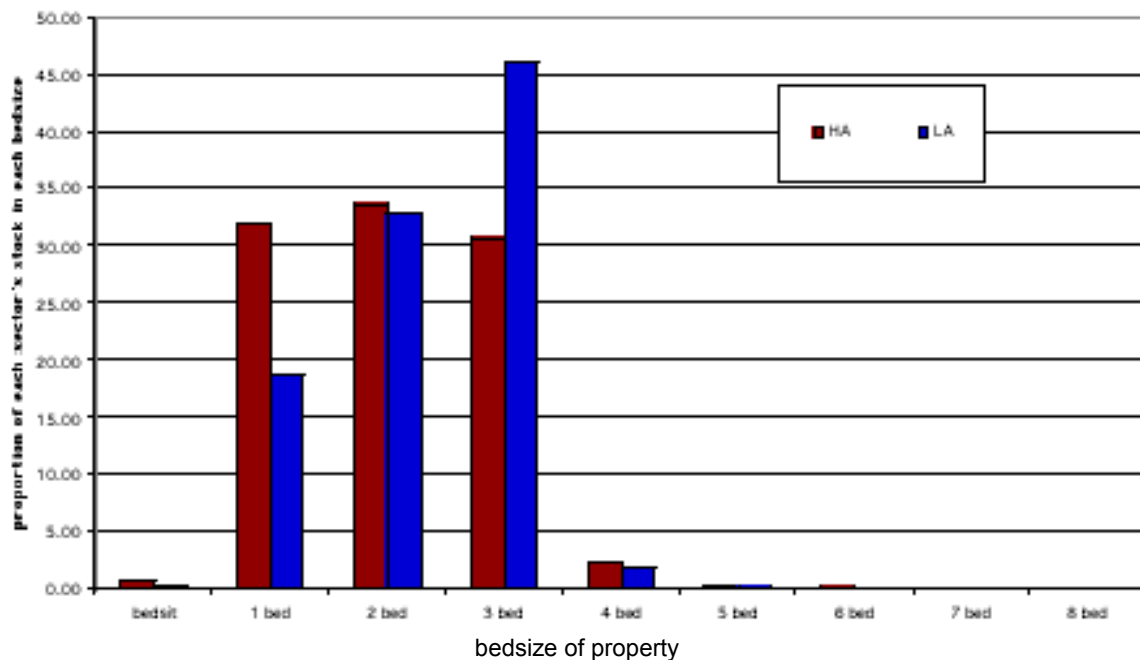


Figure 2.2: The proportions of stock in each sector, by bed size

Proportions of properties, by bedsize, in each sector



Bearing in mind the caveat concerning the bedsit stock, it is clear that the overwhelming majority of the stock consists of one, two or three bedroom properties. Only 2.14% of the social housing stock is available for larger, or extended, families, and only 8% of these 4,785 larger dwellings has more than four bedrooms.

While the smaller housing association stock is split roughly one third to each of the main bedsizes, the much larger local authority stock is more heavily weighted to family dwellings. One third of the local authority stock has two bedrooms, but nearly half (46%) has three bedrooms.

This is the more striking given the erosion of the local authority sector stock, in particular, from sales under the Right to Buy. Between 1980 and 2000, 111,505 local authority dwellings were sold under the Right to Buy, and a further 6,395 were sold under other powers. No breakdown is available by bedsize, but RTB sales generally are known to be overwhelmingly concentrated among the two and three bedroom stock. Sales have amounted to nearly forty percent (38.6%) of the total local authority stock as it stood in 1980, and nearly half (46.9%) of the stock of family dwellings that existed in 1980.

The relationship between dwelling size and rent, and household size and earnings, in the context of affordability, is discussed in more detail in Chapter 6, *Earnings, Incomes, Rents and Affordability*.

2. The pattern of rents and service charges

In view of the small numbers of bedsits and four bedroom and larger dwellings, the following analysis concentrates on one, two and three bedroom dwellings. Details of the rents of bedsits and four bedroom and larger dwellings are given in the Figures in Volume 2 which show the pattern of rents charged by each of the 55 social landlords, by the numbers of each bedsize of property in their housing stock.

The analysis of rent patterns is discussed at five descending levels of detail:

- The national pattern, comparing the range of rents within the two sectors for each bedsize of property
- The national distribution of rents within each sector, by bedsize of property
- Each sector, comparing the range of rents charged by each landlord for each bedsize of property
- The geographic pattern of rents across Wales, for each sector, by bedsize of property
- The difference between average rents in each sector, in each postcode sector in Wales, by bedsize

3. The national pattern

It is important to note that nearly all social landlords have a small number of properties with high rents, over £75 per week and in some cases rising to over £200 per week, and a small number of properties with very low rents, below £25 per week and in some instances with zero rents.

High rented properties tend to be cases where the property has been let at a cost rent, or at a market rent, to a third party provider of specialist support services. This might be a Social Services Department, or a voluntary sector provider. Low rents appear to be associated in some instances with properties that have particularly small rooms, or overall floor area, or are known to be in exceptionally poor condition. Some of these properties have been acquired from the private sector, and the low rent may date back to the time of acquisition. Most landlords have occasional properties in the rent account with a zero rent. These may be cases where the property has been sold, but not yet formally deleted from the rent account, or properties that have been decanted and are awaiting demolition, or possibly where the rent has been rebated to zero following an award of compensation to the tenant.

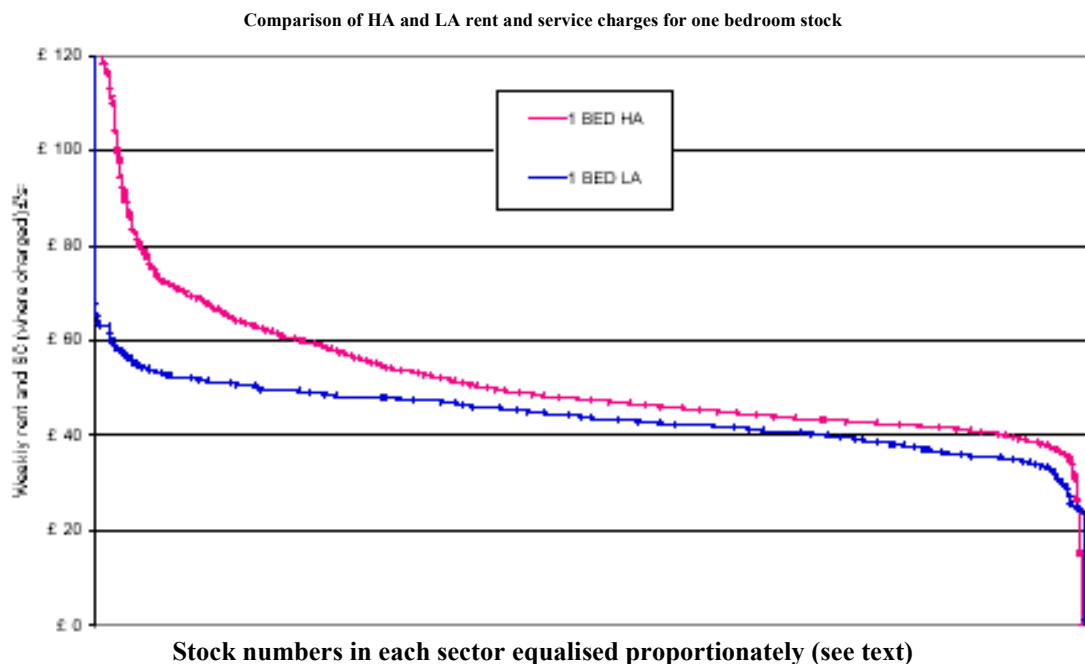
These extremes of high and low rents have not been investigated in detail as part of this project, and affect very small numbers in the overall housing stock. In the Figures in this chapter, the negligible number of properties with rents above £120 per week are not shown.

The first three Figures below show the national pattern of rents for each sector, in each bedsize, ranked from the highest rent to the lowest rent. The Figures show a simple ranking of rents, and therefore are only related at the national level. A rent of £45 per week in the local authority sector cannot be directly compared to a similar rent in the housing association sector. The two properties may be in different parts of the country, or in entirely different conditions: one might be unmodernised, the other might be newly built to modern standards.

In order to show the comparable pattern of rents in each sector more clearly, the stock numbers in both sectors have been equalised in proportion. Both are therefore shown as the same 'size', even though in reality the local authority sector is three times the size of the housing association sector.

The three Figures show that there is a very similar pattern between the two sectors, with rents in the housing association consistently slightly higher than those in the local authority sector.

Figure 2.3: LA and HA rents for 1 bedroom dwellings compared



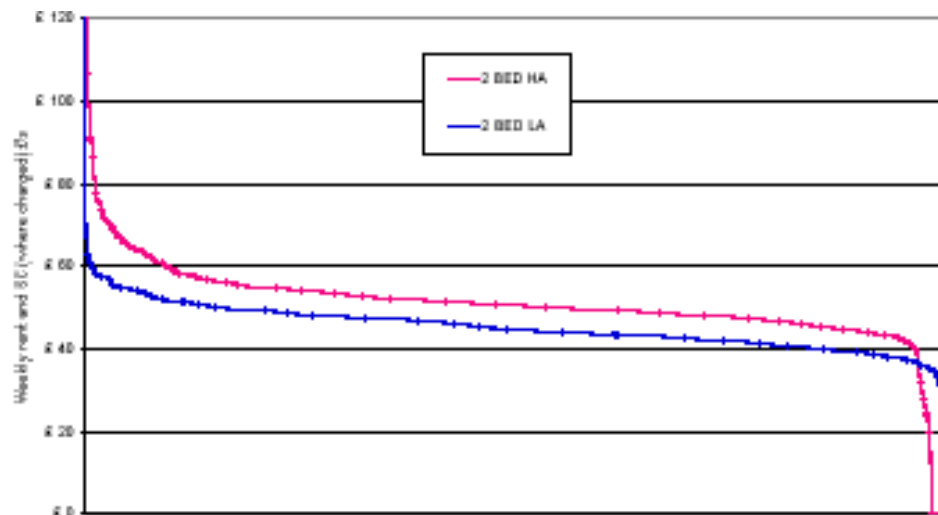
The pattern of rents for one bedroom properties shows that over a range of rents from about £35 per week up to about £50 per week, the two sectors have an identical pattern, with housing association rents some £2 to £3 per week higher than in the local authority sector. For rents higher than £50 per week, the pattern starts to diverge. Very few rents in local authority sector are above £60 per week, while in the housing association sector the curve starts to draw away from the local authority pattern, rising increasingly steeply up to around £80 per week.

This pattern is to be expected, and reflects the different practices in charging for sheltered housing. In local authorities, the costs of services such as wardens, cleaning of common parts and windows, grounds maintenance, lift servicing and so on are generally pooled 1000 across the whole housing stock, thus reducing the total cost of the rents charged in sheltered housing. In contrast, housing associations will generally charge these services on a scheme by scheme basis, on top of the rent element.

The impact of Supporting People, and any more general move by local authorities towards levying identifiable service charges, will tend to raise local authority rents towards a similar pattern to that exhibited by housing associations.

Figure 2.4: LA and HA rents for 2 bedroom dwellings compared

Comparison of HA and LA rent and service charges for two bedroom stock

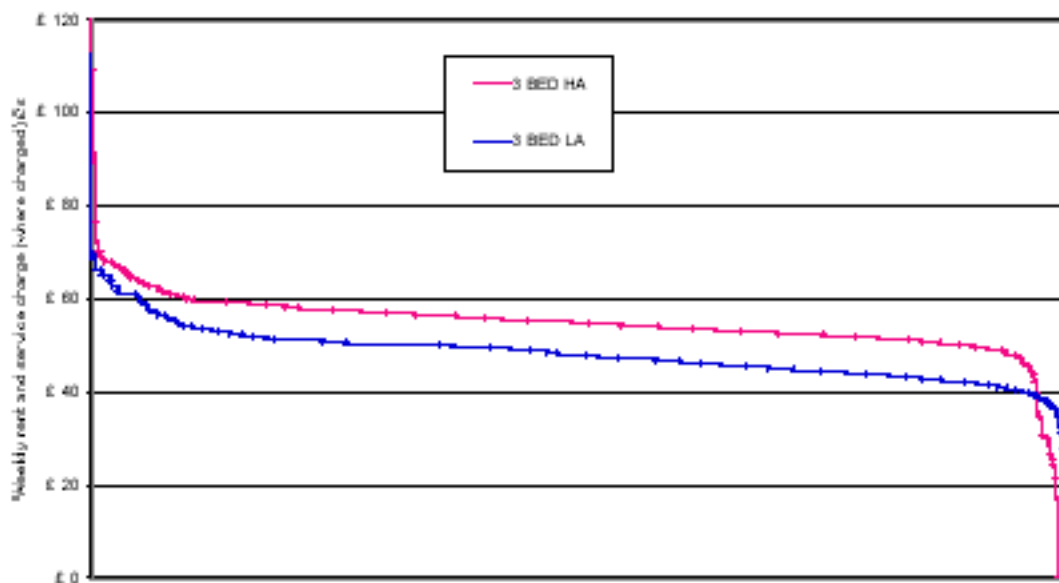


Stock numbers in each sector equalised proportionately (see text)

The Figure shows that for two bedroom properties the comparable pattern of rents is consistent across the whole range of rents, from highest to lowest, between the two sectors. Housing association rents are consistently some £5 per week higher than local authority rents.

Figure 2.5: LA and HA rents for 3 bedroom dwellings compared

Comparison of HA and LA rent and service charges for three bedroom stock



Stock numbers in each sector equalised proportionately (see text)

The Figure shows a similar comparability between the pattern of rents for three bedroom properties between the two sectors, across the full range of rents. Rents in the housing association sector tend to be consistently some £7 per week higher than local authority rents.

4. The national distribution of rents within each sector, by bedsize of property

The Figures below show the pattern of weekly rents for each bedsize of property, comparing the proportion of each sector's housing stock that falls within different rent bands, increasing in £5 increments.

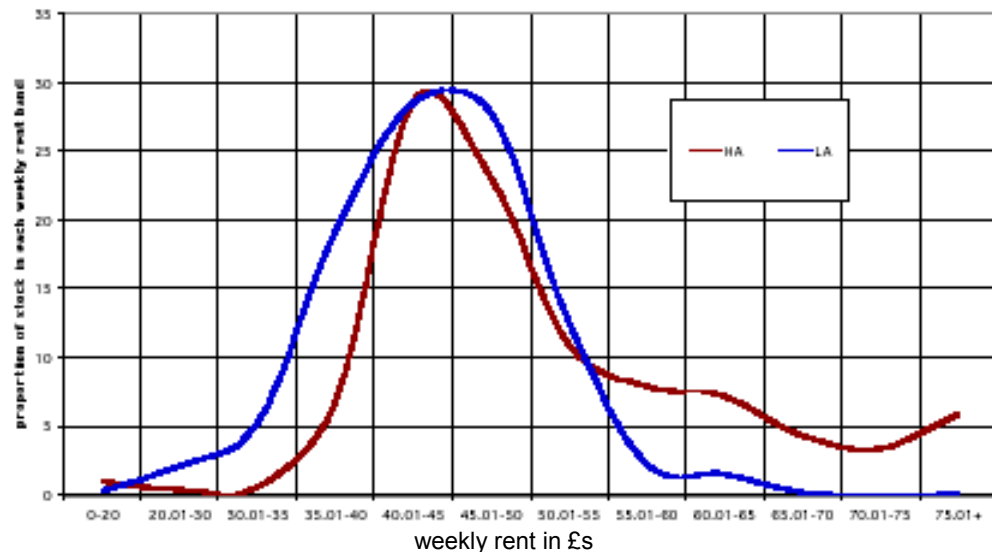
Comparing the patterns shown in the three Figures shows three points:

- The peak of the curve in the local authority sector becomes further apart from that in the housing association sector as it moves from one bedroom to two bedroom to three bedroom properties, showing an increasing rent differential between the two sectors as bedroom size increases.
- The shape of the curves becomes steeper between one bedroom and two bedroom properties, and steeper again between two bedroom and three bedroom properties, showing that a greater proportion of properties have rents falling within a narrower band.

- As a result, the peak of the curve in both sectors becomes higher as it moves from one bedroom to two bedroom and to three bedroom properties.

Figure 2.6: Distribution of LA and HA rents for 1 bedroom dwellings

Distribution of weekly rents (including service charges) for 1 bedroom properties, by sector



The Figure shows that the rents of one bedroom properties follow a very similar pattern between the two sectors, with the exception of rents above £55 to £60 per week, where there are significantly higher proportions of the housing association stock with rents above that level reflecting the different practices in the use of service charges discussed earlier.

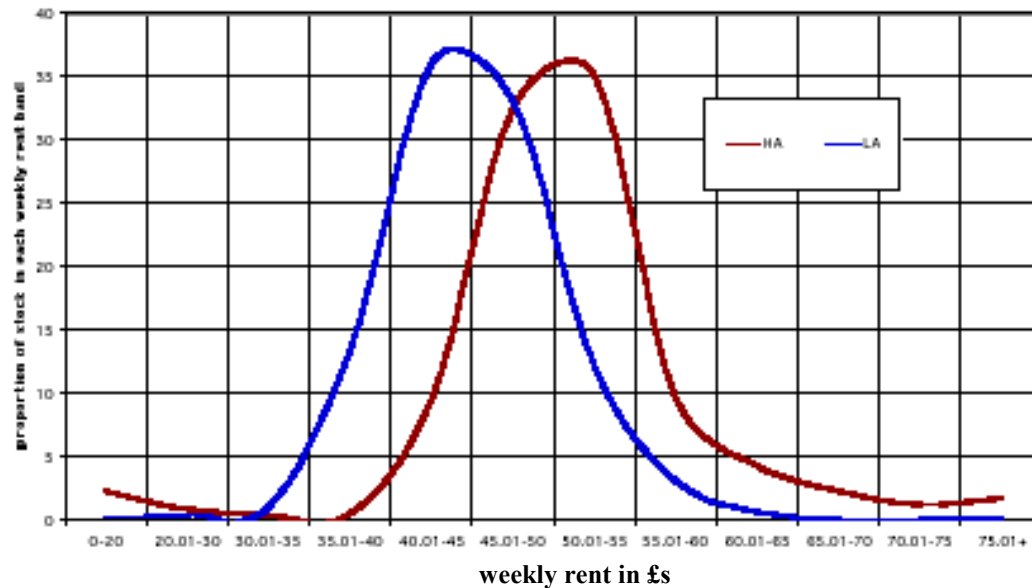
Otherwise, the pattern of housing association rents shows a steeper curve than that of local authority rents, reflecting a greater compression of rents in the housing association sector. This may reflect both the more recent age of the housing association sector stock, and also the tendency for rents in that sector to become compressed below the rent benchmark ceilings.

The pattern of local authority rents shows that the curve is shifted slightly to the left of that of housing association rents, reflecting a pattern of rents some £2 to £3 per week less than the pattern of housing association rents.

However, the peak of the distribution in both sectors occurs in the range of £40 to £45 per week.

Figure 2.7: Distribution of LA and HA rents for 2 bedroom dwellings

Distribution of weekly rents (including service charges) for 2 bedroom properties, by sector

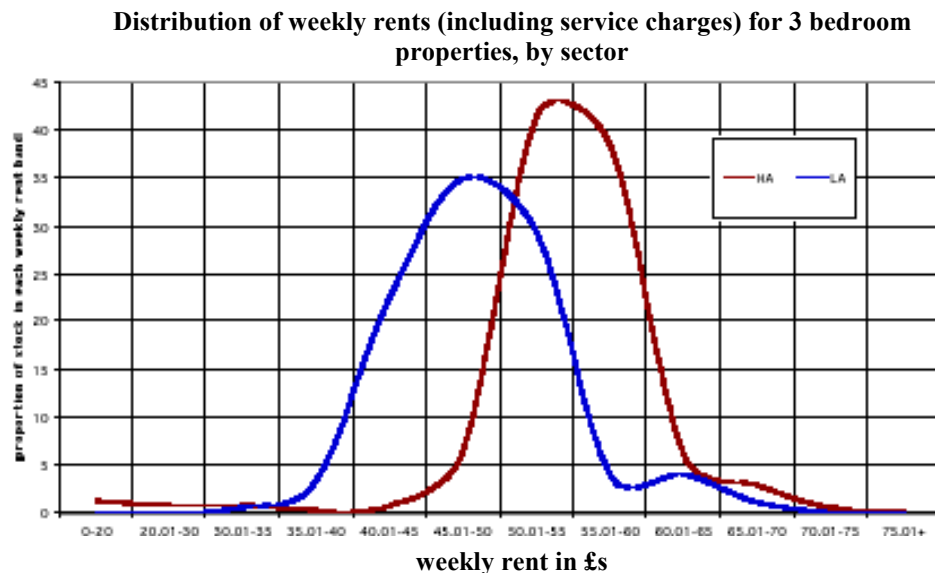


The Figure shows an almost symmetrical, but mirrored, distribution of rents between the local authority and housing association sectors. Nearly 70% of rents in the local authority sector fall within the range between £40 and £50 per week, while nearly 70% of housing association rents fall within the range from £45 to £55 per week. Housing association rents show a consistently distributed differential over those of local authorities of about £5 per week.

The peaks of the distribution of rents in the two sectors have now pulled apart, with the peak in the local authority sector occurring at £40 to £45 per week (37% of the local authority stock falls within this range), while the peak in the housing association sector occurs at £50 to £55 per week (35% of the housing association stock falls within this range).

The distribution of rents in the two sectors is similar, with 69% of local authority rents falling within a £10 per week range from £40 to £50 per week, and 95% within a £20 per week range, from £35 to £55 per week. Similarly, 68% of housing association rents fall within a £10 per week range from £45 to £55 per week, and 87% within a £20 per week range from £40 to £60 per week.

Figure 2.8: Distribution of LA and HA rents for 3 bedroom dwellings



The Figure shows that for three bedroom properties the patterns of distribution of rents between the two sectors shows greater differences than the patterns for one and two bedroom properties.

The distribution of rents in the local authority sector is broader, with 87% of rents falling within a £15 per week range, from £40 to £55 per week, with a lower peak, in the £45 to £50 range (35% of the stock).

The distribution of rents in the housing association sector is steeper, with 80% of rents falling within a £10 range, from £50 to £60 per week, and with a higher peak, in the £50 to £55 range (42% of the stock).

The more compressed distribution of housing association rents reflects the regulatory impact of the ceiling on three bedroom, five person (3b5p) houses, which ranged in 2002/03 from £52.38 to £57.81. It should be borne in mind, however, that 3b6p houses do not form part of the benchmark rent calculation, and are therefore not subject to the same regulatory regime. It would be unusual, however, for housing associations to set rents for a 3b6p property at a very significant differential above the 3b5p benchmark rent for the area. Nevertheless 10% of the three bedroom stock of housing associations had rents in excess of £60 per week in 2002/03. Some of these rents in excess of the 3b5p benchmark may also reflect the greater prevalence of service charges among housing associations,

although the principal service charge usually applied to family accommodation in houses (as opposed to flats) is a maintenance charge for central heating, which is the one service charge which the regulatory regime requires to be added to the rent of the property in the calculation of benchmarks.

5. Each sector, comparing the range of rents charged by each landlord for each bedsize of property

The rents, including service charges, charged by each of the 22 local authorities and 33 housing associations are set out individually in Volume 2, showing the relationship between the rents of different bedsizes of property charged by each landlord.

These are drawn together in the Figures below, which show for each sector and for each bedsize of property, the total range of rents charged by each landlord in that sector.

The Figures show the extreme compression of rent differentials between landlords. Nearly all rents for each bedsize are found to lie within a relatively narrow band. This is particularly noticeable for housing association two and three bedroom properties, where nearly all rents are compressed within a £10 range.

Only two outliers are significant. Among housing association one bedroom properties, Dewi Sant have noticeably higher weekly charges, but the association specialises in the provision of sheltered housing, and higher service charges are to be expected. Among local authority three bedroom properties, Cardiff charges some £10 per week more than any other authority. It can be seen from the analysis of Cardiff's rents in Volume 2 that the differential between 3bed rents and 2bed rents is much greater than that between 2bed rents and 1bed rents. Rents in Cardiff are based on the original Rateable Values.

Table 2.2: Local authorities: distribution of rents of 1 bedroom properties in £5 per week bands

Local Authority	1 bed properties	Distribution across rent groups (number of properties for that L.A./£s)											
		0.00-20.00	20.01-30.00	30.01-35.00	35.01-40.00	40.01-45.00	45.01-50.00	50.01-55.00	55.01-60.00	60.01-65.00	65.01-70.00	70.01-75.00	75.01+
Isle of Anglesey CC	651	0	0	38	198	117	312	3	2	3	0	2	8
Blaenau Gwent CBC	832	0	0	0	0	34	720	88	3	0	0	0	0
Bridgend CBC	954	0	0	118	797	71	0	0	0	0	0	0	0
Casglielly CBC	1885	0	0	0	203	739	108	203	239	389	33	0	0
Cardiff CC	4070	15	9	17	83	182	2251	1503	30	12	0	0	8
Cardiffshire CC	1852	2	3	40	250	778	508	94	8	0	0	0	0
Ceredigion CC	442	0	0	38	81	95	172	116	2	0	0	0	0
Conwy CBC	1229	8	21	51	220	730	188	7	2	0	0	1	0
Dartmouth CC	1001	0	6	348	381	133	125	30	0	0	0	0	0
Flintshire CC	1889	0	0	47	1018	824	0	0	0	0	0	0	0
Gwynedd CC	663	0	14	52	124	288	31	62	64	23	0	0	5
Merthyr Tydfil CBC	837	7	0	0	0	129	193	50	117	74	35	0	1
Monmouthshire CC	880	0	0	0	0	340	481	38	0	0	0	0	0
Neath Port Talbot CBC	1273	0	0	0	3	992	271	0	0	0	0	0	0
Newport CBC	3012	0	0	0	28	227	557	928	199	4	0	0	0
Pembrokeshire CC	845	0	1	47	589	189	37	5	24	3	0	0	0
Powys CC	828	0	8	39	339	440	0	0	0	0	0	0	0
Rhondda Cynon Taff CBC	2464	59	2	318	822	956	307	0	0	0	0	0	0
City & E of Swansea	2748	0	0	0	3	1093	1804	47	0	0	0	0	0
Torfaen CBC	1880	8	27	0	0	133	953	758	28	0	0	0	0
The Vale of Glamorgan CBC	1119	0	0	0	0	239	738	112	29	0	0	0	0
Wrexham CBC	2838	0	624	463	1048	435	71	0	0	0	0	0	0
TOTAL	32558	98	691	1640	8116	9788	6964	4029	741	484	68	3	23
% of properties in each rent group		0.30	2.12	5.04	18.78	30.03	27.35	12.37	2.30	1.48	0.21	0.01	0.07
80% of all properties													
57% of all properties													

Table 2.3: Housing associations: distribution of rents of 1 bedroom properties in £5 per week bands

Housing Association	Number of 1 bed properties	Distribution across rent groups (number of properties for that HA's %)											
		0.00-20.00	20.01-30.00	30.01-35.00	35.01-40.00	40.01-45.00	45.01-50.00	50.01-55.00	55.01-60.00	60.01-65.00	65.01-70.00	70.01-75.00	75.01+
Aelwyd	14	0	0	0	0	0	3	9	2	0	0	0	0
Banerwell	3	0	0	0	0	0	0	0	0	0	0	0	0
Bro Myrddin	216	0	0	1	17	104	40	8	24	9	0	1	5
Cadebyn	360	1	0	0	0	16	200	119	19	4	0	0	1
Cardiff Community	721	1	0	1	8	223	61	125	102	36	11	10	143
Charler	949	0	0	2	171	943	95	8	79	52	0	0	0
Cwyd Alyn	1006	0	1	0	1	126	562	166	27	35	47	45	4
CT Cernif Cyl	261	0	0	0	0	0	72	98	34	0	0	16	25
CT Ceryd Cyl	247	0	0	2	47	147	44	7	0	0	0	0	0
CT Dewi Sant	443	0	0	1	0	16	60	43	218	105	0	0	0
CT Bryn Cyl	347	0	5	10	148	119	43	2	20	0	0	0	0
CT Hafan Cyl	14	0	0	0	0	0	12	2	0	0	0	0	0
Cynon-Taf	328	0	1	0	42	183	32	36	4	0	18	12	0
Eastern Valley	214	0	0	0	12	160	6	3	0	0	0	0	3
Family	748	48	0	1	0	41	141	182	173	116	2	24	20
Glamorgan & Gwent	766	1	3	7	123	248	130	49	7	100	24	0	62
Gwalia Group	1669	26	16	10	123	919	500	173	47	60	32	35	98
Gwynn (Gemma)	330	2	0	0	0	154	174	0	0	0	0	0	0
Harold	727	1	2	2	6	425	155	15	22	24	4	35	33
Merthyr Tydfil	126	12	1	0	8	35	64	7	0	0	0	0	1
Mid-Wales	263	0	0	1	76	159	12	15	0	0	0	0	0
Newport Trust	0	-	-	-	-	-	-	-	-	-	-	-	-
Newtown	92	0	0	10	43	39	0	0	0	0	0	0	0
Newydd	576	13	1	7	18	132	212	46	3	26	71	36	12
North Wales	632	32	1	4	76	182	129	30	21	16	22	39	80
Pembrokeshire	334	3	0	4	28	180	108	6	0	0	0	0	6
Polish Society	46	0	4	19	0	4	0	2	14	2	0	0	0
Portsmouth & District	93	0	0	0	2	56	28	8	0	0	0	0	0
Rhondda	366	0	1	6	58	171	87	30	17	14	2	0	0
Swansea	899	27	25	6	11	80	425	195	46	77	6	0	0
Taff	273	1	0	0	0	3	85	55	75	9	23	15	4
United Welsh	1103	1	0	4	62	296	189	156	53	140	94	75	29
Wales and West	3165	0	0	6	80	506	208	367	389	411	361	241	497
TOTAL	17361	169	62	104	1175	4872	4003	1886	1364	1253	746	597	1522
		0.97	0.36	0.60	6.77	28.64	23.06	10.92	7.96	7.22	4.29	3.44	5.89
		57% of all properties			62% of all properties								

Table 2.4: Local authorities: distribution of rents of 2 bedroom properties in £5 per week bands

Local Authority	2 bed properties	Distribution across rent groups (number of properties for that LA) £'s											
		£.00-20.00	20.01-30.00	30.01-35.00	35.01-40.00	40.01-45.00	45.01-50.00	50.01-55.00	55.01-60.00	60.01-65.00	65.01-70.00	70.01-75.00	75.01+
Isle of Anglesey CC	1441	0	0	43	485	857	174	44	6	6	3	4	20
Blaenau Gwent CBC	2306	0	0	0	75	1660	253	10	0	0	0	0	0
Bridgend CBC	2455	0	0	0	0	1340	882	250	2	0	0	0	0
Caerphilly CBC	3859	0	0	0	0	1287	2307	10	25	216	11	3	0
Cardiff CC	4144	14	0	0	0	103	1264	1844	813	93	0	1	0
Cardiffshire CC	3896	0	8	94	581	1798	1180	218	19	0	0	0	0
Ceredigion CC	1066	0	0	0	0	102	233	358	278	77	0	0	0
Cerwy CBC	1183	8	13	76	138	567	309	73	10	0	0	0	1
Danbysshire CC	1411	3	21	153	670	390	101	53	17	3	0	0	1
Flintshire CC	2075	0	10	25	266	1363	348	43	0	0	0	0	0
Cynghor Gwynedd	1972	2	61	59	285	1151	382	25	37	0	0	0	0
Mentor Tyddi CBC	1849	12	0	0	0	409	1014	191	10	0	0	2	12
Monmouthshire CC	948	0	0	0	0	9	572	367	0	0	0	0	0
Neath Port Talbot CBC	3323	0	0	0	2	1724	1567	10	0	0	0	0	0
Newport CBC	3042	0	0	0	0	37	263	849	1398	462	15	0	0
Pembrokeshire CC	2371	0	2	0	0	941	956	427	26	3	2	0	0
Powys CC	2417	0	0	2	314	1580	220	0	0	0	0	0	0
Rhondda Cynon Taf CC	3655	55	0	33	775	2543	241	0	0	0	0	0	0
City & C of Swansea	6434	0	0	0	0	1553	4407	167	0	0	0	0	0
Torfaen CBC	2845	27	20	0	3	75	1551	1128	43	0	0	0	0
The Vale of Glamorgan	1069	2	2	0	0	170	507	322	66	0	0	0	0
Wrexham CBC	4331	1	54	41	1441	1601	400	507	144	21	0	0	1
TOTAL	57802	124	222	544	7468	21996	18575	6711	1737	365	14	18	35
% of properties in each rent group		0.21	0.38	0.94	12.98	37.98	32.25	11.59	3.00	0.63	0.02	0.03	0.06
88% of all properties													
70% of all properties													

Table 2.5: Housing associations: distribution of rents of 2 bedroom properties in £5 per week bands

Housing Association	Number of 2 bed properties	Distribution across rent groups (number of properties for that HA's %)											
		0.00-25.00	25.01-30.00	30.01-35.00	35.01-40.00	40.01-45.00	45.01-50.00	50.01-55.00	55.01-60.00	60.01-65.00	65.01-70.00	70.01-75.00	75.01+
Aelwyd	7	0	0	0	0	0	0	0	1	0	0	0	0
Banerwell	40	0	0	0	0	0	20	12	0	0	0	0	0
Bro Myrddin	260	0	3	0	0	21	185	33	5	3	0	0	7
Cadwyn	316	0	0	0	0	1	99	181	30	4	0	0	1
Cardiff Community	689	1	1	1	1	5	115	237	78	152	11	19	69
Charter	1076	0	0	0	0	79	180	487	343	3	4	0	0
Cwyt Alyn	1043	0	0	0	0	1	21	350	503	118	31	7	10
CT Central Cyl	403	0	0	0	4	27	268	71	8	1	3	14	7
CT Cered Cyl	457	12	0	0	4	50	282	72	24	2	1	0	0
CT Dewi Sant	86	0	0	0	0	0	1	32	12	0	0	0	0
CT Eryri Cyl	536	1	3	10	13	42	349	92	4	18	0	0	0
CT Hafan Cyl	7	0	0	0	0	0	0	0	0	1	0	0	0
Cymon-Taf	525	0	0	0	4	361	133	3	1	0	3	0	0
Eastern Valley	316	0	1	0	1	28	48	220	2	0	1	0	17
Family	573	3	1	0	2	7	188	210	79	47	14	5	17
Garmogan & Gwent	1031	1	1	2	7	74	244	486	202	0	8	1	5
Gwalia Group	1453	37	15	42	4	182	861	510	85	13	1	18	5
Gwerin (Cymru)	267	14	0	0	0	0	89	164	0	0	0	0	0
Harold	1994	19	71	5	0	0	406	984	14	6	26	23	0
Merthyr Tydfil	348	50	0	0	1	2	235	36	17	3	0	0	1
Mid-Wales	346	0	0	0	0	34	186	90	30	3	3	0	0
Newport Trust	483	134	0	0	0	120	182	18	29	0	0	0	0
Newtown	57	0	0	0	0	40	16	0	1	0	0	0	0
Newydd	758	79	13	10	13	81	171	363	20	0	1	0	7
North Wales	534	20	35	1	15	73	203	195	9	4	0	2	17
Pembrokeshire	531	15	0	0	0	76	341	89	6	0	0	0	4
Polish Society	0	-	-	-	-	-	-	-	-	-	-	-	-
Pontypool & District	148	0	0	0	0	12	94	39	0	0	0	0	1
Rhondda	418	3	0	0	4	223	75	111	0	2	0	0	0
Seares	574	25	2	0	0	10	180	192	100	37	19	9	0
Taff	197	0	0	0	0	3	24	121	26	9	3	8	3
United Welsh	924	0	0	4	3	62	190	447	163	10	20	5	0
Wales and West	2390	0	0	0	2	98	500	484	370	433	272	96	155
TOTAL	16315	413	146	74	89	1790	5829	6421	1776	790	399	211	318
% of properties in each rent group		2.25	0.90	0.41	0.48	9.56	32.37	35.06	9.70	4.31	2.18	1.16	1.74
31% of all properties													
57% of all properties													

Table 2.6: Local authorities: distribution of rents of 3 bedroom properties in £5 per week bands

