Cambridge Centre for Housing & Planning Research

Developing income linked rents for CHS Group

Final Report

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Contents

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1. Executive Summary

1. This report was commissioned by CHS Group and the Joseph Rowntree Foundation to explore how the CHS Group can set rents that are genuinely affordable for its clients and to inform CHS's policy on rent setting beyond 2020 and to provide an opportunity to influence sector thinking and relevant government policy.
2. CHS Group is a housing association with a stock of some 1,800 'general needs' homes, operating across Cambridgeshire and Uttlesford. CHS Group has a historically strong ethos of proving affordable quality housing for households on low incomes, and is committed to social rents and to the allocation of property to those in housing need.
3. Until recently, CHS has set rents following the government determined 'formula' method, and has not experimented with 'Affordable Rents' set at up to 80% of market rents. However, in order to sustain its new house building programme, CHS Group has begun to let new properties at Local Housing Allowance rents, in order to avoid increasing the rents of existing stock in order to cross-subsidise new house building.
4. Rent setting policies in affordable housing have been heavily affected in recent years by the freezing of 'social' rents until 2020 and by the reduction in the Local Housing Allowance to the 30^{th} percentile of market rents and its subsequent freezing, reducing the value of the LHA limits relative to market rents.
5. The future prospects for rent setting policies in affordable housing were not clear when this report was written in September 2018. The government had announced that social rents would be increased by CPI inflation plus 1% from 2020, but whether the previous formula approach to setting rents, and the ability to set rents up to 5% above or below the tolerance, will be reintroduced was unknown.
6. The national 'roll out' of Universal Credit was also taking place while this project was undertaken, and the potential implications of Universal Credit for the future affordability of rents were explored.
7. The project therefore focused on the analysis of different approaches to the relationship between rent setting, and its interaction with the welfare benefits system through Housing Benefit and Universal Credit, using the examples of the 'formula' approach in setting social rents and the 'Living Rent' approach, which is being explored by the Joseph Rowntree Foundation.
8. The project used data on affordable rents across the six local authority areas in which CHS Group operates, from the Statistical Data Return (SDR); on the incomes and employment status of tenants from the COntinuous REcording (CORE) dataset; and from our own modelling of incomes at the local authority level.
9. The analysis showed that just under half of all tenants were in work, and that 30% of these were partially dependent upon in work benefits. Among those not in work, over half were pensioners, one in five were disabled, and one in ten were unemployed and seeking work.
10. The analysis also showed that the household incomes of those social tenants where at least one member was in full time work were low. In Cambridge, for example, three quarters of social tenants had a gross household income, including benefits, of less than £24,000 per annum, while a quarter had less than £14,500.
11. The report shows that the structure of the welfare benefit system has a profound effect on the disposable incomes of lower paid workers after housing costs are taken into account.

12. In the case of a single person, paying the average CHS rent for a 1 bedroom flat, any support from Universal Credit is tapered away to zero at an annual income of £13,800 per annum, or 34 hours work at the Minimum Wage. In the case of a family with two children, paying the average CHS rent for a 3 bedroom house, any support from Universal Credit is tapered away to zero at an annual income of £27,000 per annum, or 37 hours work at £14 per hour, or nearly twice the Minimum Wage.
13. The implication is that single people (and childless couples) who are in full time work but on low earnings would gain from lower rents, because they begin to pay the full rent at less than the normal working week even at the Minimum Wage.
14. For a family, however, they would not pay the full rent until the household income is close to the national average, at which point a single earner household would be earning nearly twice the Minimum Wage. In the case of households earning less than the average income, they would be protected by Universal Credit against the effects of higher rents (although only up to the Local Housing Allowance for tenants in the private rented sector).
15. This report concludes that in the absence of some fundamental restructuring of the welfare benefit system, the room for manoeuvre in setting by social landlords is very narrow. Two possible approaches are suggested.
16. The first option might be to use the 5% tolerance to restructure the pattern of rents, without any increase in overall rent income, with higher rents for family homes (because a higher proportion of families are protected from higher rents by Universal Credit) and lower rents for bedsits and 1 bedroom homes (because single people and childless couples receive very little protection from higher rents). A 5% increase above the formula rent for family accommodation would allow a £20 per week reduction in the rent of 1 bedroom accommodation.
17. The second option might be to invest in order to reduce the costs of running a home, through reduced energy and water consumption, so that all tenants would benefit. An overall increase in rents of 5% above the formula rent would produce some £500,000 per annum for reinvestment, at the expense of a proportionate increase in the cost of the rent element of Universal Credit.

2. Introduction

CHS Group provides housing, care and community services in Cambridgeshire. With a historically strong ethos of proving affordable quality housing for households on low incomes, CHS Group is committed to social rents and to the allocation of property to those in housing need.

In recent years, changes to government policy have resulted in a sharp reduction in the supply of new homes at social ('formula') rents. As the government intends to consult on the nature of the direction to be issued to the Social Housing Regulator on rent policy beyond 2020, CHS Group and the Joseph Rowntree Foundation have commissioned the Cambridge Centre for Housing and Planning Research (CCHPR) to explore how the CHS Group can set rents that are genuinely affordable for its clients.

This research was commissioned in order to inform CHS's policy on rent setting beyond 2020 and, at this opportune time, provide an opportunity to influence sector thinking and relevant government policy. The wider Cambridge area, in which CHS operates, is in some ways unique – it has very high employment rates and – in Cambridge city in particular – very high housing pressure with high rates of homelessness and long waits for social housing. Yet, in many ways, the area is not so different from much of the rest of the UK – around half of those in social housing are out of work and depending on benefit income. The high incomes enjoyed by some in the region are not universal, and there remain a significant number of people in work in low waged and insecure employment, often working in the tourism, hospitality, care or health sectors.

Statistical modelling was developed to model tenants' incomes in order to estimate the impact of current rents and benefits on affordability for CHS tenants and to develop a range of potential rent setting options for discussion and, where appropriate, further detailed analysis and viability.

Setting clear objectives and working within the context of CHS Group's ethos and aspirations, the research sought to identify changes which are possible within the current regulatory system and also those which would require changes in policy or regulation. This will enable CHS Group to present coherent arguments for change where necessary and thus contribute to the policy debate about the future of rent policy in social housing and the affordability of rents to tenants.

3. Aims and methodology

1. The aims of the project

The primary aim of the project was to explore how CHS Group could set rents that are genuinely affordable by analysing:

1. The incomes of CHS Group's tenants, taking account of their household types and any support from welfare benefits.
2. Existing rents in CHS Group's stock across the six local authority areas, together with practicable options for moving towards a more affordable rent structure.
3. The impact of changes to rents on tenant incomes, including any support for housing costs from Housing Benefit or Universal Credit.

4. The implications of any change to the overall pattern of rents for public expenditure in support for housing costs.

2. The project methodology

1. Meeting with JRF and CHS staff in order to understand the ethos and aspirations of CHS Group in rent setting and affordability.

2. Modelling household incomes of current tenants, using data from a model developed by CCHPR, and using data derived from survey information at the national level, including the Family Resources Survey, modelled to reflect the known characteristics of individual local authority areas from census data, updated by the most recent population projections.

3. Analysing data on new tenants' incomes, drawing on data from the CORE database of new lettings in the six areas where CHS operates.

4. Estimating the impact of current rents and benefits on affordability for CHS tenants, drawing on CHS's own rents data.

5. Developing a range of potential rent setting options, and their impact on affordability, for discussion with CHS Group.

6. Developing one or more options selected in discussion with CHS Group for detailed analysis.

4. The scope of the project

The project deals with general needs housing only, rather than supported housing.

1. The background: rent setting in social housing

Since 1999, rents of general needs properties in the social housing sector have been set according to a single, national formula, with the exception of more recent innovations such as Affordable Rent and intermediate rent.

(Affordable Rent enables housing associations to build more homes with less grant by charging higher rents (up to 80% of market rents) on the new homes, plus converting enough relets to Affordable Rents to provide additional cross-subsidy. Intermediate rents are not officially defined, but allow for higher rents on new homes, if necessary cross-subsidised from other sources such as sales.)

The formula rent is based on the average housing association rent in 1999. 70% of that rent is adjusted by a weighting to average earnings (male and female) at the county level, multiplied by a bedroom size weighting ranging from 0.9 for one bedroom properties to 1.2 for four bedroom properties, while 30% is adjusted by a weighting of the value of the individual property (at 1999 prices) to the average national value of housing association property in 1999 (£49,750). Rent increases since 1999 have been controlled by the government, setting a maximum increase each year.

The formula rent allows the rent for an individual property to vary by a 5% plus or minus tolerance.

Within Cambridgeshire, therefore, the only differential between properties with the same number of bedrooms is the relative difference in their values at 1999 prices.

The formula ignores earnings differences within counties, such as that between Fenland and Cambridge, actual market differentials between properties with different numbers of bedrooms, and any changes in relative price differentials between areas that have occurred since 1999. Rents in Uttlesford are calculated using county wide earnings for Essex.

CHS Group has remained committed to social rents and has not used Affordable Rents to subsidise development, but is now letting new developments at the LHA rent (without converting existing stock to higher LHA rents).

2. The background: affordability and welfare reform: rents

In the private rented sector, Local Housing Allowances, which put a cap on the amount of rent that is supported by Housing Benefit, were restricted to the 30th percentile of market rents, rather than the 50th, from 2011, with increases restricted to CPI in 2013 and to 1% for the following two years, and then frozen for four years from 2016, thus breaking any link to market rents.

These changes have a number of implications for social housing. The changes to the LHA levels, and their freezing, clearly put Affordable Rents at 80% of market rents exposed to risk. Although the government has announced its intention not to apply LHA levels in the social housing sector, the extent to which this can be relied upon in future years must be in doubt.

In social housing, the programme of welfare reform has imposed rent reductions of 1% in real terms from 2016 to 2020, resulting in significant budgetary constraints for social landlords. Although the government has announced its intention to revert to a rent policy linking rents to CPI + 1% for five years from 2020, there is as yet no clarity on whether the rent formula itself will be retained without change.

3. The background: affordability and welfare reform: social policy

At least three areas of broader social policy changes impact directly on social housing.

The first is the welfare benefit 'cap'. This was originally introduced in 2013 and 'capped' the total amount of benefit (with some exceptions) that a family could receive at £500 per week, and £350 for a single person. The caps were reduced in 2016, with lower amounts applying outside London, and are now £384.62 for a a couple (with or without children) and lone parents, and £257.69 for single people. The cap is administered by reducing the amount of Housing Benefit paid until the value of all eligible benefits is reduced to the cap. CHS Group now have less than five households affected, following intensive support to help households into work or to qualify for exemption.

The second is the 'bedroom tax'. This was also introduced in 2013, and applies to social tenants of working age in receipt of Housing Benefit, with a limited number of exemptions. Housing Benefit is reduced by 14% if the household has one bedroom in excess of the calculated number, and 25% for two bedrooms or more in excess of the limits. CHS Group estimate that there were originally 120 households losing an average of £15.16 pw with one spare room and £26.33 with two spare rooms. This has now reduced to around 80 households as a result of support from the Community Investment Team and the use of incentives for downsizing.

The third will be the restriction of assistance under Universal Credit to the first and second child only, for families whose children are born after 1 April 2017.

5. CHS Group: stock and rents profile

CHS is a medium sized housing association operating across the six local authorities of Cambridge City, East Cambridgeshire, Fenland, Huntingdonshire, South Cambridgeshire and Uttlesford.

1. Housing stock profile

The housing stock profile of CHS Group is shown in Table 1 below:

CHS Group stock by local authority area										
	Bedsits (non self contained)	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed	**Total**	% of total stock
Cambridge	0	41	135	231	105	12	2	1	**527**	30.03
East Cambridgeshire	0	0	146	92	41	22	0	0	**301**	17.15
Fenland	0	0	6	106	59	10	0	0	**181**	10.31
Huntingdonshire	0	0	42	92	74	13	2	0	**223**	12.71
South Cambridgeshire	0	0	53	231	185	22	0	0	**491**	27.98
Uttlesford	0	0	4	15	13	0	0	0	**32**	1.82
Total	**0**	**41**	**386**	**767**	**477**	**79**	**4**	**1**	**1755**	100.00
% of total stock	0.00	2.34	21.99	43.70	27.18	4.50	0.23	0.06	100.00	

Table 1 CHS Group stock by local authority area

The large majority of CHS's stock consists of two and three bedroom properties. Less than five percent of the housing has four or more bedrooms. The one bedroom homes are mostly located in Cambridge City and East Cambridgeshire, with very few in Fenland or Uttlesford. The stock profile is significant when considering ways of restructuring rents, whilst ensuring that overall rental income is maintained.

