

# Independent Affordable Housing Supply Review: call for evidence

A response from the Joseph Rowntree Foundation (JRF) and the Bevan Foundation, prepared by Dr Tom Archer and Ian Wilson from the Centre for Regional Economic and Social Research at Sheffield Hallam University.

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## Recommended actions

1. Understanding need, and then formulating and influencing supply responses means planning at wider spatial scales. This demands new vehicles for governance, strategy setting and operational collaboration.
2. Set out a measure of affordability for the sector, define if and how the regulatory framework for housing associations can identify affordability issues, and strengthen the role of existing residents in developing rent policies.
3. Review the allocation of Social Housing Grant, and other housing related grants, to better target allocations based on demand-side factors and allow for greater adjustment of grant levels between lower- and higher-demand areas.

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## Introduction

JRF is an independent social change organisation, working to solve UK poverty. Improving housing provision, and its affordability, is a critical component of this and one which has been made increasingly difficult in recent times. We have become aware of the strong headwinds affecting the Welsh housing market, and the very real consequences for households on low incomes. In parts of Wales, such as the South Wales Valleys, rapid demographic change, challenging economic conditions, ongoing issues with the existing housing stock and the delivery of new supply - allied with a myriad of challenges arising from changes to the welfare system - have created acute pressures on household budgets as well as the budgets of those who provide affordable housing. Hence in 2017, working closely with the Bevan Foundation and other local stakeholders, we commissioned research to understand how the housing markets in the South Wales Valleys<sup>1</sup> are likely to change over the coming 10 years.

The [research](https://www.jrf.org.uk/report/effective-housing-people-low-incomes-welsh-valleys), conducted by the Centre for Regional, Economic and Social Research (CRESR) at Sheffield Hallam University, was published in June 2018 and is available at <https://www.jrf.org.uk/report/effective-housing-people-low-incomes-welsh-valleys>.

The study was structured in two phases, with the first drawing together various secondary datasets to establish a baseline for what is likely to happen in the housing markets of the Valleys in the next 10 years, with a particular focus on outcomes for low-income households. This baseline analysis identified three broad challenges facing the provision of housing for those on low incomes in this area, which are likely to be mirrored across the entire nation:

- **Residents face low incomes and high housing costs.** Social and private sector rents have become unaffordable for many on low incomes due to a cocktail of successive governments' welfare reforms, rent setting at levels above inflation, low and slow income growth, and rising rents in the private rented sector.
- **There is an under-supply of appropriate housing in many areas.** This has been caused by shortages of certain housing types (such as one- and two- bed social housing), changes in population demographics and household size, and welfare reforms limiting payments for some households.
- **There is an over-supply of certain housing types in certain locations.** Again, this has been caused by excess supply of, and low demand for, certain housing types (such as four-bed social housing and sheltered housing), changes in population demographics and household size, and welfare reforms limiting payments for some households.

The second phase of the research sought to develop solutions to the challenges faced, grounded in various consultations with residents, stakeholders and housing leaders. Any systematic intervention in the Valleys housing market was seen to require: efforts to ensure housing is affordable to residents, whilst also being financially viable for providers; that policies need to support the improvement and better use of existing housing stock; that new housing provision has to target specific needs and demands. The following response to this Call for Evidence draws heavily on the material and findings from this study. Though the study's focus was the South Wales Valleys we

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believe the learning and conclusions that are drawn are applicable more widely across Wales. This is because the main challenges facing the provision of affordable housing in this area are generally a concentrated version of those facing the provision in other housing markets in Wales.

Our response focuses on three areas of the Call; **Understanding housing need (Question 1)**, **Grant allocation and intervention rates (Question 2)**, and **Rent policy (Question 3)**. In responding to the questions posed, we set out some of the key evidence we have gathered, as well as a number of policy and practice recommendations. Prior to responding to these specific three issues however, we provide evidence and guidance on a cross-cutting concern which is central to the Review's terms of reference to 'examine how partnership working is currently governed between local authorities and RSLs, together with wider more extensive collaboration, and recommend how relationships can be maximised to deliver on housing supply ambitions'.

Our research has shown just how fundamental an issue this is, and how a failure to focus on this will hamper efforts to improve housing provision for those on lowest incomes.