Local Authority	3 bed properties	Distribution across rent groups (number of properties for that L.A.)											
		0.00-20.00	20.01-30.00	30.01-35.00	35.01-40.00	40.01-45.00	45.01-50.00	50.01-55.00	55.01-60.00	60.01-65.00	65.01-70.00	70.01-75.00	75.01+
Isle of Anglesey CC	2102	0	0	4	128	1154	521	153	97	23	0	4	13
Blaenau Gwent CBC	3507	0	0	0	144	3020	338	5	0	0	0	0	0
Bridgend CBC	2937	0	0	0	0	65	1037	1534	0	0	0	0	1
Caerphilly CBC	6103	0	0	1	0	147	1501	4430	13	1	1	0	0
Cardiff CC	6073	0	0	0	0	0	534	638	1263	2886	747	0	0
Cardiffshire CC	4631	2	13	85	869	2113	1130	406	9	1	0	0	0
Ceredigion CC	869	0	0	1	40	200	311	213	97	4	1	1	1
Conwy CBC	1630	0	14	62	226	369	694	222	22	13	1	0	0
Denbighshire CC	1894	0	11	57	290	792	262	278	131	22	0	0	1
Flintshire CC	4144	3	97	100	31	1224	2360	352	14	0	1	0	0
Gwynedd CBC	4221	3	16	54	286	3414	344	79	3	3	0	1	1
Merthyr Tydfil CBC	2622	10	0	0	0	542	1681	379	7	0	0	0	4
Monmouthshire CC	1342	0	0	0	0	42	306	986	9	0	0	0	0
Neath Port Talbot CBC	5490	0	0	0	0	5	501	4943	0	0	0	0	0
Newport CBC	4687	0	0	0	15	473	1223	2246	675	52	0	0	0
Pembrokeshire CC	2751	0	0	1	119	1735	739	141	3	6	0	0	1
Powys CC	2646	0	0	3	24	577	2040	3	0	0	0	0	0
Rhondda Cynon Taff CBC	6075	87	0	13	288	1800	3839	51	0	0	0	0	2
City & County of Swansea	5784	0	0	0	0	1546	4101	125	2	0	1	0	2
Torfaen CBC	4003	25	53	5	1	85	1405	2575	123	2	1	0	0
The Vale of Glamorgan CBC	2065	14	3	0	0	143	504	1171	198	24	0	0	0
Wrexham CBC	6034	0	0	42	276	1243	2190	1774	308	72	103	6	0
TOTAL	31536	185	168	431	2780	20614	27579	22816	3004	3160	856	12	26
% of properties in each rent group		0.20	0.20	0.55	3.38	25.28	33.82	27.96	3.68	3.81	1.65	0.02	0.03
91% of all rents													
62% of all properties													

Table 2.7: Housing associations: distribution of rents of 3 bedroom properties in £5 per week bands

Housing Association	Number of 3 bed properties	Distribution across rent groups (number of properties for that HA) £'s											
		0.00-20.00	20.01-30.00	30.01-35.00	35.01-40.00	40.01-45.00	45.01-50.00	50.01-55.00	55.01-60.00	60.01-65.00	65.01-70.00	70.01-75.00	75.01+
Aelwyd	2	0	0	0	0	0	0	0	2	0	0	0	0
Banerddall	22	0	0	0	0	0	0	4	13	5	0	0	0
Bro Myrddin	192	0	1	3	0	0	0	8	165	9	1	0	5
Cadebyn	239	0	0	0	0	0	0	1	7	198	31	2	0
Cardiff Community	631	3	0	0	0	0	0	0	24	307	178	103	10
Charler	1423	0	0	0	1	0	38	80	1212	91	1	0	1
Clewyd Alyn	1082	0	0	0	0	0	5	21	708	291	28	24	6
CT Central Cyl	389	0	0	0	0	0	1	61	318	5	1	1	1
CT Cwys Cyl	623	7	0	0	0	0	0	33	562	19	2	0	0
CT Dewi Sant	47	0	0	0	0	0	0	0	35	9	2	1	0
CT Eryri Cyl	269	0	1	14	18	8	20	201	1	0	0	0	0
CT Hafan Cyl	2	0	0	0	0	0	0	0	2	0	0	0	0
Cynon-Taf	384	1	0	1	0	0	26	322	33	0	0	1	0
Eastern Valley	236	0	1	0	0	0	6	13	202	2	0	0	12
Family	492	0	2	4	0	1	35	158	250	40	0	2	0
Glamorgan & Gwent	1026	2	13	13	22	24	46	470	308	30	5	1	1
Gwalia Group	1204	5	18	30	0	8	103	312	681	38	6	1	0
Gwerin (Cymru)	439	20	0	0	0	0	0	0	111	308	0	0	0
Halod	1489	3	51	60	3	0	18	383	969	1	0	1	0
Merthyr Tydfil	242	39	0	0	0	0	1	13	179	8	1	0	0
Mid-Wales	326	0	0	0	0	0	0	11	261	38	16	1	0
Newport Trust	0	-	-	-	-	-	-	-	-	-	-	-	-
Newtown	80	0	0	0	0	0	19	16	23	0	0	0	0
Newydd	769	99	2	0	1	5	15	190	449	3	0	0	9
North Wales	874	15	58	0	0	5	88	644	97	4	4	0	1
Pembrokeshire	461	15	0	0	0	0	0	0	417	24	0	1	0
Polish Society	0	-	-	-	-	-	-	-	-	-	-	-	-
Pontypridd & District	121	0	0	0	0	0	0	2	100	19	0	0	0
Rhondda	497	0	0	0	0	0	4	90	400	0	0	1	0
Seacroft	381	10	1	2	3	0	6	75	148	118	18	0	0
Taff	174	0	0	0	0	0	2	10	66	90	3	6	23
United Welsh	858	0	0	0	0	1	6	19	238	518	73	7	0
Wales and West	1762	0	0	0	0	0	2	41	560	441	363	294	31
TOTAL	16712	219	146	127	47	120	1042	6932	6428	1025	479	77	71
5 of properties in each rent group		1.31	0.67	0.76	0.28	0.72	5.24	41.48	38.47	5.14	2.95	0.46	0.42
82% of all properties													
80% of all properties													

6. The geographic pattern of rents across Wales, for each sector, by bedsize of property.

The six Maps in this section show, for each of the two sectors and for each of the bedsizes, the average rent charged in each postcode sector in Wales. For local authorities, the Maps show the average rent charged by the local authority, for each bedsize of property, in each postcode sector in which it possess stock. For housing associations, the Maps show, for each postcode sector, the average of all the rents charged by the different housing associations which own property in that bedsize in that postcode sector.

The following general points should be noted:

- Some postcode sectors do not have any social housing stock.
- All postcode sectors with three or fewer properties are shown as nil.
- In the local authority sector, Bridgend is shown blank because, as noted earlier, the landlord was unable to supply postcodes for its properties.
- The boundaries of postcode sectors do not coincide with local authority boundaries, and care needs to be taken in interpreting the results. Where postcode sectors spill over the border into England, the average rent value shown for the sector relates only to properties in Wales.

The Maps showing the average rents (including service charges) for one bedroom properties show that for local authority properties (Map 1) rents fall within a generally narrow range between £35 and £45 per week. There is an area of lower rents stretching westwards from Wrexham through Denbighshire. Higher rents tend to be concentrated in the areas around Cardiff and Newport and the valleys to the north of these cities, around Swansea, and in some of the western coastal areas. Average housing association rents (Map 2) show a much wider spread, with a less discernible geographic pattern. This reflects the greater variation in total weekly charges resulting from the greater use of service charges in the housing association sector. A postcode sector containing a sheltered housing scheme might therefore have a markedly higher average rent than an adjacent postcode sector containing only conventional one bedroom dwellings.

The Maps for two bedroom properties show that local authority rents (Map 3) across the majority of the geographic area of Wales are compressed within a narrow range between £35 and £45 per week. Higher rents are seen in Anglesey along the Menai Straits, around Wrexham, and in the areas around Cardiff and Newport and the valleys to the north of these cities, around Swansea, and in some of the western coastal areas. Average housing association rents (Map 4) are higher, generally in the £45 to £55 range, with the higher rents running up the eastern part of Wales, from Flintshire through Wrexham and eastern Powys. Rents in the areas around Cardiff and Newport and the valleys to the north of these cities and around Swansea tend to be closer to the average local authority rent.

The Maps for three bedroom properties show a similar pattern, although local authority rents (Map 5) show a greater range than for two bedroom property, with higher rents through much of Powys and Ceredigion. Higher rents are seen in Anglesey along the Menai Straits, around Wrexham, and in the areas around Cardiff and Newport and the valleys to the north of these cities, around Swansea, and in some of the western coastal areas. Housing association rents (Map 6) now clearly reflect the pattern of the benchmark rents for three bedroom properties, with the lowest rents occurring in North Wales and the South Wales valleys. In nearly all other areas, average housing association rents fall within a range from £50-55 per week in the west to £55-60 per week in the east.

7. The difference between average rents between the two sectors, for each bedsize of property, in each postcode sector in Wales

The three Maps in this section show the difference between the average rents charged by local authorities and by housing associations in each postcode sector in Wales. The average rent charged by housing associations in a postcode sector is the average of all the rents charged by the different housing associations which own property in that bedsize in that postcode sector.

The average local authority rent in each postcode sector has been deducted from the average housing association for that postcode sector. The difference, in £s per week, is shown in the three Maps.

The Maps are coloured to show in blue those areas in which the average housing association rent is more than £5 per week less than the average local authority rent, in green to show those areas in which the difference in average rents between the two sectors is within a range from less than £5 per week to more than £5 per week, and in a spectrum from yellow to red to show those areas where the average housing association rent is more than £5 per week in excess of the average local authority rent.

The Maps only show those postcode sectors in which both the local authority and the housing association sectors have properties in the relevant bedsize. There are therefore large numbers of postcodes, particularly for one bedroom properties, which do not have properties owned by both sectors. Bridgend is shown as blank in these Maps as a consequence of the inability of the local authority to supply postcodes for its properties.

For one bedroom properties, Map 7 shows that there are relatively fewer postcode sectors in which both the local authority and housing associations possess property. The distribution of large differences in averages, the blue areas and the orange or red areas, is random, with no systematic pattern shown. Areas where the average housing association rent is cheaper than the average local authority rent are intermingled with areas where the reverse is true, although in some of the Valleys, housing association rents are systematically cheaper than local authority rents.

For two and three bedroom property, the geographic pattern of differences in average rents parallels the national differences between the two sectors noted earlier. Rents for two and three bedroom properties generally show that housing association rents are some £5 to £10 per week higher than local authority rents. For two bedroom properties, (Map 8) more areas have rents with a difference within the £5 per week range, coloured green, than in the case of three bedroom properties, (Map 9) where a greater geographic area shows a difference in average rents of between £5 and £10 per week, coloured yellow. In a number of areas the average housing association rent for two and three bedroom property is some £10 to £15 higher than the average local authority rent. For two bedroom property, these areas are concentrated in mid Powys and Denbighshire, while for three bedroom properties these areas are concentrated in central and northern Powys, Denbighshire and Flintshire.

In both cases, there are relatively few areas either coloured blue or coloured orange and red, and there is no apparent pattern in their occurrence.

8. The effect of different rent setting policies on rent differentials

Social landlords in Wales employ a variety of different rent setting policies in order to set the rents of individual properties within their stock.

The 33 housing associations included in this study all had a formal policy on rent setting which they were able to supply. For non-developing housing associations, which were also ones with very small stocks, these tended to be very simple, and focussed primarily on charging rents which would recover costs. Developing associations are naturally active in setting the rents of new dwellings as these are completed, and must set rents which comply with the rent benchmarking system if they are to continue to develop with Social Housing Grant.

Theoretically, housing associations which do not develop do not have to comply with the rent benchmarking regime, and could adopt whatever rent setting policy they chose. The view among the senior officers of housing associations who were interviewed as part of this study was that in the event that any housing association decided to withdraw from development programmes for the purpose of acquiring freedom in the overall level of rents set, then the regulatory regime would be altered to prevent the rents of such an association exceeding those specified by the regulatory regime.

The benchmarking regime works by setting, in each of five geographic areas in Wales, an average maximum rent across six specified bedsizes and types of dwellings, including a 3b5p house, which also has its own maximum rent. Provided a housing association does not charge more than the maximum rent for the 3b5p house, and the average rent of the six specified types (including the 3b5p house) does not exceed the rent benchmark, then it is free to set whatever differentials it chooses between different types, qualities or locations of property. The rent benchmark guidance, issued by Welsh Assembly Government, does however advise that 'Returns must be subject to consistent treatment of rent across the entire stock. Differentials between property types should be consistent across local authority areas.' The rents of 5% of the stock covered by the six benchmark types may be excluded from the calculation of the benchmark rent, and the rents of dwelling types not included in the six benchmark types are not controlled at all.

Essentially, housing associations have adopted three approaches to rent setting. The first two are very similar, and are used, with variations, by nearly all developing housing associations. These two approaches both use some form of 'points' system for differentiating the size, amenities and, in most cases, the location of different properties. Some points schemes were relatively elaborate, and had been worked out in consultation with tenants. Others were relatively crude, simply setting rents by property type with some adjustment for physical condition. One line of approach starts from the 'top down', first determining the total budget to be recovered from rent income, and then distributing this downwards to properties using the points system. The other starts from the 'bottom up', adjusting the 'pounds per point' until the desired budget total is reached. Both approaches end up at the same position.

Many housing associations had adopted some system for reducing rents in areas such as small towns, villages and isolated rural communities in order to reflect the higher costs of living, inaccessibility and lack of amenities in these locations. One housing association in North Wales commented that social housing tenants appeared to prefer to live in the coastal towns, where access to jobs, supermarkets and amenities was available, rather than in the inland villages. These preferences clearly run counter to the pattern of house prices, which are often higher in the villages and rural areas. Indeed, the lack of amenities such as supermarkets or cinemas might be a positive attraction for wealthier homebuyers with car transport.

The only significant alternative to these approaches is that adopted by Mid Wales HA, which uses the capital values of its stock, annually valued on a Open Market with Vacant Possession basis. Rents are set at the benchmark rent for the highest value property, and all other rents are then set in proportion to the relative capital value of the individual property, using a simple formula of xp per £100 of capital value. The association commented that over the years the 'x' in the formula has consistently reduced, thereby reducing the differential between rents and raising overall rent income within the benchmark total, and now stands at 5p.

All the housing associations interviewed for the project emphasised that rent differentials were being reduced by the need to increase overall rent income, primarily in order to cross-subsidise development, while staying within the rent benchmarks. Indeed, many admitted to being in effective breach of their formal rent setting policies in adjusting the differentials between rents that the financial situation required.

Nevertheless, all developing housing associations had a rent setting policy which had been established, or at least reviewed, within the past seven or eight years.

The situation with most local authorities however was quite different. More than half of all local authorities were unable to supply any formal rent setting policy, and many of the remainder merely referred to rents as having been set originally in accordance with rateable values. In some authorities, particularly those created following local government re-organisation by the amalgamation of smaller authorities in 1996, there was considerable uncertainty as to the basis on which rents had previously been set in the constituent authorities. Only two of the local authorities created by amalgamation post 1996 appeared to have adopted a coherent policy to harmonise rents. Others had discussed the issue, but action had been effectively shelved. This reflected partly the political problem of 'gainers' and 'losers' under any restructuring of rents, and partly an expectation, or hope, that some form of central guidance would be forthcoming. Officers were obviously aware of the rent restructuring system adopted in England, and were reluctant to press elected Members on the issue until the position in Wales became clearer.

The Figures below compare the rents that have resulted from the adoption of different approaches to rent setting by three local authorities and three housing associations. The Isle of Anglesey is the only local authority in Wales to use capital values to set the differentials between properties (although sheltered housing is excluded), Ceredigion uses a points based scheme established in 1975, following the previous re-organisation of local government, while Neath Port Talbot adopted a points based rent harmonisation policy following its creation in 1996.

Figure 2.9: LA rent setting policies compared for 1 bedroom dwellings

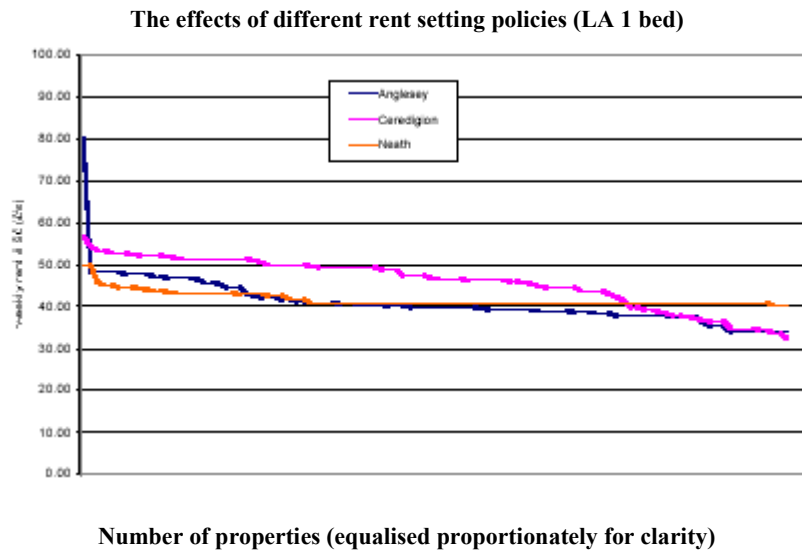


Figure 2.10: LA rent setting policies compared for 2 bedroom dwellings

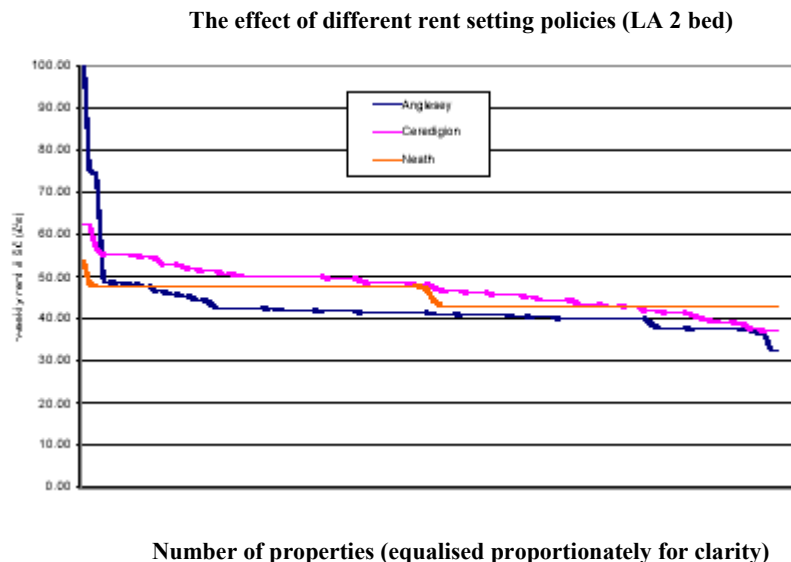
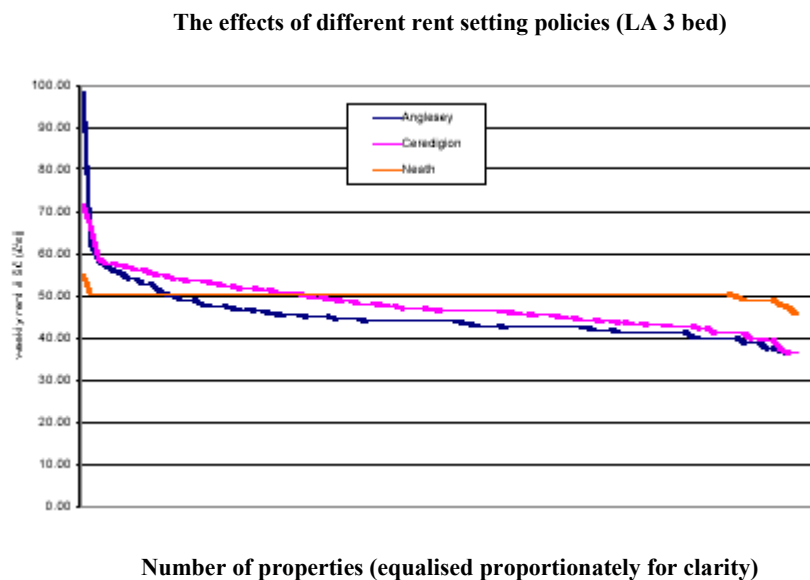


Figure 2.11: LA rent setting policies compared for 3 bedroom dwellings



The Figures show that although there are significant differences between the patterns of rents charged by the three local authorities, these are at the detailed rather than the general level. The rents of all three local authorities fall within a similar narrow band, depending upon the bedsize of the property. Both Anglesey and Ceredigion have a very similar slope to the curve of rents from highest to lowest, with Neath having a noticeably flatter structure of rents, particularly for three bedroom properties.

The overall level of rents charged in each local authority, as opposed to the detailed pattern of rents within that overall total, is determined by past historical levels of rents charged, modified over recent years by the decisions on relative guideline rents made by central, rather than by local, government.

In the case of housing associations, the Figures illustrate the results of three different approaches to rent setting. Mid Wales sets rents by reference to capital values, Gwalia sets an overall budget to recover a predetermined level of income which is then allocated to individual properties through an attribute pointing scheme, while Wales & West operate a rent setting matrix approach to maintain differentials between different local authority areas and bedsizes of property.

In this instance, the housing association rents are shown without service charges, in order to identify the differences in rent setting policies.

Figure 2.12: HA rent setting policies compared for 1 bedroom dwellings

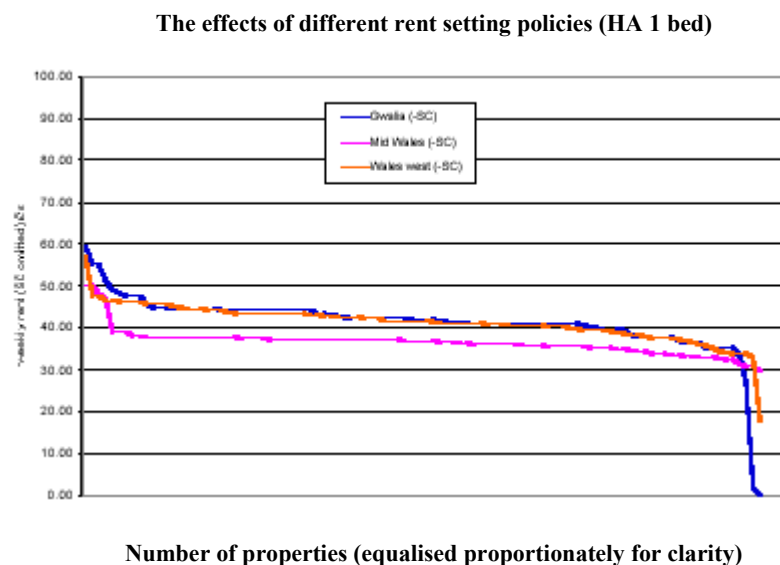


Figure 2.13: HA rent setting policies compared for 2 bedroom dwellings

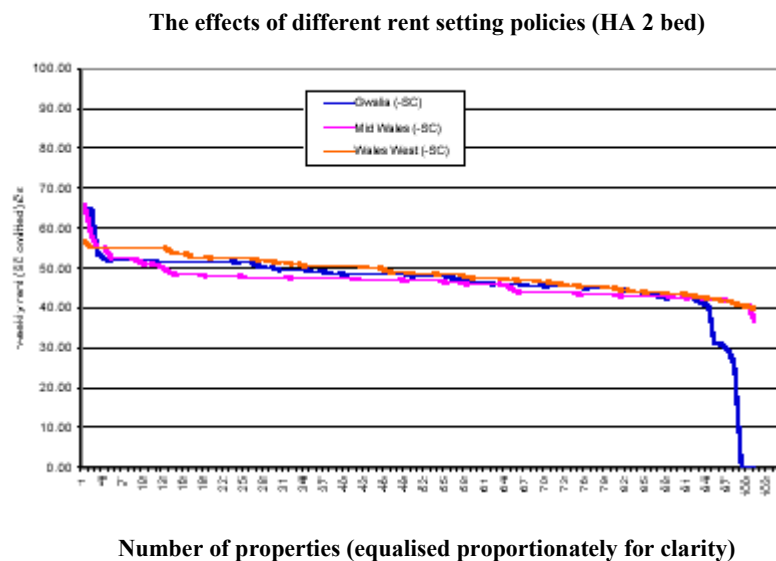
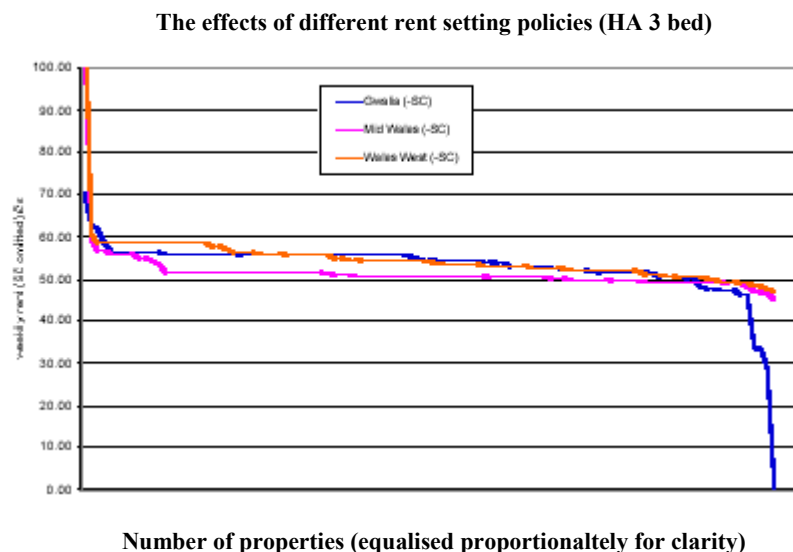


Figure 2.14: HA rent setting policies compared for 3 bedroom dwellings



The Figures show clearly that rents in the housing association sector are compressed within an even narrower band than those in the local authority sector. With the exception of the lower rents charged by Mid Wales for one bedroom properties, there is almost no difference between the rents charged by housing associations for properties of a similar bed size.

The Figures confirm the extent to which housing association rents have been compressed upwards to the benchmark level, and the extent to which the benchmark system now dominates the process of rent setting.

Key points

Chapter 2 summarises the pattern of rents (including service charges) that were found in each sector, and compares their geographic pattern across Wales.

Long delays were experienced in obtaining data from a minority of social landlords, but eventually basic data was obtained from all 22 local authorities and all of the 33 largest housing associations. The data has some limitations, most notably because the data was collected for the financial year 2002/03. This year was a '53 week rent year': social housing tenancies generally start, and pay rent, on Mondays, and once every seven years there are 53 Mondays in the year. 2002/03 was one of these years. The situation is further complicated by the practice of 'rent free' weeks offered by some social landlords (mostly local authorities), whereby the year's rent is collected over 51 or 48 weeks, with two or four weeks being 'rent free'. The data reported in the study has attempted to standardise rents, so that they are directly comparable between landlords, but complete accuracy is not possible. In 2002/03, the situation was yet further complicated by the introduction of Supporting People. While most housing associations already used service charges to identify the costs of the range of services to be covered by Supporting People grant, most local authorities did not, and were in the midst of identifying costs, and 'de-pooling' these from rents into service charges for the first time.

In order to compare the real cost of housing to tenants, it is important to include both rent and service charges. This is particularly significant in social housing, because most local authorities 'pool' the costs of services such as sheltered housing wardens, or caretaking, or grounds maintenance, across all their properties. The costs of these services are therefore included in the weekly rent, whether the individual tenant actually receives the service or not. Housing associations, however, generally make service charges to

individual tenancies to reflect the actual costs of additional services received. This means that for housing associations, the total weekly charge to tenants will be higher than the weekly rent: it is only the rent element which is regulated by the 'benchmark' system. As local authorities begin to 'depool' the costs of services, their total weekly charges to tenants will become more comparable to those of housing associations.

The study found that housing association rents were on average higher than local authority rents, by some £2 to £3 per week for one bedroom dwellings, some £5 per week for two bedroom dwellings, and some £7 per week for three bedroom dwellings.

Nevertheless, when the distribution of rents in each sector was compared, from the lowest to the highest, it was clear that there was a substantial overlap between the two sectors, with many housing association rents lower than local authority rents. Among one bedroom dwellings, the pattern of rents was almost identical, except for rents above £55 per week, where significantly more housing association one bedroom dwellings had high rents, including service charges, reflecting the higher costs of provision of sheltered housing when these costs are not 'pooled'.

This pattern was further borne out when the geographic pattern of rents was compared. There were few areas in which the difference between local authority and housing association rents was greater than £15 per week, and in a few of these cases it was the local authority rent that was the higher of the two.

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

Chapter 3

The pattern of rents in the private rented sector

There are a number of points to note about this data:

- The Rent Officer Service is required to determine Local Reference Rents using a standard formula. In any locality, the Local Reference Rent is calculated by adding together the highest rent which the Service deems to be not exceptionally high, and the lowest rent which the Service deems to be not exceptionally low, and dividing the result by two.
- Therefore, the Local Reference Rent is not an average of all the rents charged in a locality. The formula is not affected by the distribution of rents between the upper and lower limits. If rents in a locality tend to be bunched towards the higher end of the distribution, then the Local Reference Rent will tend to be too low in relation to the market average; but if rents in a locality tend to be bunched towards the lower end of the distribution, then the Local Reference Rent will tend to be too high in relation to the market average.
- The Local Reference Rent is also an abstract rent, derived from a formula: it is intended to reflect the generality of rents in any given locality. It does not reflect the actual rent charged for any individual property, which will be affected by type, size, condition and locality.
- Local Reference Rents are determined by the number of habitable rooms (ie, rooms suitable for living or sleeping) in a property, not by the number of bedrooms (as is the standard practice among social landlords), nor by the type of property (terraced, semi-detached, etc. as used by the Land Registry to record the sale price of property). Therefore, the evidence for the rents of two room properties could be drawn from houses, flats, bungalows or caravans: any type of accommodation with two rooms in the same broad locality.
- In many localities in Wales, particularly in rural areas, there are too few market transactions, especially of one roomed properties, in the private rented sector, and therefore insufficient data to determine a Local Reference Rent specifically related to actual rents in that locality. In these circumstances, the Rent Officer Service relies on general knowledge and experience to extrapolate information from adjoining areas in order to determine a Local Reference Rent.
- The localities used by the Rent Officer Service are designed to reflect local housing markets, creating 67 localities, which do not necessarily coincide either with local authority boundaries, or with postcode areas. It is understood that the definition of the localities is currently being reviewed to enable localities to be defined by postcode.
- Local Reference Rents only reflect a snapshot in time: they are reviewed and updated to reflect movements in the housing market.

Local Reference Rents cannot be compared directly to the rents charged by social landlords for one, two or three bedroomed property. A two bedroom house with a separate kitchen-dining room and a living room will have four rooms, whereas a two bedroom house with a dining/living room and a working, or galley, kitchen will have three rooms. Similar considerations apply to three bedroom houses, which might have either four or five rooms, depending upon the detailed layout of the individual property.

The approach adopted has therefore been to compare the benchmark rent (representing the maximum average rent of one bedroom, two person dwellings, two bedroom dwellings and three bedroom, five person dwellings) in each of the five Benchmark Areas with a 'synthetic' average of the Local Reference Rents charged for two, three, four and five room properties in each locality which is within the Benchmark Area.

The first stage of the analysis compares the 'synthetic' average Local Reference Rent in each locality, with an equally 'synthetic' national average Local Reference Rent.

In each locality, the Local Reference Rent for two, three, four and five room properties has been added together, and the result divided by four. This is considered a reasonable approach, because the Local Reference Rent itself is not an average of all rents charged, but simply the average of two selected rents. The bias introduced by an 'average of the averages' does not appear to apply.

Similarly, a 'synthetic' national average Local Reference Rent has been constructed by totalling the average Local Reference Rent for each of the 67 localities, and dividing by 67. It is important to note that the resulting figure of £83.01 does not represent the 'average' rent charged in the private rented sector in Wales: it is merely the average of the 'average' formulaic Local Reference Rents.

The first Map (Map 10) shows the 'synthetic' average Local Reference Rent in each locality as a percentage of the 'synthetic' national average Local Reference Rent. The Map shows the percentages rounded to the nearest ten (as a consequence of the shortcomings of the mapping programme). Percentages lying between 95 and 104.9 are therefore rounded to 100, and so on.

The Table below shows the twenty localities where the level of Local Reference Rents is between roughly 110% and 150% of the national 'average'. As would be expected, the pattern is heavily concentrated in South East Wales, in Monmouthshire, Newport, Cardiff, the Vale of Glamorgan and Swansea West. The other localities with significantly higher than 'average' Local Reference Rents are the coastal university and county towns of Aberystwyth, Bangor and Conwy, and the area around Mold in Flintshire.

Table 3.1: Local Reference Rent localities where 'average' LRR between 110% and 150% of national 'average' LRR

Local Reference Rent locality	County Borough	LRR as % of national average
South & East Cardiff	Cardiff	146.96
Penarth	Vale of Glamorgan	140.79
North Cardiff	Cardiff	138.08
West Cardiff	Cardiff	137.33
Marshfield	Newport	124.98
Rural Vale of Glamorgan	Vale of Glamorgan	124.23
Usk	Monmouthshire	124.23
Chepstow	Monmouthshire	123.47
West Ceredigion	Ceredigion	123.17
Caldicot	Monmouthshire	120.61
Monmouth	Monmouthshire	116.70
Taffs Well	Cardiff	115.54
Abergavenny	Monmouthshire	113.54
Barry	Vale of Glamorgan	113.23
Conwy	Conwy	112.63
Porthcawl	Bridgend	110.91
Newport	Newport	110.67
Mold	Flintshire	110.07
Bangor	Gwynedd & Anglesey	109.02
Swansea West	Swansea	109.02

The Table below shows the nineteen localities where the level of Local Reference Rents is below 90% of the national 'average'.

The nineteen localities fall into two clear geographic groupings.

- One lies along the central backbone of the country, from Blaenau Ffestiniog, through south eastern Gwynedd and down through western Powys. The sparsity of population in this area, and the small number of private rented lettings, means that the figures are unlikely to be wholly reliable, but any market in private renting is likely to reflect the low wage levels prevalent in this area.
- The second area is concentrated in the Valleys, reflecting the low capital values at which landlords are able to acquire properties in this area.

Table 3.2: Local Reference Rent localities where 'average' LRR below 90% of national 'average' LRR

Local Reference Rent locality	County Borough	LRR as % of national average
Western Valley	Caerphilly	89.59
South East Carmarthenshire	Carmarthenshire	89.44
Mid and East Ceredigion	Ceredigion	88.84
Port Talbot and the Afan Valley	Neath Port Talbot	85.98
Eastern Valley	Torfaen	84.32
Lleyn	Gwynedd	83.27
Llanfyllin	Powys	82.82
Neath and Neath Valleys	Neath Port Talbot	82.52
Ogwr/Garw & Llynfi Valley	Bridgend	82.30
East Radnorshire	Powys	82.22
North East Ceredigion	Ceredigion	81.76
Tonyrefail Gilfachgoch	Rhondda Cynon Taf	81.08
Merthyr	Merthyr Tydfil	80.56
Rhondda	Rhondda Cynon Taf	79.11
Welshpool	Powys	78.60
Rhymney Valley	Caerphilly	78.45
Blaenau Ffestiniog	Gwynedd	77.10
Cynon Valley	Caerphilly	76.79
Llanidloes	Powys	76.19
North Gwent	Blaenau Gwent	75.89
West Radnorshire	Powys	75.59

The second Map (Map 11) shows the 2003/04 RSL benchmark rent as a percentage of the Local Reference Rent for the locality. Again, the Map shows the percentages rounded to the nearest ten, and percentages lying between 65 and 74.9 are therefore rounded to 70, and so on.

In nineteen of the Local Reference Rent localities, the benchmark rent lies roughly between 70% and 80% of the 'synthetic' average Local Reference Rent for two, three, four and five room properties.

Again, the nineteen localities fall into the same two clear geographic groupings.

- One lies along the central backbone of the country, from Blaenau Ffestiniog, through south eastern Gwynedd and down through western Powys.
- The second area is concentrated in the Valleys. The closeness between housing association rents and private sector rents in this area was commented on by a number of housing associations. Private landlords are able to offer houses in streets, rather than on estates, together with a higher level of furnishings and white goods than is current practice in housing association lettings, and this appears to represent a competitive product in this area, at a relatively small price premium.