The bedsize profile of CHS Group stock is slightly different from that of the overall social housing general needs stock across the six local authority areas, as shown in Table 2 below.

All general needs housing stock by local authority area										
	Bedsits (non self contained)	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed	**Total**	% of total stock
Cambridge	185		2807	3199	2467	173	15	6	**8852**	25.15
East Cambridgeshire	5	9	447	1511	1308	84	1	0	**3365**	9.56
Fenland	0	11	987	1884	1422	117	1	0	**4422**	12.56
Huntingdonshire	0	55	1279	3128	2871	287	15	4	**7639**	21.71
South Cambridgeshire	34		1287	3098	2461	157	17	5	**7059**	20.06
Uttlesford	46		753	1580	1415	61	1	0	**3856**	10.96
Total	**270**	**75**	**7560**	**14400**	**11944**	**879**	**50**	**15**	**35193**	100.00
% of total stock	0.77	0.21	21.48	40.92	33.94	2.50	0.14	0.04	100.00	

Table 2 All general needs housing stock by local authority area

Over 96% of the stock has 1, 2 or 3 bedrooms. CHS Group has a slightly higher proportion of 2 bedroom and larger 4, 5 and 6 bedroom properties than the overall average, together with a higher proportion of bedsits, although CHS Group bedsits are all in Cambridge.

Table 3 below shows CHS Group average gross rents by bedsize and local authority area.

CHS Group gross rents by local authority area								
	Bedsits (non self contained)	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed
Cambridge	0	£83.94	£103.48	£115.23	£123.73	£133.18	£146.55	£145.23
East Cambridgeshire	0	0	£87.66	£103.29	£113.78	£122.57	0	0
Fenland	0	0	£77.46	£92.15	£103.13	£113.39	0	0
Huntingdonshire	0	0	£92.29	£103.12	£109.99	£126.81	£132.87	0
South Cambridgeshire	0	0	£90.81	£110.07	£121.12	£130.59	0	0
Uttlesford	0	0	£96.12	£111.53	£122.87	0	0	0

Table 3 CHS Group gross rents by local authority area

The table shows ‘gross’ rents, which include the average service charge for that bedsize of property in each area, where service charges apply. Any service charges which are not eligible for Housing Benefit or Universal Credit are not included. This gives comparability with LHA rates, which include any eligible service charges. A zero indicates that no stock exists in that cell.

Overall, rents are highest in Cambridge, followed by Uttlesford and South Cambridgeshire. Rents are lowest in Fenland, reflecting the lower property prices in that area.

Table 4 below shows the extent to which CHS Group rents are above, or below, formula rents.

CHS Group: differences between formula rents and actual net rents charged								
	Bedsits (non self contained)	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed
Cambridge		-£0.48	£0.07	£1.97	£2.69	£3.51	£2.72	£10.38
East Cambridgeshire			-£0.43	-£0.16	£1.20	£0.19		
Fenland			-£0.60	-£0.32	-£0.26	£0.88		
Huntingdonshire			-£1.06	-£1.51	£0.48	-£2.30	£0.01	
South Cambridgeshire			-£0.21	£0.25	£0.88	£1.67		
Uttlesford			-£2.30	£0.45	£1.26			

Table 4 CHS Group: differences between formula rents and actual net rents charged

Net rents (which exclude service charges, as does the rent setting 'formula') in Cambridge tend to be slightly above formula rents, but in general there is little difference between the formula rent and the net rent actually charged. In 2016/17, total CHS Group rents were 99.56% of formula rents.

(In a number of instances, some housing associations operating in the six LA areas simply set all rents at exactly the formula rent, making no use of the permitted tolerances.)

Table 5 CHS rents compared to Affordable Rents and LHA ratesbelow compares CHS social rents, which are largely set around the formula rent, with the levels of Affordable Rents charged by other housing associations operating in the six local authority areas, and with the average LHA rates across these.

CHS rents compared to Affordable Rents								
	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed	**Total**
CHS average rent (6 LA areas)	£79.38	£88.24	£104.04	£115.62	£124.59	£139.12	£145.23	£104.17
Average affordable rent (6 LA areas)	£115.02	£107.81	£125.40	£150.51	£194.50	£205.00	n/a	£132.58
Average LHA rate (8 BRMAs)	£65.32	£109.66	£134.42	£159.28	£211.23	£211.23	£211.23	

Table 5 CHS rents compared to Affordable Rents and LHA rates

Note: The LHA rates are the simple average of the rates for each of the 8 Broad Rental Market Areas that cover the six local authority districts in which CHS operates, whereas the average rents for CHS and for Affordable Rents take account of the different numbers of properties in each of the six local authority districts.

CHS formula rents are significantly below the Affordable Rents charged by other housing associations across the six local authority areas: some £20 cheaper for 1 bed and 2 bed properties, and £35 for 3 beds. However, the current CHS new build programme is being let at LHA rates (in order to avoid the conversion of existing stock to Affordable Rents for cross-subsidy), and these are likely to be higher than Affordable Rents, depending upon the individual local authority area.

6. Tenant incomes

Since there is no income bar to eligibility for social housing, CHS Group does not collect data on tenants' incomes, in common with most social landlords.

CHS housing is let via Homelink, the choice based lettings (CBL) scheme for social housing operating across the Cambridgeshire and West Suffolk area. The scheme covers all available social rented properties in the locality. CHS Group is committed to allocating property through Homelink, so it is reasonable to assume that the profile of those allocated CHS tenancies, in the six areas in which CHS operates, is similar to those accessing social housing from other landlords. Similarly, the profile of existing tenants is likely to be similar.

This chapter therefore explores:

- Incomes of current social (CHS) tenants
- Incomes of new tenants, moving into new tenancies with CHS.

1. Incomes of current tenants

The incomes of current tenants have been modelled using a local income model developed by CCHPR. This draws on survey information at the national level, including the Family Resources Survey, modelled to reflect the known characteristics of individual local authority areas from census data, updated by the most recent population projections. The model produces net income distributions for a range of household types at the local authority level, allowing profiles of affordability to be developed for each household type for different options for rent structures. It is possible to look separately at the incomes of social tenants.

The estimations have been carried out for dwelling size (rather than household type) because this information is more useful to CHS when setting rents – as rents can be varied for different sizes of property.

The model was used to estimate the proportion of tenants with incomes above a variety of different thresholds for affordability, and to test the impact of changes in rent levels on affordability.

Table 6 below shows the key data on estimated household incomes (as of October 2017):

Modelled incomes for social housing tenants by bedsize and area									
Local authority	Bedrooms	Gross income				Gross income excluding income from benefits			
		average *	Lower Quartile	median	Upper Quartile	average *	Lower Quartile	median	Upper Quartile
Cambridge City Council	0	£414	£247	£417	£564	£410	£247	£407	£564
	1	£530	£359	£484	£698	£495	£328	£461	£681
	2	£600	£412	£556	£781	£448	£226	£377	£647
	3	£726	£540	£676	£902	£522	£280	£444	£782
	4	£799	£644	£690	£893	£527	£269	£383	£783
East Cambridgeshire	1	£513	£354	£470	£685	£474	£319	£445	£637
	2	£579	£401	£530	£763	£425	£184	£364	£634
	3	£732	£531	£676	£916	£530	£257	£444	£841
	4	£773	£619	£722	£834	£504	£274	£407	£780
Fenland	1	£492	£347	£455	£634	£448	£281	£430	£592
	2	£546	£389	£509	£704	£377	£171	£323	£591
	3	£717	£521	£675	£884	£512	£251	£427	£828
	4	£745	£625	£722	£832	£471	£274	£383	£722
Huntingdonshire	1	£513	£355	£468	£685	£475	£322	£444	£637
	2	£573	£400	£529	£747	£421	£184	£358	£630
	3	£730	£537	£675	£916	£528	£257	£444	£841
	4	£771	£619	£722	£834	£509	£274	£407	£780
South Cambridgeshire	1	£521	£355	£473	£692	£484	£324	£451	£658
	2	£592	£410	£550	£768	£444	£196	£373	£671
	3	£737	£531	£677	£928	£538	£260	£446	£856
	4	£798	£644	£722	£893	£538	£274	£407	£783
Uttlesford	1	£518	£354	£473	£692	£481	£324	£447	£653
	2	£593	£410	£550	£771	£444	£188	£373	£671
	3	£742	£528	£677	£939	£547	£259	£452	£868

Table 6 Modelled incomes for social housing tenants by bed size and area

[Note: incomes shown are for tenants of working age, working for one hour or more per week. Averages are trimmed to exclude the top and bottom 5% of the sample.]

2. Incomes of new tenants

Table 7 below shows the numbers of lettings in general needs social rent properties over the three years 2013/14 to2015/16, from CORE data.

6 LAs: all general needs social rent lettings by household type, Bedroom Standard and whether or not in FT work, 2013/14 to 2015/16									
	Bedroom Standard								
Household type	1	2	3	4	5	6	Total	Number in FT work	% in FT work
1 elder	391	0	0	0	0	0	391	30	7.7%
2 elders	160	58	0	0	0	0	218	54	24.8%
1 adult	1702	0	0	0	0	0	1702	416	24.4%
2 adults	364	114	0	0	0	0	478	239	50.0%
1 adult & 1+ children	0	1116	375	30	6	0	1527	227	14.9%
2+ adults & 1+ children	0	804	521	88	24	4	1441	887	61.6%
Other	0	76	116	31	8	0	231	123	53.2%
Total	2617	2149	994	148	38	4	5950	1418	23.8%
Bedsize as % of total lettings	44.0%	36.1%	16.7%	2.5%	0.6%	0.1%	100%		
Number in FT work	667	750	438	63	18	3	1939		
% of each Bedroom Standard in FT work	25.5%	34.9%	44.1%	42.6%	47.4%	75.0%	32.6%		

Table 7 Analysis of social rent lettings

Source: CORE, own analysis. NB 'elder' refers to people over the age of 60.

The total number of lettings shown, 6,105, is less than the total number of lettings recorded in CORE of 6,311. This is because not all data fields are necessarily filled in for every letting: the tenant may refuse certain information, or the data may not be requested or entered by allocations staff.

It is clear that a low proportion of tenant households have anyone in full time work. Among all tenants, just under a third have anyone in full time work, compared to 30% among all social tenants in England. Only half of two adult households without children (and where both partners are aged under 60, and therefore not classed as 'elder') have anyone in full time work, and only three in five among couple households with children are in full time work.

The distribution of incomes between the 6 local authority areas is shown in the two tables below, which show the 25th, 50th and 75th percentile incomes of tenants in social housing or in Affordable Rent housing.

Table 8 below shows the percentiles in social rented housing. The lowest incomes are found in Fenland, but the next lowest are in Cambridge. This may be that – despite higher average incomes – Cambridge city has a significant number of low paid jobs in tourism and hospitality. East

Cambridgeshire has the third lowest incomes, followed by Huntingdonshire, with Uttlesford and South Cambridgeshire having the highest incomes.

There are no upper income limits for applying for social housing in the allocation scheme in which CHS (and most local landlords) participate.

Lettings at social rents: gross household weekly incomes						
	Cambridge	East Cambridgeshire	Fenland	Huntingdonshire	South Cambridgeshire	Uttlesford
25% of FT tenants have incomes less than:	£280	£315	£270	£305	£305	£300
50% of FT tenants have incomes less than:	£340	£410	£330	£385	£400	£395
75% of FT tenants have incomes less than:	£465	£510	£435	£485	£550	£550
N = 780 lettings (72 by CHS)						

Table 8 Percentile lettings at social rents

Source: CORE, 2013/14-2015/16 total weekly incomes including benefits, own analysis

Table 9 shows the percentiles in Affordable Rent housing. In general, the incomes of tenants in Affordable Rent housing are around £30 per week higher than those in social rent housing, although this is not a consistent pattern. Fenland remains the area with the lowest incomes. In Cambridge, while the 25th percentile is similar to that in South Cambridgeshire and Uttlesford, at the 50th and 75th percentile Cambridge still has the second lowest incomes among the 6 local authority areas.