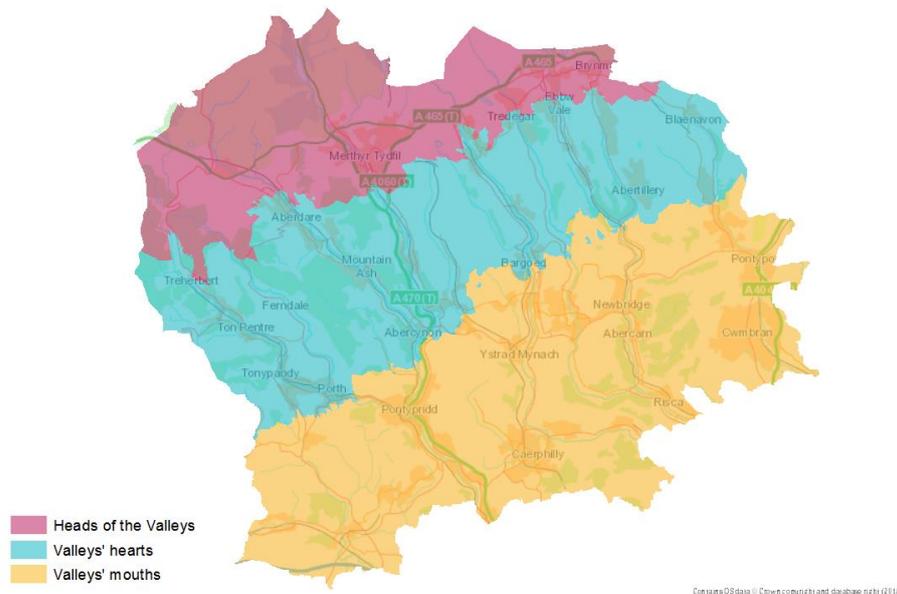
### **Partnership, collaboration and improvements in housing provision**

Addressing the challenges in the provision of Affordable Housing requires area level planning, partnerships and collaboration to maximise the capacity and economies of scale of providers. This response relates to the following questions in the call for evidence:

- Question 1b - how should Welsh Government ensure that both housing need and demand is considered/met?
- Question 8 - capacity of public sector and RSLs.

Housing markets do not correspond to current administrative boundaries. For example in the Valleys broad housing market areas run east to west across the Valleys and multiple local authority areas. Whilst the boundaries are far from hard and fast, they reveal geographic patterns between areas with similar access to employment and services and house prices/rents (see Figure 1).

**Figure 1: Illustrative location of the three housing markets in the Valleys**



The geographic size and budgets of individual local authorities means there is a natural constraint on their capacity to plan, develop strategic relationships, handle complex planning issues with diffuse effects and to assert their priorities with developers operating at much larger spatial scales (**Question 8a**). This is exacerbated by large reductions in local authority budgets in recent years.

Linked to this issue, the spatial scale at which the local authorities operate hinders their capacity to identify and deal with displacement issues. Population projections suggest some areas are set to lose significant amounts of 16-34 year olds, for instance Blaenau Gwent. And yet these areas have seen some of the lowest levels of development of smaller properties - a supply response which could potentially counter this outmigration. If these movements are not foreseen and planned for at a bigger spatial scale, collectively local authorities will not supply the required housing to address underlying demand. Furthermore, small administrative units are likely to misalign with the operational geographies of housing associations and other developers who are working across larger geographies, which have diverse stock profiles and disparate organisational agendas. This means that new supply may be driven by the organisational priorities of providers, and not sufficiently by underlying demand factors.

The absence of a broader governance system, and the fact that many housing associations active in the Valleys operate sub-regionally or nationally, creates challenges in achieving economies of scale. It is unlikely that planning and housing strategy functions can support and maximise opportunities, for instance around consortia for modular development, without a system for developing shared policies, strategies and approaches to funding.

In essence, the current system for planning and managing the provision of housing is inadequate in dealing with dynamics at a broader spatial scale. This demands new vehicles for governance, strategy setting and operational collaboration.

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Our research therefore recommends the formation of a sub-regional housing partnership whose task is to agree a set of shared housing priorities and develop a memorandum of understanding between local authorities and housing providers. This draws on lessons from areas such as Greater Manchester and will need to be promoted by both Welsh Government (**Question 8b**) and participants in the sector, such as RSLs (**Question 8c**). The research concludes that Welsh Government, local authorities and housing providers should actively pursue the following:

- The formation of a sub-regional housing partnership to assess and agree cross-boundary priorities and housing related activity, and set these down in a formal memorandum of understanding.
- The creation of a strategic development plan and delivery plan for housing across authorities.
- The integration of the sub-regional partnerships into the governance arrangements of the local economic development structures such as the Cardiff Capital Region.
- The development of consortia capable of delivering economies of scale.