Table 3.3: Local Reference Rent localities where benchmark rents between 70% and 80% of 'average' Local Reference Rents

Local Reference Rent locality	Benchmark Area		Benchmark rent as % of LRR
Cynon Valley	Caerphilly	C	80.64
Rhymney Valley	Caerphilly	C	78.94
West Radnor	Powys	A	77.37
North Gwent	Blaenau Gwent	A	77.06
Llanidloes	Powys	A	76.76
Blaenau Ffestiniog	Gwynedd	A	75.86
Ogwr/Garw/ & Llynfi Valley	Bridgend	C	75.25
Welshpool	Powys	A	74.41
Rhondda	Rhondda Cynon Taf	A	73.92
Eastern Valley	Torfaen	C	73.44
Neath and Neath Valleys	Neath Port Talbot	B	72.80
Merthyr	Merthyr Tydfil	A	72.60
Tonyrefail Gilfachgoch	Rhondda Cynon Taf	A	72.13
North East Ceredigion	Ceredigion	A	71.53
East Radnorshire	Powys	A	71.14
Llanfyllin	Powys	A	70.62
Lleyn	Gwynedd	A	70.24
Port Talbot and the Afan Valley	Neath Port Talbot	B	69.87
Western Valley	Caerphilly	C	69.12

At the other end of the price scale, there are fourteen localities in which the benchmark rent is broadly between 55% and 45% of the 'synthetic' average Local Reference Rent in the locality. These areas are nearly all around the periphery of Wales, from Monmouthshire on the English border, through the major cities of Newport and Cardiff, including the 'suburban' areas of Penarth and the rural Vale of Glamorgan, the

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

Table 3.4: Local Reference Rent localities where benchmark rents between 55% and 45% of 'average' Local Reference Rents

Local Reference Rent locality	Benchmark Area		Benchmark rent as % of LRR
Mold	Flintshire	B	54.58
Monmouth	Monmouthshire	D	53.83
Bangor	Gwynedd & Anglesey	A	53.65
Conwy	Conwy	B	53.34
Caldicot	Monmouthshire	D	52.08
Chepstow	Monmouthshire	D	50.88
Rural Vale of Glamorgan	Vale of Glamorgan	D	50.57
Usk	Monmouthshire	D	50.57
Marshfield	Newport	D	50.27
West Ceredigion	Ceredigion	A	47.48
West Cardiff	Cardiff	E	47.03
North Cardiff	Cardiff	E	46.77
Penarth	Vale of Glamorgan	D	44.62
South & East Cardiff	Cardiff	E	43.94

Key points

Chapter 3 compares the pattern of rents in the private rented sector to the pattern in the social sector. Direct evidence of the level of private sector rents is not available, and so data produced by the Rent Officer Service to determine the Local Reference Rents, which enable local authorities to determine Housing Benefit claims, were used to compare to the 'benchmark' rent in the housing association sector. (Local Reference Rents are a simple average of rents which are not excessively high, or low, in a locality. As a consequence, roughly half of the rents in a locality are likely to be below the Local Reference Rent.)

The study showed a pattern of high rents in the private rented sector in fourteen localities, nearly all around the periphery of Wales, from Monmouthshire on the English border, through the major cities of Newport and Cardiff, including the 'suburban' areas of Penarth and the rural Vale of Glamorgan, the university and county towns of Aberystwyth, Caernarfon, Bangor and Conwy, and the area around Mold in Flintshire. In these areas, the 'benchmark' rent was broadly between 55% and 45% of the average Local Reference Rent in the locality. Housing association rents were clearly well below 'market' levels in these areas.

However, there were nineteen localities where the 'benchmark' rent was much closer to 'market' levels. These fell into two clear geographic groupings. One lies along the central backbone of the country, from Blaenau Ffestiniog, through south eastern Gwynedd and down through western Powys. The second area is concentrated in the Valleys. The closeness between housing association rents and private sector rents in this area was commented on by a number of housing associations. Private landlords are able to offer houses in streets, rather than on estates, together with a higher level of furnishings and white goods than is current practice in housing association lettings, and this appears to represent a competitive product in this area, at a relatively small price premium. In these areas, the 'benchmark' rent was between 70% and 80% of the Local Reference Rent, and rents for many properties in the social housing sector will be directly comparable to 'market' rents.

Chapter 4

The pattern of house prices in the owner occupied market

The overall housing market in Wales is predominantly owner occupied. Wales has a somewhat higher proportion of owner occupation than other countries in the UK, at 72.3% of the total housing stock. The private rented sector, increasingly let at market rents, represents only 8.7% of the housing stock, while the social housing sector, let at sub-market rents, makes up the remaining 19% of the stock.

The pattern of house prices in the owner occupied sector is therefore the predominant source of market price data which may reflect the price which consumers are willing to pay for particular property. Willingness to pay can, of course, only be exercised within the constraints of an unequal distribution of incomes and wealth, and the lending criteria of the mortgage lenders.

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

Data on house prices are available from the Land Registry, which records the actual sale price achieved (rather than the original asking price). The lowest level at which the data are available is the postcode sector. The Land Registry has supplied data giving the average sale price achieved in each of the 520 postcode sectors in Wales for four types of property: terraced, semi-detached and detached houses, and flats.

The Land Registry does not collect data giving the bedsize of properties, and therefore it is not possible to compare the pattern of prices in the owner occupied sector with the pattern of rents in the social housing sector. (Data on the type of property, whether terraced, semi-detached or flat, is not consistently available from social landlords.) The numbers of flat sales recorded are also very small, and the prices paid suggest that in some areas the market for flats is relatively expensive.

The study has therefore analysed the average sale prices of terraced and semi-detached houses, as offering the nearest available parallel to the types of property likely to be found in the social housing sector.

The first Map (Map 12) shows the average sale price for terraced houses in each postcode sector, taking the average of both the calendar years 2000 and 2001. This was calculated by multiplying the average price for each postcode sector in each year by the number of sales achieved, adding the total value for each year together, and dividing by the total number of sales over the two years. This was done in order to increase the total number of sales considered in each postcode sector (some postcode sectors have very small numbers of sales in any one year) and partly to average out any sharp fluctuations from one year to the next.

The second Map (Map 13) shows the same data for semi-detached houses.

Maps 12 and 13 show a broadly similar pattern of house prices. The blue areas on the Maps show areas where the average sale price in those years was below £100,000. Prices tend to be higher around the coastal areas, from Llandudno to Beaumaris and the Menai Straits, on the Llyn Peninsula, and along the coast in Gwynedd, Ceredigion, Pembrokeshire, the Gower Peninsula and in the Vale of Glamorgan. The highest prices in for both types of property are recorded in Cardiff. Prices also tend to be higher along the border with England. Areas of particularly low prices are found in several of the South Wales valleys.

Maps 14 and 15 show the movement in house prices between 1995 to 1996 and 2000 to 2001. The average price for each postcode in each two year period was calculated in the same manner as before, and the Maps show house prices in the period 2000 and 2001 expressed as a percentage of the average house price in the same postcode in the period 1995 and 1996.

Unfortunately, in areas of growth, such as Cardiff, Newport, Torfaen and Monmouthshire, new postcodes have been created since 1995/96, and it is not possible to match the new postcodes to the areas of the old postcodes. Records of postcode changes are not retained by the Post Office for longer than eighteen months.

The Maps show that there were a number of areas in Wales where prices actually fell in nominal terms. These are coloured blue on the Maps.

Over the period from 1995/96 to 2000/01, the increase in the general price level, as measured by the GDP deflator, was 14%. Any property which in 2000/01 was worth less than 114% of its value in 1995/96 had therefore fallen in value in real terms. The Maps show that in significant parts of Wales, house prices had remained stagnant over this period, barely keeping pace with general price inflation. These areas appear to be concentrated in the South Wales valleys, and the hinterlands of Bridgend, Neath Port Talbot and Swansea. However, there were 'stagnant' areas scattered across the country, particularly in northern

Powys/southern Denbighshire, parts of Anglesey and the former slate mining areas around Nantlle and Blaenau Ffestiniog.

Increases in house prices over this period were again most marked around the coast, particularly in the Lley Peninsula and in Pembrokeshire, although data were not available for the areas of Cardiff and Monmouthshire, which might be expected to have shown significant increases in house prices over the period.

Key points

Chapter 4 examines the pattern of house prices in the owner occupied sector, and the extent to which these had changed between the bottom of the house price cycle in 1996 and five years later in 2001.

Over the period from 1995/96 to 2000/01, the increase in general consumer prices, was 14%. Any property which in 2000/01 was worth less than 114% of its value in 1995/96 had therefore fallen in value in real terms. In significant parts of Wales, house prices had remained stagnant over this period, barely keeping pace with general price inflation.

These areas appear to be concentrated in the South Wales valleys, and the hinterlands of Bridgend, Neath Port Talbot and Swansea. However, there were 'stagnant' areas scattered across the country, particularly in northern Powys/southern Denbighshire, parts of Anglesey and the former slate mining areas around Nantlle and Blaenau Ffestiniog.

Increases in house prices over this period were again most marked around the coast, particularly in the Lley Peninsula and in Pembrokeshire, although data were not available for the areas of Cardiff and Monmouthshire, which might be expected to have shown significant increases in house prices over the period.

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

Whether this will continue to be the case given the increase in house prices seen in Wales in the first half of 2004, remains to be seen, although the differential in house prices between Cardiff and the Valleys appears to have been maintained.

Chapter 5

Earnings, incomes, rents and affordability

1. Social housing rents and ‘affordability’

Better Homes for People in Wales sets out the aims of the National Housing Strategy in section G.13 of the Strategy, ‘Social Housing Rents and Affordability’:

- “We recognise the important connections between social housing rent levels and tackling social disadvantage. Where rent levels are fair and affordable, tenants will have a greater incentive to get off benefits and move into work. Affordability is considered an important issue in the social housing sector in Wales. This is because many Welsh tenants still face difficulties in meeting their housing costs, with some critics claiming that policies often fail to take account of non core rent costs such as service charges and utility bills.”

The affordability of rent for any tenant will be affected by five main factors:

- The income of the household from earnings;
- Any additional earnings related benefits to which the household may be entitled (principally Working Tax Credit, Child Credit and Child Benefit);
- The rent of the property (including any service charges on which Housing Benefit may be payable);
- Any Housing Benefit to which the household may be entitled; and
- Any other housing related costs (such as heating costs) which the household must incur.

The introduction of the Minimum Wage has clearly put a ‘floor’ under earnings. For full-time workers (defined as those working for 30 hours or more per week, which is the qualifying working week for the enhanced rate of Working Tax Credit), the Minimum Wage will produce earnings ranging between £135 (for 30 hours at the Minimum Wage of £4.50 per hour) and £180 (for 39 hours at £4.50 per hour).

The implications of heating costs and their relationship to incomes and affordability are discussed in Chapter 7, *Rents, heating costs and fuel poverty*. The interaction of the first four factors is discussed below.

2. Incomes and earnings among social tenants in Wales

Information on the earnings and incomes of social housing tenants in Wales is extremely limited. Average incomes for a range of occupations typical of those undertaken by social housing tenants are available from the New Earnings Survey, but these are only statistically reliable as averages for the whole of Wales. These are shown in the Table below:

Table 5.1: All Wales: gross weekly pay for full time workers in selected occupational groups

Occupational group	Male ft (£s)	Female ft (£s)	Female pay as % of male pay
6: Personal / Protective Services	382.75	248.04	65%
7: Sales Occupations	328.24	240.67	73%
8: Plant/Machine Operatives	357.93	249.61	70%
9: Other Occupations	285.50	203.61	71%
Total	344.45	240.96	70%

Source: New Earnings Survey 2002

However, all Wales averages are not particularly useful when considering the affordability of rents in any particular area. Not only do rents vary from one area to another, but earnings also vary. The data presented in Chapter 2, *Rents and service charges in social housing*, showed that the differences in rents between different areas in Wales are relatively small. The Tables below show that the variations in earnings reported for different local authority areas appear to be larger than the variation in rents.

Earnings data from the New Earnings Survey at the level of the individual local authority are normally suppressed as statistically unreliable: the New Earnings Survey is a 1% sample, and at local authority level there are too few people in each occupational group to produce reliable statistics.

The raw data at local authority level however can be accessed, and are shown in the Tables below:

Table 5.2: Fulltime male earnings for selected occupational groups (£s per week)

	10 : Clerical Occupations	19 : Industrial Plant/Machine Operators, etc	20 : Drivers/Mob ile Machine Operators	22 : Other Elementary Occupations
Anglesey	#	#	371	289
Blaenau Gwent	#	357	#	274
Bridgend	321	400	355	273
Caerphilly	341	299	302	318
Cardiff	329	326	417	304
Cardiganshire	321	407	332	320
Ceredigion	#	#	#	257
Conwy	262	331	#	#
Denbighshire	#	333	333	239
Flintshire	313	416	294	309
Gwynedd	285	280	253	271
Merthyr Tydfil	306	296	#	266
Monmouthshire	337	363	339	#
Neath Port Talbot	#	489	316	268
Newport	316	364	362	297
Pembrokeshire	250	#	290	268
Powys	341	265	359	284
Rhondda, Cynon, Taf	319	313	302	286
Swansea	309	405	307	276
Torfaen	336	342	299	#
Vale of Glamorgan	#	431	#	279
Wrexham	328	385	#	308
Total	318	368	339	287

Source: New Earnings Survey 2002

Notes: 1. # indicates too few instances to be statistically reliable
2. No local authority contains enough workers in agriculture and forestry for any figure to be statistically reliable

Table 5.3: Fulltime female earnings for selected occupational groups (£s per week)

	10 : Clerical Occupations	11 : Secretarial Occupations	16 : Personal Service Occupations	18 : Other Sales Occupations	19 : Industrial Plant/Machine Operators, etc
Anglesey	#	#	#	#	#
Blaenau Gwent	240	#	#	#	#
Bridgend	264	277	241	193	250
Caerphilly	235	#	193	#	249
Cardiff	291	310	228	250	229
Cardiganshire	263	262	209	#	#
Ceredigion	257	#	#	#	#
Conwy	316	#	235	#	#
Denbighshire	219	#	#	194	#
Flintshire	276	#	#	#	306
Gwynedd	243	251	259	212	187
Merthyr Tydfil	270	#	233	#	#
Monmouthshire	262	#	219	#	#
Neath Port Talbot	270	254	#	200	#
Newport	275	#	#	#	269
Pembrokeshire	280	221	256	#	#
Powys	272	#	235	#	#
Rhondda, Cynon, Taf	244	308	256	185	263
Swansea	273	273	242	211	#
Torfaen	252	#	305	#	233
Vale of Glamorgan	261	#	#	#	#
Wrexham	271	#	256	231	252
Total	271	283	234	220	247

Source: New Earnings Survey 2002

Notes: # indicates too few instances to be statistically reliable

The use of average earnings to assess affordability is inherently unsatisfactory: depending upon the distribution of incomes from low to high in any locality, roughly half of all earners will be earning less than the average. A rent which may be affordable to the average earner may well be unaffordable to half of those in work. The ranges of earnings which lie behind the averages in the Tables above are not known.

However, for the purposes of assessing the affordability of rents, it is more helpful to select a plausible range of earnings, likely to be experienced by tenants in full-time employment, which can then be compared to the ranges of rents charged for different bed sizes of accommodation.

The New Earnings Survey data can be used, for the purposes of assessing affordability, to select a range of plausible earnings for men and women in full-time employment. A range for men between £240 per week and £320 per week covers the majority of earnings reported, while excluding the higher earnings levels. Earnings over £320 per week represent annual earnings in excess of £17,000, an implied ability to service a mortgage in excess of £50,000, and therefore a house purchase capability of perhaps £55,000 to 65,000. Earnings in excess of £320 per week would therefore imply, in most parts of Wales, the ability to enter owner occupation at the lower end of the market.

Similarly, for women in full time employment an earnings range from £190 to £260 would appear to cover the range from the lowest levels of full time earnings, while excluding the higher paid groups such as clerical and secretarial workers in Conwy or Cardiff.

3. The contribution of Working Tax Credit, Child Credit and Child Benefit to net incomes

The introduction, and extension, of the Tax Credit system, and the additional financial support to families with children provided by Child Benefit, has significantly changed the relationship between earnings, and actual cash incomes. The extent of this change is not always fully appreciated. It has an important effect on the 'affordability' of rents, and on the entitlement of a household to Housing Benefit.

Concerns about the affordability of social housing rents have in the past tended to be focussed on the position of families with dependent children. The combination of Working Tax Credit, Child Tax Credit and Child Benefit has raised the incomes of families with dependent children to a point where families can now afford to pay higher rents than childless couples or single people, and still be left with an appropriately higher cash income to meet their higher outgoings, after their housing costs have been met.

There are important consequences for rent setting and affordability which follow from the effect of welfare benefits in adding so significantly to the cash incomes of households with dependent children.

A concentration on the affordability position of households with dependent children would allow rent levels to be increased significantly above the level which the same household could afford from earned income alone. If rents are increased to levels which are affordable by households with dependent children *from their total cash incomes, including benefits*, then these rents will be unaffordable by the childless.

Taken together, these factors suggest that in practice rent setting policies need to concentrate on the provision of affordable housing to the childless. If a childless household can afford the rent, the welfare benefit system, in the form of Child Benefit and Working Families Tax Credit, will ensure that a household with dependent children will also be able to afford the rent. The extent to which Working Tax Credit, and its combination with Child Tax Credit and Child Benefit for families with children, add to the after tax cash incomes of those in work is shown in the Figures below for four typical households.

Figure 5.1: Total income from earnings and benefits for single people

Single adult below pensionable age

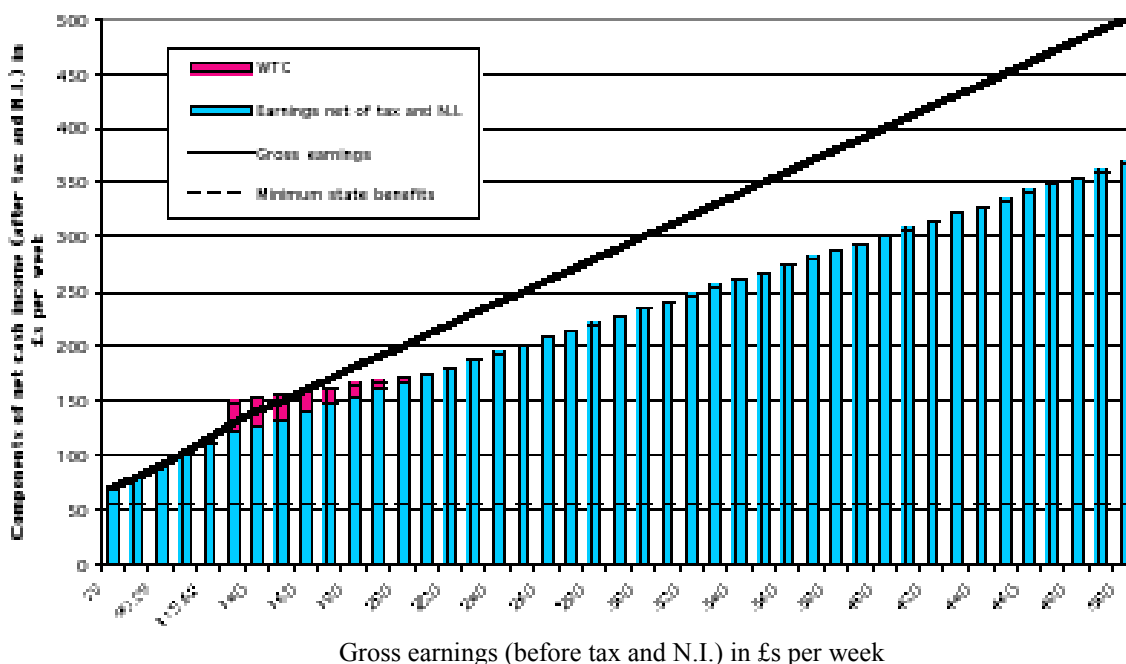


Figure 5.2: Total income from earnings and benefits for childless couples

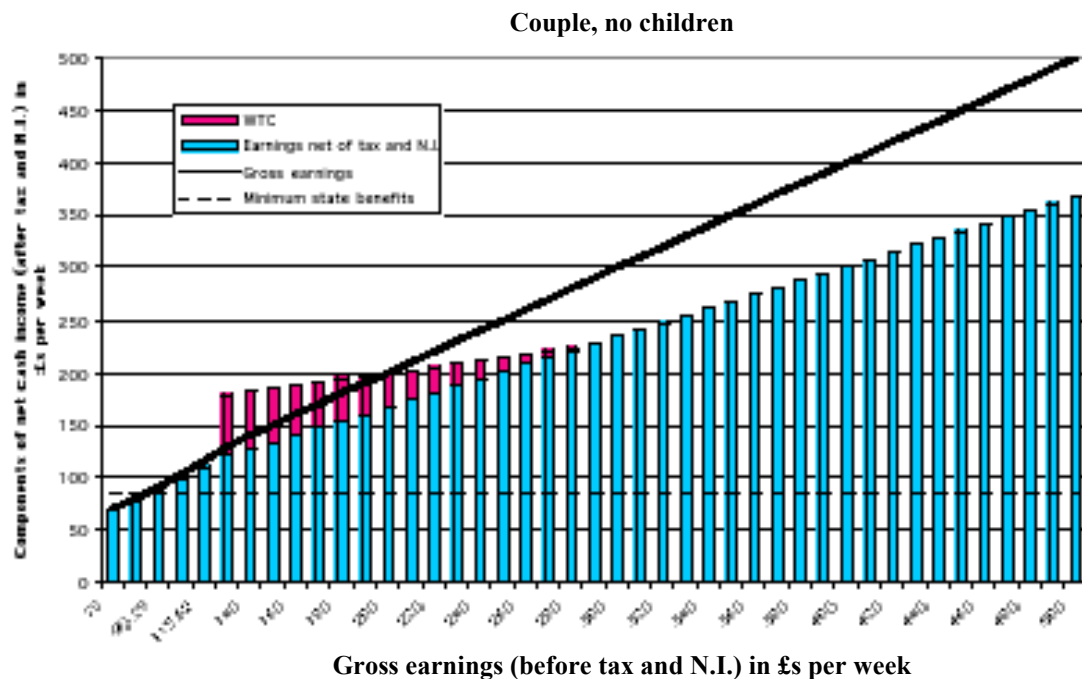


Figure 5.3: Total income from earnings and benefits for single parents with one child

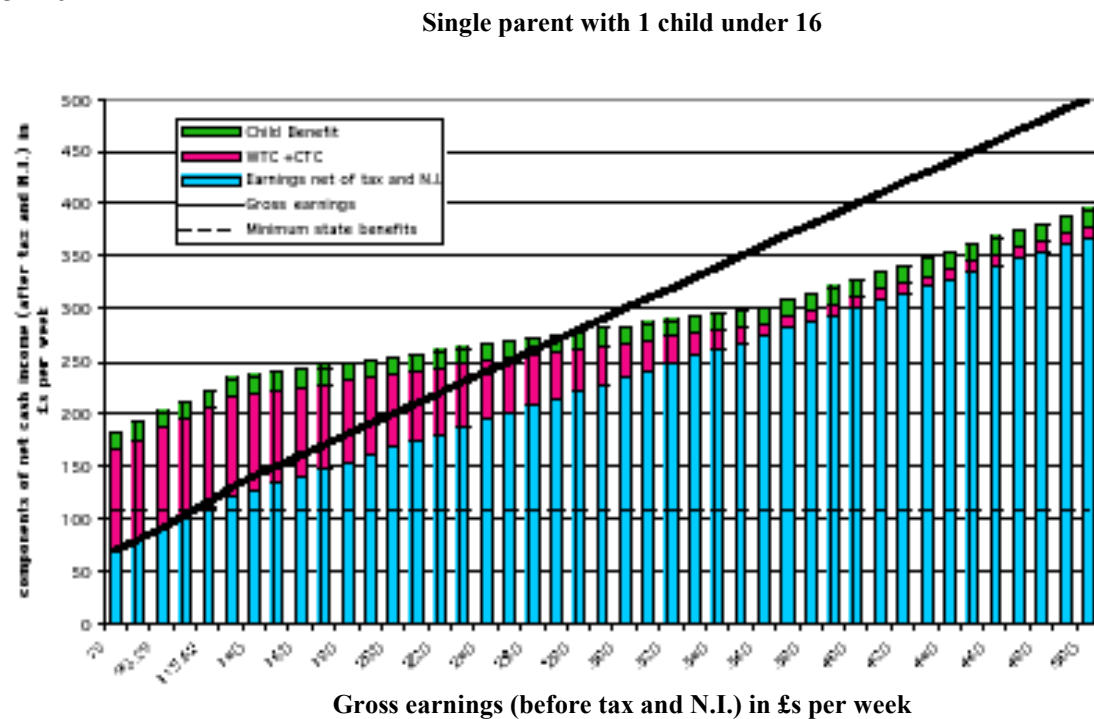
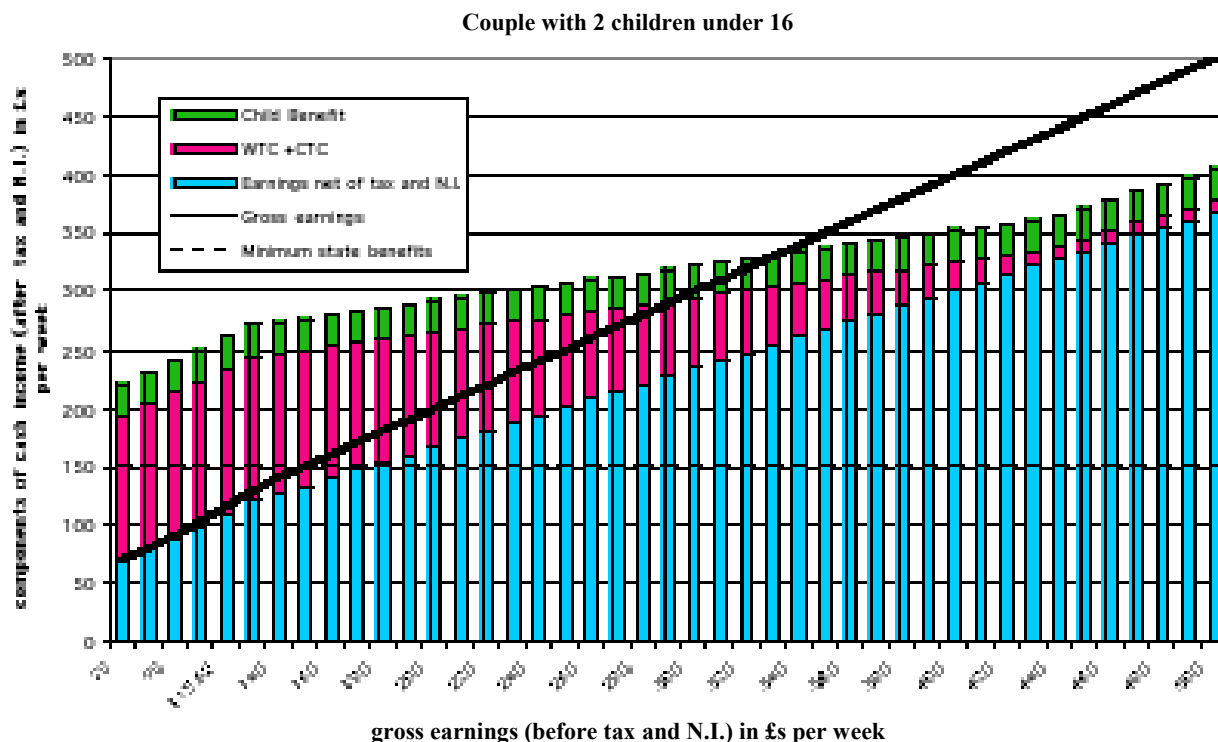


Figure 5.4: Total income from earnings and benefits for couples with two children


The impact of the Minimum Wage (£4.50 per hour from October 2003) has clearly affected earnings at the lower end of the scale. A person working 38 hours per week at the Minimum Wage would earn £171 per week before deductions of tax and National Insurance (£8,892 per annum), and would earn some £148 per week after deductions.

This amount would be increased by Working Tax Credit, and by Child Tax Credit and Child Benefit depending upon the composition of the household, as follows:

Table 5.4: Household cash incomes after tax (£s per week)

Household type	Earnings net of tax	WTC / CTC	Child Benefit	Total cash income
Single person	147.74	14.43	0	162.17
Couple	147.74	43.28	0	191.02
1 child < 16	147.74	81.56	16.05	245.35
2 children <16	147.74	109.36	26.80	283.90
3 children <16	147.74	137.16	37.55	322.45

The tax and benefits position of couples with children and single parents is now exactly the same (assuming that the single parent does not retain preserved rights to certain additions which have now been abolished for new claims).

For households with two or more children, on low earnings, the additions to cash income deriving from Working Tax Credit, Child Tax Credit and Child Benefit are greater than the after tax income from work itself.

In the last case, that of a family with three children, entitlement to Child Tax Credit does not reach the minimum of £10.48 until the family reaches gross earnings of £510 per week, or £26,250 per annum.

This illustrates the effect of applying a low rate of taper, at 37%, to the Working and Child Tax Credits. The tax credit system guarantees a minimum cash income of £217 per week to a family with one child, and of £272 per week to a family with two children, when both contain one earner working for at least 30 hours per week at the Minimum Wage, and therefore earning £130 per week before tax. In order to ensure a progressive withdrawal of tax credits as earnings increase, whilst avoiding creating a 'poverty trap', the rate of withdrawal must be relatively shallow, and this extends the effect of the tax credit system further up the earned income scale.

Nevertheless, the combined effect of tax, National Insurance contributions, and tax credit withdrawal means that an increase of £10 per week in gross earnings will result in an increase in cash income of only some £3 per week to a household in receipt of tax credit income. As household earnings increase, and the household becomes ineligible for tax credits, the increase in cash income resulting from a £10 per week increase in gross earnings rises to some £7 per week.

The introduction of the comprehensive system of earnings supplements represented by the Working Tax Credit and Child Credit clearly make work in the low paid sector of the economy 'more eligible' than unemployment. There is a clear incentive to work now built into the welfare benefit system.

However, the shallowness of the 'taper' whereby the tax credit is reduced as gross earnings increase, creates little monetary incentive to work longer hours, or to seek higher paid employment.

From the perspective of social housing policy, the effect of the tax credit system, by raising after tax cash incomes, is to increase the numbers of the low paid who are judged, by the Housing Benefit system, to be capable of paying their rent and therefore ineligible for Housing Benefit.

The steepness of the withdrawal rate, or 'taper' in the Housing Benefit system, at 65%, results in an exaggerated rate of withdrawal of benefit if a household, in receipt of Housing Benefit, increases its earnings. This is illustrated in the Table below:

Table 5.5: Residual incomes above JSA levels, After Housing Costs (£s per week)

	Gross earnings per week	Net earnings after tax	Net income Before Housing Costs	Rent £50 pw: net income above JSA, AHC	Rent £70 pw: net income above JSA, AHC	Rent £80 pw: net income above JSA, AHC
Single person >25	130	121	150	45	44	44
	230	188	188	83	63	58
	330	256	256	150	130	120
Couple, no children	130	121	179	47	47	47
	230	188	209	73	57	57
	330	256	256	119	99	89
Family, 1 child <16	130	121	217	58	50	50
	230	188	247	88	88	60
	330	256	277	118	118	88
Family, 2 children < 16	130	121	272	47	47	47
	230	188	302	73	57	57
	330	256	332	103	83	73

The Table shows the net cash income, After Housing Costs, available for all other expenditures, to four household types as their gross weekly earnings increase from £130 to £230 per week and then to £330 per week, and as their weekly rent increases from £50 to £70 and to £80 per week.

An increase of £100 per week in gross earnings results in an increase in net earnings of some £67, an increase in net income Before Housing Costs of some £30 - £35 (as a result of the taper on entitlement to WTC/CTC), but an increase of only some £10 per week in net spendable income After Housing Costs (as a result of the taper on entitlement to Housing Benefit). For most households in low paid

employment, an increase of £100 per week in gross pay is unlikely. Once an earner is working more than 30 hours per week, further realistic levels of increase in hours, or in hourly pay, only lead to marginal increases in cash incomes. After Housing Costs, if the household is dependent upon Housing Benefit.

A single person, over 25 years of age, earning £130 gross per week is on the verge of entitlement to Housing Benefit at a rent of £50 per week, and paying 33% of net income in rent. As the rent increases, the tenant becomes entitled to partial Housing Benefit, and is therefore protected against further increases in rent, although paying 34% of net income in rent. An increase in gross earnings to £230 per week would mean that at a rent of £70 per week, the tenant would be on the verge of entitlement to Housing Benefit, but now paying 37% of net income in rent. An increase in rent to £80 per week would entitle the tenant to partial Housing Benefit, but would result in the tenant paying 40% of net income in rent. At a rent of £50 per week, an increase in gross earnings of £100 per week, from £130 to £230, would result in an increase in net cash income, After Housing Costs, of £38 per week. At a rent of £70, the same £100 increase in gross earnings would result in an increase in net cash income, After Housing Costs, of £19 per week, while at a rent of £70, the same £100 increase in gross earnings would result in an increase in net cash income, After Housing Costs, of £14 per week.

4. The workings of the Housing Benefit system

The operation of the Housing Benefit system is notoriously complex. Nevertheless, its interaction with a household's earnings, and with their entitlement to other welfare benefits, is critical in determining the 'affordability' of their rent.

The Housing Benefit system essentially calculates the capacity of a household to pay rent, based on the income and other characteristics of the household, and compares that capacity to pay rent to the actual rent. If the capacity to pay rent is less than the actual rent, then Housing Benefit makes up the difference. If the capacity to pay rent is equal to, or greater than, the actual rent, then the household must pay the full amount of the actual rent, and no Housing Benefit is payable.

The income support element of the welfare benefit system, whether in Income Support or in Job Seeker's Allowance, does not contain any element intended to meet housing costs.

A household wholly dependent upon Income Support or JSA is judged to have no capacity to pay rent, and 100% of any rent is then met by the separate welfare benefit of Housing Benefit.

A fundamental assumption, or social judgement, of the Housing Benefit system is that rent then has the primary call on any household income above the Income Support level, and that rent is twice as important as all other forms of household expenditure combined, until the household's capacity to pay rent exceeds its actual rent.

If there is an increase in the total income of a household, whether from earnings or benefits, because the household has increased its earnings, or because another child has been born, or because the hours of work of the earning member of the household have risen above 30 hours per week, then 65% of the resulting increase will be added to the household's capacity to pay rent. Until the capacity to pay rent has equalled, or exceeded, the actual rent, the household will therefore only gain 35p for non-housing expenditure for every £1.00 increase in its total income.

As a consequence, the proportion of net income payable in rent at which a household becomes eligible for Housing Benefit rises with income. Low paid households will generally become eligible for Housing Benefit when the proportion of their net income spent on rent rises above 25%. As incomes rise, households are only eligible for Housing Benefit at higher rents: but the proportion of income which they must spend on rent also rises.¹¹

A single person, working for 30 hours per week at the Minimum Wage and earning £135 per week gross, will become eligible for Housing Benefit if their rent exceeds £40 per week. The rent of £40 per week would then represent 27% of their net cash income of £150 per week, made up of £121 of earnings, net of tax and NI, and £29 of Working Tax Credit. If the single person were to increase their earnings to £250 gross per week (at the upper end of the probable earnings range for fulltime working women in Wales, but at the bottom end of the probable range of earnings for fulltime working men in Wales), they would only become eligible for Housing Benefit if their rent also rose to £85 per week, at which point they would be paying 42% of their net earnings of £201 per week in rent.

The highest proportion of net income that can be paid by a household occurs at that combination of earnings and rents at which the household becomes eligible for Housing Benefit. Small entitlements to partial Housing Benefit are associated with high proportions of net income being spent on rent.

¹¹ In England, the National Housing Federation has adopted a definition of affordability that:

Rents are affordable if the majority of working tenants are not caught in the poverty trap, because of dependency on housing benefit, or paying more than 25 per cent of their net incomes on rent.

However, the problem with this definition is that it does not coincide with the structure of the Housing Benefit system. The NHF definition would result in rents being held at 25% of net income as earnings rise, allowing a greater proportion of household spending on non-housing consumption than that assumed by the Housing Benefit system.

However, many tenants in low paid work also suffer from failure to claim the Housing Benefit to which they are entitled. Claims for small amounts of benefit, perhaps less than £10 or even £5 per week, are not perceived as 'worth the hassle', given the complex and intrusive nature of Housing Benefit claims administration and verification procedures. In these circumstances, if households fail to claim, then they will pay an even higher proportion of income on rent, and non-housing expenditure will be squeezed accordingly.