CHS is unusual in that it has no Affordable Rent housing currently. New development is planned using rents pegged to Local Housing Allowance levels, but this will not be subsidised by conversions of existing homes from social rent, as is the case with Affordable Rent schemes.

The numbers of lettings at Affordable Rents in Fenland (21) and Huntingdonshire (16) are very low, and, as a consequence, the average income figures may be less reliable.

Lettings at affordable rents: gross household weekly incomes						
	Cambridge	East Cambridgeshire	Fenland	Huntingdonshire	South Cambridgeshire	Uttlesford
25% of FT tenants have incomes less than:	£310	£315	£250	£330	£305	£310
50% of FT tenants have incomes less than:	£415	£425	£360	£470	£425	£420
75% of FT tenants have incomes less than:	£495	£535	£440	£630	£530	£530
N = 377 (21 lettings in Fenland and 16 in Huntingdonshire)						

Table 9 Percentile lettings at affordable rents

Source: CORE, 2013/14-2015/16 total weekly incomes including benefits, own analysis

3. The quality of income data recorded in CORE

Table 10 below shows the total number of lettings recorded in CORE for the three years 2013/14 to 2015/16, by whether the lettings were at social rents or Affordable Rents, the number of households where at least one member was in full time work, and the number of these that had household income data recorded in CORE.

Table 10 shows that 82% of all lettings were at social rent levels, and 18% at Affordable Rent levels.

Overall, a higher proportion of tenants in Affordable Rent properties were in FT work (38%) than in social rent properties (31%), and a higher proportion of tenants who were in FT work and in Affordable Rent properties had their income recorded (70%) than those in FT work but in social rent properties (38%).

This suggests that the local authority or housing association staff deciding to offer, or allocate, Affordable Rent properties were more conscious of whether these properties were 'affordable' to tenants than traditional social rent properties.

Overall, the recording of income details is clearly patchy at best.

In a small number of cases, tenants in full time work were recorded as having incomes less than £190 per week (30 hours per week at the Minimum Wage in 2013), which may be tenants under 25, or apprentices, or misreporting.

All general needs lettings in 6 local authority areas, 2013/16				
		total lettings	of which, in FT work	of which, with income data
Social rent	number	6311	1976	780
	%	82%	31%	39%
Affordable rent	number	1429	542	377
	%	18%	38%	70%
Total	number	7740	2518	1157
	%	100%	33%	46%

Table 10 General needs lettings 2013/16

Source: CORE, own analysis

4. Incomes of tenants allocated social rent housing

The tables below show gross household incomes, recorded in CORE, by the Bedroom Standard of the household, as calculated by CORE, and the proportions of each household size in each income band.

Household incomes in CORE are top coded at the national 96th percentile, in order to prevent the identification of individual households. The cumulative percentage in Table 11 suggest that lettings in the six local authority areas are to tenants who are better off than the national average, since incomes are top sliced at the 93rd percentile for tenants of 1 or 2 bedroom homes, and at lower percentiles for tenants in 3 bedroom and larger properties.

In the case of CHS lettings however, only tenants in 2 bedroom properties are topsliced at a lower percentile than the national average.

The cumulative percentage tables also show the 50th (in red) and 75th (in green) percentiles: tenants in both 1 and 2 bedroom properties have markedly lower incomes than those in 3 or more bedroom properties. This probably reflects the proportion of single people in 1 bedroom properties, and the proportion of single parents in 2 bedroom properties, whose household incomes can have only one earner.

All lettings to households in FT work, 2013/16: cumulative % of households in each bedsize by gross household income bands in £s						
	Actual allocation by bedsize					
	1 bed	2 bed	3 bed	4 bed	5 bed	Total
£90		0.3				0.1
£110		0.5				0.2
£130		1.0				0.5
£150		2.0				1.0
£170	0.5	2.8	0.5			1.6
£190	3.3	4.9	1.4			3.4
£210	9.9	7.2	1.8			6.1
£230	20.3	10.0	1.8	6.5		10.0
£250	31.9	13.6	2.8	6.5		14.4
£270	39.6	16.6	3.7	9.7		18.0
£290	44.0	20.7	6.4	12.9		21.7
£310	59.3	30.4	9.6	16.1		30.7
£330	65.9	40.7	15.6	19.4		38.7
£350	71.4	47.1	21.6	19.4		44.5
£370	74.7	50.6	22.9	25.8		47.6
£390	78.0	54.5	25.2	35.5		51.1
£410	83.0	59.3	28.4	38.7		55.5
£430	85.2	64.7	33.5	45.2		60.1
£450	87.9	71.1	38.1	48.4	50.0	65.2
£470	88.5	73.7	45.4	48.4	50.0	68.4
£490	88.5	76.5	49.5	54.8	50.0	71.1
£510	88.5	80.8	56.0	58.1	50.0	75.0
£530	91.2	84.9	58.7	64.5	50.0	78.5
£550	94.5	86.4	65.6	64.5	50.0	81.8
£570	96.7	92.6	79.4	77.4	50.0	89.3
£590	100.0	100.0	100.0	100.0	100.0	100.0
Total number	**182**	**391**	**218**	**31**	**2**	**824**

Table 11 Lettings by household income

Key: Red cells = approx. half of all tenants in FT work; Green cells = approx. three quarters of all tenants in full-time work

As can be seen from the table above, incomes of households in three and four bedroom properties are somewhat higher than those of households in one and two bedroom properties. This is most likely to be a result of a higher proportion of such households having two or more adults. The other key thing to note from this analysis is that incomes vary across quite a wide spectrum – once households without full time work (and often reliant on benefits) are removed from the analysis, there is no real clustering of incomes. A quarter of households earn less than around £320 a week, but another quarter earn over around £500 a week.

Figure 1 and Figure 2 below show the same income data graphically for easier comparison. They show the different incomes by property size, for CHS tenants only across the six local authority areas in which CHS operates (Figure 1), and for all social rent lettings across the six local authority areas (Figure 2).

The figures show a small peak at around £250 per week, or slightly over 30 hours at the Minimum Wage, and a larger peak at around £320 per week, or 37.5 hours at £8.50 per hour. Around a third of all lettings to full time working households are to people earning £8.50 per hour or less.

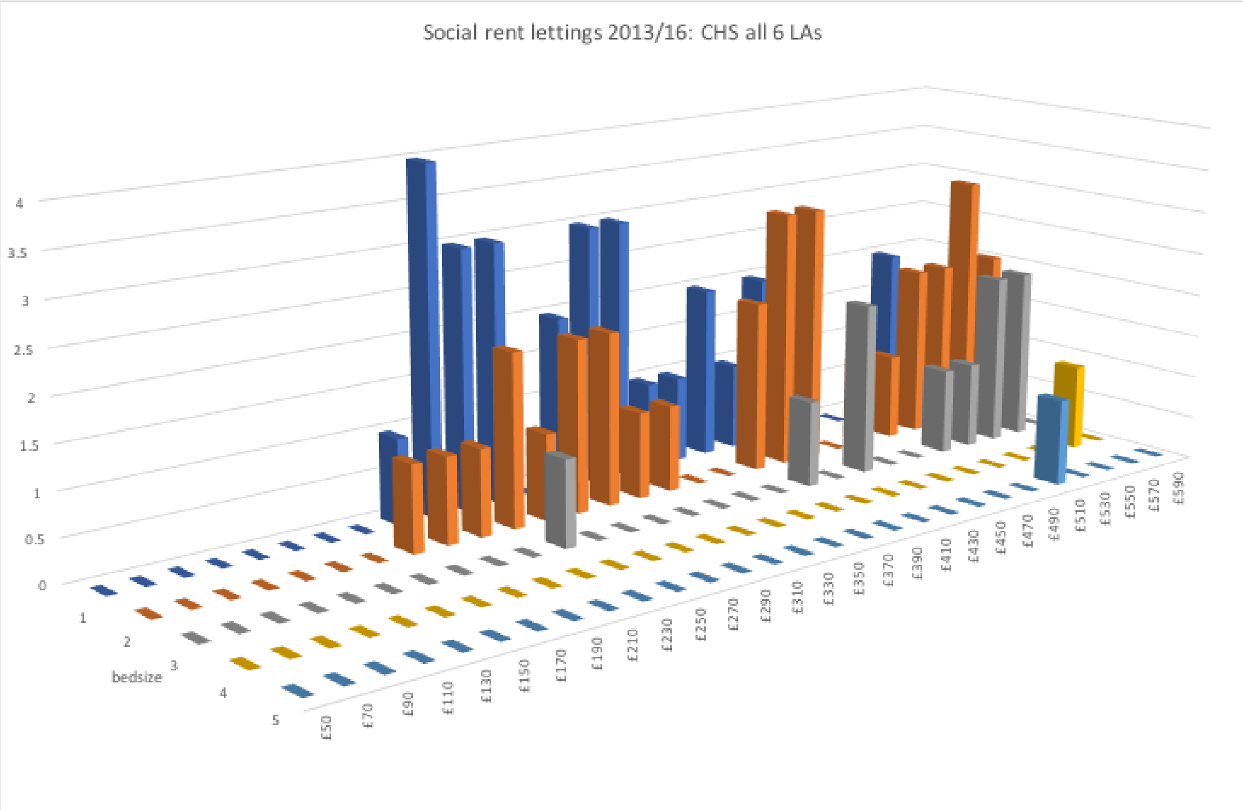

Figure 1 Social rent lettings: CHS Group

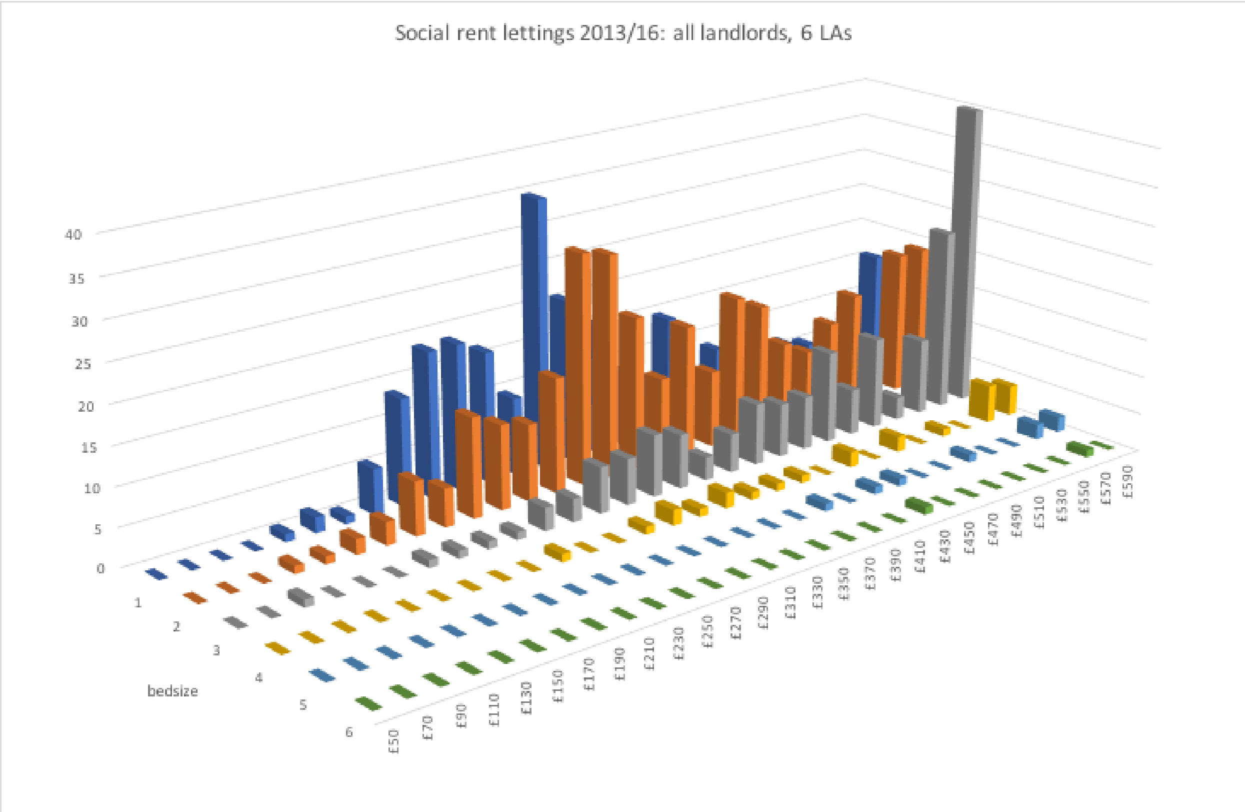

Figure 2 Social rent lettings: all landlords

7. The affordability of current CHS rents

1. Who pays the rent?

If tenants are not in work, they can usually claim benefits to help pay their rent. Tenants on low incomes can also claim housing benefit (or the housing element of Universal Credit) to help pay their rent. Higher earning tenants will instead pay the rent themselves from their income.