## **Understanding housing need (Question 1)**

**Question 1c: how should Welsh Government use existing housing needs data to better inform policy making and programme delivery? Does the data tell us what the issues are/what are the gaps?**

A wide range of small area housing needs data should be used by Welsh Government, and other stakeholders, to understand the multi-faceted issues present in the provision of Affordable Housing at the local level. The datasets should cover:

- population and migration,
- connectivity - travel times and costs as well as future infrastructure projects,
- the local labour market,
- household incomes and the (financial) impact of welfare reform,
- existing and planned housing provision by tenure, type, size and cost (rent).

The CRESR analysis considered the interaction of these datasets to identify the very different housing market conditions that areas within the Valleys are experiencing. This analysis can be used to inform better policy making and programme delivery by identifying broad types of areas and the challenges that they are facing.

For example our analysis in the Valleys identified three broad markets:

- The Valleys' hearts which typically contains low-demand areas with poor connectivity to urban and/or employment centres. House and rental prices are low, as are household incomes. Their populations are declining and population

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aging. Housing need for smaller one-bed properties is mismatched against the available stock.

- The Valleys' mouths which typically comprises high-demand areas with good connectivity to urban and/or employment centres: Cardiff, Newport and the M4 corridor. House and rental prices are higher and residents are more likely to be in employment. However affordability is an issue for those on lower incomes and there is a more limited supply of social housing. Their populations are increasing and younger. These areas have seen larger increases in stock as sites are viewed to be more profitable.
- Finally the situations in the Heads of the Valleys are somewhere between those in the hearts and mouths.

The CRESR analysis highlights the importance of taking a granular assessment of future housing need. Also assessments should be updated regularly (at least every five years) or in line with economic changes and infrastructure investments that are shown to have a significant influence over housing markets.

Demographic changes, and migration patterns, are going to powerfully shape housing need and demand in the coming years, again highlighting the need to look across administrative boundaries. For example the population of the Valleys is projected to increase by 1% by 2025, which is less than the projected 2.5% growth for Wales' population as a whole. Growth, however, will be unevenly felt. In the Valleys Blaenau Gwent's population is projected to fall and Merthyr Tydfil's population is expected to remain fairly static. In contrast Rhondda, Cynon, Taf and Caerphilly are expected to see population growth of 1.8% and 1.2% respectively. Based on recent population change between 2010 and 2015 the largest growth has occurred in more urban areas, particularly those with transport links (for example Cwmbach, Griffithstown, Llanharan and Ystrad Mynach). In contrast a number of particularly rural areas in the Valley's hearts (for example around Ferndale and Maerdy) have seen significant population decline. The CRESR study reveals the important influence that employment, transport and connectivity issues play in shaping demographic changes in housing markets; a factor that will be replicated across Wales.

Welsh Government needs to take account of current future infrastructure projects when considering Affordable Housing provision.

The speed of tenure changes in the Valleys makes assessments of need and demand much more complex, and the growth in the private rented sector (PRS) is a critical issue. Needs traditionally met in the social housing sector are increasingly being met in the PRS, which in turn is modulating people's housing preferences and choices, not least in terms of location and quality. Between 2011/12 and 2015/16 the number of units for private rent increased by 14% in the Valleys. But if increasing need is to be met here, worries persist about how to affect the nature, quality and affordability of supply in this sector, with public authorities having few levers to shape such provision (**Question 1a**).

In the Valleys' mouths, particularly near to Cardiff, there is a perception that low-income households are increasingly being 'priced out' as rents have risen and landlords

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have switched to housing working households from the Cardiff catchment area. In these more competitive rental areas, within easier reach of larger employment centres, landlords are able to charge higher rents and move away from the 'LHA rental market'. Local Housing Allowance (LHA) is a key feature of the PRS for low-income households. Local authority stakeholders suggested that LHA rates - based on Broad Rental Market Areas (BRMAs) set at the 30th percentile - were often out of kilter with local markets because BRMAs contained different housing markets with large variations in rents. Future need and demand assessments need to really focus on the extent of demand for PRS properties, and how the sector is responding. Whilst the PRS has expanded the growth of social rented homes has not kept pace. Over the last four years only 282 additional social housing units per year (on average) were added to the Valley's housing stock. Continuing at this rate will mean there are 3,726 fewer units than required by 2026 (**Question 1e**).