5. Affordability: the interaction of earnings, tax credits, rents and Housing Benefit

The relationship between earnings and cash incomes Before Housing Costs and After Housing Costs is set out for four household types in the Figures below. These show the net cash available, After Housing Costs, for all other household expenditures, above the level of Income Support or Job Seeker's Allowance.

Neither Income Support nor Job Seeker's Allowance contains any element to meet housing costs. A household dependent upon IS/JSA has 100% of its housing costs met by Housing Benefit. If the household were to remain without employment, the whole cash amount of IS/JSA would be available to meet non-housing expenditures. The Figures therefore show the actual cash return from work for each household, at different levels of rent, above the cash income which the household would have received under IS/JSA.

The Figures show the relationship between a range of earnings for each household, assuming that one member is in full time work, and the rents of the property type(s) which that household is most likely to occupy.

The Figure for single person households shows two ranges of earnings, for either male or female workers, and the full range of rents from 1bed to 3bed dwellings. Single person households in work are more likely to be aged over 45, and occupying the family home after grown up children have left, than to be under 20 years of age and childless.

Couples have been shown with the same range of dwelling types, for similar reasons, but the convention of assuming that the sole earner in such a household would be male has been adopted.

Single parents with one child under 16 years of age have been shown as occupying two bedroom dwellings, and with female earnings (over 90% of single parents are female).

Couples with two children under the age of 16 have been shown as occupying a three bedroom dwelling, and again it has been conventionally assumed that the sole earner in such a household would be male.

The range of rents shown is based on the analyses in Chapter 1, and is repeated for convenience in the Table below:

Table 5.6: Percentage of stock by bedsize and sector falling within rent bands

% of housing stock	Weekly rent in £5 increments							
	£30	£35	£40	£45	£50	£55	£60	£65
97% of LA 1bed rents are between								
91% of HA 1bed rents are between								
96% of LA 2bed rents are between								
91% of HA 2bed rents are between								
91% of LA 3bed rents are between								
92% of HA 3bed rents are between								

Note: Rent includes service charges

The Figures below show:

- down the left hand side:
 - gross weekly earnings, rising in £10 increments
 - net weekly earnings, after deduction of income tax and National Insurance contributions
 - any Working Tax Credit and Child Credit to which the household is entitled
 - any Child Benefit to which the household is entitled
 - the total cash income which the household has to spend Before Housing Cost
- across the top:
 - weekly rents (including service charges) in £5 increments
- and in the body of the Table:
 - the weekly cash income which the household has to spend After Housing Costs, in excess of the amount which the household would have received on Income Support or Job Seeker's Allowance.

Where the household is entitled to Housing Benefit, the residual income figures in the Table are coloured blue.

Table 5.7

Single person, over 25 but under 65, earning: £s of cash income remaining above JSA, after paying rent, and entitlement to Housing Benefit

Income Band EA = £1440					weekly rent in £8 increments															
Income range	First range	WTC + CTC	Child Benefit	Total cash income	£ 20	£ 28	£ 30	£ 38	£ 40	£ 48	£ 50	£ 58	£ 60	£ 68	£ 70	£ 78	£ 80	£ 88	£ 90	£ 108
50	70	0	0	50	8	8														
80	80	0	0	80	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
80.28	80	0	0	80	18	24	18	24	24	24	24	24	24	24	24	24	24	24	24	24
80.56	80	0	0	100	28	30	18	28	28	28	28	28	28	28	28	28	28	28	28	28
118.62	110	0	0	110	38	38	30	38	38	38	38	38	38	38	38	38	38	38	38	38
120	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
140	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
160	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
180	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
200	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
220	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
240	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
260	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
280	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
300	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
320	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
340	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
360	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
380	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
400	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
420	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
440	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
460	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
480	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
500	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
520	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
540	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
560	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
580	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
600	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
620	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
640	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
660	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
680	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
700	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
720	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
740	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
760	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
780	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
800	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
820	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
840	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
860	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
880	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
900	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
920	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
940	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
960	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
980	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1000	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1020	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1040	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1060	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1080	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1100	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1120	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1140	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1160	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1180	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1200	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1220	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1240	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1260	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1280	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1300	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1320	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1340	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1360	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48
1380	120.88	29.28	0	150.08	78	78	68	60	58	48	48	48	48	48	48	48	48	48	48	48</

Welsh Assembly Government - Social Housing Rents in Wales

Table 5.8

Couple, one earner, under 65: £s of cash income remaining above JSA, after paying rent, and entitlement to Housing Benefit																								
Income Band JSA – £85.75																								
Gross wage	Net wage	WTC + CTC	Child Benefit	Total cash income	£ 20	£ 25	£ 30	£ 35	£ 40	£ 45	£ 50	£ 55	£ 60	£ 65	£ 70	£ 75	£ 80	£ 85	£ 90	£ 95	£ 100	£ 105	£ 110	£ 115
70	30	0	0	70	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18	-18
80	40	0	0	80	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8	-8
98.29	60	0	0	98.29	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
102.85	65	0	0	102.85	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
119.62	82	0	0	119.62	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18
130	100.00	88.88	0	178.88	73	88	103	118	133	148	163	178	193	208	223	238	253	268	283	298	313	328	343	358
140	107.00	94.00	0	181.00	76	91	106	121	136	151	166	181	196	211	226	241	256	271	286	301	316	331	346	361
150	114.00	99.00	0	184.00	79	94	109	124	139	154	169	184	199	214	229	244	259	274	289	304	319	334	349	364
160	121.00	104.00	0	187.00	82	97	112	127	142	157	172	187	202	217	232	247	262	277	292	307	322	337	352	367
170	127.68	108.88	0	190.88	85	100	115	130	145	160	175	190	205	220	235	250	265	280	295	310	325	340	355	370
180	134.32	113.68	0	194.00	88	103	118	133	148	163	178	193	208	223	238	253	268	283	298	313	328	343	358	373
190	141.00	118.00	0	199.00	91	106	121	136	151	166	181	196	211	226	241	256	271	286	301	316	331	346	361	376
200	147.75	122.38	0	199.88	94	109	124	139	154	169	184	199	214	229	244	259	274	289	304	319	334	349	364	379
210	154.48	126.68	0	200.88	97	112	127	142	157	172	187	202	217	232	247	262	277	292	307	322	337	352	367	382
220	161.18	130.78	0	202.00	100	115	130	145	160	175	190	205	220	235	250	265	280	295	310	325	340	355	370	385
230	167.68	134.88	0	203.00	103	118	133	148	163	178	193	208	223	238	253	268	283	298	313	328	343	358	373	388
Range of full-time male earnings	240	174.00	138.88	0	211.88	106	121	136	151	166	181	196	211	226	241	256	271	286	301	316	331	346	361	376
	250	180.00	143.00	0	213.00	109	124	139	154	169	184	199	214	229	244	259	274	289	304	319	334	349	364	379
	260	186.00	147.00	0	213.00	112	127	142	157	172	187	202	217	232	247	262	277	292	307	322	337	352	367	382
	270	192.00	151.00	0	213.00	115	130	145	160	175	190	205	220	235	250	265	280	295	310	325	340	355	370	385
	280	198.00	155.00	0	213.00	118	133	148	163	178	193	208	223	238	253	268	283	298	313	328	343	358	373	388
	290	204.00	159.00	0	213.00	121	136	151	166	181	196	211	226	241	256	271	286	301	316	331	346	361	376	391
	300	210.00	163.00	0	213.00	124	139	154	169	184	199	214	229	244	259	274	289	304	319	334	349	364	379	394
	310	216.00	167.00	0	213.00	127	142	157	172	187	202	217	232	247	262	277	292	307	322	337	352	367	382	397
	320	222.00	171.00	0	213.00	130	145	160	175	190	205	220	235	250	265	280	295	310	325	340	355	370	385	400
	330	228.00	175.00	0	213.00	133	148	163	178	193	208	223	238	253	268	283	298	313	328	343	358	373	388	403
340	234.00	179.00	0	213.00	136	151	166	181	196	211	226	241	256	271	286	301	316	331	346	361	376	391	406	
350	240.00	183.00	0	213.00	139	154	169	184	199	214	229	244	259	274	289	304	319	334	349	364	379	394	409	424
360	246.00	187.00	0	213.00	142	157	172	187	202	217	232	247	262	277	292	307	322	337	352	367	382	397	412	427
370	252.00	191.00	0	213.00	145	160	175	190	205	220	235	250	265	280	295	310	325	340	355	370	385	400	415	430
380	258.00	195.00	0	213.00	148	163	178	193	208	223	238	253	268	283	298	313	328	343	358	373	388	403	418	433
390	264.00	199.00	0	213.00	151	166	181	196	211	226	241	256	271	286	301	316	331	346	361	376	391	406	421	436
400	270.00	203.00	0	213.00	154	169	184	199	214	229	244	259	274	289	304	319	334	349	364	379	394	409	424	439
410	276.00	207.00	0	213.00	157	172	187	202	217	232	247	262	277	292	307	322	337	352	367	382	397	412	427	442
420	282.00	211.00	0	213.00	160	175	190	205	220	235	250	265	280	295	310	325	340	355	370	385	400	415	430	445
430	288.00	215.00	0	213.00	163	178	193	208	223	238	253	268	283	298	313	328	343	358	373	388	403	418	433	448
440	294.00	219.00	0	213.00	166	181	196	211	226	241	256	271	286	301	316	331	346	361	376	391	406	421	436	451
450	300.00	223.00	0	213.00	169	184	199	214	229	244	259	274	289	304	319	334	349	364	379	394	409	424	439	454
460	306.00	227.00	0	213.00	172	187	202	217	232	247	262	277	292	307	322	337	352	367	382	397	412	427	442	457
470	312.00	231.00	0	213.00	175	190	205	220	235	250	265	280	295	310	325	340	355	370	385	400	415	430	445	460
480	318.00	235.00	0	213.00	178	193	208	223	238	253	268	283	298	313	328	343	358	373	388	403	418	433	448	463
490	324.00	239.00	0	213.00	181	196	211	226	241	256	271	286	301	316	331	346	361	376	391	406	421	436	451	466
500	330.00	243.00	0	213.00	184	199	214	229	244	259	274	289	304	319	334	349	364	379	394	409	424	439	454	469
510	336.00	247.00	0	213.00	187	202	217	232	247	262	277	292	307	322	337	352	367	382	397	412	427	442	457	472
520	342.00	251.00	0	213.00	190	205	220	235	250	265	280	295	310	325	340	355	370	385	400	415	430	445	460	475
530	348.00	255.00	0	213.00	193	208	223	238	253	268	283	298	313	328	343	358	373	388	403	418	433	448	463	478
540	354.00	259.00	0	213.00	196	211	226	241	256	271	286	301	316	331	346	361	376	391	406	421	436	451	466	481
550	360.00	263.00	0	213.00	199	214	229	244	259	274	289	304	319	334	349	364	379	394	409	424	439	454	469	484
560	366.00	267.00	0	213.00	202	217	232	247	262	277	292	307	322	337	352	367	382	397	412	427	442	457	472	487
570	372.00	271.00	0	213.00	205	220	235	250	265	280	295	310	325	340	355	370	385	400	415	430	445	460	475	490
580	378.00	275.00	0	213.00	208	223	238	253	268	283	298	313	328	343	358	373	388	403	418	433	448	463	478	493
590	384.00	279.00	0	213.00	211	226	241	256	271	286	301	316	331	346	361	376	391	406	421	436	451	466	481	496
600	390.00	283.00	0	213.00	214	229	244	259	274	289	304	319	334	349	364	379	394	409	424	439	454	469	484	499
610	396.00	287.00	0	213.																				

Table 5.9

Single parent earning, 1 child under 16: £s of cash income remaining above JSA, after paying rent, and entitlement to Housing Benefit																				
Benefit Income = Adult Personal Allowance (£54.85) + Child Personal Allowance (£85.50) + Family Premium (£15.75) - Child Benefit (£16.87) = (£24.85) + Child Benefit (£16.85) = Total £106.90																				
weekly wage	components of cash income				weekly rent in £8 increments															
	Net wage	WTC + CTC	Child Benefit	Total Income	£ 20	£ 28	£ 36	£ 44	£ 52	£ 60	£ 68	£ 76	£ 84	£ 92	£ 100	£ 108	£ 116	£ 124	£ 132	£ 140
70	86.08	16.85	182.93	£ 71	£ 68	£ 64	£ 60	£ 56	£ 52	£ 48	£ 44	£ 40	£ 36	£ 32	£ 28	£ 24	£ 20	£ 16	£ 12	£ 8
80	86.08	16.85	182.93	£ 81	£ 78	£ 74	£ 70	£ 66	£ 62	£ 58	£ 54	£ 50	£ 46	£ 42	£ 38	£ 34	£ 30	£ 26	£ 22	£ 18
90.28	86.08	16.85	186.08	£ 78	£ 75	£ 72	£ 68	£ 64	£ 60	£ 56	£ 52	£ 48	£ 44	£ 40	£ 36	£ 32	£ 28	£ 24	£ 20	£ 16
102.98	100	86.08	186.08	£ 85	£ 82	£ 78	£ 74	£ 70	£ 66	£ 62	£ 58	£ 54	£ 50	£ 46	£ 42	£ 38	£ 34	£ 30	£ 26	£ 22
115.82	110	86.08	206.08	£ 95	£ 92	£ 88	£ 84	£ 80	£ 76	£ 72	£ 68	£ 64	£ 60	£ 56	£ 52	£ 48	£ 44	£ 40	£ 36	£ 32
130	120.85	86.08	217.21	£ 106	£ 103	£ 99	£ 95	£ 91	£ 87	£ 83	£ 79	£ 75	£ 71	£ 67	£ 63	£ 59	£ 55	£ 51	£ 47	£ 43
140	127.58	82.66	220.24	£ 109	£ 106	£ 102	£ 98	£ 94	£ 90	£ 86	£ 82	£ 78	£ 74	£ 70	£ 66	£ 62	£ 58	£ 54	£ 50	£ 46
150	134.28	88.98	223.25	£ 112	£ 107	£ 103	£ 99	£ 95	£ 91	£ 87	£ 83	£ 79	£ 75	£ 71	£ 67	£ 63	£ 59	£ 55	£ 51	£ 47
160	140.98	89.28	226.25	£ 115	£ 110	£ 106	£ 102	£ 98	£ 94	£ 90	£ 86	£ 82	£ 78	£ 74	£ 70	£ 66	£ 62	£ 58	£ 54	£ 50
170	147.68	91.28	229.25	£ 118	£ 113	£ 109	£ 105	£ 101	£ 97	£ 93	£ 89	£ 85	£ 81	£ 77	£ 73	£ 69	£ 65	£ 61	£ 57	£ 53
180	154.38	93.28	232.25	£ 121	£ 116	£ 112	£ 108	£ 104	£ 100	£ 96	£ 92	£ 88	£ 84	£ 80	£ 76	£ 72	£ 68	£ 64	£ 60	£ 56
range of family welfare savings	190	161.08	95.28	235.25	£ 124	£ 119	£ 115	£ 111	£ 107	£ 103	£ 99	£ 95	£ 91	£ 87	£ 83	£ 79	£ 75	£ 71	£ 67	£ 63
	200	167.78	97.28	238.25	£ 127	£ 122	£ 118	£ 114	£ 110	£ 106	£ 102	£ 98	£ 94	£ 90	£ 86	£ 82	£ 78	£ 74	£ 70	£ 66
	210	174.48	99.28	241.25	£ 130	£ 125	£ 121	£ 117	£ 113	£ 109	£ 105	£ 101	£ 97	£ 93	£ 89	£ 85	£ 81	£ 77	£ 73	£ 69
	220	181.18	101.28	244.25	£ 133	£ 128	£ 124	£ 120	£ 116	£ 112	£ 108	£ 104	£ 100	£ 96	£ 92	£ 88	£ 84	£ 80	£ 76	£ 72
	230	187.88	103.28	247.25	£ 136	£ 131	£ 127	£ 123	£ 119	£ 115	£ 111	£ 107	£ 103	£ 99	£ 95	£ 91	£ 87	£ 83	£ 79	£ 75
	240	194.58	105.28	250.25	£ 139	£ 134	£ 130	£ 126	£ 122	£ 118	£ 114	£ 110	£ 106	£ 102	£ 98	£ 94	£ 90	£ 86	£ 82	£ 78
	250	201.28	111.98	253.25	£ 142	£ 137	£ 133	£ 129	£ 125	£ 121	£ 117	£ 113	£ 109	£ 105	£ 101	£ 97	£ 93	£ 89	£ 85	£ 81
	260	207.98	113.98	256.25	£ 145	£ 140	£ 136	£ 132	£ 128	£ 124	£ 120	£ 116	£ 112	£ 108	£ 104	£ 100	£ 96	£ 92	£ 88	£ 84
	270	214.68	115.98	259.25	£ 148	£ 143	£ 139	£ 135	£ 131	£ 127	£ 123	£ 119	£ 115	£ 111	£ 107	£ 103	£ 99	£ 95	£ 91	£ 87
	280	221.38	117.98	262.25	£ 151	£ 146	£ 142	£ 138	£ 134	£ 130	£ 126	£ 122	£ 118	£ 114	£ 110	£ 106	£ 102	£ 98	£ 94	£ 90
290	228.08	119.98	265.25	£ 154	£ 149	£ 145	£ 141	£ 137	£ 133	£ 129	£ 125	£ 121	£ 117	£ 113	£ 109	£ 105	£ 101	£ 97	£ 93	£ 89
300	234.78	121.98	268.25	£ 157	£ 152	£ 148	£ 144	£ 140	£ 136	£ 132	£ 128	£ 124	£ 120	£ 116	£ 112	£ 108	£ 104	£ 100	£ 96	£ 92
310	241.48	123.98	271.25	£ 160	£ 155	£ 151	£ 147	£ 143	£ 139	£ 135	£ 131	£ 127	£ 123	£ 119	£ 115	£ 111	£ 107	£ 103	£ 99	£ 95
320	248.18	125.98	274.25	£ 163	£ 158	£ 154	£ 150	£ 146	£ 142	£ 138	£ 134	£ 130	£ 126	£ 122	£ 118	£ 114	£ 110	£ 106	£ 102	£ 98
330	254.88	127.98	277.25	£ 166	£ 161	£ 157	£ 153	£ 149	£ 145	£ 141	£ 137	£ 133	£ 129	£ 125	£ 121	£ 117	£ 113	£ 109	£ 105	£ 101
340	261.58	129.98	280.25	£ 169	£ 164	£ 160	£ 156	£ 152	£ 148	£ 144	£ 140	£ 136	£ 132	£ 128	£ 124	£ 120	£ 116	£ 112	£ 108	£ 104
350	268.28	131.98	283.25	£ 172	£ 167	£ 163	£ 159	£ 155	£ 151	£ 147	£ 143	£ 139	£ 135	£ 131	£ 127	£ 123	£ 119	£ 115	£ 111	£ 107
360	274.98	133.98	286.25	£ 175	£ 170	£ 166	£ 162	£ 158	£ 154	£ 150	£ 146	£ 142	£ 138	£ 134	£ 130	£ 126	£ 122	£ 118	£ 114	£ 110
370	281.68	135.98	289.25	£ 178	£ 173	£ 169	£ 165	£ 161	£ 157	£ 153	£ 149	£ 145	£ 141	£ 137	£ 133	£ 129	£ 125	£ 121	£ 117	£ 113
380	288.38	137.98	292.25	£ 181	£ 176	£ 172	£ 168	£ 164	£ 160	£ 156	£ 152	£ 148	£ 144	£ 140	£ 136	£ 132	£ 128	£ 124	£ 120	£ 116
390	295.08	139.98	295.25	£ 184	£ 179	£ 175	£ 171	£ 167	£ 163	£ 159	£ 155	£ 151	£ 147	£ 143	£ 139	£ 135	£ 131	£ 127	£ 123	£ 119
400	301.78	141.98	298.25	£ 187	£ 182	£ 178	£ 174	£ 170	£ 166	£ 162	£ 158	£ 154	£ 150	£ 146	£ 142	£ 138	£ 134	£ 130	£ 126	£ 122
410	308.48	143.98	301.25	£ 190	£ 185	£ 181	£ 177	£ 173	£ 169	£ 165	£ 161	£ 157	£ 153	£ 149	£ 145	£ 141	£ 137	£ 133	£ 129	£ 125
420	315.18	145.98	304.25	£ 193	£ 188	£ 184	£ 180	£ 176	£ 172	£ 168	£ 164	£ 160	£ 156	£ 152	£ 148	£ 144	£ 140	£ 136	£ 132	£ 128
430	321.88	147.98	307.25	£ 196	£ 191	£ 187	£ 183	£ 179	£ 175	£ 171	£ 167	£ 163	£ 159	£ 155	£ 151	£ 147	£ 143	£ 139	£ 135	£ 131
440	328.58	149.98	310.25	£ 199	£ 194	£ 190	£ 186	£ 182	£ 178	£ 174	£ 170	£ 166	£ 162	£ 158	£ 154	£ 150	£ 146	£ 142	£ 138	£ 134
450	335.28	151.98	313.25	£ 202	£ 197	£ 193	£ 189	£ 185	£ 181	£ 177	£ 173	£ 169	£ 165	£ 161	£ 157	£ 153	£ 149	£ 145	£ 141	£ 137
460	341.98	153.98	316.25	£ 205	£ 200	£ 196	£ 192	£ 188	£ 184	£ 180	£ 176	£ 172	£ 168	£ 164	£ 160	£ 156	£ 152	£ 148	£ 144	£ 140
470	348.68	155.98	319.25	£ 208	£ 203	£ 199	£ 195	£ 191	£ 187	£ 183	£ 179	£ 175	£ 171	£ 167	£ 163	£ 159	£ 155	£ 151	£ 147	£ 143
480	355.38	157.98	322.25	£ 211	£ 206	£ 202	£ 198	£ 194	£ 190	£ 186	£ 182	£ 178	£ 174	£ 170	£ 166	£ 162	£ 158	£ 154	£ 150	£ 146
490	362.08	159.98	325.25	£ 214	£ 209	£ 205	£ 201	£ 197	£ 193	£ 189	£ 185	£ 181	£ 177	£ 173	£ 169	£ 165	£ 161	£ 157	£ 153	£ 149
500	368.78	161.98	328.25	£ 217	£ 212	£ 208	£ 204	£ 200	£ 196	£ 192	£ 188	£ 184	£ 180	£ 176	£ 172	£ 168	£ 164	£ 160	£ 156	£ 152
90% of SA, 90% of SA																				

Welsh Assembly Government - Social Housing Rents in Wales

Table 5.10

Couple, one earner, 2 children under 16: £s of cash income remaining above JSA, after paying rent, and entitlement to Housing Benefit																				
Benefit Income = Adult Personal Allowance (£81.75) + Child Personal Allowances (£72.00) + Family Premium (£15.75) - Child Benefit (£26.00) = £151.50 + Child Benefit £26.00 = Total £177.50																				
components of cash income					weekly rent in £5 increments															
BRAG wage	Net wage	WTC + CTC	Child Benefit	TOTAL income	£ 20	£ 25	£ 30	£ 35	£ 40	£ 45	£ 50	£ 55	£ 60	£ 65	£ 70	£ 75	£ 80	£ 85	£ 90	£ 100
70	70	133.25	26.00	231.00	£ 40	£ 38	£ 40	£ 38	£ 40	£ 38	£ 40	£ 38	£ 40	£ 38	£ 40	£ 38	£ 40	£ 38	£ 40	£ 38
80	80	133.25	26.00	231.00	£ 39	£ 36	£ 38	£ 36	£ 38	£ 36	£ 38	£ 36	£ 38	£ 36	£ 38	£ 36	£ 38	£ 36	£ 38	£ 36
90.25	80	133.25	26.00	231.00	£ 38	£ 34	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35
102.50	100	133.25	26.00	231.00	£ 39	£ 34	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35
115.00	110	133.25	26.00	231.00	£ 38	£ 34	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35	£ 35
130	120.00	133.25	26.00	271.00	£ 38	£ 35	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
140	127.50	133.25	26.00	276.00	£ 38	£ 35	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
150	134.25	133.25	26.00	277.00	£ 38	£ 35	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
160	140.00	133.25	26.00	280	£ 39	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
170	147.00	133.25	26.00	283.00	£ 38	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
180	154.25	133.25	26.00	286.00	£ 38	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
190	161.00	133.25	26.00	289.00	£ 38	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
200	167.75	133.25	26.00	292.00	£ 38	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
210	174.50	133.25	26.00	295.00	£ 38	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
220	181.25	133.25	26.00	298.00	£ 37	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
230	187.50	133.25	26.00	301.00	£ 37	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
240	194.50	133.25	26.00	304.00	£ 37	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
250	201.25	133.25	26.00	307.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
260	207.50	133.25	26.00	310.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
270	214.50	133.25	26.00	313.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
280	221.25	133.25	26.00	316.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
290	228.00	133.25	26.00	319.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
300	234.75	133.25	26.00	322.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
310	241.50	133.25	26.00	325.00	£ 36	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
320	248.25	133.25	26.00	328.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
330	255.00	133.25	26.00	331.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
340	261.50	133.25	26.00	334.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
350	268.25	133.25	26.00	337.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
360	275.00	133.25	26.00	340.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
370	281.50	133.25	26.00	343.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
380	288.25	133.25	26.00	346.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
390	295.00	133.25	26.00	349.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
400	301.75	133.25	26.00	352.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
410	308.50	133.25	26.00	355.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
420	315.25	133.25	26.00	358.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
430	322.00	133.25	26.00	361.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
440	328.50	133.25	26.00	364.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
450	335.25	133.25	26.00	367.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
460	342.00	133.25	26.00	370.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
470	348.50	133.25	26.00	373.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
480	355.25	133.25	26.00	376.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
490	362.00	133.25	26.00	379.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36
500	368.75	133.25	26.00	382.00	£ 35	£ 37	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36	£ 36

The affordability of social housing rents in Wales

The Figures show that for the selected ranges of full-time earnings, none of the household types would be dependent upon Housing Benefit at current rent levels. (For single people, the highest level of rents shown for 1 bedroom property, between £60 and £65 per week, would entitle a woman earning between £190 and £210 per week to claim Housing Benefit, but high rents in 1 bedroom property are associated with sheltered housing, and therefore most unlikely to be occupied by a woman continuing in full-time work.)

For households with only one member in full-time work, and working for the Minimum Wage, with earnings ranging between £135 (for 30 hours at the Minimum Wage of £4.50 per hour) and £180 (for 39 hours at £4.50 per hour), dependency upon Housing Benefit would only occur at the higher levels of rent, in excess of £50 per week.

However, it is clear that there is an overlap between the two systems of housing subsidy. Capital (or 'bricks and mortar') subsidies are designed to produce low rents, affordable without dependency upon Housing Benefit, but no rent can practically be set low enough for households whose incomes are particularly low, or who are dependent only upon earnings from part-time work. The revenue subsidy of Housing Benefit is designed to enable such households to 'afford' higher rents, although the withdrawal rate of Housing Benefit, combined with that of WTC/CTC, as incomes rise, offers little incentive for households in this situation to increase their earnings.

At rents in excess of £50 per week, couples, whether or not they have dependent children, would be dependent upon Housing Benefit if only one member of the household was in very low paid but full-time employment. However, the Figures show the economic position of a couple where neither is prevented from working by disability. The couple always have the option of both members working – assuming that work is available.

6. The possible implications of a Standard Local Housing Allowance

The proposed introduction of the Standard Local Housing Allowance would effect a radical alteration in the possibilities for a household in low paid employment to increase its cash income. If the Standard Local Housing Allowance were to be set at or above the rent that the household is currently paying, then a move to a property with a rent of £10 per week less will result in a £10 per week increase in cash income After Housing Costs. (A £10 per week reduction in rent, by a move to another location, may of course lead to higher transport costs, thereby offsetting the saving in rent. Only moves to smaller, or poorer quality, properties are likely to be 'cost neutral'.)

Whether a decrease in weekly rent of £10 will prove to be more easily achieved than an increase in earnings of £100 per week will be a central question to be answered by the pathfinder areas in England and Wales in which the Standard Local Housing Allowance is to be piloted.

Evidence from the former University of York Rent Index for the Pathfinder areas suggests that the average rent differential between one and two bedroom furnished flats in many areas is only some £10 per week, and moves from two to one bedroom accommodation cannot be considered to be a realistic proposition for households with children. Whether the range of rents for properties of the same bedroom size will prove sufficient to provide an incentive for households to incur the one off costs, and uncosted disruption, of moving, is as yet unknown.

The introduction of a Standard Local Housing Allowance would create a strong incentive for tenants in receipt of Working Tax Credit to rent cheaper accommodation, as the only practicable means of effecting any significant increase in their disposable incomes After Housing Costs.

Ironically, the combination of tax credits and a Standard Local Housing allowance would shift the incentive structure from working more hours, or seeking a higher rate of pay, to one dependent upon the operation of the housing market. A switch in household decision making from production decisions about work and earnings, to consumption decisions about housing and expenditure.

It is conceivable that unemployed households, wholly dependent upon Housing Benefit, would find it easier to increase their cash incomes by £10 per week by moving to cheaper (albeit poorer quality) accommodation, than would a household in work by choosing to work longer hours or seeking a better paid job.

Key points

Chapter 5 discusses the complex relationships between earnings, total household incomes (including benefits), rents and affordability.

The introduction, and extension, of the Tax Credit system, and the additional financial support to families with children provided by Child Benefit, has significantly changed the relationship between earnings, and actual cash incomes. The extent of this change is not always fully appreciated. It has an important effect on the 'affordability' of rents, and on the entitlement of a household to Housing Benefit.

The chapter sets out the relationship between earnings from employment, additions to household income from Working and Child Tax Credits and Child Benefit, and shows the residual income which a household would have after paying rent.

The figures show, for a range of household types, with a single earner in full time work, over a plausible range of gross full time earnings across Wales, between £190 and 260 per week for a woman and £240 to £320 for a man, that at current levels of rent in the social housing sector, the household would not require Housing Benefit. A couple with two children, or a single parent with one child, with one earner in full time work, would have a cash income, after paying rent, of between £80 and £135 per week in excess of Job Seeker's Allowance. A single woman in full time work would have a cash income, after paying rent, of between £50 and £120 per week in excess of Job Seeker's Allowance.

Concerns about the affordability of social housing rents have in the past tended to be focussed on the position of families with dependent children. The combination of Working Tax Credit, Child Tax Credit and Child Benefit has raised the incomes of families with dependent children to a point where families can now afford to pay higher rents than childless couples or single people, and still be left with an appropriately higher cash income to meet their higher outgoings, after their housing costs have been met.

There are important consequences for rent setting and affordability which follow from the effect of welfare benefits in adding so significantly to the cash incomes of households with dependent children.

This suggests that in practice rent setting policies need to concentrate on the provision of affordable housing to the childless. If a childless household can afford the rent, the welfare benefit system, in the form of Child Benefit and Working Families Tax Credit, will ensure that a household with dependent children will also be able to afford the rent.

A single parent, rehoused in the social housing sector when she is between 20 and 25 years of age is likely to be aged only 40 when her children are grown up and leaving home. If she is able to enter fulltime work, she will have a remaining working life, as a single person, of a further 20 to 25 years. Rents need to be affordable to those who do not receive Child Tax Credit and Child Benefit.

Chapter 6

Rents, heating costs and fuel poverty

1. Welsh Assembly Government Policy

The Welsh Assembly Government has set out the principles of its policy approach in its publication *Warm Homes and Energy Conservation Act 2000: A Fuel Poverty Commitment for Wales*. The Ministerial Foreword outlines the Assembly's policy: "This Fuel Poverty Commitment for Wales now presents our formal proposals to meet the requirements of the Act and to ensure that as far as reasonably practical no household in Wales should live in fuel poverty beyond 2018".

The policy identifies incomes, the cost of fuel and the energy efficiency of the dwelling itself as the three primary factors contributing to fuel poverty.

2. The estimated extent of Fuel Poverty in Wales

The policy estimates that there may be 220,000 households in Wales suffering from fuel poverty. This estimate is based on the survey evidence of eligibility for the New Home Energy Efficiency Scheme (HEES) from the 1997/98 Welsh House Condition Survey (WHCS).

The WHCS estimated that:

- 117,000 of these households, more than half, contained at least one person over the age of 60.
- 32,000 households contained at least one person that was estimated to be sick or disabled. 40,000 households were lone parents, and
- 33,000 were other forms of household with children.
- Just over half (115,000) of the eligible households lived in social housing, while 84,000 lived in owner-occupied housing and 23,000 were in the private rented sector

Within the social housing sector, the highest concentrations of potential beneficiaries were in the South. In Neath Port Talbot, Rhondda Cynon Taf, Merthyr Tydfil, Caerphilly and Torfaen more than 42% of households in social housing could benefit. More than 15% of social housing households could benefit from enhanced New HEES in the mainly rural areas of Gwynedd, Isle of Anglesey and Conwy and in the predominantly urban North Wales authority of Wrexham.

3. The effect of geography and rural fuel poverty

A further problem is that due to the geographic sparsity of settlement, 22% of households in Wales (21% of households eligible for HEES) do not have access to mains gas.

Table 6.1: Sparsity of settlement and access to mains gas

Settlements off the mains gas network		
Settlements > 150 dwellings	Settlements > 300 dwellings	Settlements > 750 dwellings
396	139	8

Proximity to gas main of all 396 settlements > 150 dwellings		
Within 2km	From 2 – 7km	Over 7km
84	237	75

Of the 220,000 households eligible for HEES in Wales, some 47,000 have no access to mains gas. For those households heating is generally provided by either oil, LPG, solid fuels, on/off peak electricity individually or in combination. In addition to paying more for fuel to heat their properties, many properties have solid walls which prevent adequate improvement to reduce running costs to affordable levels under the current HEES programme.

4. The Home Energy Efficiency Scheme

The Home Energy Efficiency Scheme is now in its fourth year, with funding rising from just over £6m in the first year to £13.3m for 2003/04.

The scheme has set maximum grant levels for the basic HEES package (insulation and heating) of £1,500 and for HEES plus (insulation and central heating) of £2,700. Eligibility for the higher rate of HEES plus grant includes:

- pensioners,
- the chronically sick and disabled, and
- lone parent families.

A number of changes have been made to the scheme as originally introduced, including: providing for coal to gas heating conversions where mains gas is available, and as an incentive to investment, whilst retaining the priority of combating fuel poverty in the private sector, the agreement for 30 per cent of the available programme to be earmarked for social housing tenants on a match funded basis.

The policy statement also identifies the limitations of the programme in dealing with the specific problems encountered in rural areas:

- *“It is estimated that there are approximately 41,000 households in Wales that are eligible and capable of benefiting from HEES plus. Of these, an estimated 6,000 properties do not have access to the mains gas network. Additionally, many properties have solid walls and consequently are not suitable for the fitting of cavity wall insulation. There is little that HEES plus can currently do for these ‘difficult to heat’ properties in terms of alleviating fuel poverty since only minimal insulation and relatively expensive to run heating systems can be offered. The Welsh Assembly Government is concerned that electric heating is an inadequate heating method for some households in locations with no mains gas supply, particularly where cavity wall insulation is not an option. Therefore assistance under the HEES is often insufficient to lift such households out of fuel poverty.”*

5. The definition of fuel poverty

The policy statement reviews the current definition of fuel poverty, and notes that there are a number of possible approaches to defining fuel poverty.

The statement notes that The Warm Homes Act defines fuel poverty as:

- A person is regarded as living in fuel poverty if he is a member of a household living on a lower income in a home which cannot be kept warm at reasonable cost.

and that two main definitions of fuel poverty have been proposed in the UK Fuel Poverty Strategy (November 2001):

- A household is in fuel poverty if, in order to maintain a satisfactory heating regime, it would be required to spend more than 10% of its income (including Housing Benefit or ISMI) on all household fuel use;
- A household is in fuel poverty if, in order to maintain a satisfactory heating regime, it would be required to spend more than 10% of its income (excluding Housing Benefit and ISMI) on all household fuel use.

Both of these definitions define a satisfactory heating regime as one that achieves 21°C in the living room, and 18°C in the other occupied rooms.

The policy statement comments on the origin and justification for the use of the figure of 10% of income that:

- "The 10 per cent cut off point has been used for many years now. The 1988 Family Expenditure Survey (FES) showed that households in the lowest three income deciles spent, on average, 10 per cent of their income (not including Housing Benefit or ISMI as part of income) on fuel for all household uses. It was assumed by researchers in the fuel poverty field that this could be taken as representing the amount that low-income households could reasonably be expected to spend on fuel. Analysis of English data included in the UK Fuel Poverty Strategy shows that the majority of households spending in excess of 10% of income fall within the lowest income bands."