Table 12 Employment status of social tenantsTable 12 below shows estimated number of tenants in the East of England in each of these groups:

Employment status of social tenants		
		% of social tenant households
Not working	**Pensioners**	**28.5**
	Working age: disabled	10.8
	Working age: other not in work	7.1
	Working age: jobseekers	5.0
	Subtotal: working age, not in work	**22.9**
Working	In receipt of in-work benefits (HB, tax credits and/or UC)	14.3
	Not in receipt of in-work benefits	34.3
	Subtotal: in work	**48.6**
Total		**100.0**

Table 12 Employment status of social tenants

Excluding pensioners, just over two thirds of tenants of working age are in employment, but only one third of all tenants are working and not in receipt of in-work benefits.

2. Affordability of rents for tenants in receipt of benefits

For two thirds of tenants, the rent levels charged therefore have no immediate impact on what is affordable; a £10 rent increase (or decrease) would result in a £10 increase (or decrease) in the benefits they receive.

Within this, a group for whom rent levels matter little to affordability are low waged working households, many of whom also receive some benefits towards their rent. Working households are allowed to keep some of their earnings before their benefits are reduced (known as the 'earnings disregard'), and then see their benefits tapered away depending on their earnings above this level. Working households in receipt of some degree of top up housing benefit (or the housing element of UC) therefore also see no direct benefit from a rent reduction, unless it is sufficient for them to come off benefits completely.

There is, however, some evidence that tenants may respond to lower rents by increasing their enthusiasm for finding work, regardless of whether it would or would not tip them out of benefits[1] (Gibb et al, 2016). This is because the benefit system for in-work benefits is not well understood by claimants.

Rent reductions for both these groups will, of course, reduce the costs of benefit expenditure, saving money for the Department for Work and Pensions.

At least three areas of broader social policy changes impact directly on social housing.

The first is the welfare benefit 'cap'. CHS Group now have less than five households affected following intensive support to help households into work or to qualify for exemption.

The second is the 'bedroom tax', where CHS Group estimate that there were originally 120 households, losing an average of £15.16 pw with one spare room and £26.33 with two spare rooms, now reduced to around 80 as a result of support from the Community Investment Team and the use of incentives for downsizing.

The third will be the restriction of assistance under Universal Credit to the first and second child only, for families whose children are born after 1 April 2017.

3. Affordability of rents for tenants who pay the rent themselves

Rent levels are more critical for tenants in work who pay the rent themselves. The first step in considering affordability for this group is to look at the income thresholds beyond which a household is no longer in receipt of housing benefit/UC and therefore fully responsible for paying their own rent. The introduction of UC, and newly introduced rules around how many children a household can claim benefit for, mean that that the thresholds are changing. The benefit entitlements of different households also vary due to individual circumstances, disability benefits, etc.

Three thresholds have therefore been considered here:

- A "living rent" threshold, where rent is equal to 28% of gross household income (excluding benefit income).

[1] Gibb, K, Stephens, M, Reuschke, D, Wright, S, Besemer, J and Sosenko, F (2016) *How does housing affect work incentives for people in poverty?* Joseph Rowntree Foundation

- The income required to no longer receive housing benefit, for a household in receipt of housing benefit and/or tax credits, in work for 30+ hours with a single earner, no disabilities and all children born before May 2016.
- The income required to no longer receive UC, for a household in receipt of Universal Credit, in work for 30+ hours with a single earner, no disabilities and all children born after April 2017.

In reality, the benefit entitlement (and hence the income thresholds) will vary due to individual circumstances and interim protection being offered to households moving onto UC who would otherwise stand to lose benefits.

Table 13 below shows the estimated income thresholds.

Weekly income thresholds to afford CHS social rents					
LA	Bedrooms	Average current CHS rent	Threshold 1 (gross income) ("Living rent")	Threshold 2 (income net of benefits) (HB/Tax credits)	Threshold 3 (income net of benefits) (UC)
Cambridge City	0	£84.37	£301	£217	£274
	1	£105.00	£375	£283	£321
	2	£113.69	£406	£383	£528
	3	£121.20	£433	£473	£668
	4	£130.72	£467	£623	£689
East Cambridgeshire	1	£86.38	£309	£226	£278
	2	£101.77	£363	£318	£500
	3	£112.11	£400	£423	£647
	4	£120.97	£432	£569	£667
Fenland	1	£75.96	£271	£190	£254
	2	£90.89	£325	£258	£289
	3	£101.41	£362	£364	£499
	4	£112.00	£400	£520	£646
Huntingdonshire	1	£95.66	£342	£240	£299
	2	£104.49	£373	£333	£320
	3	£109.09	£390	£407	£517
	4	£124.41	£444	£588	£675
South Cambridgeshire	1	£89.64	£320	£212	£286
	2	£108.27	£387	£353	£328
	3	£119.06	£425	£461	£540
	4	£128.49	£459	£610	£684
Uttlesford	1	£95.36	£341	£238	£299
	2	£110.22	£394	£364	£333
	3	£121.71	£435	£476	£546

Table 13 Weekly income thresholds

Source: Book, and Entitledto website (for tax credits/HB scenario at 2018 rates), own analysis.

[NB - CHS do not own any 4 bed homes in Uttlesford. 0 bedrooms = bedsit or studio. CHS only own any of these in Cambridge City and East Cambs. For the "living rents" analysis, gross income is shown.

For the two benefit thresholds, income net of benefits is shown, i.e. excluding income such as child benefit and tax credits.]

Benefit calculations assume all properties are occupied with the smallest size of household who can occupy at the bedroom standard, i.e.:

- 0 bed: Single person aged 25+
- 1 bed: Single person aged 25+
- 2 bed: Single parent and one child
- 3 bed: Single parent and two children
- 4 bed: Single parent and four children

Analysis of average occupancy rates from the English Housing Survey suggests that these occupancy levels are broadly in line with the average occupancy levels for social housing in the East of England.

Analysis of incomes of current tenants, looking only at working age tenants with at least one person in full time work, can show the proportion of working households whose incomes fall above these thresholds:

% of working households with incomes above threshold to afford CHS social rents					
LA	Bedrooms	Average current CHS rent	Threshold 1 ("Living rent")	Threshold 2 (HB/Tax credits)	Threshold 3 (UC)
Cambridge City	0	£84.37	76%	88%	88%
	1	£105.00	71%	82%	84%
	2	£113.69	77%	49%	47%
	3	£121.20	89%	47%	43%
	4	£130.72	92%	33%	32%
East Cambridgeshire	1	£86.38	83%	86%	87%
	2	£101.77	83%	57%	46%
	3	£112.11	93%	53%	44%
	4	£120.97	94%	34%	30%
Fenland	1	£75.96	87%	87%	87%
	2	£90.89	89%	57%	64%
	3	£101.41	97%	60%	56%
	4	£112.00	98%	34%	34%
Huntingdonshire	1	£95.66	78%	85%	85%
	2	£104.49	82%	54%	64%
	3	£109.09	95%	57%	57%
	4	£124.41	95%	34%	35%
South Cambridgeshire	1	£89.64	83%	88%	87%
	2	£108.27	81%	53%	66%
	3	£119.06	91%	48%	53%
	4	£128.49	93%	34%	37%
Uttlesford	1	£95.36	78%	86%	86%
	2	£110.22	79%	52%	65%
	3	£121.71	89%	47%	52%

Table 14 Working households above threshold

The proportion who can afford current rents by each of the three measures is shown in Figure 3 below:

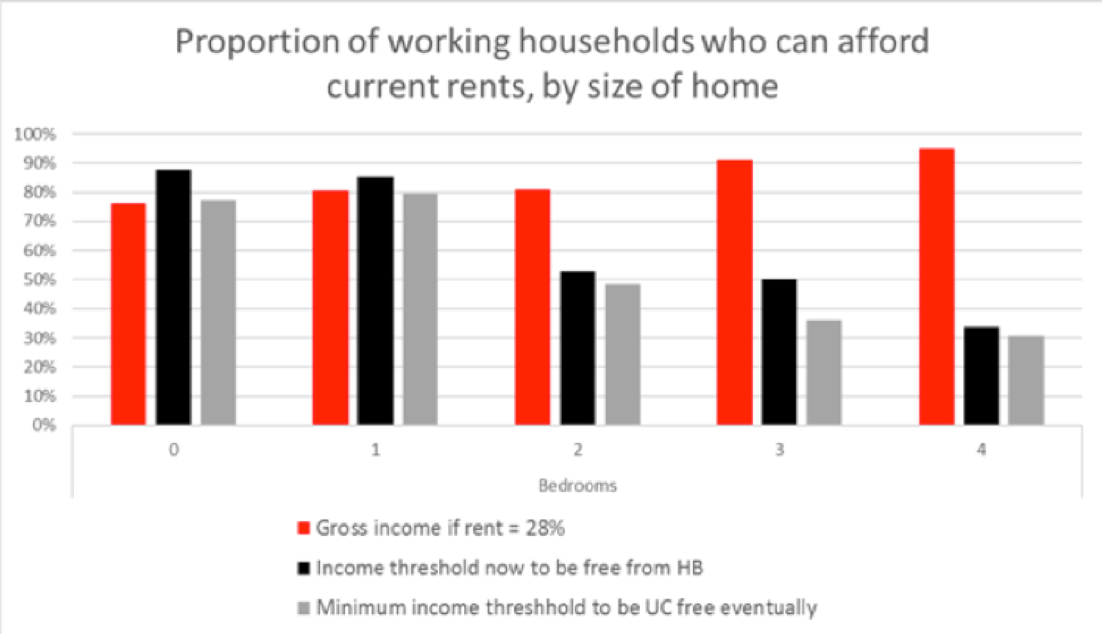

Figure 3 Proportion of working households who can afford social rents

The main pattern to see here is that there is a significant difference between the two ways of looking at affordability. Tenants in larger homes who are in work are very likely to be earning enough to afford their rent, in the sense that the rent constitutes less than 28% of their gross income. They are, however, likely to remain reliant on benefits – either housing benefit or UC - in order to pay it. It is difficult to argue that rents are affordable if a household is dependent on benefit income in order to pay them.

Tenants in one bedroom flats and bedsits in contrast, who are in work, generally earn enough to be able to afford their rent without relying on benefits. This is because they are unlikely to have children and therefore their living expenses (and benefit entitlement) are lower.

Tenants in one bedroom flats have somewhat lower incomes, and this is reflected in the slightly lower proportion whose rent represents 28% or less of their gross earnings, even after allowing for the lower rents in smaller properties.

Looking at the differences between areas:

Estimate % of CHS tenants who can afford current rent			
	Threshold 1 ("Living rent")	Threshold 2 (HB/TC)	Threshold 3 (UC)
Cambridge City	79%	58%	47%
East Cambridgeshire	85%	69%	56%
Fenland	90%	70%	64%
Huntingdonshire	86%	60%	54%
South Cambridgeshire	85%	54%	52%
Uttlesford	83%	54%	53%
Total	**84%**	**60%**	**53%**

Table 15 Affordability of current rent

Table 15 suggests that tenants in the lower rent areas (Fenland) are more likely to be able to afford their rent than those in the higher rent areas (Cambridge City), but also more likely to depend on benefits to do so. This is because tenants in lower waged areas have lower rents, but benefit rates are standardised nationwide. Overall, this analysis suggests that the Government's target rent formula has an appropriate level of weighting for local incomes and property prices, giving broadly consistent levels of affordability for in-work tenants across differing housing markets (at least in as much as they vary between CHS's areas of operation).