The nature of new supply is a critical issue. There has been a significant change in the size of dwellings completed, particularly since the Removal of the Spare Room Subsidy. In 2010/11, 45% of dwelling completed by RSL/LAs had three or more bedrooms. However, this proportion had reduced to 30% in 2016/17. This decrease has been offset by an increase in the proportion of two-bedroom dwellings: from 32% to 48%. Housing strategy officers in the Valleys highlighted in our workshops that they had experienced difficulties increasing the stock of one-bed properties. This is critical as the proportion of one-person households is expected to increase by two percentage points to 32% of all households, compared to the proportion of households with three or more persons which are projected to decrease by two percentage points, from 35% to 33%. Addressing needs and demands in terms of stock size is an important consideration. As is the stock of certain tenures. Recent Local Housing Market Assessments, such as that for Torfaen, identify areas where the supply of social stock outweighs need. In other areas of Torfaen there is a need for over 100 units of social housing per year. Better systems are required to identify and target any support for new housing, so that it addresses localised changes in need.

Further geographical disparities emerge in regard to low-cost home ownership (LCHO). Analysis of LHMA reveals, for instance, in Rhondda, Cynon Taf there is a requirement for just 29 social rented properties per annum versus 121 for LCHO (Rhonda Cynon Taf LHMA, 2015). By contrast, in Merthyr Tydfil there is a requirement for 338 social rented units versus 17 LCHO (Merthyr Tydfil LHMA, 2014). Questions emerge about the consistency and standardisation of such assessments in different local authorities, and whether such analysis needs to be performed robustly across administrative boundaries.

Current supply responses in the Valleys are not well connected to underlying need, and reflect more the pragmatic response to what is financially viable, in light of the relative buoyancy of local markets, and financial opportunities for private landlords. Understanding need, and then formulating and influencing supply responses means planning at wider spatial scales. Whilst the system of Local Housing Market Assessments provides local insights and guidance, there is need for this information to be translated into a sub-regional picture, to help tackle problems at the right geographical scale.

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**Question 1d: how frequently should Welsh Government be updating estimates of need and demand and should the data be more granular so we have a closer sense of whether planned provision is truly affordable for residents?**

The CRESR analysis presented above highlights the importance of taking a granular assessment of future housing need. These assessments should be updated regularly (at least every five years) or in line with economic changes and infrastructure investments that are shown to have a significant influence over housing markets.

**Question 1e: how far does the planned provision deal with the backlog of unmet need?**

This assessment for the South Wales Valleys is based on projections produced by the Public Policy Institute for Wales (PPIW) (Holmans, 2015). The PPIW estimate that there is a requirement for 10,600 additional (new or reconfigured) units of social housing in the Valleys between 2011 and 2031. This equates to an average of 620 additional units per annum required to reach this target. Over the last four years an average of 282 additional units per year were provided. Projecting forward at this current rate suggests there will be **5,076 fewer units than required by 2026**.

At a local authority level the data reveal:

- In both Rhondda, Cynon, Taf and Blaenau Gwent the average number of additional social units delivered per year between 2011/12 and 2015/16 has been less than half of the average requirement per year.
- In Blaenau Gwent the average number of additional social units delivered per year has been just over half of the average requirement per year.
- In Merthyr Tydfil and Torfaen the average number of additional social units delivered per year has been just over three fifths of the number required per year.
- In all local authorities there has been a shortfall. However, this has been highest in the same local authorities where there is the greatest requirement.