The policy statement also comments that:

- "Whilst we believe there are advantages in maintaining consistency with the approach taken in the UK Fuel Poverty Strategy we acknowledge the debate that continues over whether gross or net income should be the denominator. We would therefore like to explore the consequences of measuring expenditure on fuel as a proportion of residual income (net of all housing costs). In the absence of reliable data on both fuel expenditure and housing costs we cannot form a view at this point. We do however intend once the data is available to explore the issue more fully."

In the interim, the policy statement states that:

- "We will monitor changes in the numbers of people in fuel poverty using the English/Scottish definition ie: A household is in fuel poverty if, in order to maintain a satisfactory heating regime (21°C in the living room and 18°C in other rooms), it would be required to spend more than 10% of its income (including Housing Benefit or Income Support for Mortgage Interest) on all household fuel use."

6. Heating costs and the Welsh Housing Quality Standard

In July 2001 the National Assembly approved the National Housing Strategy for Wales, *Better Homes for People in Wales*.

The Welsh Housing Quality Standard (WHQS) states that:

- "*Better Homes for People in Wales* set out the Welsh Assembly Government's long term vision for housing in Wales. Central to that vision is the expectation that all households in Wales shall have the opportunity to

live in good quality homes. To achieve this, the physical standard and condition of existing housing must be maintained and improved to the Welsh Housing Quality Standard.”

The Assembly Government expects all social landlords in Wales to adopt the Standard and to devise realistic programmes for bringing all their properties up to it by the end of 2012.

The WHQS adopts as its third principle that dwellings should be “Adequately Heated, Fuel Efficient and Well Insulated”, and comments that:

- “All dwellings must be capable of being adequately heated at an affordable cost to the tenant. Homes with inadequate heating cause discomfort and can pose a health risk. Whether the home can be adequately heated depends on the cost of providing the heat required and the ability of the household to afford it. The eradication of fuel poverty, the inability to afford to heat one’s home is a strategic priority for the Welsh Assembly Government as set out in *Better Homes for People in Wales*.”

The WHQS recognises that it will not be economically or practically feasible to bring all existing properties up to the standard expected in a modern dwelling, but sets out requirements which develop the Standard in greater detail and which are considered to be an acceptable minimum.

These include a requirement that heating systems must be:

- Capable of heating the whole of the dwelling to a comfortable level in normal weather conditions.
- Reasonably economical to run.
- and that the annual energy consumption for space and water heating must be estimated using the SAP method and the following minimum ratings achieved:

Table 6.2: Minimum SAP ratings specified by WHQS

Floor area m ²	SAP Rating
Up to 35	58
36 to 40	59
41 to 45	60
46 to 50	61
51 to 55	62
56 to 60	63
61 to 70	64
71 to 80	65
81 to 90	66
91 to 100	67
101 to 110	68
111 to 120	69
Over 120	70

7. The Standard Assessment Procedure (SAP) Rating System

The Standard Assessment Procedure (SAP) is the Government's standard method for producing an energy cost rating (the SAP rating) and a carbon index (the CI) for a dwelling. The SAP energy cost rating is based on energy costs for space and water heating. The carbon index is based on the carbon dioxide (CO₂) emissions associated with space and water heating.

The calculation assumes a standard occupancy pattern, derived from the measured floor area of the dwelling, and a standard heating pattern. Both the energy cost rating and the CI are adjusted for floor area so that size of the dwelling does not affect the results, which are expressed on a scale of SAP rating 1 to 120 and CI 0.0 to 10.0 – the higher the number, the better the standard.

The SAP rating system was developed at the Building Research Establishment, which has supplied a popular characterisation of the meaning of the rating, in the Table below:

0-10	10-20	20-30	30-40	40-50	50-60	60-70	70-80	80-90	90-100
Ugh!	Appalling	Very poor	Poor	Needs improv'n	Not bad	Good older	Typical new	Excellent	Super warm

Source: Unpublished leaflet drafted by Building Research Establishment, 2000.

(The original SAP rating ran from 0 – 100, but has recently been extended as a range from 0 – 120, to reflect the appearance of ‘super-insulated’ houses.)

The aspirations in the WHQS to achieve minimum SAP ratings in the social housing stock by 2012, would therefore be characterised, on the basis proposed by the Building Research Establishment, as follows:

Table 6.2: WHQS SAP ratings

Floor area m2	SAP Rating	Meaning
Up to 35	58	Not bad
36 to 40	59	Not bad
41 to 45	60	Not bad
46 to 50	61	Good older
51 to 55	62	Good older
56 to 60	63	Good older
61 to 70	64	Good older
71 to 80	65	Good older
81 to 90	66	Good older
91 to 100	67	Good older
101 to 110	68	Good older
111 to 120	69	Good older
Over 120	70	Good older

Both the SAP rating and the CI are adjusted for floor area so that they are essentially independent of dwelling size for a given built form. They take into account a range of factors that contribute to energy efficiency:

- Thermal insulation of the building fabric
- Efficiency and control of the heating system
- Ventilation characteristics of the dwelling
- Solar gain characteristics of the dwelling
- The fuel used for space and water heating

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

Variations in the relative cost of different fuels are one of the most significant elements in the calculation. Dwellings of identical construction and insulation standards will therefore have very different SAP ratings depending upon the choice of fuel. The relative prices of fuel vary considerably over time, and the SAP rating calculation uses a three year average to dampen these effects. The extent of the variation in fuel costs currently 2660 used in the rating system (SAP 2001) is shown in the Table below:

Table 6.3: Fuel prices and additional standing charges

	Additional standing charge (£)	Unit price (£/GJ)
Gas (mains)	28	3.74
Bulk LPG	57	8.22
Bottled gas – propane 47 kg cylinder		11.02
Heating oil		4.53
House coal		4.62
Smokeless fuel		7.46
Anthracite nuts		5.15
Anthracite grains		5.16
Wood		4.50
Electricity (on-peak)		20.80
Electricity (off-peak)	16	7.93
Electricity (standard tariff)		19.69
Electricity 10 hour tariff (on-peak)		16.50
Electricity 10 hour tariff (off-peak)	15	8.75
Electricity (24-hr heating tariff)	48	8.97
Community scheme	28	
Heat from boilers (any fuel)		4.55
Heat from CHP or waste heat		3.17

Source: The Government's Standard Assessment Procedure for Energy Rating of Dwellings (National Assembly for Wales et al. 2001)

There is a group of fuels, mains gas, heating oil, wood and house coal, which are significantly cheaper than either LPG or the cheapest off-peak electricity tariffs. On-peak electricity is by far the most expensive fuel, six times as expensive as mains gas. The extra cost of electricity is to some extent offset by the fact that 100% of electricity consumed in space or water heating is useful: with all other fuel types there are losses of energy through the exhaust of combustion gases, however efficient the boiler or other heat source.

The calculation is not affected by factors that depend upon the individual characteristics of the household occupying the dwelling when the rating is calculated, for example:

- Household size and composition
- Ownership and efficiency of particular domestic electrical appliances
- Individual heating patterns and temperatures

Nor is the calculation affected by the geographical location, so that a given dwelling would have the same rating in all parts of the UK. (However, the calculation does take into account the orientation of the dwelling, so that solar gain through south facing windows, for example, is included.)

The SAP rating for a dwelling therefore enables the cost of heating a dwelling per m² with that of any other dwelling. Two dwellings with the same SAP rating will therefore cost approximately the same to heat per m² the comparable heating cost will depend upon the actual floor area of each dwelling.

Because the SAP rating system seeks to provide a comparable rating between dwellings of different sizes, and different occupancies, anywhere in the UK, it does not predict the actual heating cost of any dwelling when occupied by a particular household, heating the dwelling in a particular way, and built in a particular location.

A dwelling on a exposed hillside, 300m. above sea level, will therefore have a different actual consumption of energy to achieve the same internal temperatures as those of an otherwise identical dwelling located in a sheltered area within a city.

The SAP rating system also necessarily standardises the household assumed to be living in each type of property, and also assumes a standard pattern of heating of the dwelling.

This standard pattern assumes that the dwelling is heated for two hours in the morning and seven hours in the evenings on weekdays, and for sixteen hours each day at weekends.

For pensioners, lone parents with small children, and the chronically sick or disabled, there may be a need to heat the main living area to higher temperatures (23 degrees C is usually assumed), and for longer periods (sixteen hours per day for seven days per week is usually assumed).

Compared to a couple with children, a pensioner living alone in a three bedroom house would both be putting less heat into the dwelling from cooking, appliances, lighting and metabolic energy, but might also need to heat the main living space to a higher temperature, while maintaining a sufficient temperature in the unoccupied rooms to prevent condensation and mould growth.

The difference in the heat input to the dwelling assumed to be generated by the occupants' other activities is shown in the Table below:

Table 6.4: Lighting, appliances, cooking and metabolic gains

Floor area (msq)	Gains (in Watts)
30	230
40	282
50	332
60	382
70	431
80	480
90	528
100	576
110	623
120	669

Source: The Government's Standard Assessment Procedure for Energy Rating of Dwellings (National Assembly for Wales et al. 2001)

The (standardised) occupants of a 40m² flat are estimated to contribute only 50% of the heat gain contributed by the (standardised) occupants of an 100m² house.

The SAP rating system is only concerned with the energy costs of space and water heating. It does not take into account the energy costs of cooking, refrigeration and freezing, clothes washing and drying, lighting and other domestic equipment such as vacuum cleaners, hi fi systems, televisions and PCs. (The calculation does, however, take into account the incidental heat gains from these activities, which to some degree reduce the heating requirement for space heating.)

The relationship between the costs of space and water heating, and the total energy consumption of the (standardised) households occupying different sizes of dwelling are set out in the Table below:

Table 6.5: The relationship between SAP ratings, floor area, costs of heating and total energy costs.

SAP rating	Floor area (msq)									
	30	40	50	60	70	80	90	100	120	140
100	5.36	6.13	7.02	7.79	8.68	9.45	10.34	11.11	12.77	14.43
	2.17	2.43	2.81	3.19	3.57	3.96	4.21	4.60	5.36	6.13
95	5.49	6.38	7.28	8.04	8.94	9.83	10.72	11.62	13.28	15.07
	2.30	2.68	3.06	3.45	3.83	4.21	4.72	5.11	5.87	6.64
90	5.62	6.51	7.53	8.43	9.32	10.21	11.23	12.13	13.92	15.83
	2.43	2.81	3.32	3.70	4.21	4.72	5.11	5.62	6.51	7.40
85	5.75	6.77	7.79	8.68	9.70	10.72	11.62	12.64	14.55	16.60
	2.55	3.00	3.57	4.09	4.60	5.11	5.62	6.13	7.15	8.17
80	6.00	7.02	8.04	9.06	10.09	11.23	12.26	13.28	15.32	17.49
	2.81	3.32	3.83	4.47	4.98	5.62	6.13	6.77	7.92	9.06
75	6.13	7.28	8.43	9.58	10.60	11.75	12.89	13.92	16.21	18.38
	2.94	3.57	4.21	4.85	5.49	6.13	6.77	7.40	8.68	9.96
70	6.38	7.66	8.81	9.96	11.23	12.38	13.53	14.81	17.11	19.53
	3.19	3.96	4.60	5.36	6.13	6.77	7.53	8.30	9.70	11.11
65	6.64	7.92	9.19	10.47	11.75	13.02	14.30	15.58	18.13	20.68
	3.45	4.21	5.11	5.87	6.64	7.53	8.30	9.06	10.72	12.38
60	7.02	8.30	9.70	11.11	12.51	13.92	15.19	16.60	19.41	22.09
	3.70	4.72	5.62	6.51	7.40	8.30	9.19	10.09	11.87	13.79
55	7.28	8.81	10.34	11.75	13.28	14.81	16.21	17.75	20.68	23.75
	4.09	5.11	6.13	7.15	8.17	9.19	10.21	11.23	13.28	15.32
50	7.66	9.32	10.85	12.51	14.17	15.70	17.36	19.02	22.21	25.41
	4.47	5.62	6.77	7.92	9.06	10.21	11.36	12.51	14.81	16.98
40	8.55	10.47	12.38	14.30	16.21	18.13	20.04	21.96	25.79	29.49
	5.36	6.77	8.17	9.70	11.11	12.51	13.92	15.45	18.26	21.19
30	9.70	12.00	14.30	16.47	18.77	21.07	23.36	25.66	30.26	34.73
	6.51	8.30	10.09	11.87	13.66	15.58	17.36	19.15	22.73	26.43
20	11.11	13.79	16.60	19.28	22.09	24.90	27.58	30.39	35.88	41.37
	7.92	10.09	12.38	14.68	16.98	19.28	21.58	23.87	28.34	32.94
10	12.89	16.21	19.53	22.85	26.17	29.49	32.94	36.26	42.90	49.54
	9.58	12.51	15.32	18.26	21.07	24.00	26.81	29.75	35.49	41.24

Source: Table 3 in: *Guide 155 Energy Efficient Refurbishment of Existing Housing*, Housing Corporation and Energy Efficiency Office, 1995

Notes:

1. The top figure in each box is the total weekly fuel cost in £s, including cooking, lighting and appliances, assuming a standard occupancy.
2. The bold figure in each box is the weekly heating and hot water costs in £s.
3. Prices in original at 1994/95 prices, uprated to 2003/04 by GDP deflator (Note that the use of the GDP deflator may overestimate current costs of domestic fuels.).

The Table suggests that a reduction in expenditure of £2.00 per week on space and water heating requires an increase of 20 points in the SAP rating of a dwelling of 40m², an increase of some 12 points for a dwelling of 60m² and an increase of 10 points for a dwelling of 80m².

8. Improvements to dwellings and increases in SAP ratings: Illustrative example

An example of how improvements might be carried out to a basic, unmodernised house type illustrates the effects of successive improvements on the SAP rating and Carbon Index measures.

A semi-detached house of 75m², originally constructed in 1950 with solid 9 inch brick walls plastered internally, metal windows, a slate roof, and heated by open coal fires, might be typical of much two and three bedroom social housing built in Wales during the 1950s.

Such a house, with no subsequent modernisation or improvement, would have a SAP rating of 9 and a Carbon Index of 0.0.

The importance of the role played by an efficient heat source, and a cheap fuel, in determining SAP ratings can be seen by the addition of a modern mains gas central heating system, with a condensing boiler, to the basic property, with no further modernization: no loft insulation, no draught stripping, no double glazing. The SAP rating would immediately increase to 43, and the Carbon Index to 2.7.

The cumulative effect of successive improvements to the basic house can be seen in the Table below:

Table 6.6: The effect of successive improvements on SAP ratings

	SAP Rating	Carbon Index
Basic house (as above)	9	0.0
+ 100mm. loft insulation in roof	21	0.0
+double glazed UPVC windows	28	0.5
+ modern gas central heating	60	4.2
+ blocking up chimneys	64	4.5
+ external wall insulation (40mm. expanded polystyrene slab with 19mm. render)	81	6.1

Source: calculations supplied by Dr. T. Oreszczyn, Bartlett School of Architecture, University College, London.

The first four improvements, of loft insulation, double glazing, a modern mains gas central heating system and the blocking up of the chimneys, would achieve the minimum SAP rating required by the WHQS. External wall insulation and a protective coat of render would raise the SAP rating to just over 80.

For rural houses without mains gas, the WHQS could probably be achieved by the substitution of a modern oil fired central heating boiler for the mains gas boiler in the example above. Reliance on LPG or solid fuel for a central heating boiler would require external wall insulation even to achieve the minimum standard required by the WHQS.

9. Implications for social housing policy

It is clear that it is the interaction between incomes, including welfare benefits, the size of dwelling occupied, and its SAP rating, which will determines whether or not a household is at risk of suffering fuel poverty.

The household expenditure on fuel, for space and water heating, and the household's expenditure on fuel for all purposes, which are implicit in the minimum SAP ratings prescribed in the Welsh Housing Quality Standard, are shown in the Table below:

Table 6.7: Space and water heating costs to achieve WHQS SAP ratings compared to a standard SAP rating of 70

a	b	c	d	e	f
Floor area m ²	Heating cost at SAP rating 70	WHQS SAP Rating	Heating cost @ WHQS	Other fuel costs	Total cost of fuel (d+e)
Up to 35	3.57	58	4.21	3.45	7.66
36 to 40	3.96	59	4.69	3.64	8.33
41 to 45	4.28	60	5.17	3.83	9.00
46 to 50	4.60	61	5.64	4.16	9.80
51 to 55	4.98	62	6.11	4.49	10.60
56 to 60	5.36	63	6.59	4.83	11.42
61 to 70	6.13	64	7.06	5.16	12.22
71 to 80	6.77	65	7.53	5.49	13.02
81 to 90	7.53	66	7.96	5.87	13.83
91 to 100	8.30	67	8.40	6.26	14.66
101 to 110	9.00	68	8.83	6.64	15.47
111 to 120	9.70	69	9.27	7.03	16.30
Over 120	>9.70	70	>9.70	7.41	>17.11

The effect of adopting a graduated increase in SAP ratings proportionate to the floor area of the dwelling is to lower the heating cost per metre² as the size of dwelling increases (or 2820 to raise the cost of heating per m² as the size of the dwelling decreases). This will tend to equalise the actual heating costs of smaller

and larger dwellings, although in practice, as the Table shows, the effect is marginal. As the Table above suggested, to achieve a reduction in expenditure of £2.00 per week

on space and water heating would require an increase of 20 points in the SAP rating of a dwelling of 40m², an increase of some 12 points for a dwelling of 60m² and an increase of 10 points for a dwelling of 80m².

The costs of space and water heating at different SAP ratings for different sizes of dwelling can now be related to incomes in order to assess the likelihood of different household types being at risk of experiencing fuel poverty

Pensioner-only households constitute nearly 53% of the 220,000 households estimated to be at risk of fuel poverty in Wales. Single parents are the second largest group, at 18% of those at risk of fuel poverty. The particular circumstances of each group are discussed below. (The position of the chronically sick and disabled, the third largest group at risk of fuel poverty, might be more appropriately considered as part of a wider package of measures intended to adapt individual properties to the particular circumstances of the individual, rather treating all such individuals as having identical needs.)

10. The case of single pensioners

The introduction of the Pension Credit in October 2003 will provide a minimum income per week to a single pensioner of £102.10 and for a pensioner couple of £155.80. In addition, the Government has confirmed that a Winter Fuel Payment of £200 will be made for the winter of 2003/04.

During the winter period, the costs of cooking (from consuming more hot meals) and lighting (from shorter daylight hours) are likely to increase, although these, together with some increased metabolic gain (from spending longer indoors) will marginally offset the additional requirement for space heating.

Table 6.8: Heating and total fuel costs for single pensioner

	Floor area of dwelling		
	40m ²	60m ²	80m ²
Typical weekly rent	£35.00	£45.00	£55.00
Annual Pension	£5,309	£5,309	£5,309
Housing Benefit	£1,820	£2,340	£2,860
Total 'income'	£7,129	£7,649	£8,169
10% of total 'income'	£713	£765	£817
Less: costs of cooking, lighting etc.	£193	£193	£193
Available for space and water heating	£520	£572	£624
Space and water heating as % of pension	9.79%	10.77%	11.75%
All fuel costs as % of pension	13.43%	14.41%	15.39%

Including the additional 'income' represented by Housing Benefit would have the apparently perverse effect of increasing the absolute amount of expenditure on fuel which a tenant is judged to be able to afford, thereby reducing the residual cash income

for meeting other living expenses. Using this definition of fuel poverty, for tenants wholly dependent upon Housing Benefit, the higher the rent, the more the tenants can 'afford' to spend on heating.

The impact of the Winter Fuel Payment to qualifying pensioners is shown in the Table below:

Table 6.9: Expenditure on fuel costs for a single pensioner

	Floor area of dwelling		
	40m ²	60m ²	80m ²
Typical weekly rent	£35.00	£45.00	£55.00
Annual Pension	£5,309	£5,309	£5,309
Housing Benefit	£1,820	£2,340	£2,860
Total 'income'	£7,129	£7,649	£8,169
10% of total 'income'	£713	£765	£817
Less: costs of cooking, lighting etc.	£193	£193	£193
Available for space and water heating	£520	£572	£624
Space and water heating costs less: Winter Fuel Payment	£320	£372	£424
Space and water heating as % of pension	6.03%	7.01%	7.99%
All fuel costs less Winter Fuel Payment as % of pension	9.66%	10.64%	11.62%

The Table shows that if the definition of income in the assessment of fuel poverty is to include Housing Benefit, then the Winter Fuel Payment is required in order to offset the costs of fuel to around 10% of cash income.

The Winter Fuel Payment is not, of course, paid against actual fuel costs. It is a cash payment, which simply adds to pensioner incomes over the winter period. The Winter Fuel Payment is available to be spent at the individual's discretion, and should therefore (in theory) be added to total income (and Housing Benefit) in order to assess the possibility of fuel poverty. To do so would, of course, make only a marginal difference to total income. This would mean that if Housing Benefit were included as income, that pensioner spending 10% of total income on fuel would in practice be spending a significantly higher proportion of actual cash income on fuel.

The above calculations simply show the theoretical resources available for expenditure on fuel. Actual expenditure (assuming a standardised pattern of behaviour) will then depend upon the size of dwelling occupied, and its SAP rating. Given the resources available to a single pensioner for expenditure on fuel, it is possible to calculate the SAP rating which would be required for different sizes of dwelling for that pensioner to escape the risk of fuel poverty.

Table 6.10: Minimum SAP ratings required to take a single pensioner out of Fuel Poverty

	Floor area of dwelling		
	40m ²	60m ²	80m ²
Weekly rent	£35.00	£45.00	£55.00
Annual Pension	£5,309	£5,309	£5,309
Housing Benefit	£1,820	£2,340	£2,860
Total 'income'	£7,129	£7,649	£8,169
10% of total 'income'	£713	£765	£817
Less: costs of cooking, lighting etc.	£193	£193	£193
Available for space and water heating	£520	£572	£624
Weekly expenditure on space and water heating	£10.00	£11.00	£12.00
Minimum SAP required	>20	>30	40
10% of pension income	£531	£531	£531
Less: costs of cooking, lighting etc.	£193	£193	£193
Available for space and water heating	£338	£338	£338
Weekly expenditure on space and water heating	£6.50	£6.50	£6.50
Minimum SAP required	>40	60	>70

In the first example shown, the pensioner would remain dependent upon the Winter Fuel Payment as an offset to heating costs in order to reduce expenditure on fuel below 10% of cash income, but the actual amount spent would adequately heat a dwelling with a SAP rating ranging between 'Very Poor' and merely 'Poor'.

In the second example, if the definition of income for calculating fuel poverty excludes Housing Benefit, then the SAP rating of the dwelling would need to be increased by between 20 and 30 points in order to avoid the risk of fuel poverty, before the effects of the Winter Fuel Payment are taken into account.

If the limit case is taken to be that of a single pensioner, living alone in a three bedroom house of 90m² (roughly the old Parker Morris standard), whose total expenditures on fuel for all purposes, excluding the Winter Fuel Payment, is just below 10% of state pension (pension credit) income, then the house would have to have an SAP rating of at least 55.

Table 6.11: Minimum SAP rating required to take a single pensioner, living alone in a three bedroom house, out of Fuel Poverty

	Floor area of dwelling
	90m ²
Annual Pension	£5,309
9.9% of pension income	£526
Less: costs of cooking, lighting etc.	£193
Available for space and water heating	£333
Plus Winter Fuel Payment	£200
Total available for space and water heating	£533
Weekly expenditure on space and water heating	£10.25
Minimum SAP rating of dwelling required	55

For a single pensioner, living in a 40m² flat, to be clearly out of fuel poverty, paying perhaps 7.5% of the state pension (pension credit) income for all fuel expenditures, and not requiring the additional income from the Winter Fuel Payment in order to avoid fuel poverty, the flat would have to have a minimum SAP rating of 71:

Table 6.12: Minimum SAP rating required to take a single pensioner, living in a one bedroom flat, out of Fuel Poverty and out of reliance on the Winter Fuel Payment

	Floor area of dwelling
	40m ²
Annual Pension	£5,309
7.5% of pension income	£398
Less: costs of cooking, lighting etc.	£193
Available for space and water heating	£205
(Excluding Winter Fuel Payment)	£200
Total available for space and water heating	£205
Weekly expenditure on space and water heating	£3.94
Minimum SAP rating of dwelling required	71

A range of minimum SAP ratings from at least 55 for a three bedroom house of 90m² (roughly the old Parker Morris standard) to at least 70 for a one bedroom flat or bungalow of 40m² would ensure that single pensioners choosing to remain in their family home were not suffering from fuel poverty as a consequence, while providing a significant financial incentive, of some £10 per week, to move to a smaller but better equipped property.

11. The case of single parents

For a single parent with one child under 16, not in work, the contrast between the two approaches to calculating fuel poverty is even clearer. The single parent has an income only £2.95 per week greater than the single pensioner (including the Winter Fuel Payment as income), but in many cases would have a higher rent. Including the value of Housing Benefit in the calculation of fuel poverty would mean that a single parent with a rent of £45.00 per week, and paying 10% of total 'income' on fuel, would be paying 14% of cash income on fuel, while at a rent of £55.00 per week, the proportion of cash income spent on fuel would rise to 15%.

However, if fuel poverty is defined as expenditure in excess of 10% of income excluding Housing Benefit, then the reduction in expenditure on fuel required in order for the single parent to avoid fuel poverty would require a significant increase in the SAP rating of the dwelling. This would need to rise from a range between 36 and 44, depending upon the size of the dwelling, which would be required to meet the conditions of the first definition of fuel poverty, to a range between 62 and 76 in order to meet the conditions of the second definition. This would only be met by the minimum standard required in the Welsh Housing Quality Standard of a SAP rating of 64 for dwellings of 60m². Larger family homes, above 60m², would require a SAP rating in excess of the WHQS minimum, if a single parent were to be able to avoid fuel poverty.

Table 6.13: Minimum SAP ratings required to take a single parent out of Fuel Poverty

	Floor area of dwelling		
	60m ²	70m ²	80m ²
Weekly rent	£45.00	£50.00	£55.00
Annual income from benefits	£5,663	£5,663	£5,663
Housing Benefit	£2,340	£2,600	£2,860
Total 'income'	£8,003	£8,263	£8,523
10% of total 'income'	£800	£826	£852
Less: costs of cooking, lighting etc.	£240	£245	£250
Available for space and water heating	£560	£581	£602
Weekly expenditure on space and water heating	£10.77	£11.17	£11.58
Minimum SAP required	36	41	44
Annual income from benefits	£5,663	£5,663	£5,663
10% of income from benefits	£566	£566	£566
Less: costs of cooking, lighting etc.	£240	£245	£250
Available for space and water heating	£326	£321	£316
Weekly expenditure on space and water heating	£6.27	£6.17	£6.08
Minimum SAP required	62	70	76

12. The SAP rating of the existing social housing stock

Data on the SAP rating of the existing social housing stock is extremely limited. Only one local authority and six housing associations (including the specialist HA, Tai Hafan) were able to supply data based on sample surveys of stock condition.

The Audit Commission requires local authorities to provide an estimate of the average SAP of local authority dwellings, as Best Value Performance Indicator 42, and the estimated averages for 2001/02 are shown in the Table and Chart below (for the twenty out of twenty two local authorities which submitted BVPI data).

Table 6.14: Average SAP ratings of local authority dwellings

Local authority	Energy Efficiency - the average SAP rating of local authority owned dwellings.
Cardiff	*
Torfaen	*
Merthyr Tydfil	55
Caerphilly	55
Rhondda Cynon Taf	54
Wrexham	53
Denbighshire	52
Flintshire	52
The Vale of Glamorgan	52
Powys	51
Isle of Anglesey	50
Conwy	50
Bridgend	50
Newport	48
Monmouthshire	46
Pembrokeshire	45
Carmarthenshire	43
Gwynedd	42
Neath Port Talbot	42
Blaenau Gwent	40
Ceredigion	39
Swansea	38

- means the information was not provided

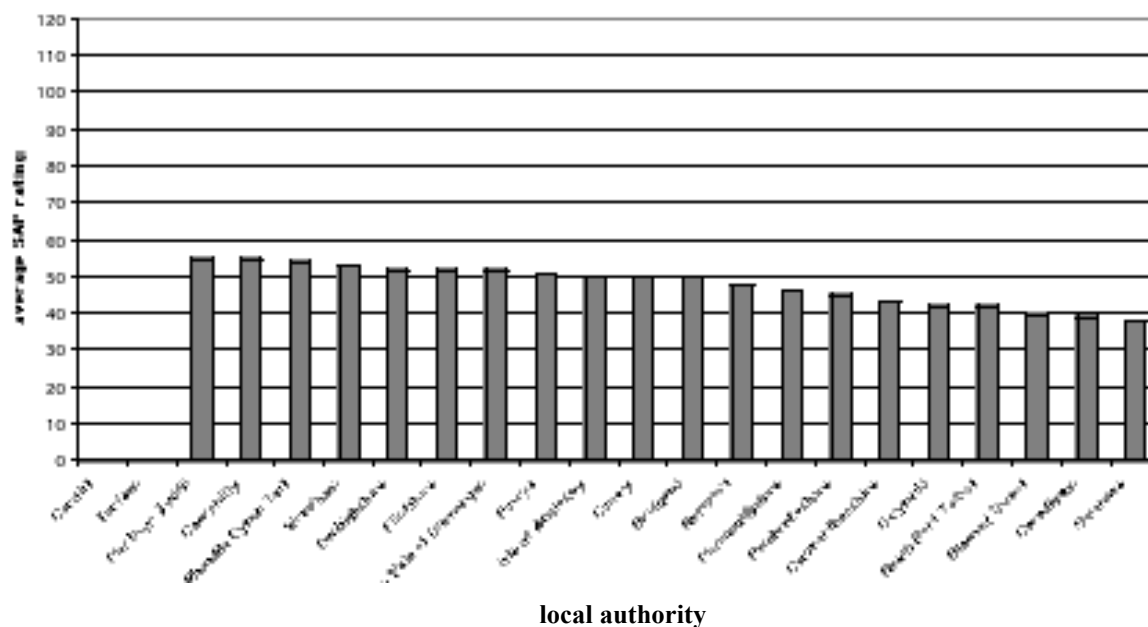
The estimated average SAP ratings are extremely low. In three cases, Swansea, Ceredigion and Blaenau Gwent, the averages are within the range from 30–40, characterised by the Building Research Establishment as 'Poor', while a further nine are within the range from 41–50, characterised as 'Needs Improving'. Only eight local authorities estimated the average SAP rating of their housing stock to be in the range 51–60, or 'Not Bad', and all of these fell into the bottom half of that range.

These estimated figures are averages. Given that some proportion of all local authority housing will have had some limited improvements over the years, whether loft insulation, draught stripping, the installation of central heating or even double glazing, then the SAP rating of the lower half of the distribution must be very low indeed.

It is clear from the previous discussion that even with the assistance of the Winter Fuel Payment, in order to avoid fuel poverty a single pensioner requires a home with a SAP rating of at least 40–55, depending upon the size of the home.

Figure 6.1: Average SAP ratings of local authority dwellings

The average SAP rating of local authority housing 2001/02



Although Cardiff did not submit information on BVPI 42 to the Audit Commission, the authority was able to supply data on the SAP rating of its housing stock for this project. The average SAP rating was 59, the highest for any Welsh local authority, with 20% of the stock rated at 50 or below, and 5% rated at 40 or below.

The Figure below shows the proportion of the housing stock falling into different bands of SAP rating for the five housing associations with general needs stock, and Cardiff UA, which were able to supply data.

Three of the housing associations (Gwerin, Mid Wales and Dewi Sant) and Cardiff show not dissimilar patterns, with the bulk of their stock falling within a range from 50 to 80.

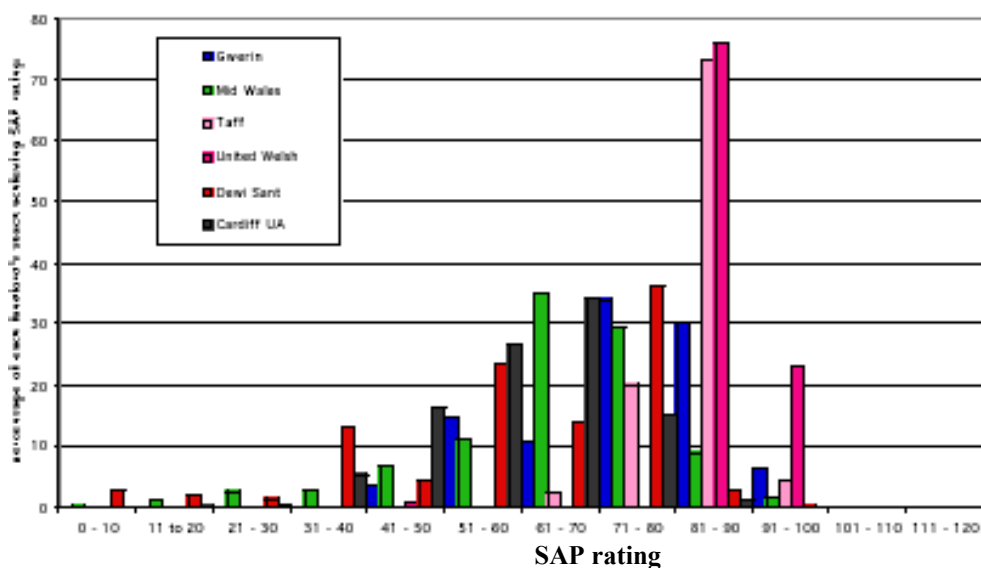
Dewi Sant, Mid Wales and Cardiff also display a long tail of properties with poor ratings, while Gwerin has just over a third (36%) of its stock rated above 80.

Taff and United Welsh, however, show a markedly different pattern. Taff has less than a quarter (22%) of its stock rated below 80, while United Welsh has less than 1% rated below 80.

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

Figure 6.2: SAP ratings for social housing stock

SAP ratings for HA and LA stock (for those landlords able to supply data)



Key points

Chapter 6 discusses the relationship between rents, heating costs and fuel poverty in Wales. The definition of fuel poverty is that a household will suffer from fuel poverty when more than 10% of its income is spent on all household fuel use, although whether Housing Benefit should be included as income remains undecided.

The chapter shows that for a single parent, or pensioner, dependent upon benefits, the inclusion of Housing Benefit in the calculation of fuel poverty would result in the household spending 15% of its cash income on fuel before it would be classified as being in fuel poverty. Conversely, the omission of Housing Benefit would require an increase in the heating efficiency of the home of some 30 points on the SAP rating scale if the household were to avoid fuel poverty.

Fuel poverty can be tackled either by increasing incomes (so that more cash is available to pay fuel bills) or by improving the heating efficiency of dwellings (so that less cash is required to pay fuel bills). The Winter Fuel Payment to pensioners is an example of the former, while improving the SAP rating of the social housing stock would achieve the latter. The Welsh Housing Quality Standard proposes that the minimum SAP rating of the social housing stock should be raised to an average of around 64, and the chapter shows the extent of the improvement required, particularly in the local authority stock. No local authority has a stock which meets the WHQS: Cardiff has the highest average SAP rating at 59, while Swansea has the lowest at an estimated 38.

The chapter shows that to take a single parent, dependent upon benefits, out of fuel poverty would require a home with an average SAP rating of 69: significantly higher than the improvement sought by the WHQS. The importance of the Winter Fuel Payment for pensioners dependent upon the state pension is illustrated by the example of a pensioner continuing to live in the three bedroom family home: if the Winter Fuel Payment is all spent on fuel costs, then the house would only require a SAP rating of 55, well below the WHQS, but to take the pensioner out of dependence upon the Winter Fuel Payment would require the same house to have a SAP rating of 80, well above the WHQS.

Chapter 7

1. Rent Regulation and Perverse Incentives

All regulatory systems have the potential to create perverse incentives and to distort, however unintentionally, the behaviour of the regulated agents. One of the areas which the study identified as a possible example of this problem is in the relationship between the rent benchmarking system for housing associations, and the creation of a perverse incentive which may distort the mix of dwelling types in new developments.

The three Tables below (Tables 7.2 to 7.4) show one of the potential perverse incentives of the rent benchmarking system, in the possible distortion of development decisions on the 'mix' of dwelling types in order to maximise rent income against costs.