It is also clear from this analysis that, once Universal Credit is fully implemented, the proportion of tenants in receipt of it will be slightly higher than those currently in receipt of housing benefit. This is because some tenants on middle incomes may currently receive tax credits, but not housing benefit. When these tenants start to claim Universal Credit, their rent level will matter less to them, as a higher rent would result in a higher Universal Credit claim.

4. Universal Credit: implications for rents and earnings

Universal Credit (UC) integrates six existing benefits into one system. Each household type receives a personal allowance to cover living costs excluding housing: rent (up to the LHA) is then added to the personal allowance. The total is then met by UC, if there is no other income from earnings or other sources. (The LHA caps on rents do not apply to social housing, although the government had previously proposed that the LHA rates should be applied to the social rented sector as well as the private rented sector.)

Therefore, if a household is entitled to the personal allowances, there is no gain by lowering rents (because £1 less in rent reduces the overall entitlement to UC by £1). Equally, there is no loss to the tenant by raising rents to the LHA: an extra £1 in rent simply raises the entitlement to UC (although only up to the LHA limit for private sector tenants).

The effect of the taper as earnings rise is that escape from UC for families only occurs at better paid full time work - around £25,500 (or 37 hours at £13.25 per hour) for a lone parent, and around £35,400 (or 37 hours at £18.35 per hour) for a couple.

However, overall, UC is less generous than the current welfare benefit system. In particular, cuts to Work Allowances means tenants have less money after paying rent (£1,332 less for singles and couples, £852 for lone parents and £360 for couples with children).

8. Implications of Universal Credit for rents

Under the present formula rent system, the room for manoeuvre is very limited: only a 5% variation up or down from the formula rent was allowed prior to 2016, when the 1% real reductions in rents were introduced. Whether the 5% tolerance, or some greater flexibility, will be reintroduced from 2020 was unknown at the time of writing (May 2018).

Under UC, reducing rents does nothing for low paid workers receiving UC, except for the small number of tenants at the margin who 'escape' from UC, but raising rents to the LHA level (or beyond for social tenants, for whom the LHA caps do not apply) has no effect either.

Families with children do not escape from UC until they reach full time work at or above average earnings: lower rents therefore do little to assist lower paid families.

Single people (and couples without children) do not receive assistance from UC at much lower earnings (roughly 35 hours at the Minimum Wage at CHS rents): lower rents on smaller homes would therefore benefit single people and couples without children, whereas lower rents would not benefit lower paid families with children, who remain supported by UC until household incomes reach roughly the national average (£32,247 in 2016/17).

The following pages set out worked examples for three different household types (single people, lone parents with one child and couples with two children), comparing the differences between CHS Group average social rents at present, and CHS Group rents for new developments set at the LHA rate.

The examples given assume that tenants who are entitled to Universal Credit claim it (even in small amounts) and that delays in payment resulting from current administrative arrangements do not affect the long term ability of tenants in receipt of Universal Credit to pay their element of the rent.

1. Universal Credit and rents: worked examples

Example 1: single person

In the case of a single person over 25, living in a 1 bedroom property, they would be entitled to the Universal Credit standard allowance of £317.82 per month (£73.34 per week). Single people under 25 are only entitled to £58.10 per week.

To this is then added their rent, (up to the LHA rate only in the private rented sector), and the two together give a total entitlement to Universal Credit.

In the case of a single person paying the CHS average rent for a 1 bedroom unit of £407.59 per month, this gives a total entitlement to Universal Credit of £317.82 + £407.59 = £725.41 per month. This is equivalent to an annual gross income of £8,710 (£8,675 after NI contributions), which would be the annual income earned by working for 21.4 hours per week at the Minimum Wage of £7.83 per hour.

If the tenant earns more than £8,710 per annum, then UC is tapered away at 63p for every £1 earned, until entitlement ceases at earnings of £13,812 per annum, or 34 hours work at the Minimum Wage.

Single person, 1 bedroom, CHS social rent		
	UC amounts per month	
Adult	£317.82	equivalent to £3,813 per annum (no tax or NI payable)
CHS average 1 bed rent	£407.59	
UC entitlement	£725.41	equivalent to £8,710, or £8,675 after NI (no tax payable)
Max UC per week	£167.40	equivalent to 21.4 hours work at the Minimum Wage of £7.83
Monthly income to escape UC	£1,151	or £13,812 per annum, or 34 hours at the Minimum Wage

Table 16 Affordability: single person (CHS rent)

If the tenant pays a rent set at the LHA rate (for the Cambridge BRMA) of £546 per month, then their total entitlement to Universal Credit rises to £317.82 + £546 = £863.82 per month, or £10,630 per annum. This would be the annual income earned by working for 25.5 hours per week at the Minimum Wage of £7.83 per week. The increase in entitlement to Universal Credit is simply the difference between the social rent of £407.59 and the LHA rate of £546.

If the tenant earns more than £10,630 per annum, then UC is tapered away at 63p for every £1 earned, until entitlement ceases at earnings of £16,728 per annum, or 41 hours work at the Minimum Wage.

Single person, 1 bedroom, LHA rent		
	UC amounts per month	
Adult	£317.82	equivalent to £3,813 per annum (no tax or NI payable)
LHA 1 bed rent	£546.00	
UC entitlement	£863.82	equivalent to £10,366, or £10,630 aftyer NI (no tax payable)
Max UC per week	£199.34	equivalent to 25.5 hours work at the Minimum Wage of £7.83
Monthly income to escape UC	£1,394	or £16,728 per annum, or 41 hours at the Minimum Wage

Table 17 Affordability: single person (LHA rent)

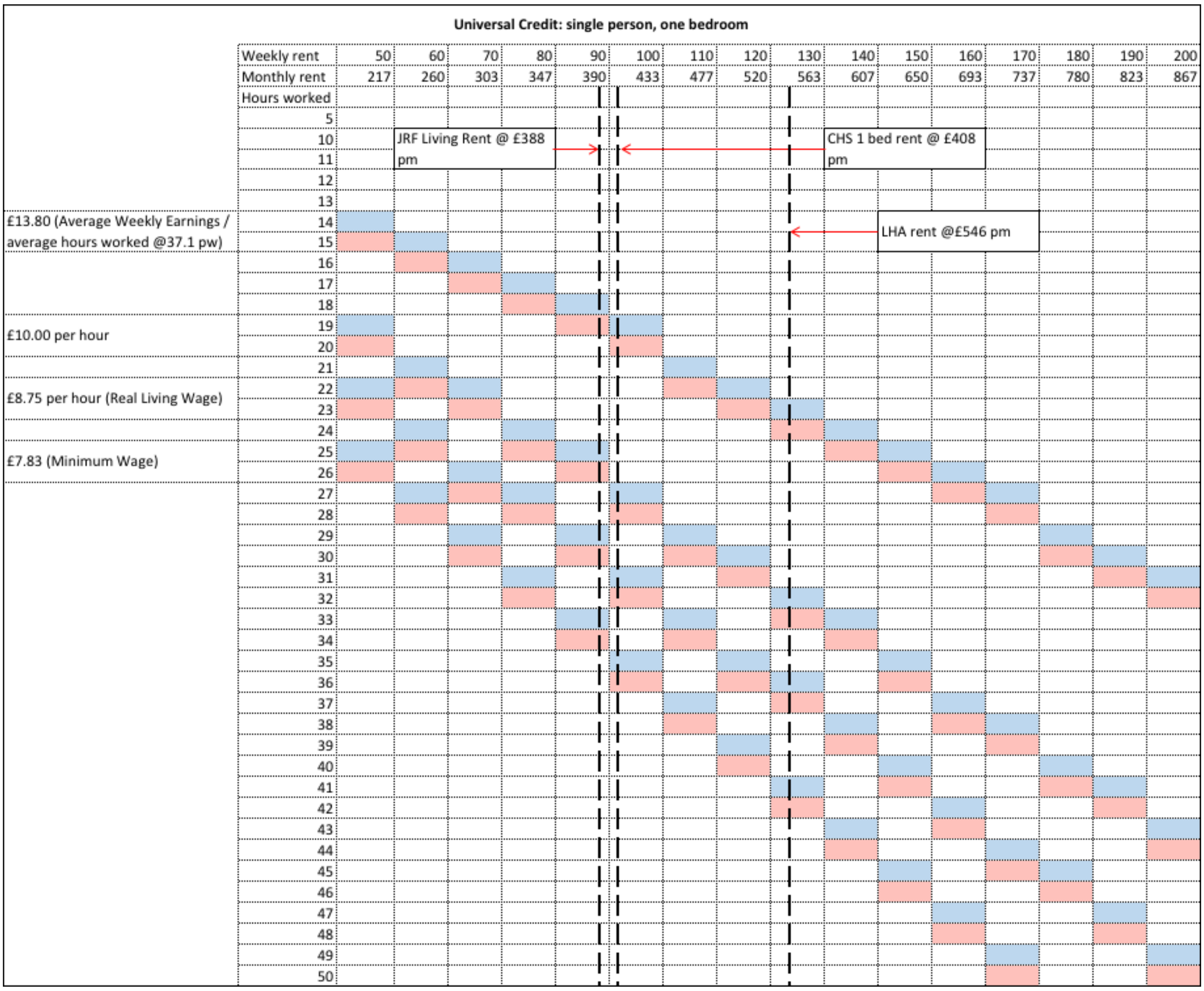

Figure 4 Affordability by hours worked: single person

Figure 4 gives a ‘read off’ chart, showing rents rising from left to right, and hours worked rising from top to bottom. Selected hourly rates of pay are shown in the left hand margin, and the combination of any rent and the number of hours that need to be worked in order to ‘escape’ from Universal Credit are then shown in the blue and red cells. The blue cells show the points at which the household is marginally still receiving UC, and the red cells show the points at which income is just sufficient to ‘escape’ UC.

The chart shows that, at the average CHS rent, a tenant earning the Minimum Wage would ‘escape’ UC at around 34 hours work per week, but would only have to work for 18 hours at the average wage.

Example 2: lone parent with one child

In the case of a lone parent with a single child, living in a 2 bedroom flat, they would be entitled to the Universal Credit standard allowance of £317.82 per month (£73.34 per week). A lone parent under 25 is only entitled to £58.10 per week. They would also be entitled to an extra amount of £231.67 per month for a first or second child born after 1 April 2017 (or £277.08 for a child born before 1 April 2017). The extra amounts are only available for a first and second child born after 1 April 2017: there is no support for any subsequent children.

To this is then added the rent, up to the LHA rate, and the two together give a total entitlement to Universal Credit.

In the case of a lone parent paying the CHS average rent for a 2 bedroom unit of £465.96 per month, this gives a total entitlement to Universal Credit of £317.82 + £231.67 + £465.96 = £1,015.45 per month. This is equivalent to an annual gross income of £12,730 (£12,185 after NI and tax), which would be the annual income earned by working for 30 hours per week at the Minimum Wage of £7.83 per hour.

If the tenant earns more than £12,730 per annum, then UC is tapered away at 63p for every £1 earned, until entitlement ceases at earnings of £21,717 per annum, or 37 hours work at £11.29 per hour.

Lone parent, one child, 2 bedrooms, CHS social rent		
	UC amounts per month	
Adult	£317.82	
Child	£231.67	
Subtotal	£549.49	equivalent to £6,594 per annum (no tax or NI payable)
CHS average 2 bed rent	£465.96	
UC entitlement	£1,015.45	equivalent to £12,185, or £12,730 before tax & NI
Per week	£234.33	equivalent to 30 hours work at the Minimum Wage of £7.83
Monthly income to escape UC	£1,809.78	or £21,717 per annum, or 37 hours @ £11.29 per hour

Table 18 Affordability: lone parent, one child (CHS rent)

If the tenant pays a rent set at the LHA rate (for the Cambridge BRMA) of £628 per month, then their total entitlement to Universal Credit rises to £317.82 + £231.67 + £628 = £1,177.49 per month. This would be the annual income earned by working for 36 hours per week at the Minimum Wage of £7.83 per week. The increase in entitlement to Universal Credit is simply the difference between the social rent of £465.96 and the LHA rate of £628.