**Table 1: Comparison of future demand for affordable housing against current level of activity.**

	Estimated 'social' requirement 2011-2031	Average requirement per year	Affordable Social units delivered by RSL 2011/12- 2015/16	Average affordable social units delivered per year	Predicted situation 2026 (Shortfall)
Rhondda, Cynon, Taf	4,600	230	348	70	(2,406)
Merthyr Tydfil	1,000	50	169	34	(243)
Caerphilly	3,300	165	387	77	(1,314)
Blaenau Gwent	2,000	100	272	54	(686)
Torfaen	1,500	75	232	46	(429)
<b>Valleys</b>	<b>12,400</b>	<b>620</b>	<b>1,408</b>	<b>282</b>	<b>(5,076)</b>
<b>Wales</b>	<b>35,000</b>	<b>1,750</b>	<b>6,376</b>	<b>1,275</b>	<b>(7,122)</b>

Source: PPIW, StatsWales and authors' calculations

## Grant allocation and intervention rates

### Question 2a: how could the grant regime best achieve value for money and efficiency and deliver more affordable housing from current resources?

Changes should be made to the housing grant regimes to ensure best value for money and greater efficiency and effectiveness in delivering more affordable housing. A central need is to better target allocations based on demand-side factors (both to promote growth in high-demand areas and support regeneration efforts in low-demand areas) as well as allowing greater adjustment and joining up of grant levels between lower and higher demand areas.

Housing grants in the Valleys, as in other areas across Wales, are being used to remedy quite a diverse range of housing challenges. On the one hand in some areas of the Valleys the average house price has swollen to £445,000, whilst in others it is as low as £45,000. And whilst some areas have seen single figure digits for empty social rented properties per 10,000 stock, for others it is over 250. Hence Social Housing Grant (SHG) and other housing related grants are grappling with divergent market dysfunctions. This throws up an essential conundrum: to invest more in new development and stock improvement in higher-demand areas to dampen market pressures; or to invest more in lower-demand areas to mitigate the worst effects of poor housing conditions, empty housing, access to employment and so on. Navigating this dilemma is critical to ensuring grant allocations have a targeted effect.

An added complication is that the supply of new housing is not responsive enough to the changing nature of demand. This is certainly the case for one-bed properties where demand-side factors suggest a shift in the requirement for these smaller properties in the Valleys. Similarly, demographic changes - particularly concerning the ageing

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population - could well drive changes in the requirement for certain housing types. In places like Merthyr Tydfil, the number of people aged 65 years and over will increase 15% by 2025. So local authorities (and their partners) need to decide whether to adopt one or all of the following courses of action; build more older people's housing, improve the older persons housing stock that is already there, or assume that most people will spend their later life in general needs housing?

Social Housing Grant (SHG) has a critical role in addressing what is a changing pattern of need. To date SHG has been allocated in a relatively equitable way to local authorities, rather than being adjusted or targeted based on demand factors. Furthermore, the division of grant programmes between development and regeneration work hinders flexibility and the achievement of optimal outcomes. Deciding on the right balance between building on one hand, and regeneration and renewal on the other, would seem best delegated to those stakeholders working in the respective area who understand localised markets and gaps in provision, but who can also look across narrow local authority boundaries.

Tailoring SHG and other grants will require a new approach. We suggest Welsh Government should consider changes to the formula for allocating SHG and other grants, the guidance on costs (Welsh Government, 2015), and the flexibilities as to how grants can be used. If a sub-regional partnership (as proposed above) is not forthcoming, then at least SHG allocations to local authorities should be adjusted to reflect overarching priorities. This could include increasing, or decreasing, allocations based on demand considerations and local authority requirements for proper investment in regeneration schemes with a development component. The calculations should factor in population projections, price indicators, data on demand for social housing and weighting for priority regeneration areas. These changes to funding settlements for local authorities will ensure grant funding has maximum effect and is able to better support regeneration efforts in targeted lower-demand areas.

Further to this, Welsh Government should review the SHG's Acceptable Cost bands to assess whether these are providing sufficient scope to local authorities to get the most out of the grant. For example, flexibility could be allowed which sees reduced grant funding levels in more financially viable, higher demand areas. The savings from this could allow SHG to cover a higher proportion of costs in lower-demand areas to make activity more financially viable, which could support wider regeneration efforts. Other reforms to increase the precision of grant use would also be valuable. Given our findings related to demand for smaller properties, Welsh Government might consider if the cost bands relating to property size could be adjusted to incentivise a greater supply of one-bed properties. Our workshops and roundtable participants suggested this kind of responsiveness to demand-side factors is required to get the best impacts for the amount of grant available.

In summary the CRESR research argues that Welsh Government should review its allocation of SHG and other housing related grants to:

- Better target allocations based on demand-side factors.

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- Allow for greater adjustment of grant levels between lower- and higher-demand areas.