The Tables show the possible choices of dwelling mix for an annual programme of 60 dwellings in an area in Band A. The benchmark rent, the average of the six archetypes, is £48.55 per week, and the maximum rent for a 3 bedroom 5 person house is set at £53.95. The total weekly rental income from the 60 units is therefore 60 x £48.55, equalling £2,913 per week.

A housing association seeking to maximise the rent income from a development will try to produce the mix of properties that, given the structure of the association's rents, will produce the nearest result to the maximum achievable within the benchmark system, a total rent income for the development as close to £2,913 as is feasible.

Each of the Tables shows the result of changing the dwelling mix on the rents chargeable for 1 bedroom dwellings, using one of the three dwelling mixes shown below:

Table 7.1: Illustrative dwelling mixes

	Dwelling mix (nos. of units)			Total
	3 bed	2bed	1 bed	
Table 1	30	20	10	60
Table 2	20	20	20	60
Table 3	10	20	30	60

In each of the three Tables, the rent of a 3b5p house is set at the maximum allowable of £53.95 per week. Each Table then shows the result on the rent of 1 bedroom dwellings if the rent of a 2 bedroom dwelling is fixed at £50.00, £47.00 and £45.00 per week respectively.

The first Table shows a differential in rents between a 3b house and a 2b house of £3.95 per week. Then, in order to maintain a proportionate differential between a 2b house and a 1b flat of £4.22 per week, the dwelling mix must be 'skewed' to produce three times as many 1 bedroom flats as 3 bedroom houses, if rental income is to be maximised. In order to achieve a development mix of predominantly family units, the rent of the 1 bedroom flats would have to be depressed to £29.45 per week, a differential of £20.55 per week 3100 below the rent of a 2 bedroom house.

Table 7.2: 3b rent @ £53.95, 2b rent @ £50.00 per week

	Total rent income 60 units x benchmark rent @£48.55	Less: income from 3b units @£53.95	Remaining rent income	Less: income from 2b units @£50.00	Remaining rent income	Therefore, rent of 1b units
No of units		30		20		10
	£2913	£1618.5	£1294.5	£1000	£294.5	£29.45
No of units		20		20		20
	£2913	£1079	£1834	£1000	£834	£41.70
No of units		10		20		30
	£2913	£539.5	£2373.5	£1000	£1373.5	£45.78

Table 2 shows that if a larger rent differential is set between the rent of a 3 bedroom house at £53.95 and the rent of a two bedroom house at £47.00, the effect is to raise the rent of the one bedroom flat. As the dwelling mix becomes weighted towards family sized houses, the rent of the 1b flat rises, and if the dwelling mix is weighted towards three bedroom houses, then the rent of a 1b flat would be greater than rent of a 2b house, if rent income is to be maximised.

Table 7.3: 3b rent @ £53.95, 2b rent @ £47.00 per week

	Total rent income 60 units x benchmark rent @£48.55	Less: income from 3b units @£53.95	Remaining rent income	Less: income from 2b units @£47.00	Remaining rent income	Therefore, rent of 1b units
No of units		30		20		10
	£2913	£1618.5	£1294.5	£940	£354.5	£35.45
No of units		20		20		20
	£2913	£1079	£1834	£940	£894	£44.70
No of units		10		20		30
	£2913	£539.5	£2373.5	£940	£1433.5	£47.78

Table 3 shows that increasing the differential between 3 bed and 2 bed rents to £8.95 per week significantly alters the differential with 1 bedroom dwellings. Only a mix weighted towards family dwellings will now produce a proportionate differential between the rent of a 2bed house at £45.00 per week and the rent of a 1 bed flat at £39.45 per week. The other two choices of dwelling mix would each result in the rent of a 1 bed flat rising above the rent of a 2 bed house, if rental income is to be maximised within the benchmark average.

Table 7.4: 3b rent £53.95, 2b rent £45.00 per week

	Total rent income 60 units x benchmark rent @£48.55	Less: income from 3b units @£53.95	Remaining rent income	Less: income from 2b units @£45.00	Remaining rent income	Therefore, rent of 1b units
No of units		30		20		10
	£2913	£1618.5	£1294.5	£900	£394.5	£39.45
No of units		20		20		20
	£2913	£1079	£1834	£900	£934	£46.70
No of units		10		20		30
	£2913	£539.5	£2373.5	£900	£1473.5	£49.12

Widening the differentials in rents between different bedsizes of dwellings will tend to produce a dwelling mix 'skewed' towards family units, while compressing differential between different bedsizes will tend to produce a dwelling mix 'skewed' towards one bedroom dwellings.

A housing association which has chosen to maintain significant differentials between the rents of one, two and three bedroom properties will therefore tend to be forced towards developing at mixes which emphasise larger family units. Conversely, a housing association which has relatively narrow differentials between the rents of one, two and three bedroom dwellings will tend to be forced towards developing at mixes which emphasise smaller, one bedroom units.

Fundamental decisions on the mechanism for rent setting, possibly taken some considerable time ago, can therefore significantly affect the ability of a housing association to respond to the mix of dwellings required by local housing strategies.

Key points

Chapter 7 discusses some of the perverse incentives which might be created by the current system of regulation in rent setting. In planning new developments, housing associations with narrow rent differentials between one, two and three bedroom dwellings will tend to find that developments skewed towards smaller one bedroom units will maximise rent income. Conversely, housing associations with wider differentials between the rents of different bedsizes of dwellings will tend to find that developments skewed towards larger family units will maximise rent income.

Chapter 8

Summary and Conclusions

The strategic context

This report sets out the results of a research project commissioned by Welsh Assembly Government into the pattern of rents and service charges in the social housing sector in Wales.

The research was commissioned as part of the Action Plan which implements the National Housing Strategy, 'Better Homes for People in Wales', approved by the Assembly in July 2001. In the National Housing Strategy, the Assembly identified a number of issues concerning the pattern of rents charged by social landlords (local authorities and housing associations) in Wales, primarily concerned with the consistency and rationality of the rent setting policies of social housing landlords, and their consequences for tenants.

The research aimed to collect data on the actual rents and service charges charged by every significant social landlord in Wales, to establish the basis of each landlord's policy for setting rents and the factors which the policies took into account, and to set rents and service charges in the broader context of affordability, including the heating costs of homes. Data was collected from all 22 local authorities and the 33 largest housing associations. Social landlords were asked to supply details of the weekly rents and service charges for each of their properties, by bedsize and by address.

The report outlines the different overall financial and regulatory contexts for rent setting by local authorities and by housing associations.

In the local authority sector, the average rent, across all bedsizes, is controlled by the 'guideline' rent set for each local authority every year by the Assembly. The guideline rent is determined by the amount of subsidy which the Assembly wishes to provide to meet the deficit between income, primarily from rents, and expenditure on debt servicing and housing management and maintenance in each local authority. Local authorities are theoretically free to charge less than the guideline, thereby losing rent income, or to charge more than the guideline, thereby losing subsidy. There are therefore strong pressures on local authorities to set average rents at the guideline. Current assembly policy is to set the annual guideline rent for each local authority so as to move its actual average rent gradually into line with the 'benchmark' rent set in the housing association sector, a position already reached in Ceredigion, Vale of Glamorgan and Monmouthshire.

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

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

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

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

Although rent differentials, the difference between the rents of the most expensive and the least expensive properties, are exceptionally flat in Wales, this policy would result in roughly half of local authority rents being higher than housing association maximum rents.

Because of the different financial regimes that operate in the local authority and housing association sectors, an increase in local authority rents does not necessarily bring any additional rent income, and therefore resources for additional spending, to the local authority: it may merely reduce the amount of subsidy that the Assembly has to make available. Increasing average local authority rents to the level of maximum housing association rents could therefore result not only in many local authority rents beginning to exceed housing association rents, but also in the rents of older and often unimproved local authority houses exceeding the rents of newer housing association homes built to modern standards.

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

One point clearly emerged from the research which is important to rural Wales. Most social landlords with houses in small towns and villages had a policy to reduce rents, by small amounts, in areas lacking amenities such as local shops, post offices or frequent bus services. These reductions were relatively 'token', in that they were not based on any calculation of the additional costs, or disbenefits, of living in isolated areas, but nevertheless they reflect a perception that these areas are less attractive to social housing tenants. In many areas, this runs counter to the values of better off, car owning owner occupiers: capital values are often highest in the villages with fewest amenities.

The rents charged by social landlords compared

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

From the individual tenant's point of view, the issue is the total weekly charge of rent plus service charges, and the figures analysed in the report include service charges, unless explicitly excluded.

The different practices between the two sectors is most clearly seen in the case of 1 bedroom dwellings, where service charges in sheltered housing are common in the housing association sector. As a consequence, while the pattern of rents for ordinary 1 bedroom properties are almost identical between the two sectors, the total weekly charges for housing association sheltered housing properties are higher than those in the local authority sector.

In the case of 2 bedroom properties, the rents charged by the two sectors have a similar profile, although housing association rents are on average some £5 per week higher than local authority rents. Nearly 70% of rents in the local authority sector fall within the range between £40 and £50 per week, while nearly 70% of housing association rents fall within the range from £45 to £55 per week.

In the case of 3 bedroom properties, the distribution of rents in the local authority sector is broader, with 87% of rents falling within a £15 per week range, from £40 to £55 per week, while the distribution of rents in the housing association sector is

steeper, with 80% of rents falling within a £10 range, from £50 to £60 per week, reflecting the compression of rents against the 'ceiling' imposed by the maximum rent for a 5 person, 3 bedroom which forms an important element of the benchmark rent.

Geographic comparisons of rents, comparing the difference between average rents for each bedsize of property in every postcode sector in Wales, shows that there are few areas where there are large differences in rents between the two sectors, and that these tend to be distributed randomly, suggesting that purely local or historic factors are at work. In some of these areas, it is the local authority rent that is more than £10 per week higher than the average housing association rent.

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

Market rents in the private rented sector

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

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

Local Reference Rents are set for each local housing market, rather than for administrative boundaries. In setting Local Reference Rents, Rent Officers disregard rents which are considered to be abnormally high, or low, for the particular housing market, and then calculate a simple average of the remaining highest and lowest rents. In many parts of Wales there are insufficient lettings in the private rented sector to supply adequate data, and Local Reference Rents must be set by interpolation or extrapolation from adjoining housing market areas.

The report compares the variation in private sector rents across Wales by comparing the Local Reference Rent in each housing market area to the national average of all Local Reference Rents. Rents in the private rented sector show a clear pattern, with high rents in the private rented sector in fourteen local housing markets, nearly all around the periphery of Wales, from Monmouthshire on the English border, through the major cities of Newport and Cardiff, including the

‘suburban’ areas of Penarth and the rural Vale of Glamorgan, the university and county towns of Aberystwyth, Caernarfon, Bangor and Conwy, and the area around Mold in Flintshire. In these areas, the ‘benchmark’ rent was broadly half of the average Local Reference Rent in the locality. Housing association benchmark rents were clearly well below ‘market’ levels in these areas.

However, there were nineteen local housing markets where the 'benchmark' rent was much closer to 'market' levels. These fell into two clear geographic groupings. One lies along the central backbone of the country, from Blaenau Ffestiniog, through south eastern Gwynedd and down through western Powys. The second area is concentrated in the Valleys. The closeness between housing association rents and private sector rents in this area was commented on by a number of housing associations. Private landlords are able to offer houses in streets, rather than on estates, together with a higher level of furnishings and white goods than is current practice in housing association lettings, and this appears to represent a competitive product in this area, at a relatively small price premium. In these areas, the 'benchmark' rent was between 70% and 80% of the Local Reference Rent, and rents for many properties in the social housing sector will be directly comparable to 'market' rents.

House prices in the owner occupied sector

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

The pattern of house prices in the owner occupied sector is therefore the predominant source of market price data which may reflect the price which consumers are willing to pay for particular property. Willingness to pay can, of course, only be exercised within the constraints of an unequal distribution of incomes and wealth, and the lending criteria of the mortgage lenders.

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

Data was obtained from the Land Registry, giving the actual sale prices of properties in each postcode sector in Wales. The Land Registry does not record the numbers of bedrooms in properties, only the type of property. The prices of terraced and semidetached houses were analysed as the nearest equivalent to the main types of 2 and 3 bedroom properties in the social housing sector. A postcode

sector is represented by the first four letters and digits of the postcode, and contains approximately 3,000 postal addresses. There are 520 postcode sectors in Wales. As a consequence, some sectors have very few sales, and this can give rise to anomalous results between adjoining or similar areas.

The data shows that prices tend to be higher around the coastal areas, from Llandudno to Beaumaris and the Menai Straits, on the Llyn Peninsula, and along the coast in Gwynedd, Ceredigion, Pembrokeshire, the Gower Peninsula and in the Vale of

Glamorgan. The highest prices in for both types of property are recorded in Cardiff. Prices also tend to be higher along the border with England.

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

However, there were 'stagnant' areas scattered across the country, particularly in northern Powys/southern Denbighshire, parts of Anglesey and the former slate mining areas around Nantlle and Blaenau Ffestiniog.

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

The affordability of social housing rents

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

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

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

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

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

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

For a single parent in full time work, with one child, and with gross earnings of £190 per week, the combination of Tax Credits and Child Benefit adds £90.21 per week to her net earnings of £161.05, a 56% increase in cash income. At gross earnings of £260 per week, benefits would add £64.31 to her net earnings of £207.95, a 31% increase in cash income. For a couple where the man is in full-time work, with two children, and with gross earnings of £240 per week, the combination of Tax Credits and Child Benefit adds £110.26 per week to their net earnings of £194.55, a 57% increase in cash income. At gross earnings of £260 per week, benefits would add £64.31 to their net earnings of £248.15, a 33% increase in cash income.

Concerns about the affordability of social housing rents have in the past tended to be focussed on the position of families with dependent children. The combination of Working Tax Credit, Child Tax Credit and Child Benefit has raised the incomes of families with dependent children to a point where families can now afford to pay higher rents than childless couples or single people, and still be left with an appropriately higher cash income to meet their higher outgoings, after their housing costs have been met.

There are important consequences for rent setting and affordability which follow from the effect of welfare benefits in adding so significantly to the cash incomes of households with dependent children.

A concentration on the affordability position of households with dependent children would allow rent levels to be increased significantly above the level which the same household could afford from earned income alone. If rents are increased to levels which are affordable by households with dependent children *from their total cash incomes, including benefits*, then these rents will be unaffordable by the childless. It is worthy bearing in mind that a single parent, who might have had children in her early twenties, after her children have grown up and left home, will have nearly twenty years of potential working life left as a single person. Her rent needs to be affordable between the ages of 45 and 65, just as much as it does between the ages of 25 and 45.

Taken together, these factors suggest that in practice rent setting policies need to concentrate on the provision of affordable housing to the childless. If a childless household can afford the rent, the welfare benefit system, in the form of Child Benefit and Working Families Tax Credit, will ensure that a household with dependent children will also be able to afford the rent.

The report shows that for over 90% of rents in the social housing sector in Wales, tenants in all forms of household where one member is in full time work would be able to pay their rent without being dependent upon Housing Benefit, and would have a significant cash income (after tax and National Insurance deductions, and after paying rent) above the level of Job Seeker's Allowance. A single woman aged over 25 would have at least £50 per week above JSA, a couple with only one member in work would have at least £60 per week, a single parent in full time work and with one child would have at least £80 per week, and a couple with one member in work and two children would have at least £90 per week left, after paying rent, above the level of JSA.

Rents and heating costs in social housing

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

This relationship is not direct. Given the complexities of funding, rents are not based directly on the costs incurred by social landlords: any improvements in heating or insulation will not be directly reflected in rents. Similarly, even if rents are based on capital values, the presence or absence of central heating is unlikely to affect rents to the same degree as location.

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

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

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

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

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

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

Variations in the relative cost of different fuels are one of the most significant elements in the calculation. Dwellings of identical construction and insulation standards will therefore have very different SAP ratings depending upon the choice of fuel. Heating one house by standard tariff electricity is more than 5 times as expensive as heating another house by mains gas, and these differences will be reflected in the SAP rating of the two properties. As a result of the sparsity of settlement across much of rural Wales, 22% of households do not have access to mains gas.

An idea of the extent of the problem can be gained by looking at the example of a typical semi-detached house. Such a house, with a floor area of about 75m², originally constructed in 1950 with solid 9 inch brick walls plastered internally, metal windows, a slate roof, and heated by open coal fires, might be typical of much two and three bedroom social housing built in Wales during the 1950s.

Such a house, with no subsequent modernisation or improvement, would have a SAP rating of 9 (informally characterized by the Building Research Establishment as 'Ugh' – worse than 'Appalling').

The importance of the role played by an efficient heat source, and a cheap fuel, in determining SAP ratings can be seen by the addition of a modern mains gas central heating system, with a condensing boiler, to the basic property, with no further modernization: no loft insulation, no draught stripping, no double glazing. The SAP rating would immediately increase to 43 ('Needs improving', according to the BRE).

The costs of heating such a house would be halved, falling from around £22 per week to just under £11 per week. A modern central heating system might cost the landlord perhaps £4 per week to install, but would produce an £11 per week saving for the tenant.

Adding loft insulation and draught stripping, and blocking up the chimneys, would raise the SAP rating to 64, almost to the WHQS target of 65 ('Good older', according to the BRE). This would reduce the weekly heating costs to around £7 per week.

Further adding external wall insulation and render would raise the SAP rating to 80, a level described by the Building Research establishment as on the borderline between 'Good new' and 'Excellent'. The weekly heating cost would fall from around £7 per week to just over £5 per week.

The savings in weekly heating costs do not fall in a straight line as the SAP rises. Each increase in the SAP rating, generally requiring a proportionately greater investment, produces a smaller saving in weekly heating costs for the tenant. Adding external wall insulation to properties is relatively expensive, and the cost to the landlord would almost certainly exceed the saving to the tenant. As the SAP rating rises, the 'payback' period of the investment required becomes longer and longer. Improvements in the SAP rating (and the Carbon Index) above the WHQS may be justified in the wider interests of the environment, but they are unlikely to be capable of being 'self financing' by assuming that part of the savings in heating costs to tenants can be recovered in additional rent.

The report discusses in detail the SAP ratings which would be required in order to ensure that tenants were unlikely to suffer from fuel poverty. The three groups most at risk of fuel poverty are pensioners, single parents, and the sick or disabled.

The report does not discuss the possible measures required for the sick or disabled, because these are likely to be specific to the condition of the individual, and more appropriately dealt with as part of a package of adaptations suited to the needs of the individual, rather than as improvements applicable to the whole of the housing stock.

At present, there is no government decision on whether Housing Benefit should be included in total household income for the purposes of assessing whether or not a household is in fuel poverty. The report demonstrates that including Housing Benefit as part of total income would have the perverse effect of increasing the estimated amount that the household is able to spend on fuel, without increasing the cash income available to the household to pay for the fuel.

In the case of single parents, the report shows that in order to ensure that a single parent, dependent upon benefit, could spend less than 10% of their cash income on heating, then their home would have to have a minimum SAP rating of between 62 (for a house of 60m²) and 76 (for a house of 80m²). These ratings are generally higher than the range of 64 to 65 proposed by the WHQS for dwellings between 60 and 80m² in size. (It should be remembered that the old 'Parker Morris' standard for a 5 person, 3 bedroom house was 85m²: houses built to that standard would require correspondingly higher SAP ratings.)

In the case of pensioners, the problem is made more complicated by the existence of the Winter Fuel Allowance (£200 in 2003/04). The Winter Fuel Allowance, although it is a straightforward cash payment to pensioners, is obviously intended to enable pensioners to incur the additional costs of heating during the winter without suffering from fuel poverty. The report shows that a single pensioner, continuing to live alone in a 3 bedroom house, would require some or all of the additional cash provided by the

Winter Fuel Allowance for any house with a SAP rating below 75. If the SAP rating fell below 55, then the Winter Fuel Allowance would no longer be sufficient, and the pensioner would almost certainly be in fuel poverty.

The report suggests that while the Winter Fuel Allowance may be an appropriate way of enabling pensioners to remain in the former family home, and incurring its higher heating costs, without suffering fuel poverty, it might be thought socially desirable that the Winter Fuel Allowance should not be necessary if the pensioner were to move into a 1 bedroom flat or bungalow. The report shows that if this were thought to be a socially desirable goal, then the SAP rating of the 1 bedroom flat or bungalow would need to be at least 71. This is considerably in excess of the WHQS recommended SAP rating of 60 to 61 for dwellings between 40m² and 50m².

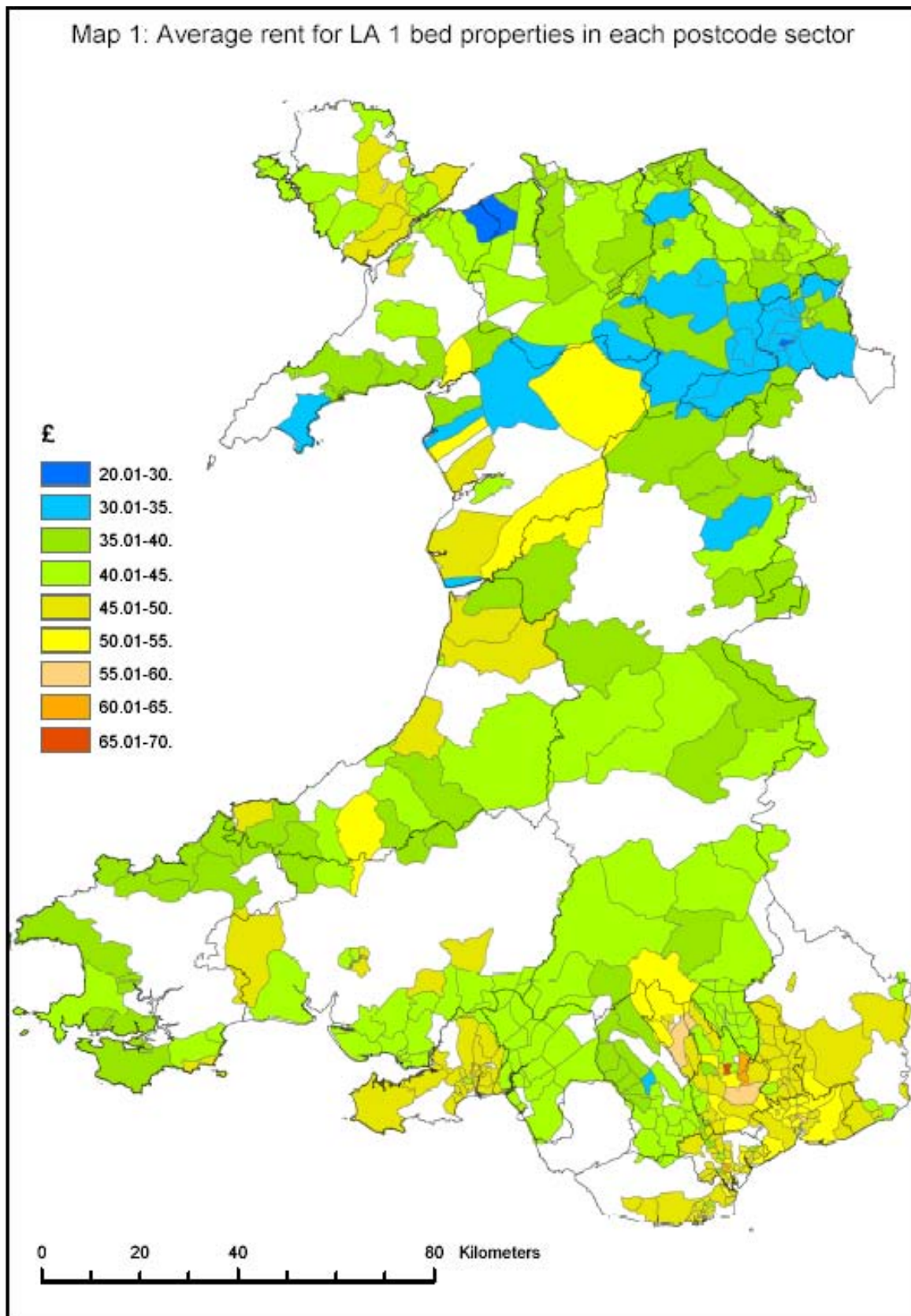
The reality at present, however, is that the vast majority of the local authority housing stock, and a substantial part of the housing association stock, fall well below even the minimum SAP ratings discussed above.

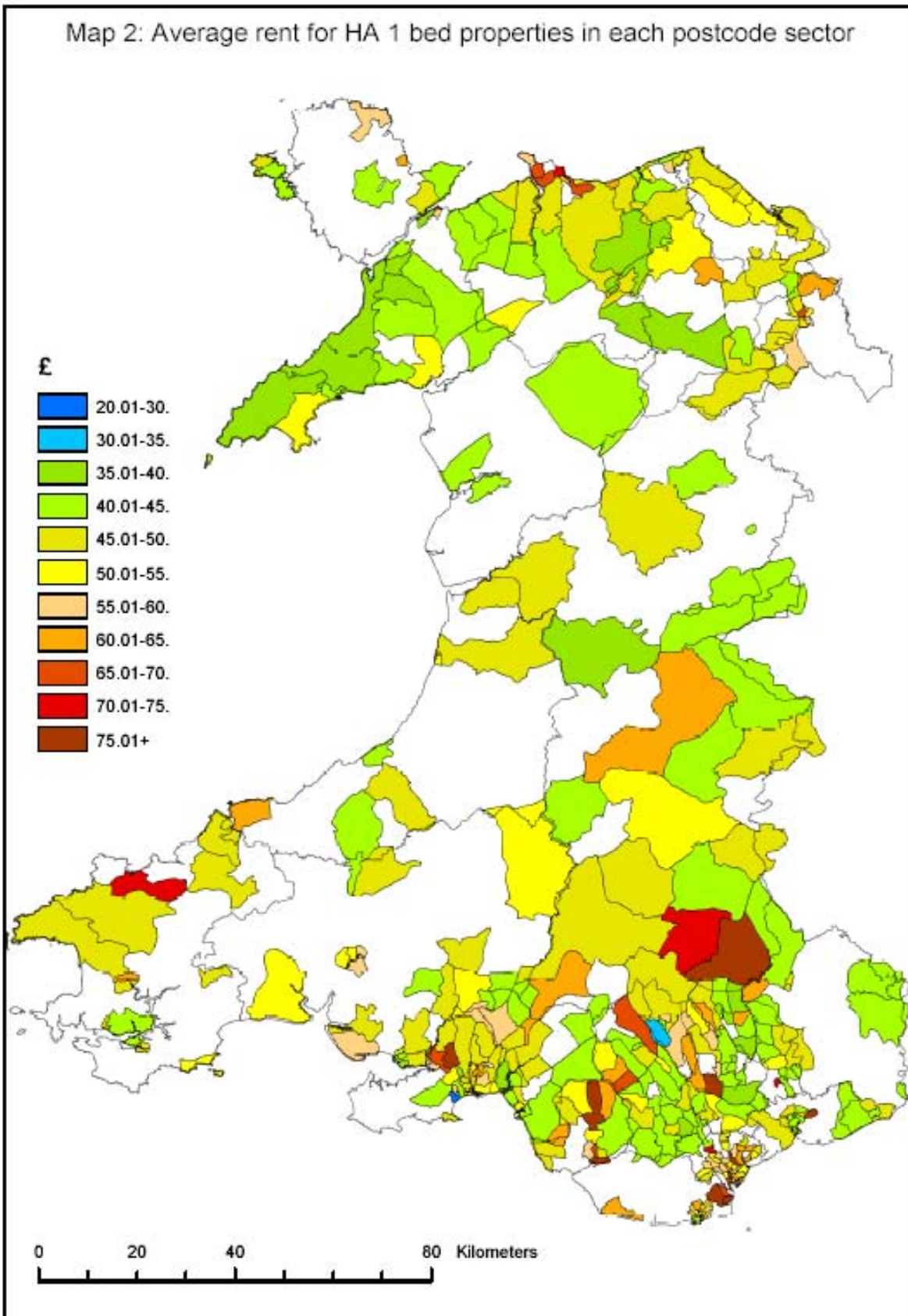
Among local authorities, with the exception of Cardiff where the stock has an average SAP rating of 59, the estimated average SAP ratings are extremely low. In three cases, Swansea, Ceredigion and Blaenau Gwent, the averages are within the range from 30-40, characterised by the Building Research Establishment as 'Poor', while a further nine are within the range from 41-50, characterised as 'Needs Improving'. Only eight local authorities estimated the average SAP rating of their housing stock to be in the range 51-60, or 'Not Bad', and all of these fell into the bottom half of that range.

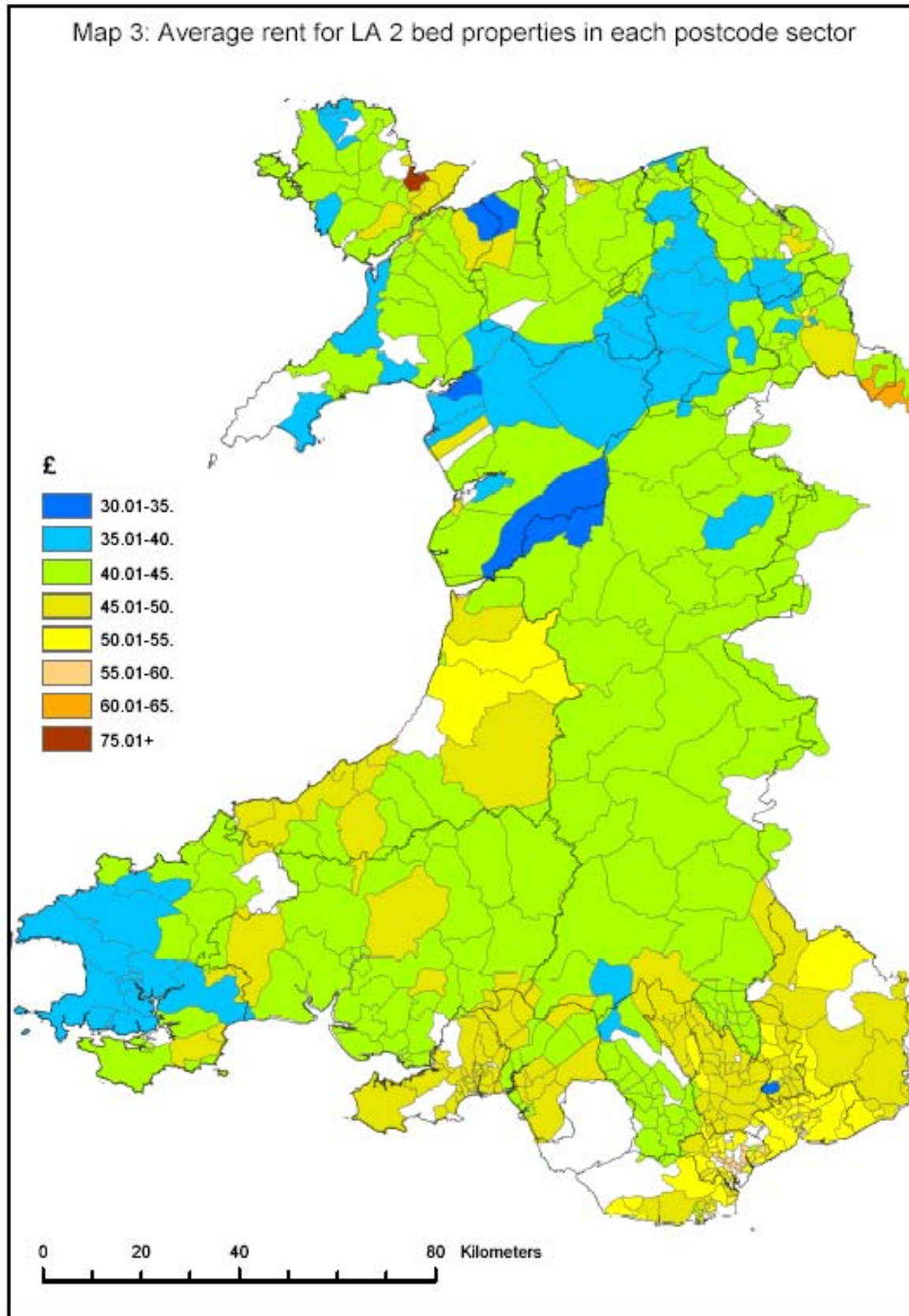
These estimated figures are averages. Given that some proportion of all local authority housing will have had some limited improvements over the years, whether loft insulation, draught stripping, the installation of central heating or even double glazing, then the SAP rating of the lower half of the distribution must be very low indeed.

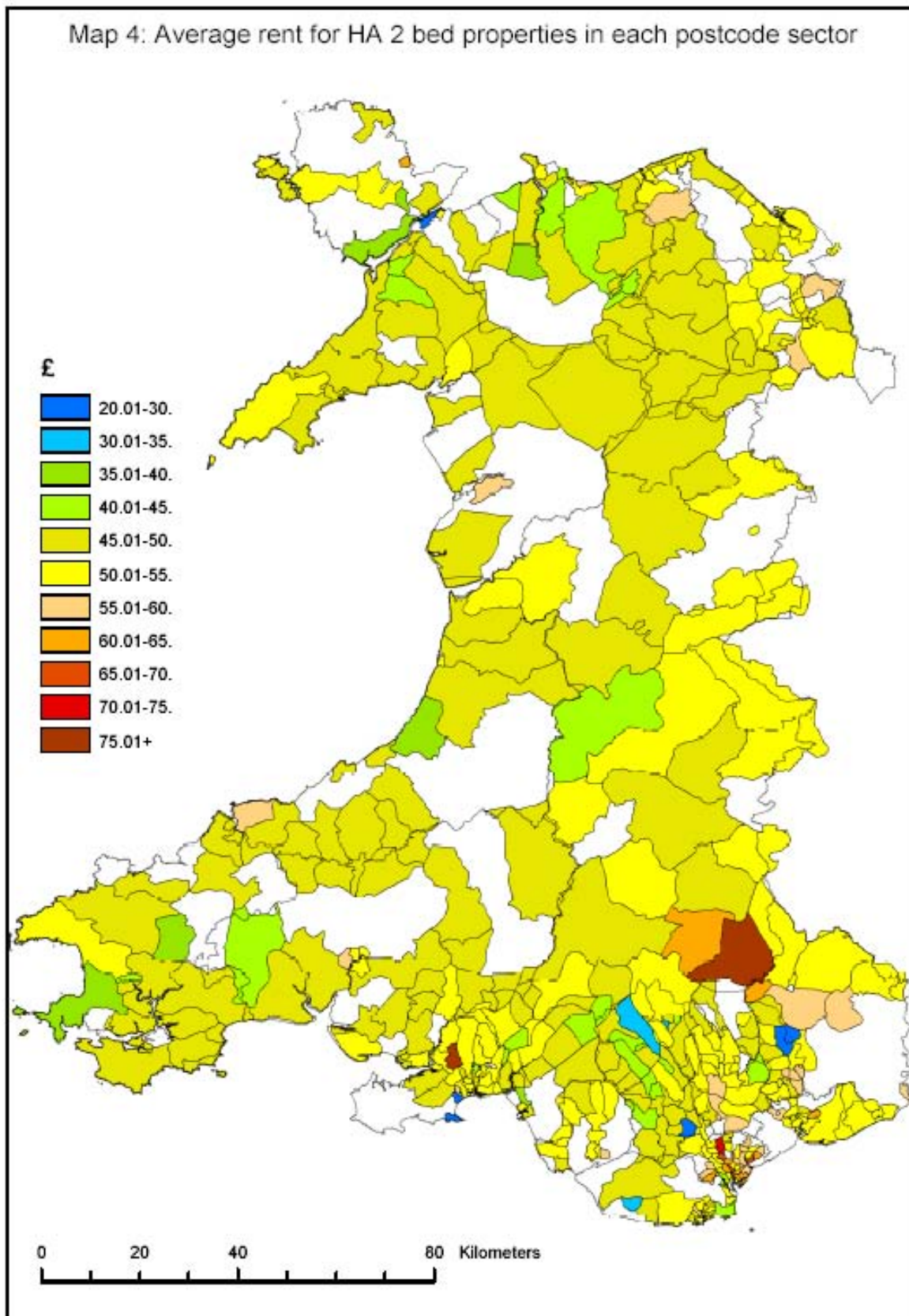
Only a minority of housing associations were able to supply estimated SAP ratings for their stock, but these showed a significantly higher average. The degree of variation was also more marked, with one housing association having only 1% of its stock rated below 80, while others had a long 'tail' of poorly performing properties, even though their averages were well above those of the local authority sector.