If the tenant earns more than £14,130 per annum, then UC is tapered away at 63p for every £1 earned, until entitlement ceases at earnings of £25,164 per annum, or 37 hours work at the average wage of £13.08 per hour.

Lone parent, one child, 2 bedrooms, LHA rent		
	UC amounts per month	
Adult	£317.82	
Child	£231.67	
Subtotal	£549.49	equivalent to £6,594 per annum (no tax or NI payable)
LHA 2 bed rent	£628.00	
UC entitlement	£1,177.49	equivalent to £14,130, or £15,799 before tax & NI
Per week	£271.73	equivalent to 36 hours work at the Minimum Wage of £7.83
Monthly income to escape UC	£2,097	or £25,164 per annum, or 37 hours @ £13.08 per hour

Table 19 Affordability: lone parent, one child (LHA rent)

It seems probable that few lone parents will be able to ‘escape’ from UC at CHS average social rents, by being able to work for 37 hours per week and earning half as much again as the Minimum Wage, or to ‘escape’ from UC at LHA rents, by being able to work for 37 hours per week and earning the average wage.

Figure 5 gives a ‘read off’ chart, showing rents rising from left to right, and hours worked rising from top to bottom. Selected hourly rates of pay are shown in the left hand margin, and the combination of any rent and the number of hours that need to be worked in order to ‘escape’ from Universal Credit are then shown in the blue and red cells. The blue cells show the point at which the household is marginally still receiving UC, and the red cells show the point at which income is just sufficient to ‘escape’ UC.

The figure shows that, at the average CHS rent for a 2 bedroom unit, a lone parent earning either the Minimum Wage or the Real Living Wage would be unable to ‘escape’ from UC without working improbable numbers of hours per week.

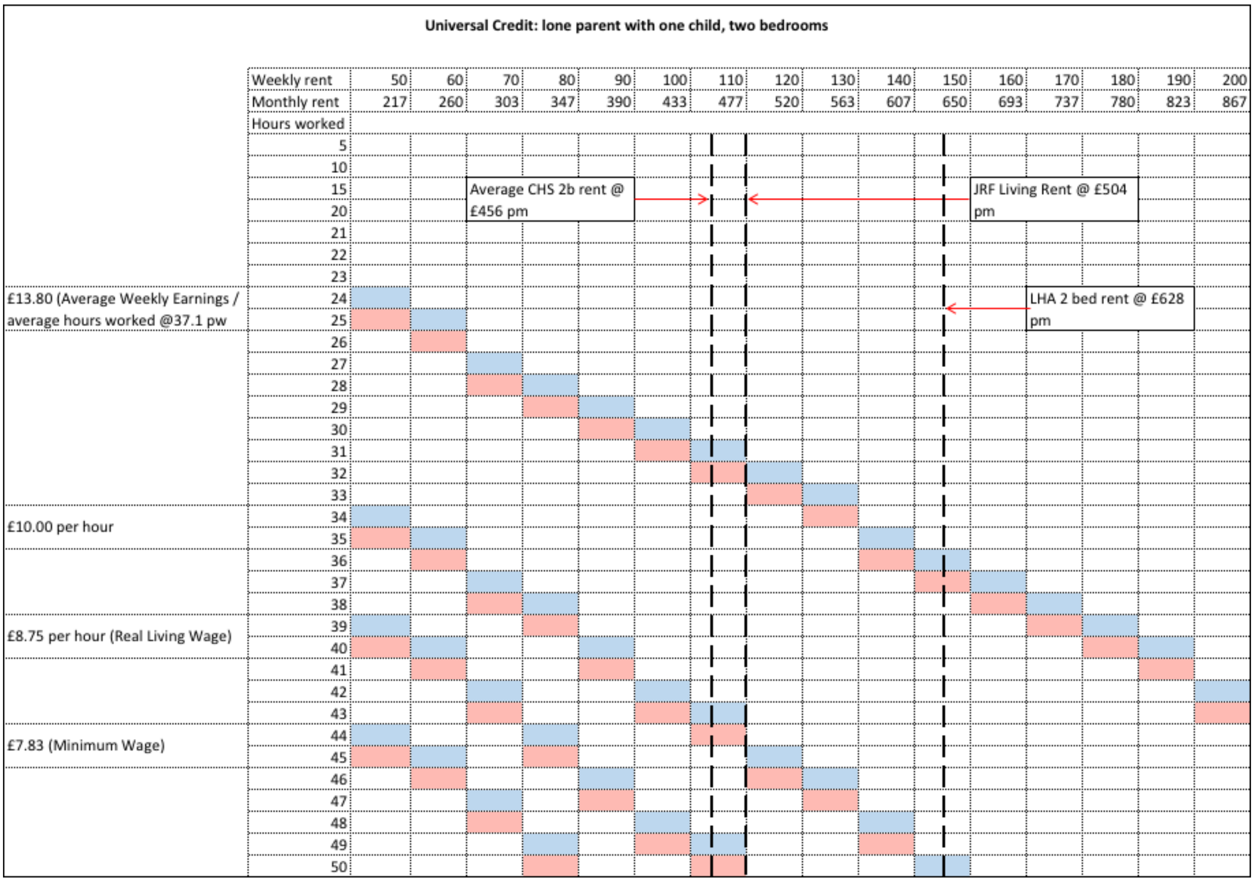

Figure 5 Affordability by hours worked (lone parent, one child)

Example 3: couple with two children

In the case of a couple with two children, living in a 3 bedroom property, they would be entitled to the Universal Credit standard allowance of £498.89 per month (£113.07 per week). A couple under 25, with children, is only entitled to £91.20 per week. The couple would also be entitled to an extra amount of £231.67 per month for each of a first and second child born after 1 April 2017 (or £277.08 for a child born before 1 April 2017). The extra amounts are only available for a first and second child born after 1 April 2017: there is no support for any subsequent children.

To this is then added the rent, (up to the the LHA rate only in the private rented sector), and the two together give a total entitlement to Universal Credit.

In the case of a couple paying the CHS average rent for a 3 bedroom property of £507.69 per month, this gives a total entitlement to Universal Credit of £498.89 + £231.67 + £231.67 + £507.69 = £1,469.92 per month. This is equivalent to an annual gross income of £20,969 (£17,639 after NI and tax), which would be the annual income earned by working for 37 hours per week at £9.17 per hour.

If the tenant earns more than £20,9069 per annum, then UC is tapered away at 63p for every £1 earned, until entitlement ceases at earnings of £26,925 per annum, or 37 hours work at £13.99 per hour.

Couple, two children, 3 bedrooms, CHS social rent		
	UC amounts per month	
Adult	£498.89	
Child	£463.34	
Subtotal	£962.23	equivalent to £11,547 per annum (or £12,004 before tax & NI)
CHS average 3 bed rent	£507.69	
UC entitlement	£1,469.92	equivalent to £17,639, (or £20,969 before tax & NI)
Per week	£339.21	equivalent to 37 hours work at £9.17 per hour
Monthly income to escape UC	£2,243.74	or £26,925 per annum, or 37 hours work @ £13.99 per hour

Table 20 Affordability: couple, two children (CHS rent)

If the couple pay a rent set at the LHA rate (for the Cambridge BRMA) of £730 per month, then their total entitlement to Universal Credit rises to £498.89 + £231.67 + £231.67 + £730 = £1,692.23 per month. This would be the annual income earned by working for 37 hours per week at £9.17 per hour. The increase in entitlement to Universal Credit is simply the difference between the social rent of £507.69 and the LHA rate of £730.

If the tenant earns more than £24,887 per annum, then UC is tapered away at 63p for every £1 earned, until entitlement ceases at earnings of £31,572 per annum, or 37 hours work at £116.41 per hour.

Couple, two children, 3 bedrooms, LHA rent		
	UC amounts per month	
Adult	£498.89	
Child	£463.34	
Subtotal	£962.23	equivalent to £11,547 per annum (or £12,005 before tax & NI)
LHA 3 bed rent	£730.00	
UC entitlement	£1,692.23	equivalent to £20,852, (or £24,887 before tax & NI)
Per week	£390.51	equivalent to 37 hours work at £10.80 per hour
Monthly income to escape UC	£2,631	or £31,572 per annum, or 37 hours work @ £16.41 per hour

Table 21 Affordability: couple, two children (LHA rent)

The earnings opportunities for couples are, of course, very different from those of lone parents. Two people, each working 39 hours at the Minimum Wage, would earn £31,758 and would just 'escape' from UC. In a couple in which one partner worked for 37 hours at £10 per hour, the other partner could then work for 30 hours at the Minimum Wage: their total income would just be sufficient to 'escape' from UC.

The examples illustrated for a couple assume a single wage earner Clearly, if both members of a couple are able to work, then their combined income is likely to enable them to 'escape' from UC, but if hours or earnings are limited, then a couple will be supported by UC until their joint income exceeds £31,500.

Figure 6 gives a 'read off' table, showing rents rising from left to right, and hours worked rising from top to bottom. Selected hourly rates of pay are shown in the left hand margin, and the combination of any rent and the number of hours that need to be worked in order to 'escape' from Universal Credit are then shown in the blue and red cells. The blue cells show the point at which the household is marginally still receiving UC, and the red cells show the point at which income is just sufficient to 'escape' UC.

The chart shows that at the average CHS rent for a 3 bedroom property, a couple would have to earn significantly more than the average wage for a 37 hour week before 'escaping' from UC, but would be supported by UC at any level of earnings below £31,500 per annum. As rents rise to higher levels, the number of hours required to be worked at average earnings of £13.80 per hour would rise to a point that would require both members of the couple to be working.

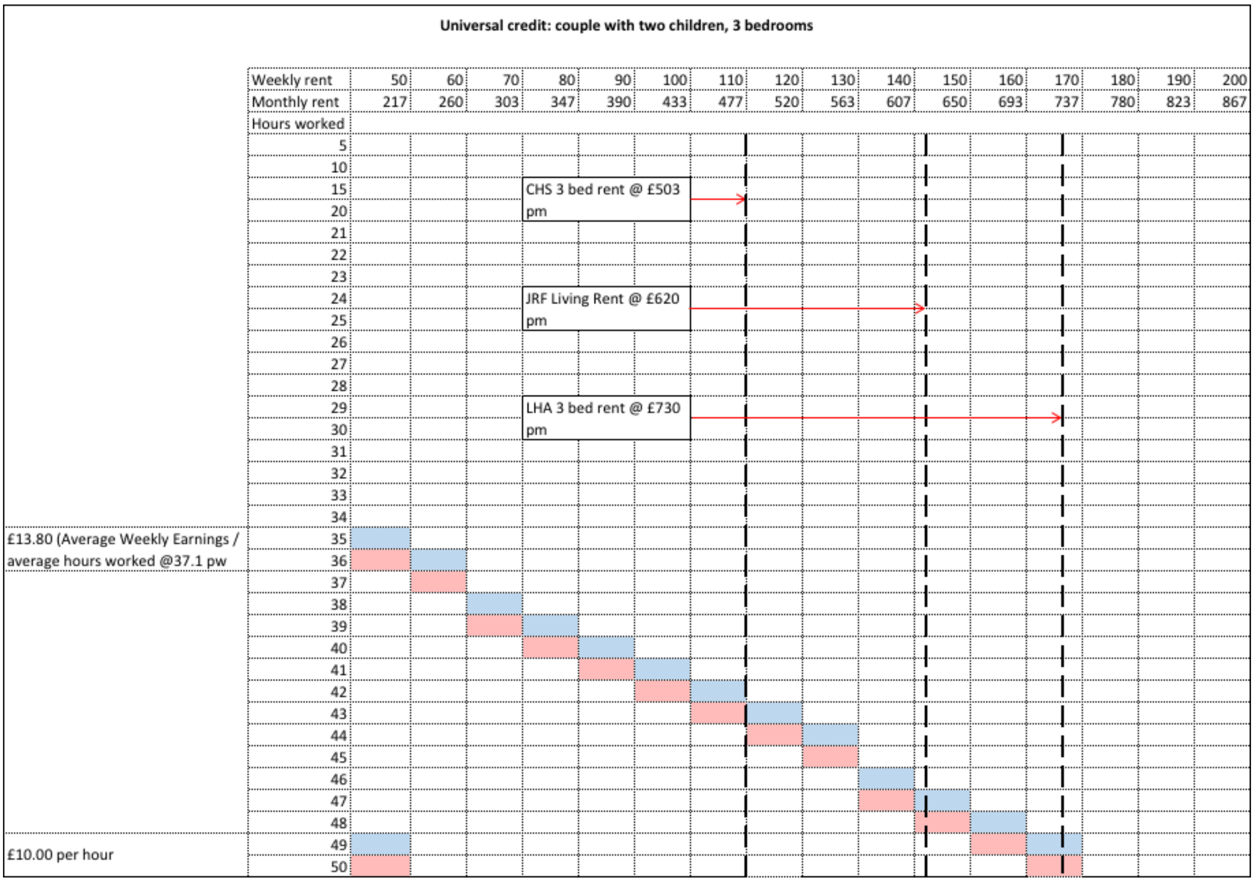

Figure 6 Affordability by hours worked (couple, two children)

9. The effect of different options in setting rents

Suggested changes to rent levels across different sizes and locations

The analysis below shows the potential changes to affordability under three scenarios:

- a £10 a week increase in rents
- a £10 a week decrease in rents
- no change to rents

The aim is to explore which sizes and locations of properties would see the biggest proportion of tenants gaining from a rent reduction, and which would see the most tenants lose out if rents were to increase.