And, in conjunction with this, public bodies and housing providers should:

- Participate in planning and governance at a wider spatial scale.
- Try to target SHG and other grants at emerging demands, for instance, in ensuring sufficient small properties and appropriate housing for older people.

## **Rent policy**

**Question 3a: should the Welsh Government continue to have a Rent Policy or should social landlords be responsible and have freedom to set and uplift their own rents?**

**Question 3b: should the Welsh Government Rent Policy consider affordability of rents for tenants or should this be the responsibility of individual social landlords?**

The affordability of rents for tenants needs to take a more prominent position in how Welsh Government sets Rent Policy. We believe Welsh Government should maintain a level of control and accountability over Rent Policy. Not least because there is limited evidence that landlords adjust their rents based on local affordability, indeed many plan their rental income based on rent increases set by the Rent Policy. However Rent Policy setting should encapsulate a wider range of stakeholders (including landlords and tenants) and consider local conditions to enable tenants to take advantage of economic growth and promote regeneration efforts in low-demand areas.

The cumulative impact of welfare reform on residents since 2010 is substantial. The CRESR research reveals that by the time the current rounds of reforms have been fully implemented, working age residents in the Valleys will be £333 million per year worse off than if the reforms had not been made (equivalent to £840 per working age person). This amount will undermine efforts to grow the Valley's economy by stakeholders such as the Valley's Task Force. Unsurprisingly social housing tenants are the most affected tenure group. Approximately half of the financial loss will fall on social housing tenants, with the post 2015 reforms alone reducing working age social housing tenant's incomes by an average of £1,640 per year.

Such reforms, and other effects on household budgets, are affecting the affordability of housing, even social housing. The CRESR research assessed the affordability of social housing in the Valleys using the JRFs definition that housing costs are unaffordable if they exceed 33% of net household income. The research showed that average social housing rents for two-bed properties are unaffordable for approximately 46% of social housing tenants. However until recently many households on low incomes have been removed from the prospect of unaffordable rent due to their Housing Benefit being paid direct to their landlord. As tenants transfer onto Universal Credit most will have direct rent responsibility for all of their rent, potentially for the first time. With this comes increased risk of rent arrears. The DWP's own trial suggested direct payment was associated with a 5.5 percentage point reduction in rent collection over an 18-month period; with rent collection being as low as 67% as tenants first transfer onto direct payment. Given this, it is likely that 'affordability checks' and support for new tenants will become the norm.

The research compared rents in the social and private rented sector, to assess relative affordability. The table below shows average target rents for social housing in the five local authorities in the Valley's alongside lower quartile rents for private sector housing. Currently social housing target rents are below lower quartile private rents for all but bedsits in Caerphilly and Rhondda, Cynon, Taf. However the existing rent setting agreement for social housing in Wales allows target rents to increase by CPI inflation plus 1.5% per year. Given inflation forecasts target rents will be 7.8% higher in 2020.

**Table 2. Comparison of social rented sector target rents and lower quartile private sector rents 2016**

		Rents for all houses, flats and bedsits (£ per week)				
		Bedsits	1 bed	2 bed	3 bed	4 bed
<b>Blaenau Gwent</b>	SRS target	54.75	63.69	73.04	83.20	90.77
	PRS		64.62	75.00	90.00	93.75
	<b>Difference</b>		<b>-0.92</b>	<b>-1.96</b>	<b>-6.80</b>	<b>-2.98</b>
<b>Caerphilly</b>	SRS target	61.61	70.88	82.35	93.54	102.14
	PRS	59.00	73.85	92.31	103.85	134.42
	<b>Difference</b>	<b>2.61</b>	<b>-2.97</b>	<b>-9.96</b>	<b>-10.31</b>	<b>-32.28</b>
<b>Merthyr Tydfil</b>	SRS target	56.26	66.19	76.35	85.46	93.28
	PRS		75.00	84.92	92.31	126.06
	<b>Difference</b>		<b>-8.81</b>	<b>-8.58</b>	<b>-6.85</b>	<b>-32.78</b>
<b>Rhondda, Cynon, Taf</b>	SRS target	59.07	67.06	78.19	89.75	97.93
	PRS	50.77	70.00	84.92	91.80	115.38
	<b>Difference</b>	<b>8.30</b>	<b>-2.94</b>	<b>-6.73</b>	<b>-2.05</b>	<b>-17.46</b>
<b>Torfaen</b>	SRS target	60.83	69.38	80.33	92.24	100.82
	PRS	80.00	78.46	98.08	109.62	126.92
	<b>Difference</b>	<b>-19.17</b>	<b>-9.08</b>	<b>-17.74</b>	<b>-17.38</b>	<b>-26.10</b>

