

## Appendix 2

### Affordability of Rents in Cardiff

#### Rent levels and value for money

Whilst the responsibility for setting rents rests with the Council, this is specified within boundaries laid out in the Welsh Government rent policy framework.

When determining the setting of rents and service charges, social landlords must make an assessment of cost efficiencies, value for money and affordability for tenants.

The maximum overall rent increase allowable in any one year is the September Consumer Price Index (CPI) +1%. Should CPI fall outside the range of 0% to 3%, the responsibility rests with the Climate Change Minister to determine the appropriate change to rent levels for the year.

In September 2022, CPI was 10.1%, well above the range allowable by the policy. Therefore, a decision regarding the rent setting was required by the Minister. On 16<sup>th</sup> November 2022 the Minister announced that the social rent cap had been set at 6.5%.

It is therefore proposed to increase the rent for Cardiff Council homes by 6.5% from April 2023.

Cardiff Council must provide housing that remains affordable for current and future tenants and is assessed for cost efficiency and value for money.

Rents charged by private landlords are significantly higher than Council rents. The table below shows the current weekly rent and the proposed average rent for 2023/24 compared with the current Local Housing Allowance (LHA) rates and with rents in the private rented sector.

#### Weekly rent levels and corresponding LHA rates

No. of Bedrooms	Weekly Current Rent 22/23	Proposed Weekly Rent 2023/24 (6.5% increase)	Weekly Local Housing Allowance (22/23)	Weekly Private Market Rents - Nov 2022
1	£100.17	£106.68	£120.82	£167.00
2	£115.51	£123.02	£149.59	£207.00
3	£132.24	£140.84	£178.36	£274.00
4	£146.57	£156.09	£218.63	£331.00

NB: Estimated rents above are based on 52 weeks collection and include estimated current service charges to make them directly comparable with LHA rates.

## The Joseph Rowntree Foundation (JRF) Living Rent Model

The JRF Living Rent model links rents directly to an index of earnings and uses a recognised equivalence scale to allow for household income and property size to produce a Living Rent.

The model states that a Living Rent should be affordable for a **household with someone in full-time employment, working the average number of hours worked per week (including overtime) and earning around the minimum wage**. This uses the lower quartile national earning figures.

However, this income needs to be adapted to reflect the differing composition of households in different-sized properties and the fact that household income for low-paid families with children is likely to be enhanced by benefits and tax credits.

The Living Rents are based on:

- Lower quartile localised earnings data from the Office for National Statistics' Annual Survey of Hours and Earnings (**ASHE**). The gross weekly figure below which **25% of the lowest earners resident in Cardiff** earn in 2022 is **£372.10**.
- These earnings are then adjusted for property size, in accordance with the JRF model.
- The starting rent is then set at 28% of the adjusted earnings.

The full calculations including details of the equivalence rates are set out in Appendix One.

The calculated living rents are set out below:

Property Type	Weekly Living Rent
Bedsit	£104.19
One Bedroom	£104.19
Two Bedrooms	£135.44
Three Bedrooms	£166.70
Four Bedrooms	£197.96

### Proposed rent levels

The following table shows how the rents calculated using the Living Rent model compare with the proposed net rent for Cardiff Council properties from April 2023.

It indicates that overall Cardiff rents fall within an affordable level.

**Breakdown of weekly rent before service charges**

<b>Property Type</b>	<b><i>Proposed Cardiff Council Net Rent – per week 2023/24</i></b> <b>(before service charges are added)</b>	<b><i>Proposed Living Rent – per week 2023/24</i></b> <b>(before service charges are added)</b>	<b>Difference in charge per week (Total &amp; %)</b>
<b>Bedsit</b>	<b>£79.74</b>	<b>£104.19</b>	<b>£24.45</b>
			<b>30.66%</b>
<b>1 Bed Flat / Maisonette</b>	<b>£94.63</b>	<b>£104.19</b>	<b>£9.56</b>
			<b>10.10%</b>
<b>2 Bed Flat / Maisonette</b>	<b>£109.52</b>	<b>£135.44</b>	<b>£25.92</b>
			<b>23.66%</b>
<b>3 Bed Flat / Maisonette</b>	<b>£124.40</b>	<b>£166.70</b>	<b>£42.30</b>
			<b>34.00%</b>
<b>4 Bed Flat / Maisonette</b>	<b>£139.29</b>	<b>£197.96</b>	<b>£58.67</b>
			<b>42.12%</b>
<b>2 Bed House / Bungalow</b>	<b>£121.96</b>	<b>£135.44</b>	<b>£13.48</b>
			<b>11.05%</b>
<b>3 Bed House / Bungalow</b>	<b>£136.85</b>	<b>£166.70</b>	<b>£29.85</b>
			<b>21.81%</b>
<b>4 Bed House / Bungalow</b>	<b>£151.74</b>	<b>£197.96</b>	<b>£46.22</b>
			<b>30.46%</b>

NB: rents above are for 52 weeks and *do not* include service charges to make them comparable with the living rent formula.

## **Appendix 1: Calculating the Living Rent**

In order to provide an initial estimate of how Cardiff Council's rent levels compare to the JRF Living Rent model the following two-part formula has been used:

- 1) New weekly wage x Equivalence Rating = Weekly equivalent income
- 2) Weekly equivalent income x 28% = Weekly Living Rent

ASHE has been used to obtain the **weekly** earnings figure, below which the **25% lowest earners resident in Cardiff** fall. The gross figure for 2022 is **£372.10**.

The model proposed by the JRF states that the weekly earnings figure must be adapted to reflect the differing composition of households in different-sized properties and the fact that household income for low-paid families with children is likely to be enhanced by benefits and tax credits. This is called the equivalence rating. The equivalence model used by JRF is the OECD modified scale. The equivalence scale will vary for each household member as seen in figure 2.

### **Type of Household Member Equivalence value**

<b>Household Member</b>	<b>Equivalence Value</b>
First Adult	1
Additional Adult	0.5
Child aged 14 and over	0.5
Child aged 0-13	0.3

To account for the difference in equivalence value for children depending on their age a figure of 0.3 has been used for each additional child as the JRF model only provides equivalence values for one, two and three bed properties.

<b>Bedroom Size</b>	<b>Household Size</b>	<b>Equivalence Rating</b>
<b>Bedsit</b>	Single Adult	<b>1.0</b>
<b>One bedroom</b>	Single Adult	<b>1.0</b>
<b>Two bedroom</b>	One working adult and one child	<b>1.3</b>
<b>Three bedroom</b>	One working adult and two children	<b>1.6</b>
<b>Four Bedroom</b>	One working adult and three children	<b>1.9</b>

## Equivalence Table

Using a two bed property as an example the calculation is set out as follows:

### Two Bedroom

$$\text{£}372.10 \times 1.3 = \text{£}483.72$$

Gross weekly wage	Equivalence rating	Equivalent weekly income
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$$\text{£}483.72 \times 28\% = \text{£}135.44$$

Equivalent weekly income	Weekly living rent
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The JFR calculation of living rents does not cover specialist or supported accommodation rent levels. The model also uses net rent levels, i.e. does not include service charges.

It should be noted that the Welsh Government intend to review the affordability models used in Wales in the future with the aim of standardising this.