As discussed above, three affordability measures have been considered here:

- A "living rent" threshold, where rent is equal to 28% of gross household income (excluding benefit income)
- The income required to no longer receive housing benefit, for a household in receipt of housing benefit and/or tax credits, in work for 30+ hours with a single earner, no disabilities, and all children born before May 2016
- The income required to no longer receive UC, for a household in receipt of Universal Credit, in work for 30+ hours with a single earner, no disabilities, and all children born after April 2017

1. Size of home

Figure 7, Figure 8 and Figure 9 below show the proportion of tenants who can afford the rents by each of these three measures by size of property:

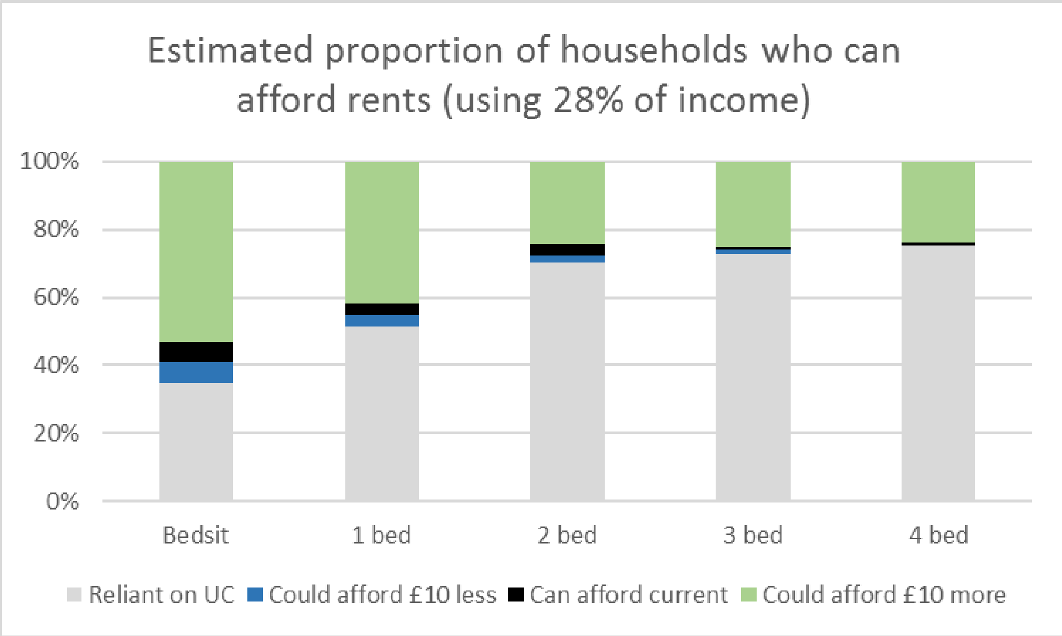

Figure 7 Estimated proportion of households who can afford rents

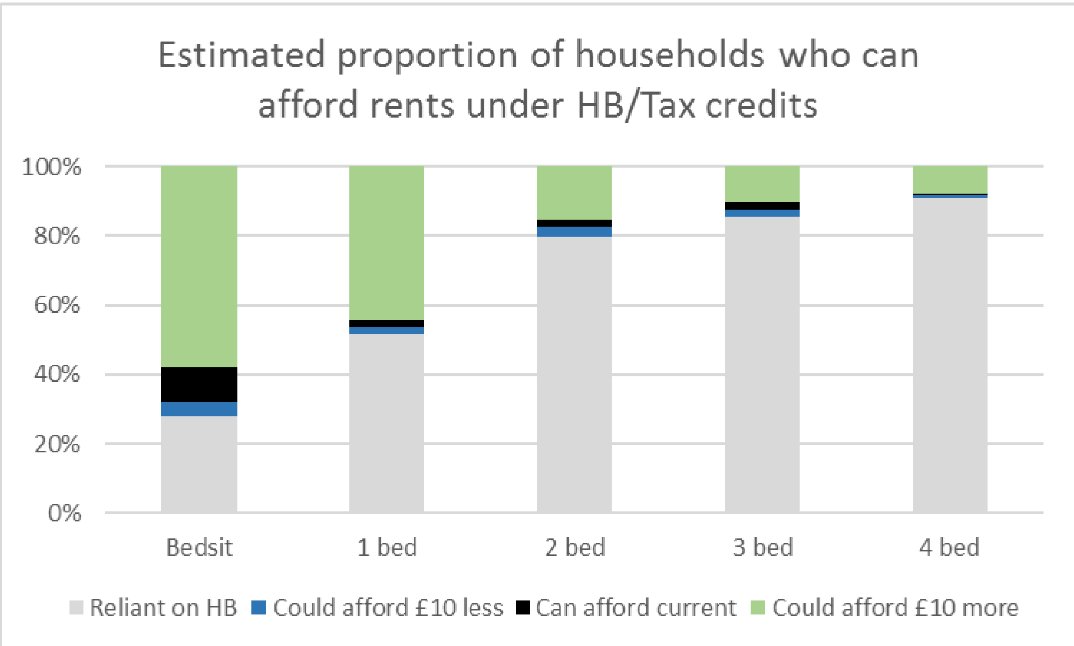

Figure 8 Estimated proportion of households who can afford rents under HB/tax credits

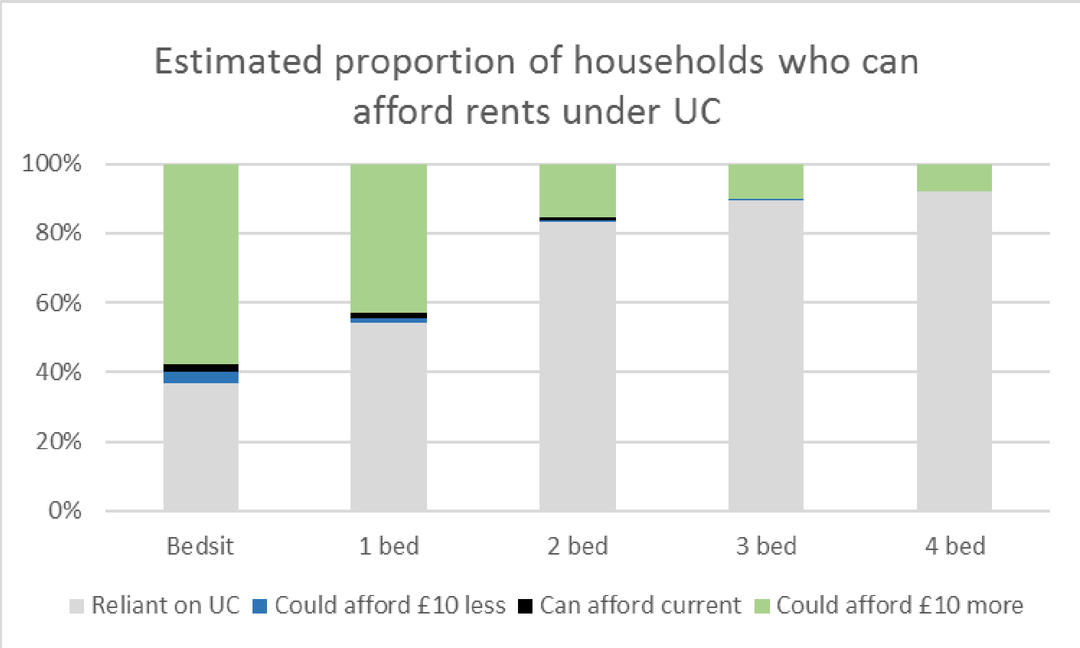

Figure 9 Estimated proportion of households who can afford rents under UC

One key way of looking at affordability from this analysis would be to consider the proportion of tenants for whom an increase or reduction in rent would make a difference to their residual income – those not in grey in the charts. As can be seen, tenants in smaller properties are less likely to be dependent on benefits, and therefore more of them will benefit directly from any changes to rent levels. They are also more likely to find that their current rent is less than 28% of their gross income than those in larger properties – most likely because rents are higher for larger properties but incomes relatively flat.

If CHS were to reduce rents on one bedroom flats and increase them in larger properties, the net impact, overall, would be positive on tenants' incomes. Slightly more money would, overall, be claimed in the form of housing benefit or Universal Credit.

2. Location

Another way in which CHS can vary rents is between different locations. FiguresFigure 10,Figure 11 andTable 12 below show the how affordability varies, using the same three measures, between the six local authorities where they have housing.