This analysis highlights pinch-points and affordability challenges in rented sectors. A major worry, particularly for social landlords, is that this will drive large rent arrears which in turn will damage their financial position. Analysis of publicly available data on the number of tenants in the Valleys with rent arrears of 13 weeks or more revealed the number had increased from 866 to 895 tenancies between 2010/11 and 2015/16. The proportion of tenancies with arrears of this value decreased from 17% to 16% (due to an increase in the total number of tenancies). This relatively positive picture on arrears masks a number of underlying trends. Landlords report investing increased resource and commitment over the last few years to limiting the number of tenants in arrears and the absolute value of arrears.

Whilst most housing associations operating in the Valleys were in relatively good financial health at the time of the study, it appears they are preparing for a different operating environment. Turnover has been increasing, or at least remaining stable, in many associations. Across most of the larger housing associations there have been

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reductions in void properties alongside evidence of reductions in lost income as a result of voids. On rent collection a more mixed picture emerges. Nonetheless, a number of housing associations note growing reserves in their annual reports, which are being allocated to large repairs, maintenance and major works programmes.

This is context for current rent setting policy, and accounting for this difficult operating environment is key. The current system for setting rents, by Welsh Government, allows rents in the social housing sector to increase by CPI inflation plus 1.5% per year. However, should social landlords pursue this level of inflation it would have unwelcome effects on the affordability of the rents charged, at a time when unaffordability in the social housing sector is being realised. Many providers are seeking to increase rents to finance ambitious development programmes, with the sector as a whole in Wales aiming to double its rate of delivering new housing in coming years. As development activity is planned, so business models and organisational rent setting are premised on securing and repaying the debt required for such development. With this comes geographical disparities in rent increases, and a system in which subsidies for new housing are not conditional on achieving a measured level of affordability.

The first response to the issue is to raise awareness of the possibility of unaffordable social rents and to ensure that future rent setting policy is devised in a way that takes account of this. As Welsh Government reviews policy on social housing rents, an acknowledgement of affordability concerns is imperative, alongside guidance for housing providers for what is expected of them in terms of affordability.

To support this we recommend developing a new affordability measure for the social housing sector in Wales. Whilst the JRF measure of the affordability of housing costs as 33% of net income is helpful, what is required is a measure developed specifically for social rented housing, to reflect the subtleties of whole housing costs in this sector and the financial position of its tenants. In recommending this measure the intention is not to suggest operationalising it at the individual household level, for instance, to adjust individual rents charged. Instead, the measure should be used to get a generalised picture of whether that provider is delivering genuinely affordable housing at a local level. This measure can then be used by various parties to increase accountability on this issue.

The Regulatory Framework for Housing Associations should make more explicit reference to the issue of affordability in its performance standards and ensure it is a focus in continuous assessments. As a minimum the Regulator could demand stress testing for rent reductions as well as rent increases, to understand the impact of this on development programmes. Allied with these changes, the involvement of existing tenants in rent setting processes could be improved. This could again entail the use of affordability measures, and making these transparent, so existing tenants can make comparisons between their rents - and proposed rent changes - and those of other landlords.

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**Question 3c: how can a Welsh Government Rent Policy encourage social landlords to maximise affordability for tenants, given in some areas market rents are currently lower than social rents?**

Securing improved affordability for tenants may be achieved by an indirect focus on capital development costs that offset reduced rental incomes. Firstly, public subsidies may be offered at favourable rates if, in general terms and at a local level, the newly developed affordability measure is met. Allied with this, there is scope to increase the affordability of future stock by lowering development costs. One example of how this could work is through pooling the borrowing requirements of multiple providers (an aggregator), to secure finance on more favourable terms. In some areas in the Valleys, local authorities have used their resources to access and offer very low-cost finance to developers of affordable housing. Expanding this activity, and in conjunction with conditions on affordability, may help secure the dual objectives of both increasing housing output and ensuring it is affordable.