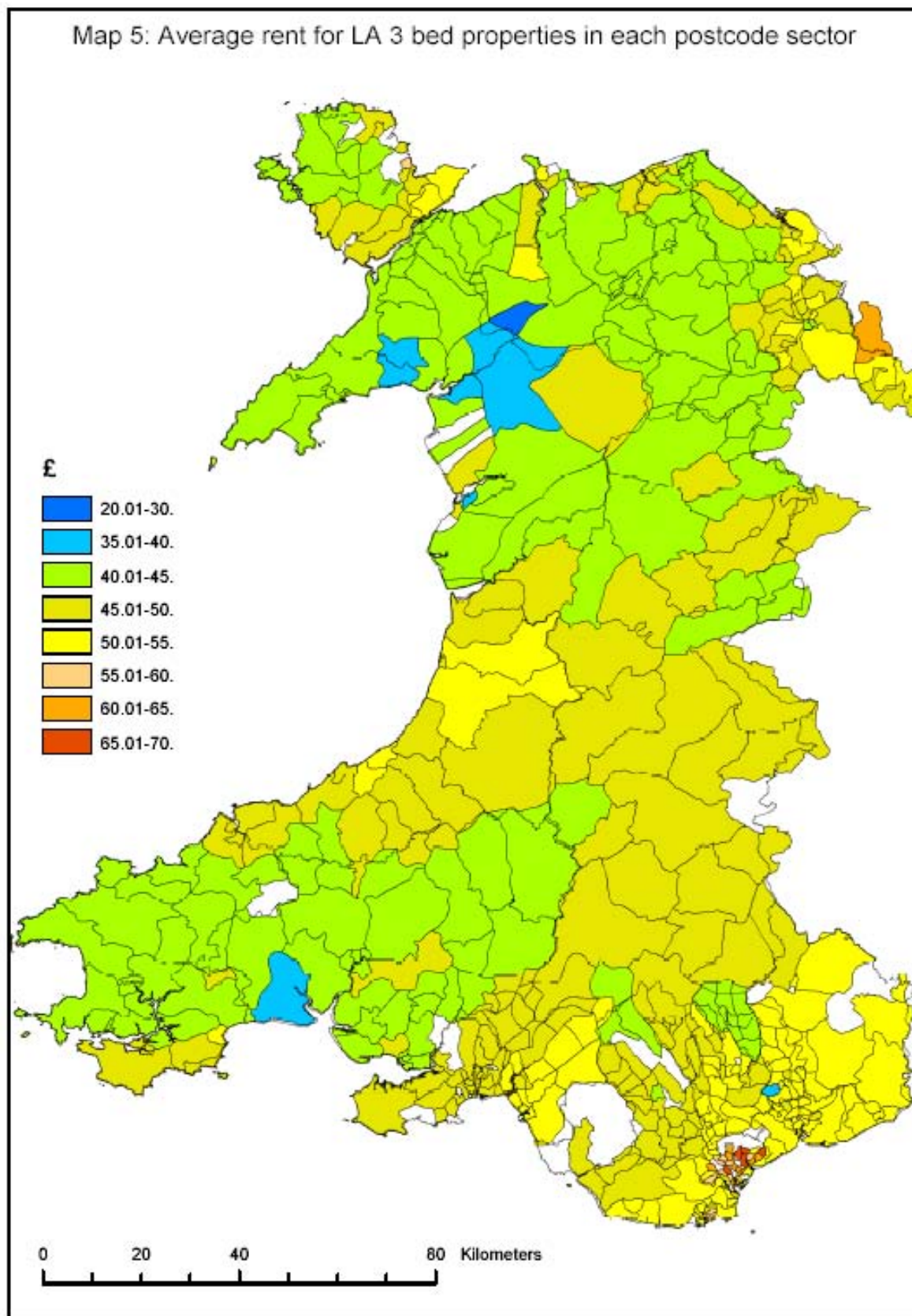
The range of SAP ratings present in the social housing sector imply very considerable variations in heating costs for tenants. The space and hot water heating costs for a property of 75m² and a SAP rating of 90 are estimated to be £4.50 per week, while the a house with the same floor area but a SAP rating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