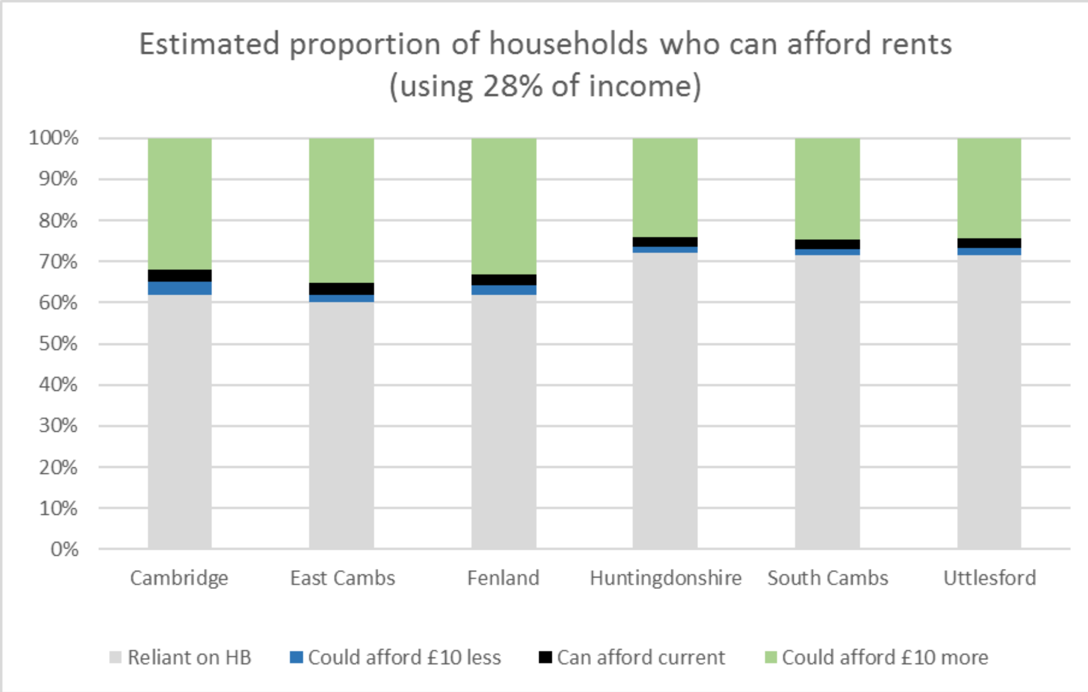

Figure 10 Estimated proportion of households who can afford rents by area

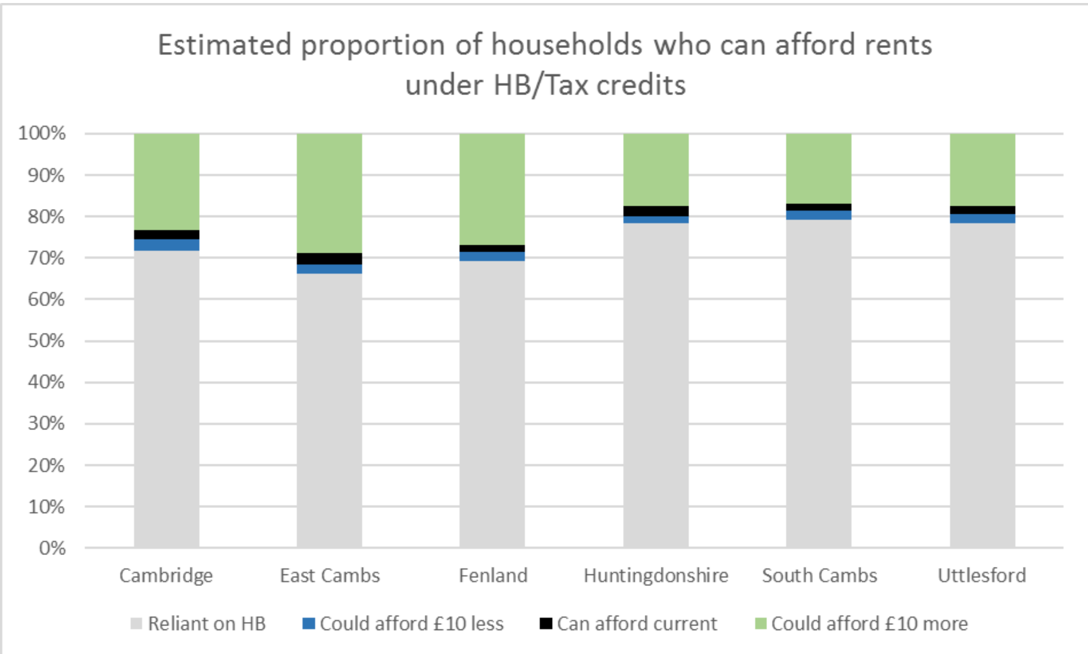

Figure 11 Estimated proportion of households who can afford rents under HB/tax credits by area

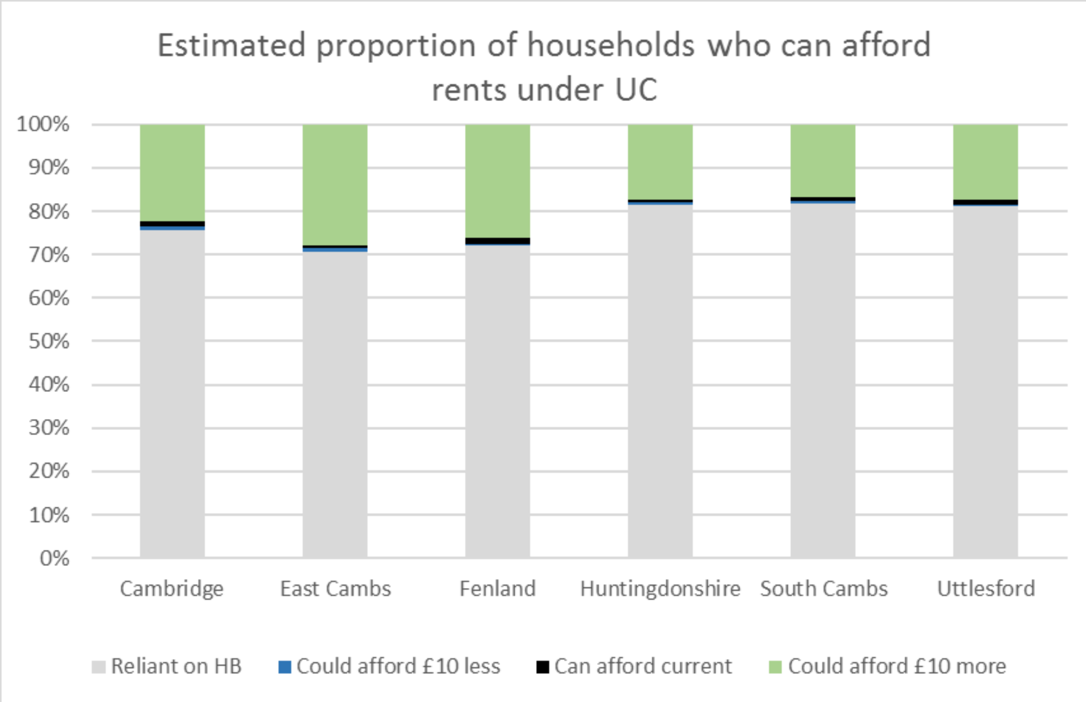

Figure 12 Estimated proportion of households who can afford rents under UC by area

These figures suggest that the proportion of households who can afford their rent varies only a small degree between locations. Overall, the proportion who would benefit from lower rents is slightly higher in East Cambridgeshire and Fenland, followed by Cambridge City. This is in part because of the lower proportion of pensioners in these three areas (who have been assumed to rely on housing benefit). There is no clear correlation between the areas where rents are highest (Cambridge City, Uttlesford and South Cambridgeshire), and affordability.

Overall, there seems little basis for changing the rents in one area relative to another on the basis of improving affordability.

Rents are somewhat lower for flats than houses. The income modelling of existing tenants does not permit a comparison between those in flats and in houses, but it is possible to compare incomes of new tenants using CORE data:

% of lettings by benefit status and property type			
	Income from benefits		
	All	Some	None
Flat/maisonette	47%	19%	34%
House/bungalow	47%	24%	28%

Source: CORE

Table 22 Lettings by benefit status and property type

This data suggests that there are no substantial differences between the occupants of flats and houses in terms of their reliance on benefits, and thus no clear rationale for altering the current rents policy in this regard.

10. Conclusions and recommendations

Across all these scenarios, the proportion of tenant households who become able to afford their rent if it was reduced by £10 a week, or cease to be able to afford it with a £10 rise, is small. This is because the incomes of working tenants vary considerably. There is no magic rent level that is affordable to everyone. Indeed, the majority of CHS's tenants – like most social tenants – are reliant at least in part on benefits to help pay the rent currently.

Nevertheless, the data does suggest that reducing rents on smaller properties and increasing them on larger ones would have, overall, a positive impact on the disposable income of tenants. This is largely because even families in work usually receive some state support to help with their housing costs. A rent increase therefore increases their benefit claim but has no immediate impact on their disposable income. In contrast, households without children are more likely to be able to afford their rents without recourse to benefits, and therefore benefit from lower rents.

Even tenants in one bedroom homes, however, would not all benefit from this approach. Around half of them receive housing benefit/UC and would therefore see no impact. Most of the remainder earn sufficient incomes to be able to afford their rent, as it is currently or with a modest increase. Only a small proportion of the money invested by reducing rents would go to tenants at the thresholds of affordability.

Two possible rent setting policies are therefore recommended for consideration by CHS:

1. Option 1: restructuring the pattern of rents

This would be to reduce rents on bedsits and 1 bedroom properties, and increase rents on larger properties.

This option would have the effect of redistributing costs and benefits between different groups of tenants.

2. Option 2: reducing the other costs of housing to tenants

This would be to increase rents up to the maximum permitted, using the 5% tolerance plus any flexibility and freedom that might emerge in future government policy post 2020.

The surplus income created could then be reinvested in measures to reduce cash running costs for tenants in improved insulation, energy efficiency, water saving, etc.

This option would result in increased rent costs for all tenants, offset by reduced running costs for tenants with the highest energy and water bills. However, given that nearly all of CHS' housing stock is already at the Decent Homes Standard, the investment required to reduce running costs will show diminishing returns for each £1 of further investment.

3. Costing Option 1

The total rental income received by CHS needs to balance, relative to current income. Table 23 and Table 24 below show two examples of how this might be achieved.

In the first example (Table 23) rents are constrained to rise, or fall by no more than the 5% tolerance. Because there are more family sized properties than bedsits and 1 beds, a rent increase of 5% for 3 bed and larger homes would produce enough additional rent income to reduce the rents of bedsits and 1b beds by 5%. The rent of 2 bed homes would not need to change. The Table shows that the total weekly rent income would increase by £1,920.58, but clearly the exact increases in rents could be adjusted to eliminate this increase if that were thought desirable.

Example 1: rent restructuring to produce lower rents for bedsits and 1 beds								
	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed	**Total**
Stock	41	386	767	477	79	4	1	1755
Current rent	£79.38	£88.24	£104.04	£115.62	£124.59	£139.12	£145.23	
Rental income per week	£3,255	£34,061	£79,802	£55,153	£9,842	£556	£145	£182,814
Proposed change	-6%	-5%	0%	6%	6%	6%	13%	
Proposed rent	£74.96	£83.53	£104.04	£122.57	£131.64	£147.50	£163.39	
Rental income per week	£3,073	£32,242	£79,799	£58,468	£10,399	£590	£163	£184,735
Average rental increase	-£4.43	-£4.71	£0.00	£6.95	£7.05	£8.39	£18.16	£1,920.58

Table 23 Effects of rent restructuring (1)

In the second example (Table 24) the rents of all 2 bed and larger homes are increased by 5%. This would produce sufficient rent income to reduce the rents of bedsits and 1 bed units by more than the 5% tolerance. This example would reduce the weekly rent of a bedsit by £14.38 per week, and the rent of a 1 bed unit by £20.24, while leaving weekly rental income more or less in balance (a total increase in weekly rental income of £139.41 across the whole stock).

Example 2: rent restructuring to produce lower rents for bedsits and 1 beds								
	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed	**Total**
Stock	41	386	767	477	79	4	1	1755
Current rent	£79.38	£88.24	£104.04	£115.62	£124.59	£139.12	£145.23	
Rental income per week	£3,255	£34,061	£79,802	£55,153	£9,842	£556	£145	£182,814
Proposed change	-18%	-23%	5%	6%	6%	6%	13%	
Proposed rent	£65.00	£68.00	£109.70	£122.57	£131.64	£147.50	£163.39	
Rental income per week	£2,665	£26,248	£84,141	£58,468	£10,399	£590	£163	£182,675
Average rental increase	-£14.38	-£20.24	£5.66	£6.95	£7.05	£8.39	£18.16	£139.41

Table 24 Effects of rent restructuring (2)

In both examples, tenants who will be on Universal Credit would see no change in their net incomes, while those not on Universal Credit would see either an increase in their rent, and therefore a fall in their After Housing Costs income, or (for tenants in bedsits or 1 beds), a fall in their rent and a rise in their After Housing Costs income.

There is insufficient data on the incomes of tenants who are currently in receipt of Housing Benefit, and who will be on Universal Credit as this is rolled out, to estimate whether there is a net increase or decrease in benefits, but maintaining total rent income at the same level suggests that the overall effect would be marginal.

4. Costing Option 2

Table 25 below shows the possible additional funding that could be raised by making full use of the 5% tolerance (after 2020, when the formula rent policy resumes).

Example: rent restructuring to produce increased surplus for reinvestment								
	Bedsits	1 bed	2 bed	3 bed	4 bed	5 bed	6+bed	**Total**
Stock	41	386	767	477	79	4	1	1755
Current rent	£79.38	£88.24	£104.04	£115.62	£124.59	£139.12	£145.23	
Rental income per week	£3,255	£34,061	£79,802	£55,153	£9,842	£556	£145	£182,814
Proposed change	4%	5%	5%	6%	6%	6%	13%	
Proposed rent	£82.85	£92.32	£109.70	£122.57	£131.64	£147.50	£163.39	
Rental income per week	£3,397	£35,636	£84,141	£58,468	£10,399	£590	£163	£192,794
Average rental increase	£3.47	£4.08	£5.66	£6.95	£7.05	£8.39	£18.16	£9,980.00

Table 25 Potential use of 5% tolerance

The table shows that increasing all rents to the maximum 5% tolerance above the formula rent would increase weekly rent income by £9,980. Allowing for void rent losses, some £500,000 could become available each year, either for direct reinvestment in the stock, or to support borrowing for reinvestment.

All other things remaining equal, this would result in a similar increase in the costs of Housing Benefit or the rent element of Universal Credit.