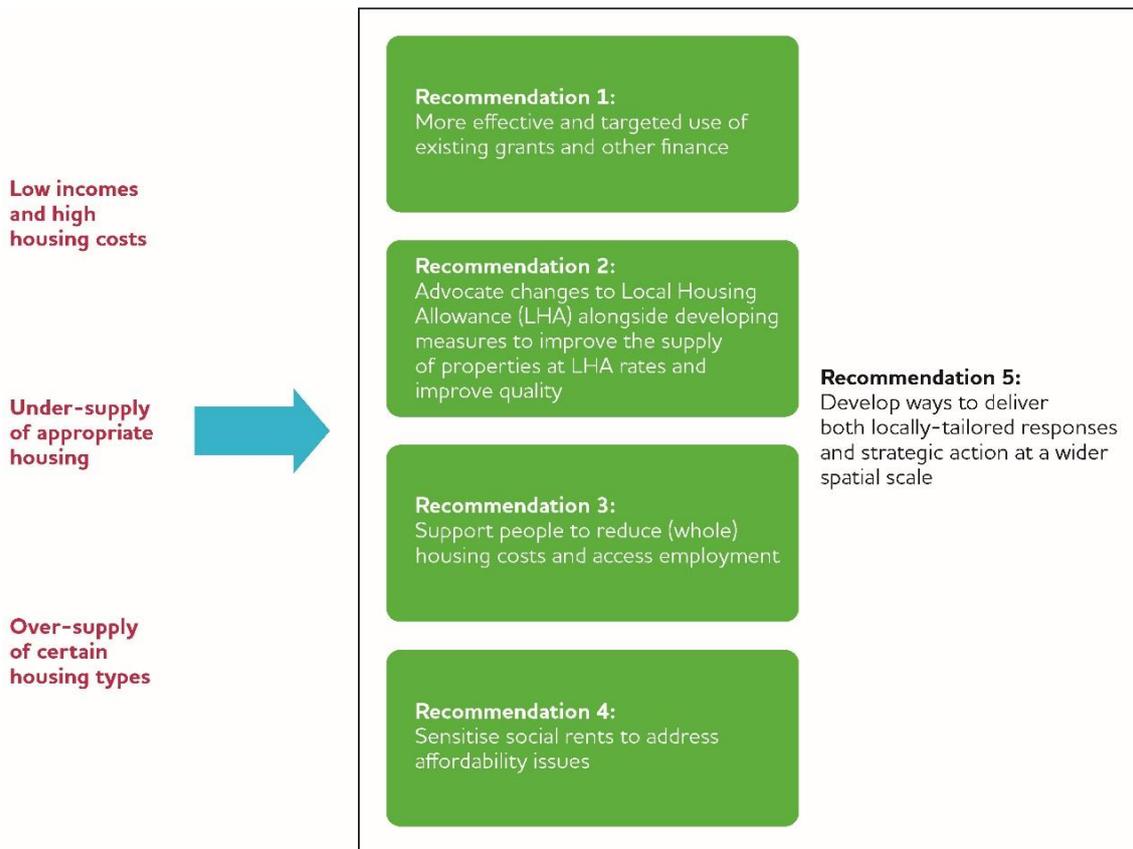
In summary, we recommend to Welsh Government the following responses on rent setting policy:

- Set out a measure of affordability for the sector.
- Define if and how the regulatory framework for housing associations can identify affordability issues.
- Strengthen the role of existing residents in developing rent policies.

**Meeting affordable housing requirements: a summary of our recommendations**

Housing-related responses alone will merely mitigate some of the worst potential outcomes from the challenges facing the provision of housing for those on low incomes. To maximise their impact the recommendations need to be implemented alongside wider structural efforts to improve economic and social conditions in the Valleys. This includes improvements in job creation, improving connectivity and inward investment as well direct intervention in the housing market.

Nonetheless, our research provides a number of inter-connected recommendations which can secure more affordable housing, in the right place and the right form, for those on low incomes in the Valleys. Our recommendations might be summarised as follows:



## Notes and references

<sup>1</sup> Defined as the following five local authorities: Blaenau Gwent, Caerphilly, Merthyr Tydfil, Rhondda Cynon Taf and Torfaen.

Holmans, A. (2015) Future Need and Demand for Housing in Wales. Cardiff: Public Policy Institute for Wales.

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - [We can solve poverty in the UK](#) - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)

To meet one of our experts to discuss the points raised please contact:

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