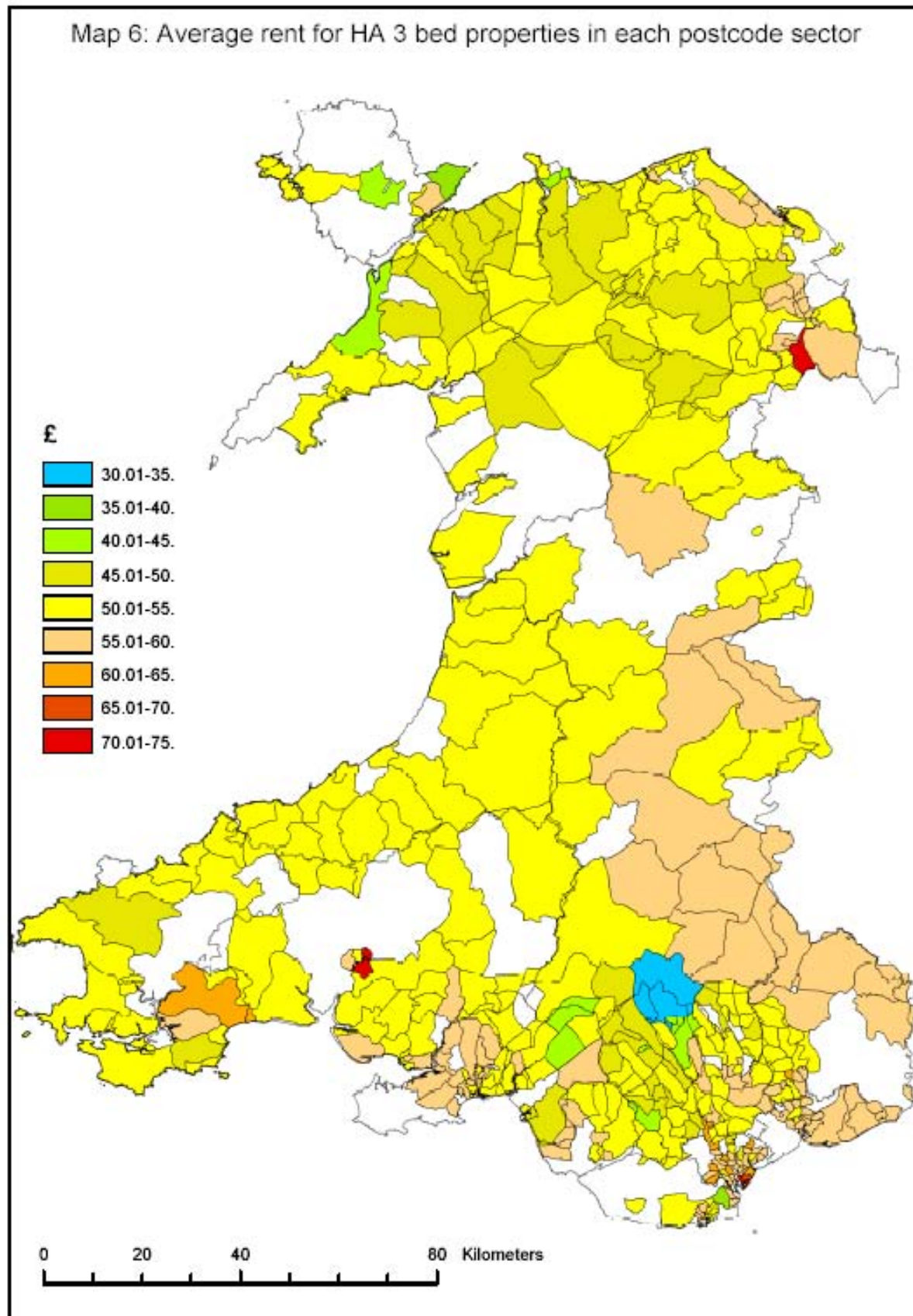


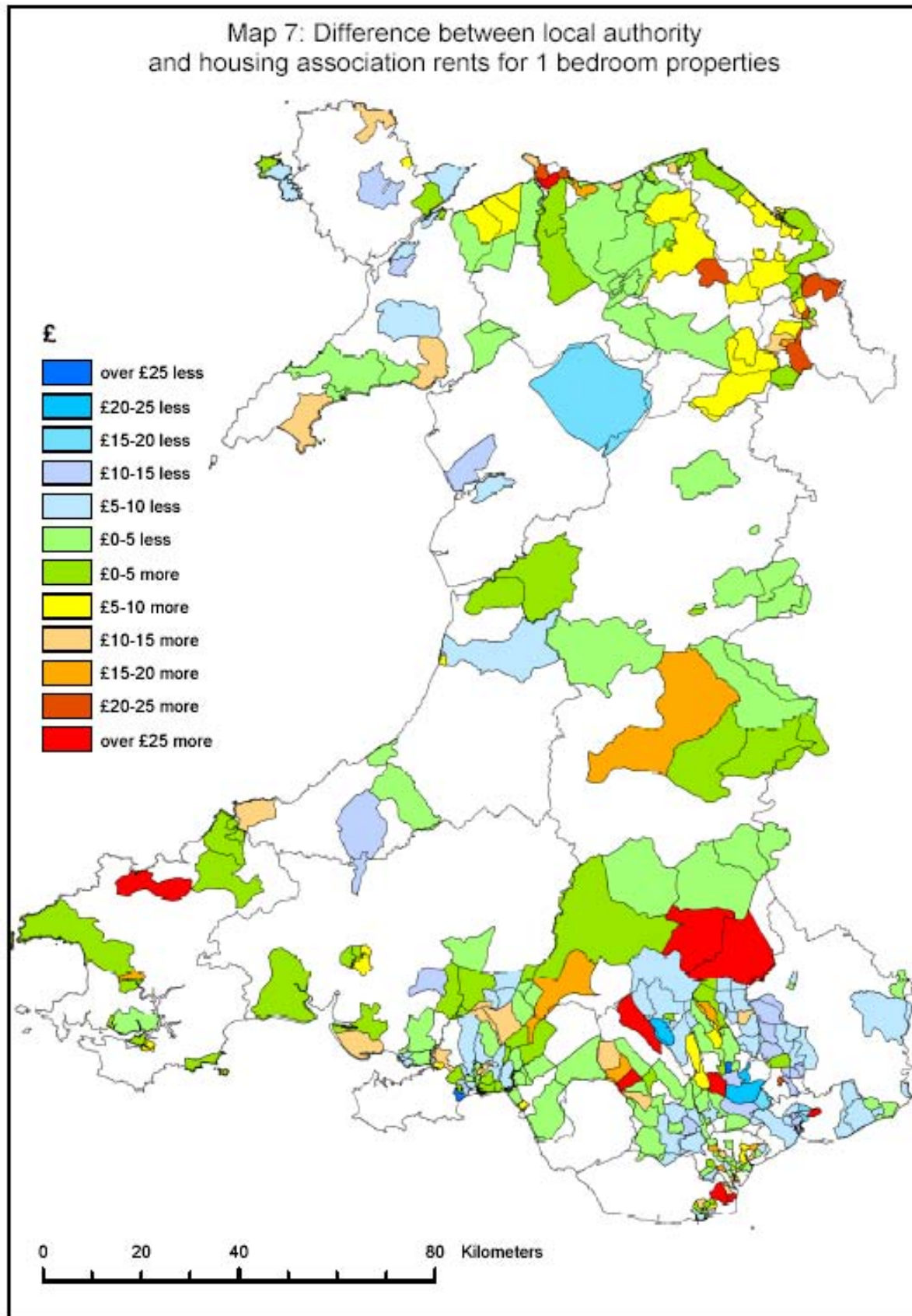


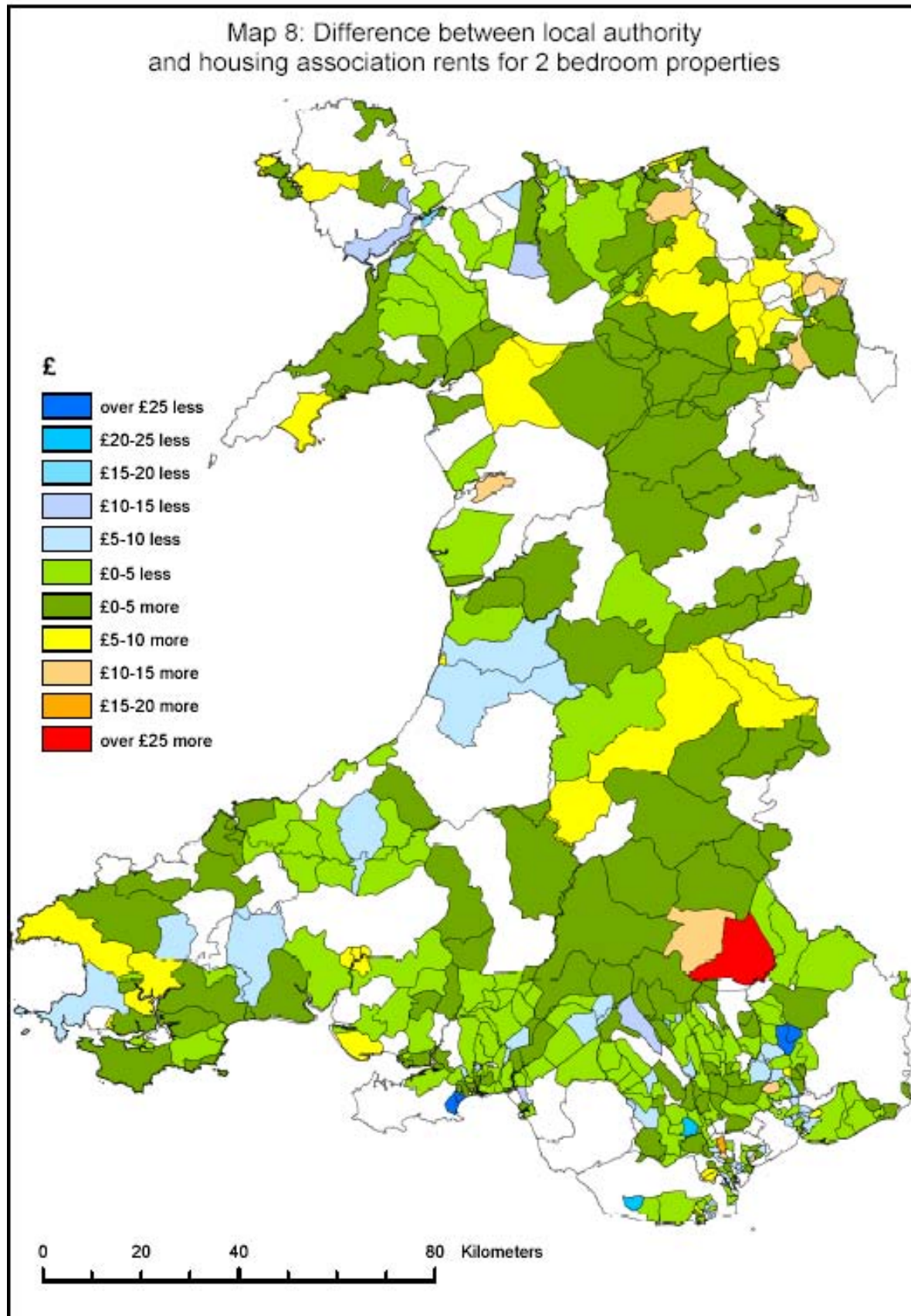


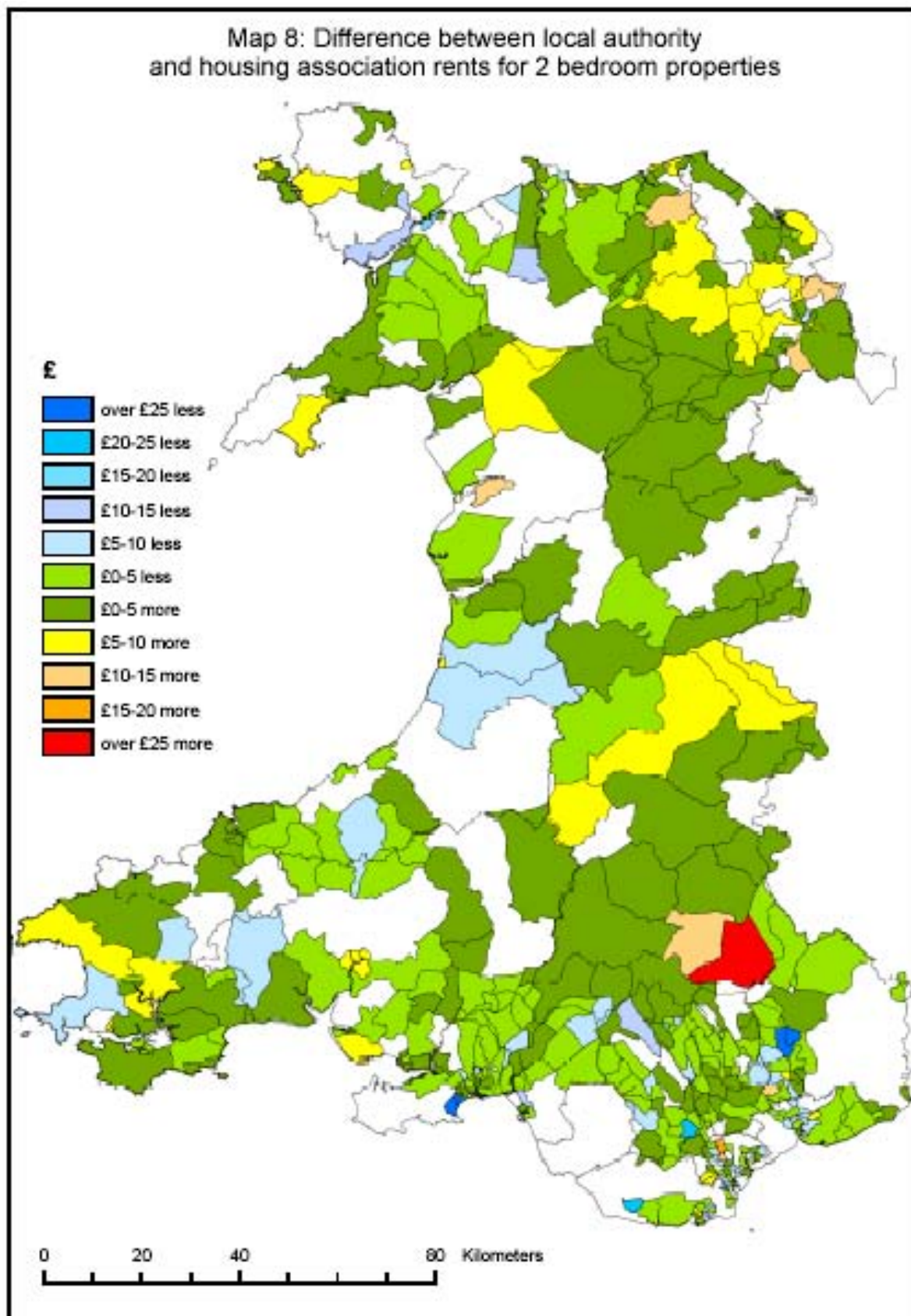


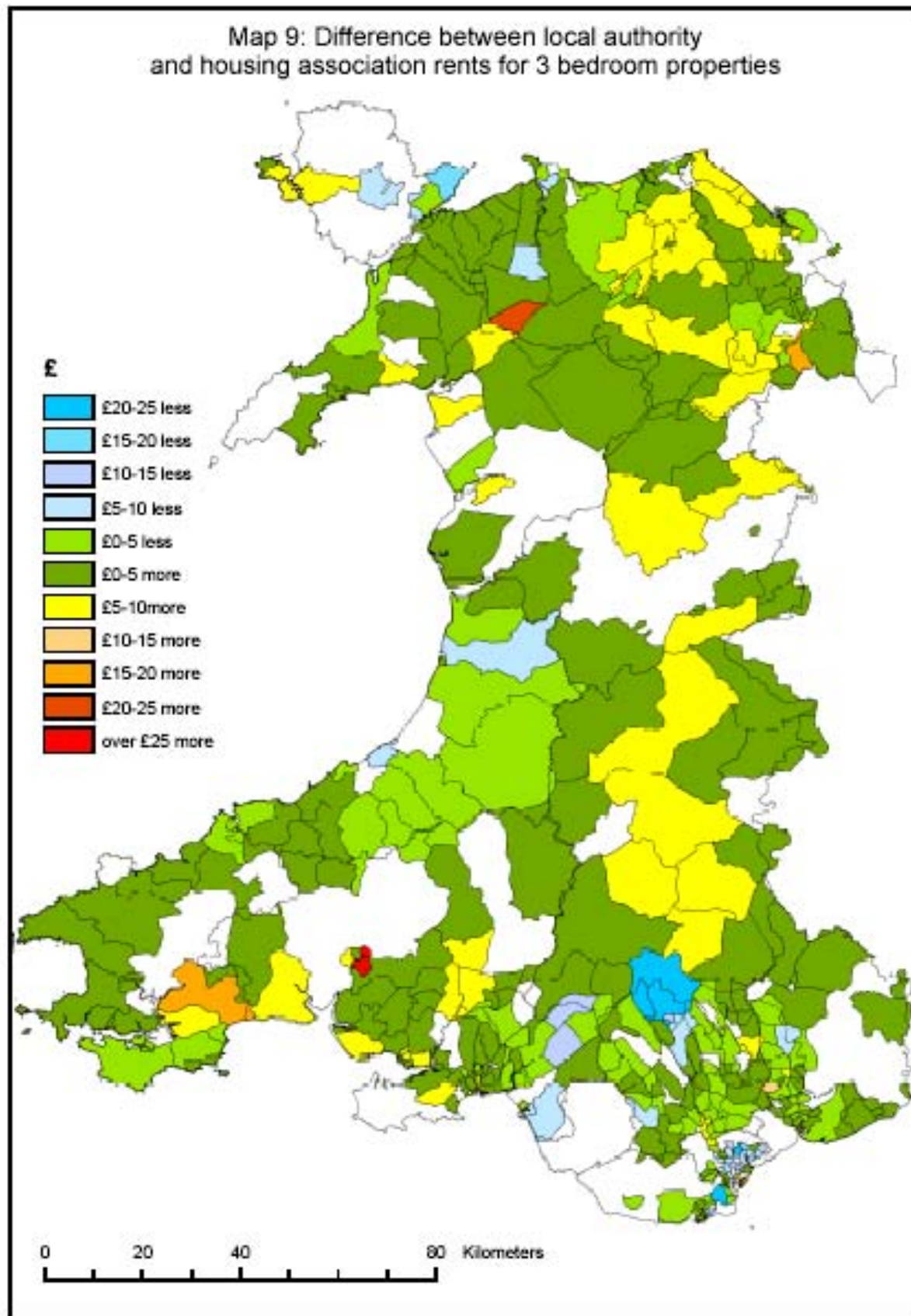


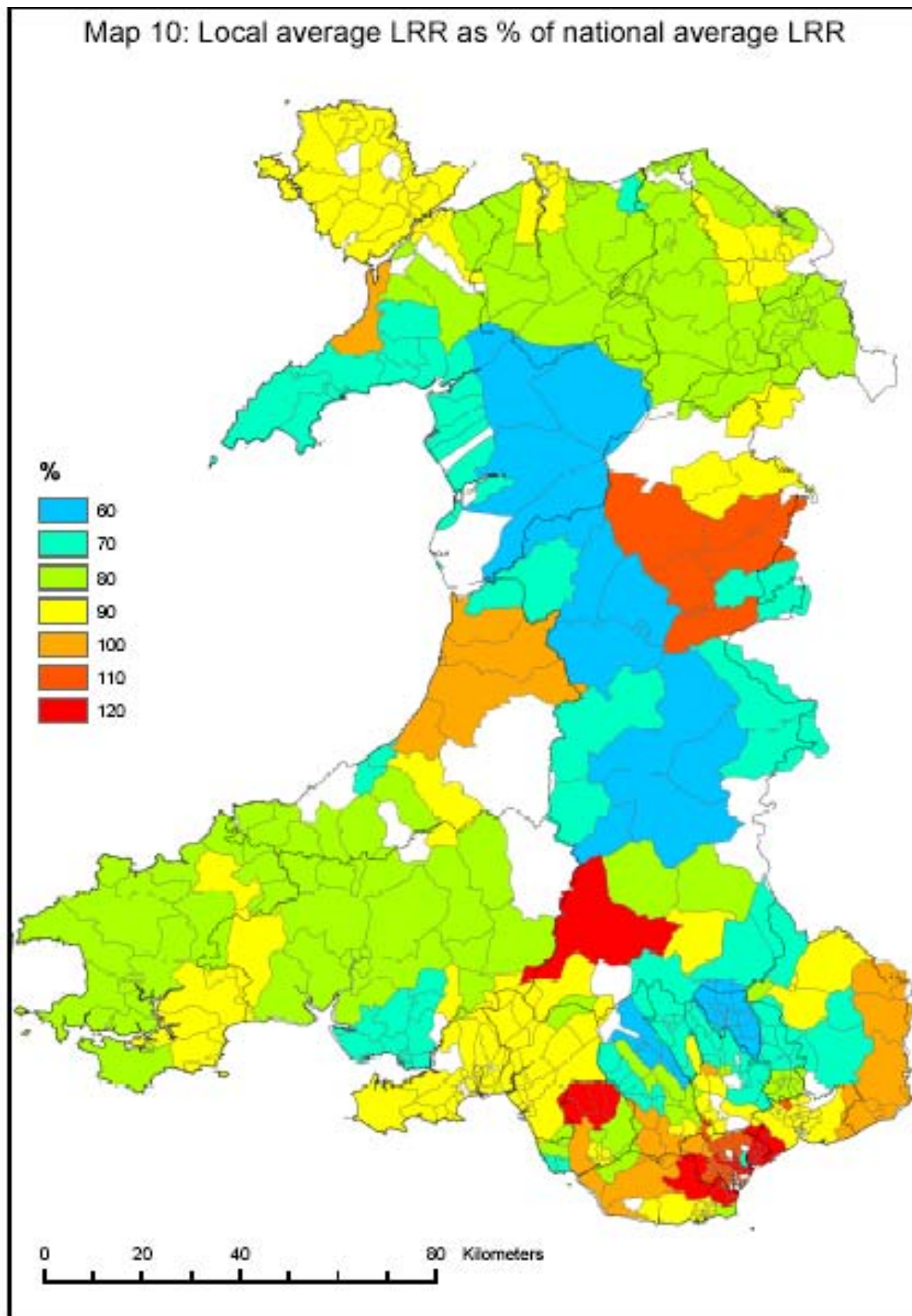




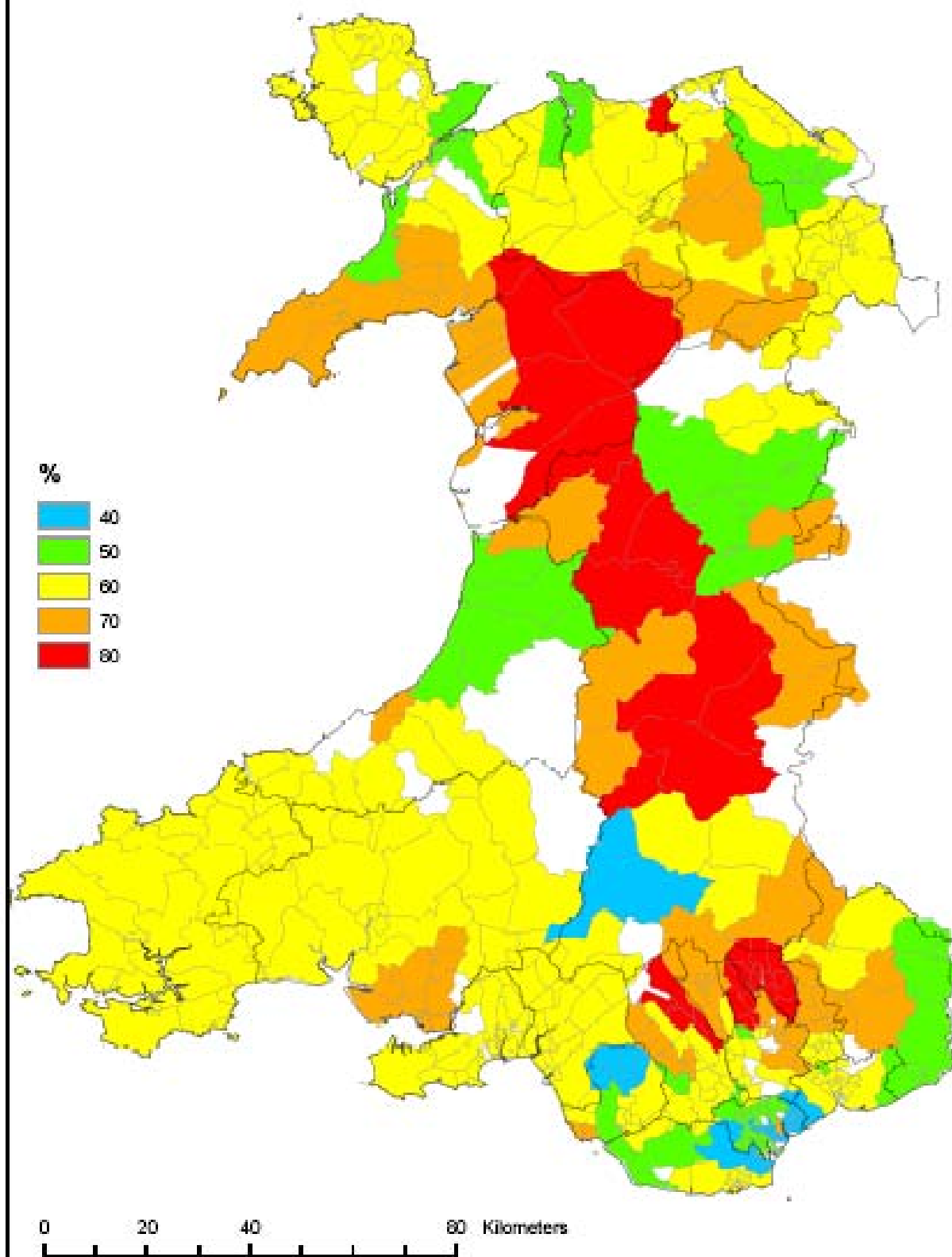


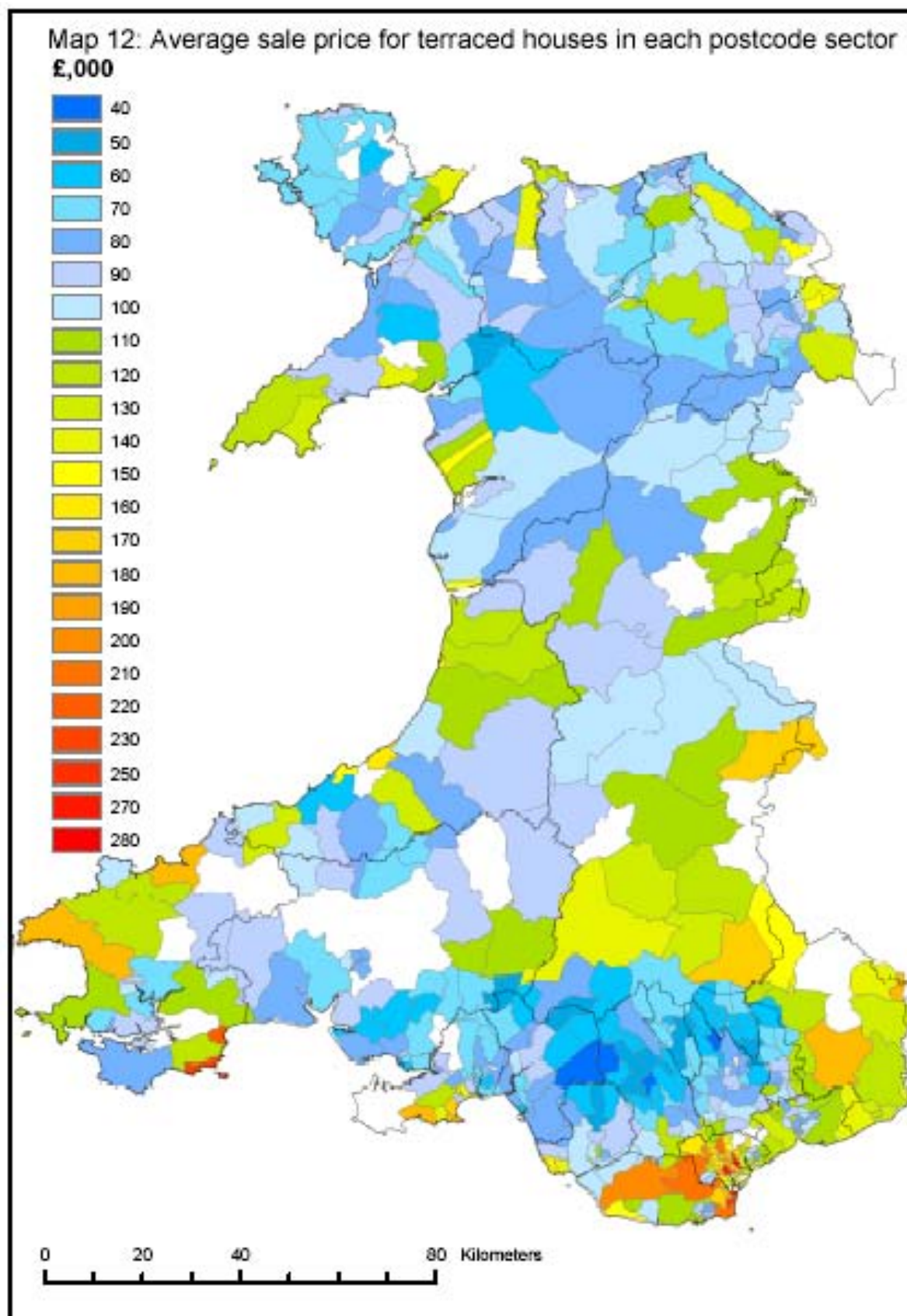


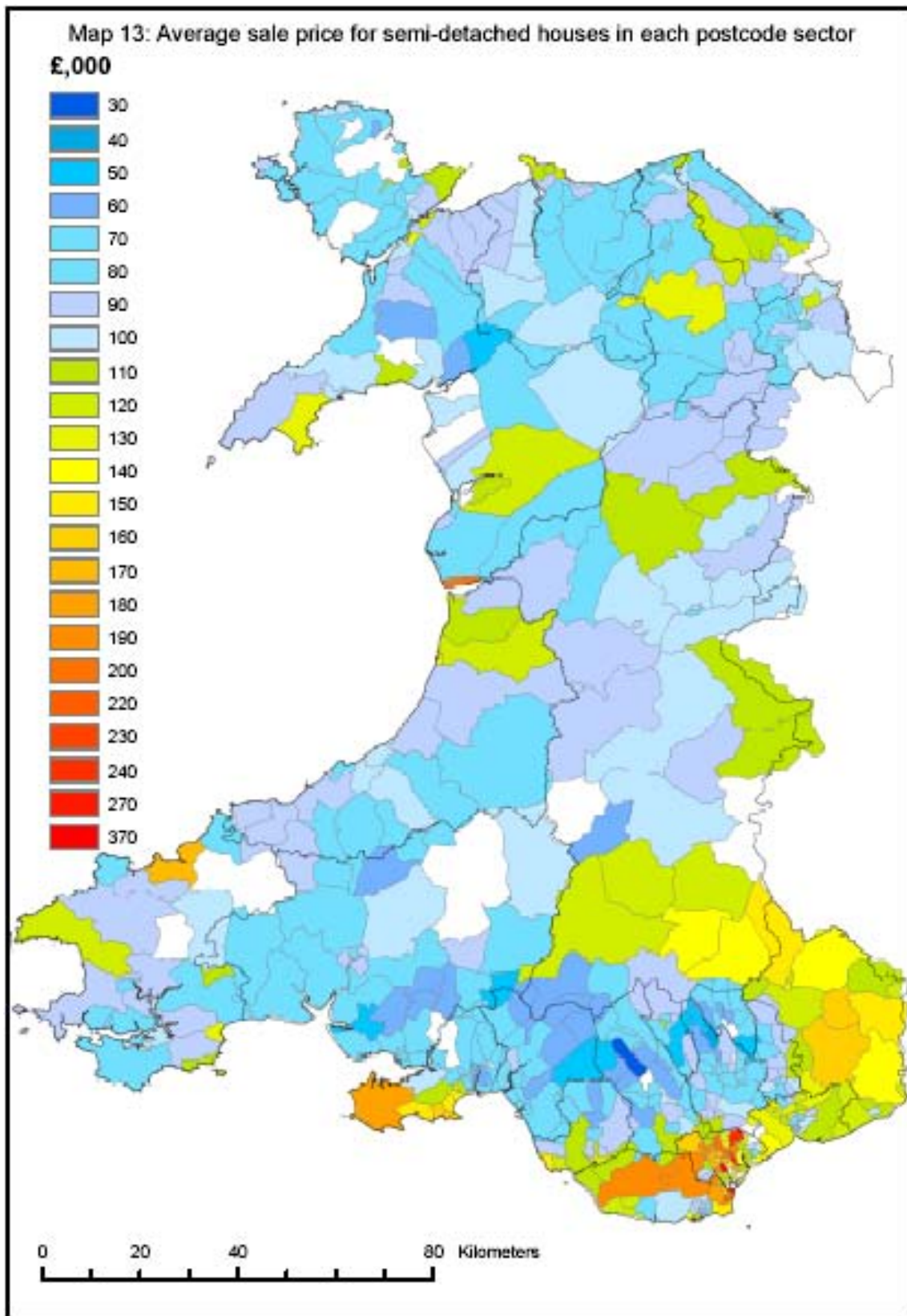


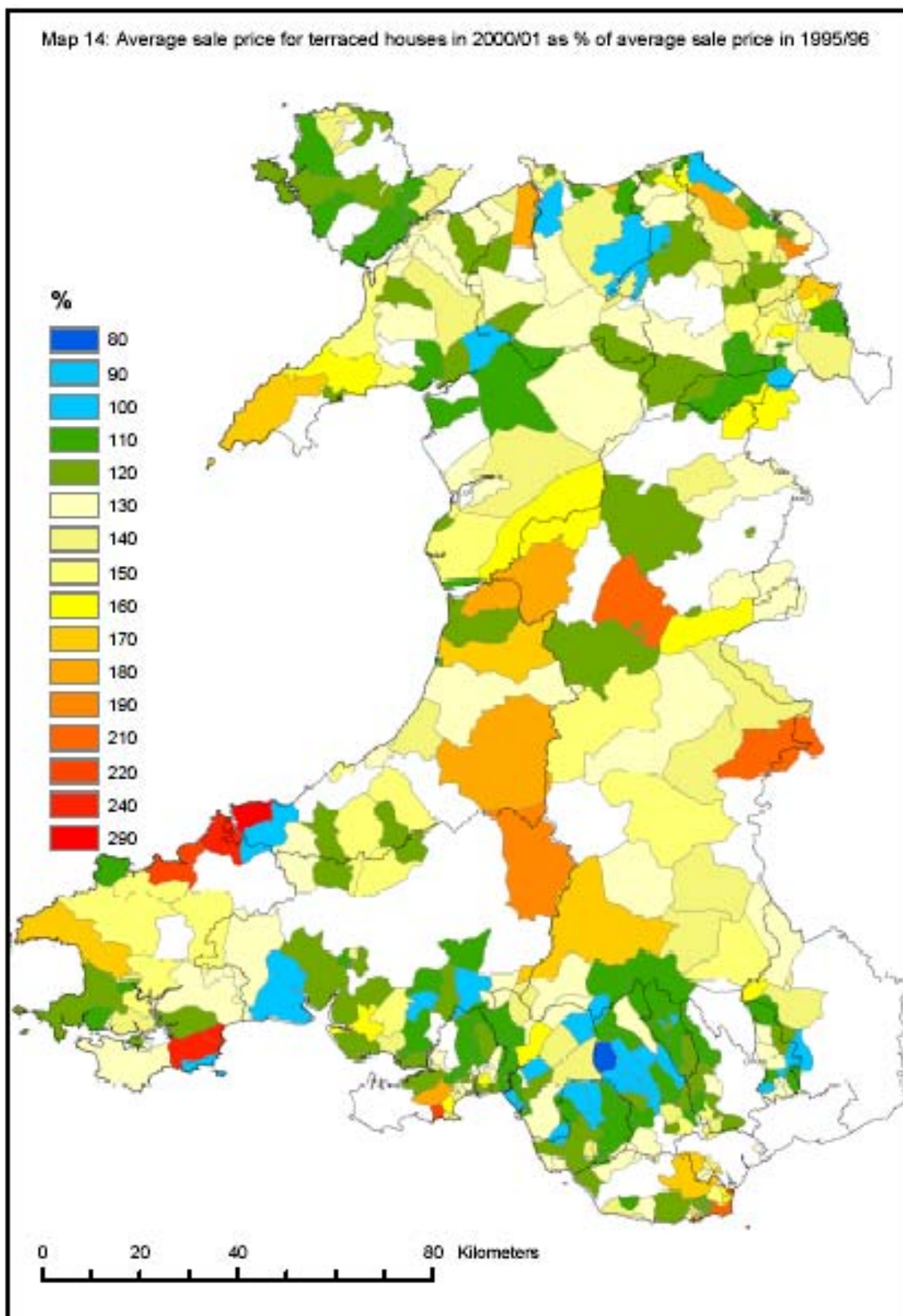


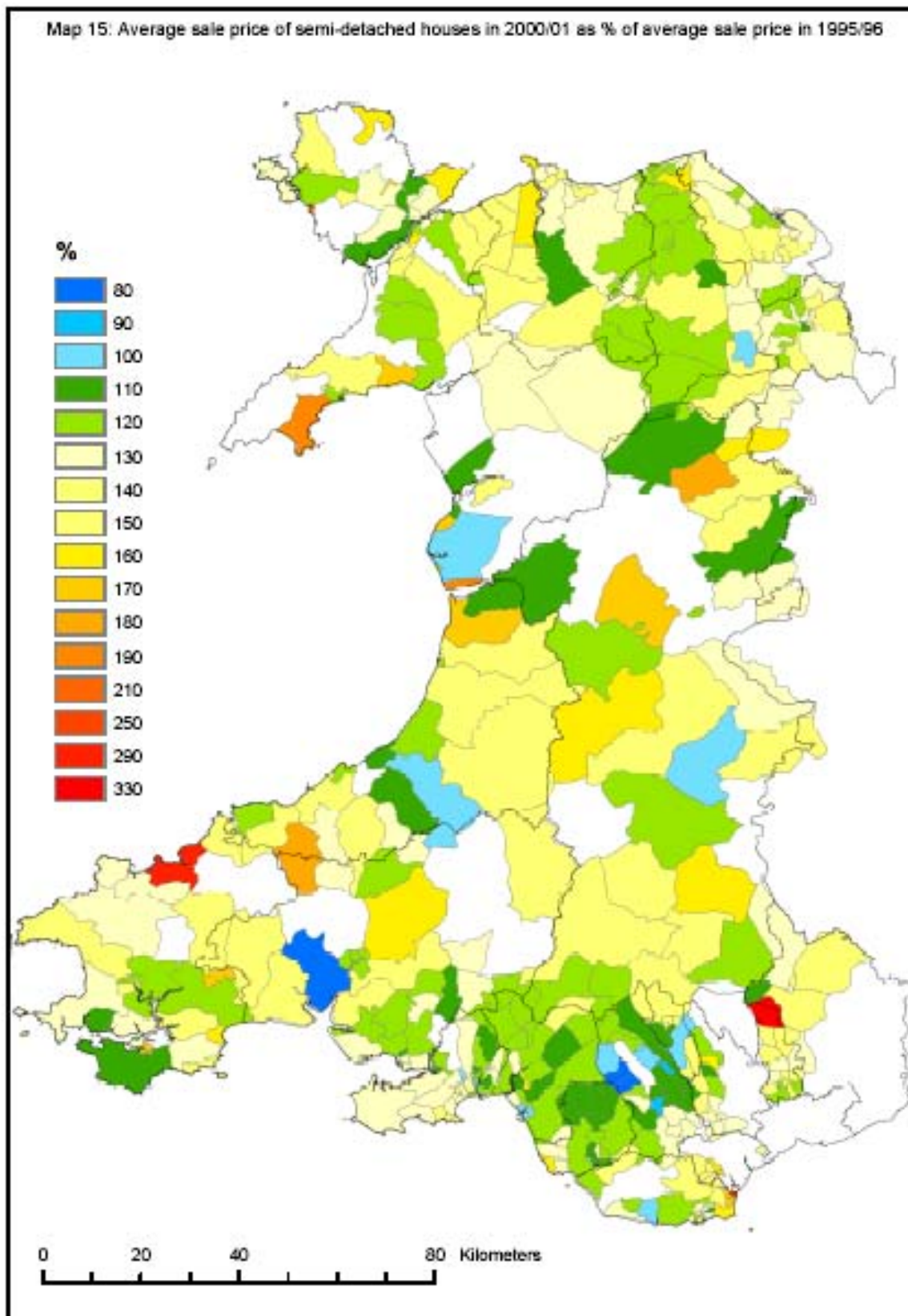
Map 11: 2003/04 benchmark rent as % of local average LRR











Appendix 1

Rent Restructuring in England

1. The background

In England, the government has embarked on a ten year programme to restructure all rents in the social housing onto a common base. Rents are expected to be set within plus or minus 5% of a target rent, calculated for each individual property, using a standard formula. The restructuring process is expected to be complete by 31 March 2012.

During the 1990s, average local authority rents had been brought into a pattern broadly reflecting the relative average capital values of houses in each district, through the mechanism of the housing subsidy system. The rent of any individual property, however, would reflect the local rent setting policy adopted (often many years previously) by the local authority.

Rents in the RSL sector, however, had shown an increasing divergence during the 1990s. This is thought to be primarily due to the impact of competition in bidding by RSLs for Social Housing Grant, with rents 'taking the strain' as RSLs reduced the proportion of the cost of procurement which was required to met from Social Housing Grant.

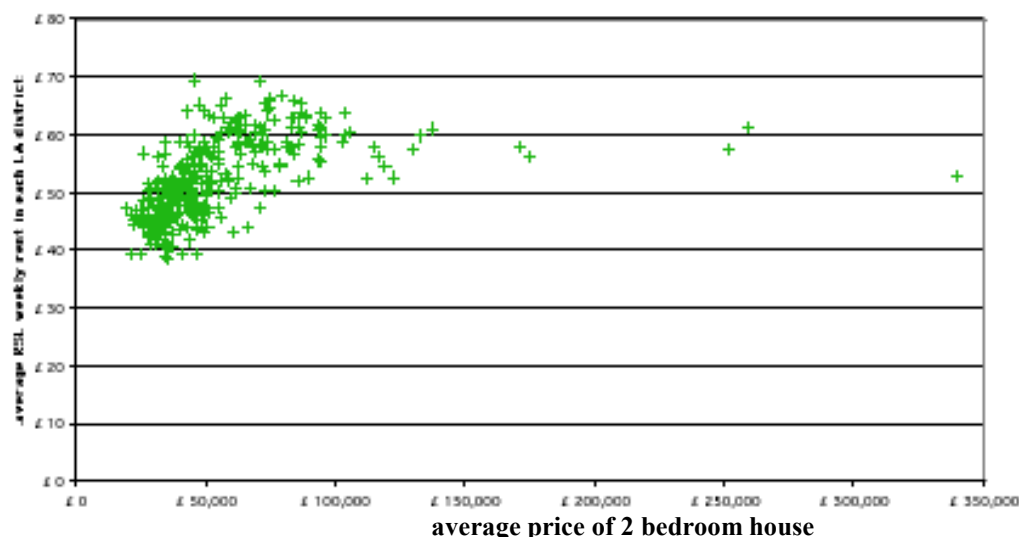
A pattern of rents developed in which the rents of properties in areas of similar house prices could vary widely. In 2000/01, the average rent charged by RSLs in Hambleton, in North Yorkshire, was £39.26 per week, while the average charged in Gosport, in Hampshire, was £69.47 per week, and yet house prices in both areas were similar at an average of £46,000. Similar discrepancies could be found all over the country, with rents in Congleton, in Cheshire, averaging £39.22 per week and those in Tendring, in Essex, averaging £58.83 while house prices were similar in both areas at around £40,000, or in Warrington where rents averaged £38.87 per week and Sedgemoor, in Somerset, where rents averaged £58.75 per week, while house prices averaged £35,500 in both areas. Conversely, similar rents could found in areas where house prices were widely divergent. Average rents in Westminster were £58.09 although house prices averaged £171,000, but rents in Richmondshire, in North Yorkshire, averaged £57.63 while house prices were only £47,000. Similarly, average rents in Hackney were £57.33 although house prices averaged £129,000, but rents in Corby, in Northamptonshire, averaged £56.95 while house prices were only £26,000.

The Map shows the pattern of average rents, in each local authority district, for two bedroom properties owned by Registered Social Landlords in England in 2000/01. The Map shows that although the highest rents tended to be concentrated in London and the immediately surrounding areas of the South East, the pattern of rents over the remainder of the country did not follow any apparently rational pattern. High rents, between £50 and £65 per week were found throughout the Midlands and the North of England, while areas with low rents, below £45 per week, were immediately adjacent to areas where rents averaged over £60 per week.

The national pattern is illustrated in the Figure below, showing the relationship between the average two bedroom house price in each district, and the average rent charged by RSLs in that district for a two bedroom property. The Figure shows clearly that there was little relationship between the two.

Figure A.1: Average RSL rents and house prices compared

Average RSL rents in each local authority district for 2 bedroom property, compared to average local house prices for 2 bedroom property in 2000/01



2. The restructuring of rent setting policy in England

2.1. The Formula for setting Target Rents

The Government's proposed formula for setting target rents was set out in the December 2000 Policy Statement *Quality and Choice: A Decent Home for All: The Way Forward*, modified by Lord Falconer's subsequent statement which

introduced maximum rent levels for the most expensive properties. Further details were contained in the *Guide to Social Rent Reforms* (DETR, March 2001).

The Government's proposals were as follows:

2.2. Service Charges

The Government's proposals for rent restructuring do not apply to service charges. The *Guide to Social Rent Reforms* (DETR, March 2001) stated that:

- “3.24 Ministers are keen to encourage landlords to levy service charges, including support charges for the Supporting People programme, on consistent and transparent principles Landlords are expected to ensure that service charges closely reflect what is being provided to tenants.”

Where service charges are made by social landlords, these are able to be increased by 0.5% per annum in real terms. Service charge increases, however are affected by the maximum change to any individual tenant's rent of £2 per week on top of the normal increase for inflation.

In the local authority sector, local authorities are allowed to retain a proportion of the real increase in income to the HRA which would result from the introduction of service charges. This proportion was 10% in the first year of rent restructuring, rising to 100% at the end of the ten year period. The excess income arising in any one year is clawed back through the subsidy system.

For social landlords whose net rents need to be increased to meet the target, the introduction or increase of service charges may well be limited by the £2 rule, but for those landlords whose rents must decrease, the decrease in income will be offset by any introduction or increase in service charges.

Therefore, a perverse incentive may have been introduced for those landlords whose rents must decrease to meet the rent restructuring targets, to introduce or increase the level of service charges.

2.3. Rent increases above inflation

Government policy has in practice been that the remaining 'net' rent element of charges to tenants should increase, after higher increases up to 2001/02, by 0.5% in real terms, above the rate of inflation.

In England, about 30% of RSL expenditure is on interest payments. Of the remaining 70% of expenditure, at least 60-65% is ultimately spent on wages and salaries, in the management and maintenance of the stock. These wage and salary costs can be expected to rise, on average, over a ten year period, by perhaps 1.5 to 2% in real terms, above the rate of inflation. This would result in a 19% increase in real terms expenditure on wages and salaries over the ten year period, or an increase of 8% in total expenditure above income.

Current policy in England is therefore imposing a significant efficiency pressure on RSL landlords. It can be assumed that a similar pressure is being exerted on local authority landlords, through the subsidy system, but the effects are less directly observable.

2.4. Setting target rents

The Policy statement proposed that target rents, for both local authorities as landlords and RSLs, should be set by a formula in which the rent for an individual property should be equal to:

- 70% of the England average local authority rent, net of service charges, at April 2000, estimated by DETR to be £45.60, or of the average RSL rent, net of service charges, at 1 April 2000, estimated by DETR to be £53.50
- modified in each (pre 1996) county area by the proportion of that county's average gross weekly earnings of full-time male and female workers to the England average of £316.40 per week (at 1999 prices)
- and further modified by a bedroom weighting, ranging from 0.8 for a bedsit, 0.9 for a 1 bed property, 1.0 for a 2 bed, to 1.05 for a 3 bed property and 1.1 for a property with 4 or more bedrooms

plus

- 30% of the England average local authority or RSL rent, net of service charges, at 1 April 2000,
- modified by the proportion of the individual property's open market value, with vacant possession, to the average value of the local authority stock in England in January 1999, estimated by DETR to be £41,350, or of the RSL stock in England in January 1999, estimated by DETR to be £49,750.

2.5. Maximum annual changes to rents

Changes to tenants' rents are limited by a £2 per week cap, or collar, in any one year. The Policy Statement said: 'We will expect social landlords to ensure that no tenant will be subject to a change in their rent as a result of the combined impact of restructuring and convergence of more than £2 per week in any year above the normal inflation-linked increase.' It is important to note that the £2 limit applies on top of the proposed real terms increase in rents by 2012/13. A tenant with a current rent of £100 per week, and a target rent of £135 would experience a real terms rent increase of £27.23 by 2012/13, while a tenant with a current rent of £100 per week, and a target rent of £75 would experience a real terms rent decrease of only £12.77 by 2012/13.

2.6. Maximum rents

In order to cap the target rents which would otherwise be generated by high house prices in London and a few parts of the South East outside London, the Government proposed that the maximum rent chargeable on a property should be capped at £100 for a four bedroom property, £95 for a three bedroom property, £90 for a two bedroom property and £85 for a one bedroom property.

The Government proposed that while target rents should rise in real terms, on top of retail price inflation, by 0.5% per annum, the 'cap' on high rents should rise in real terms by 1% per annum. The 'cap' will therefore increase at a faster rate than the average increase in target rents.

Figure A.2: The resulting pattern of target rents

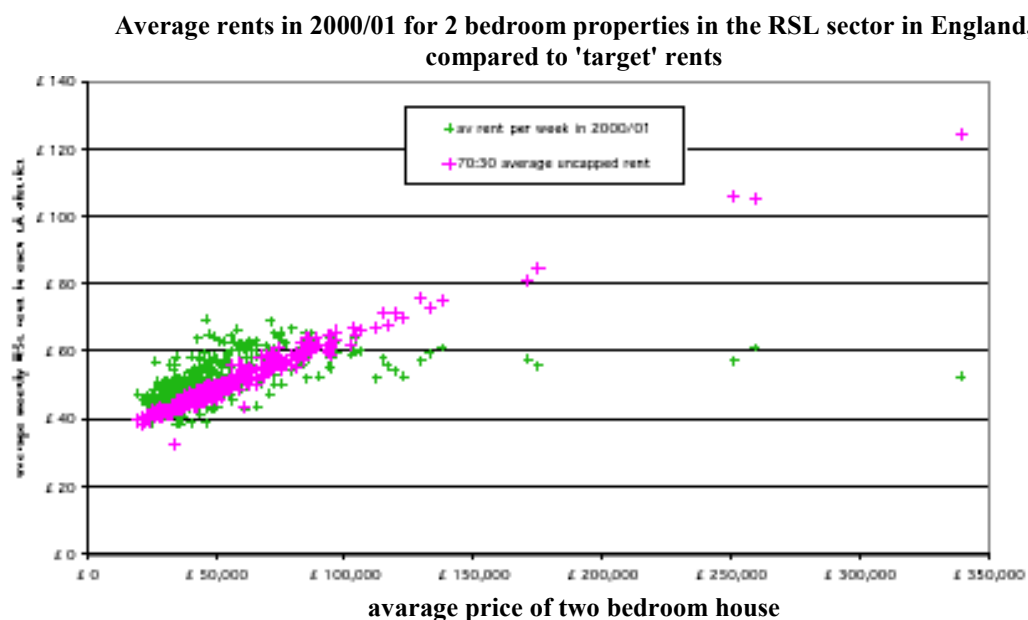
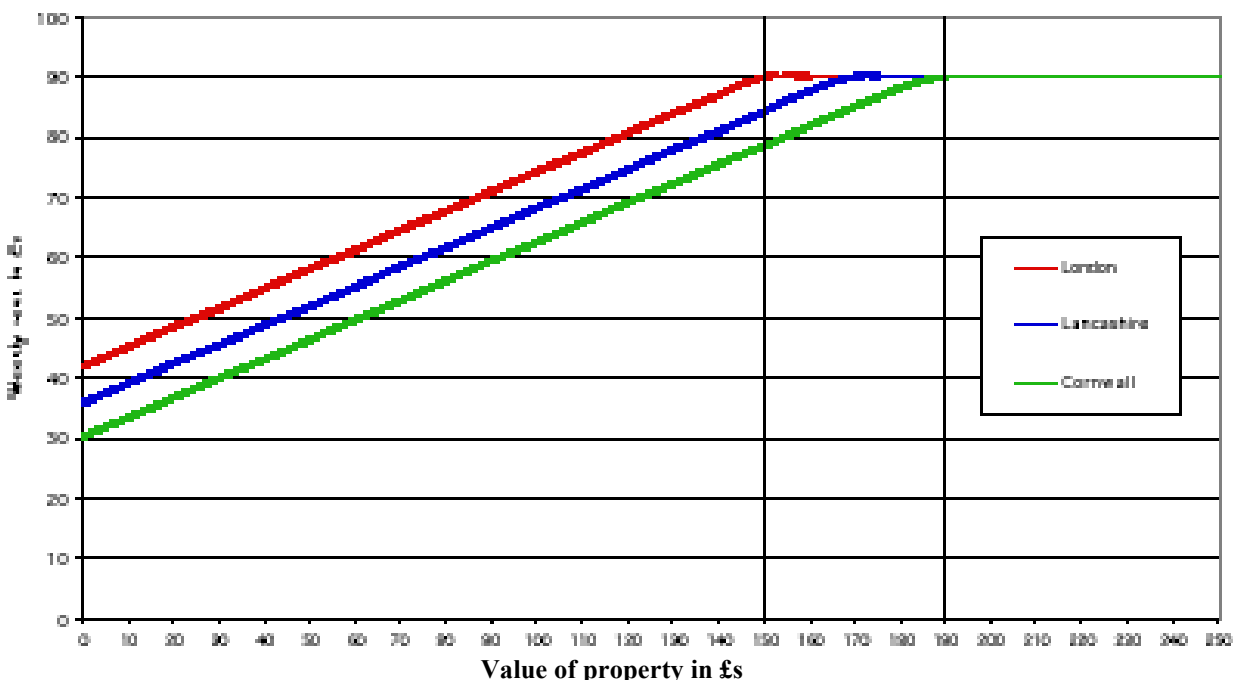


Figure A.3: Weekly target rents compared to property values in three counties

Weekly rents for 2 bedroom properties in London, Lancashire and Cornwall



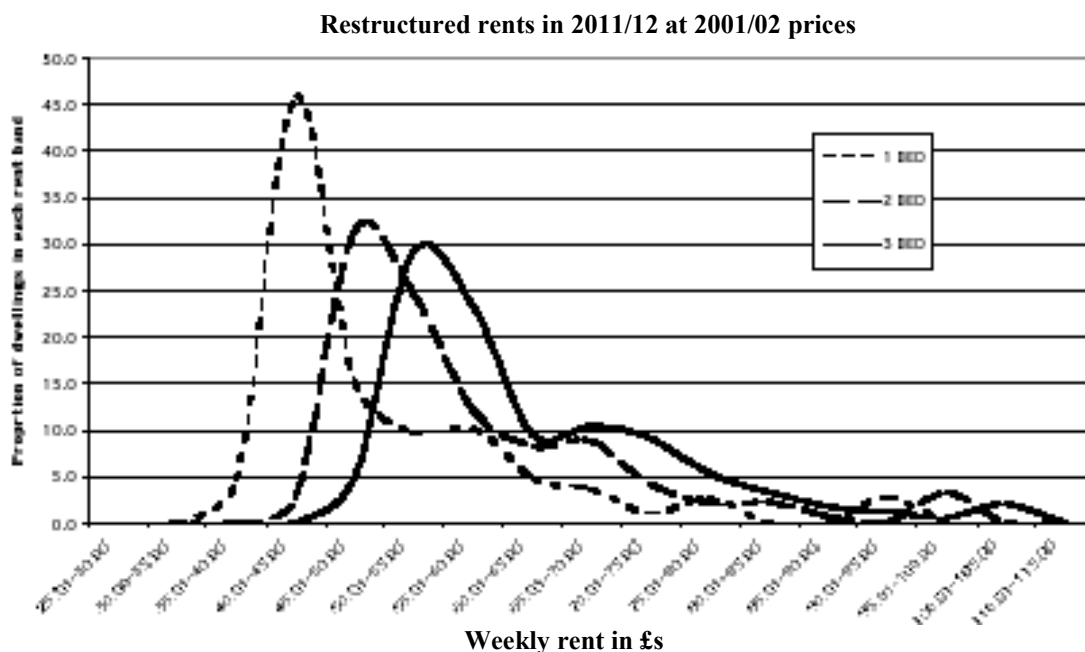
The effect of the rent restructuring proposals on net rents is illustrated in Figure above, which compares the formulaic target rent for a 2 bedroom property in three counties.

The following points should be noted:

- London has the highest county earnings, at £354.10 per week, and Cornwall has the lowest, at £255.50, compared to the England average of £316.40. Lancashire is roughly in between at £302.70.
- The heavy weighting of 70% given to earnings in the target rent formula (although modified to some degree by the bedroom weighting) results in a difference in rents of some £12 per week between a property in London which is worth the same as a property in Cornwall.
- Conversely, a rent of £50.00 per week in London would be charged for a property worth only £25,000, whereas the same rent would be charged for a property worth £65,000 in Cornwall.
- Because of the 70:30 weighting given to earnings:property values, and because earnings are higher in London, the 'cap' on rents of £90.00 per week for a two bedroom property is reached at the lower property value of £150,000 in London, and at the higher property value of £187,000 in Cornwall.

The resulting distribution of rents, at the end of the restructuring period in 2012, for one, two and three bedroom property, is shown in Figure below. As would be expected, the use of a formula driven approach to rent setting has resulted in a consistent distribution of rent differentials between different bedroom sizes.

Figure A.4: The distribution of restructured rents



3. Rent restructuring: some issues

There are a number of issues and problems resulting from the approach to rent restructuring in England, which are worth noting:

- The approach adopted, of a formula determined target rent, has effectively 'nationalised' the responsibility for rent setting. Social landlords in either sector are no longer responsible for setting rents for their properties: any difficulties created for tenants become the responsibility of central government.
- Although the target rent allows for a plus or minus variation of 5% in the actual rent charged, the use of a formula is effectively rigid: little experimentation in rent setting by landlords, either to reflect particular local housing market conditions, or the needs of particular tenant groups, is possible.
- The restructuring of rents has led to arbitrary changes in rental income for landlords. Some will experience serious reductions in rent income, while others will experience unforeseen windfalls (particularly among those RSLs in London which have hitherto attempted to keep rents low). While differences in income are relatively easily adjusted among local authorities through the subsidy system, no such mechanism exists for RSLs. Theoretically, it might have been possible to restructure the mix of SHG and debt held by each RSL, reflecting the changed ability of RSLs to finance private debt, but this was not attempted.

Instead, a specific grant fund has been created to assist those RSLs which have little historic stock but which have been actively developing in recent years (primarily the BME RSLs). These therefore tend to have comparatively high rents and are therefore least able to respond to reductions in rent income.

- The use of the spatial pattern of house values that existed at January 1999 effectively 'freezes' that pattern of housing demand into the future pattern of social rents. Relative declines, or increases, in the desirability of local housing markets (even at the micro level) will not be reflected in the pattern of future rents. While year on year changes would be undesirable, the use of a 'rolling average' approach for market values would allow changes in local housing markets to be reflected in the pattern of housing costs for tenants.

The use of a 'cap' on high rents, necessitated by the use of a 'straight line' relationship between house prices and rents, nevertheless creates a peculiar anomaly within areas of London and the South East, where the differentials in rents of properties with widely differing values will effectively be flat. This anomaly rather undermines the fundamental purpose of rent restructuring.

A different problem exists at the 'bottom' of the rent structure. The 70% weighting given to earnings in the formula results in substantial rents being charged for properties with very little, or no, market value. A terraced house in an industrial town in Lancashire might be worth, in a reasonable area, £25,000 and have a target rent of £43.89 per week (£2,282 per annum), while a similar house in an area suffering from abandonment might have a market value of nil: but the target rent would still be £35.80 per week (£1,862 per annum). Whether tenants would regard an £8 per week reduction in rent as a sufficient inducement to occupy the worthless house must be questionable.

This anomalous situation has serious implications for the asset management strategies of landlords. Clearly, if a tenant can be found to occupy a worthless property (or any property of very low open market value), then the landlord is guaranteed an income stream probably considerably in excess of the management and maintenance costs of the individual property, and one which represents a bizarrely high rate of return on the capital value of the asset. In these circumstances, it is unlikely that the landlord would recognise any impairment of the value of the property in its accounts (since the income stream is unaffected), and will be reluctant to develop an asset management strategy which recognises the effective collapse of values in the locality.

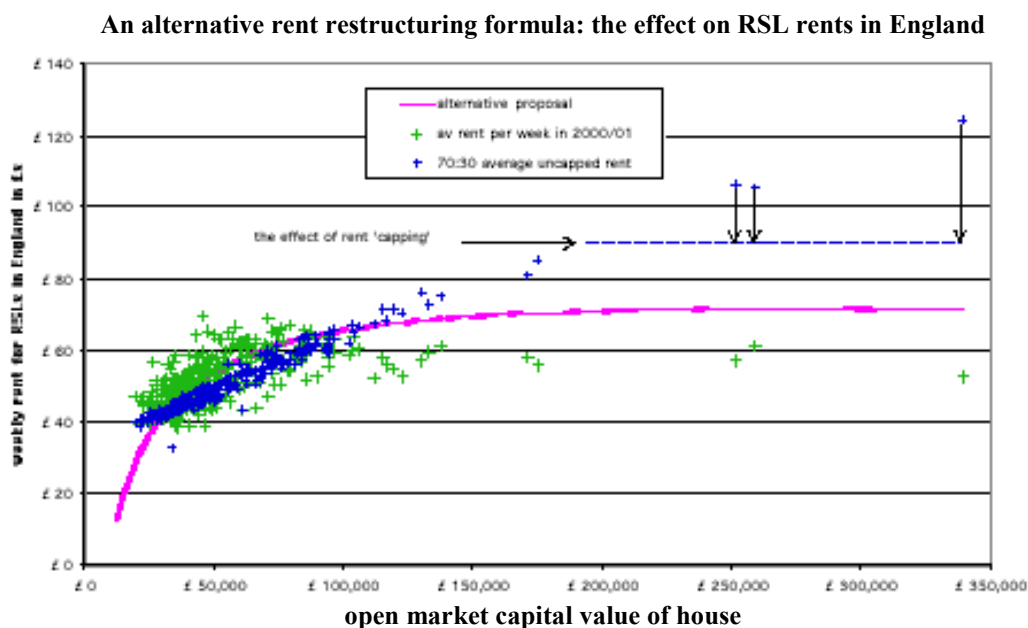
4. Conclusions

If a systematic, formula determined approach to rent setting is felt to be desirable, then a modified approach which sought to address the points above might have the following features:

- A wider band of tolerance around the 'target', or an explicit system for approving exceptions or derogations to the formula to allow for greater experimentation by landlords in reacting to local housing market conditions.
- A combined approach to restructuring the mix of SHG and debt for RSLs to reflect any changed capacity to fund private debt.
- The adoption of a formula which allows rents to cover little more than minimal expenditures on low value properties, and which avoids the necessity for rent 'caps' on high rents.

An example of how such a formula might work is shown in the Figure below:

Figure A.5: An alternative rent restructuring formula



Such an approach, while it would avoid the problems of excessively high rents in lowdemand areas, and the artificial 'capping' of rents in the most expensive areas, would require the use of more complex formula than the relatively crude, 'straight line' approach adopted in England.

APPENDIX 2:

EXTRACT FROM 'BETTER HOMES FOR PEOPLE IN WALES: A NATIONAL HOUSING STRATEGY FOR WALES'

(National Assembly for Wales, 2001)

G.13 SOCIAL HOUSING RENTS AND AFFORDABILITY

We recognise the important connections between social housing rent levels and tackling social disadvantage. Where rent levels are fair and affordable, tenants will have a greater incentive to get off benefits and move into work.

Affordability is considered an important issue in the social housing sector in Wales. This is because many Welsh tenants still face difficulties in meeting their housing costs, with some critics claiming that policies often fail to take account of non core rent costs such as service charges and utility bills.

In addition to affordability issues, there remain concerns about the fairness and consistency of rents. We are concerned about indications that suggest the broad pattern of rents across Wales' social housing sector is not always a coherent one.

We will aim to:

- work in partnership with local authorities to achieve fair and transparent rent systems which deliver affordable rents;
- continue to regulate registered social landlords' rents to achieve levels which are affordable, whilst enabling registered social landlords to be financially viable and deliver a good standard of service
- compare and seek to address unjustifiable differences between the rent levels of local authorities and registered social landlords; and
- ensure that where anomalies are identified a restructuring process is agreed with the landlord that achieves an equitable structure within a timescale that is not to the detriment of the majority of its tenants.

G.13.1 Local Authority Rent Policy

By setting Housing Revenue Account System (HRAS) guideline rents, we are able to exert significant influence to help ensure a more rational distribution of overall average rent levels across Welsh local authorities.

Actual rents, however, are the responsibility of individual authorities. Underpinning this responsibility, authorities have a legal requirement to charge consistent rents under section 24(3) of the Housing Act 1985 (inserted by section 162 of the Local Government

and Housing Act 1989). In simple terms, authorities must ensure a broadly consistent relationship between the rents of all of the council's dwellings and market rents.

G.13.2 Registered Social Landlord Rent Policy

For a number of years, Wales has led the way with policies designed to moderate registered social landlord rents. This is reflected in the National Assembly's Regulatory Requirements for registered social landlords, which require that: "RSLs should set rents and service charges which are as low as possible, whilst remaining financially viable and providing a good standard of service to their tenants." The benchmark rent system requires registered social landlords to charge maximum rents for key property types which, when averaged, are no greater than the benchmark laid down by the National Assembly. The benchmark is reviewed annually and increased in line with inflation.

As a result of the operation of the benchmarking system in Wales, the disparity of rents for social housing in different sectors has been much less of a problem than in England.

In many local authority areas, there is already convergence between local authority rents and those of registered social landlords. At a national level, the estimated difference between Welsh local authority and registered social landlords' rents is around 12 per cent, compared to around 20 per cent in England.

In addition to benchmarking, some all-Wales initiatives have been undertaken where affordability has been one of the desired outcomes. For example, the registered social landlord benchmarking system has been used in conjunction with energy efficiency schemes to share, between landlords and tenants, the financial gains of improved energy efficiency resulting from additional investment.

G.13.3 Fair And Affordable Rents

We believe that local landlords are ultimately best placed to determine rents in their areas. We do not propose the introduction of any nationally uniform system to structure social rents. We consider, however, that there is a strong case for social landlords to review their rent structures with the aim of achieving greater consistency and fairness.

Since April 2001, we have been working in partnership with local authorities and registered social landlords to enable them to put in place long-term schemes to periodically review their rent levels, and where major inconsistencies are widespread, to restructure their rent systems.

A research project will be undertaken to consider actual social housing rent levels (and associated costs) in Wales, and to inform future guidance on local rent policies.

In carrying out this project, it will be necessary to make links to other policy areas and initiatives. In our view, any measure of affordability needs to take account of the cost of all major household necessities. Of notable importance are:

1. energy efficiency and fuel poverty;
2. and the "Supporting People" proposals, given that it seems that many local authorities are including support costs within general needs rents.

G.13.4 Rent Convergence

To achieve progress towards convergence of rent levels between the local authority and registered social landlord housing sectors, it is important that we have sound rent data so that meaningful comparisons can be made.

To this end, we propose to review the data we collect on rents, and to openly publish the analysis of that data.

G.13.5 Service Charges

Looking at rent levels alone will not lead to effective policies for tackling the problem of affordability. One important cost which falls to most tenants but which is often ignored in policy debates is service charges. It is clear that the way that service charges are charged by landlords varies radically across the local authority and registered social landlord sectors.

We consider that the way that service charges are levied in some areas can seem unfair and confusing to tenants.

The research project that looks at social housing rents will encompass service charges. This will lead to the production of guidance on social housing service charges.