



# Effective housing for people on low incomes in the Welsh Valleys

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by Dr Tom Archer, Dr Stephen Green, and Ian Wilson

This report gives five policy and practice recommendations for social housing providers, the Welsh Government, landlords and key stakeholders - the combination of which will help to avoid a bleak future if current challenges are not addressed.

# Effective housing for people on low incomes in the Welsh Valleys

Dr Tom Archer, Dr Stephen Green, Ian Wilson

To address the current and future housing challenges facing low-income households in the Valleys, this report outlines a series of policy and practice recommendations for social housing providers, the Welsh Government, landlords and key stakeholders. It gives five recommendations, the combination of which will go some way to avoid a bleak future if current challenges are not addressed. Housing responses are the focus of this report. However, many of the underlying challenges facing the Valleys are born out of the long running economic change that the area has experienced. To really address these challenges, and for the Valleys to realise its potential, requires housing solutions working alongside those that address the economic situations of the Valleys.

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## Actions

Social housing providers, the Welsh Government, landlords and key stakeholders need to:

- Carry out more effective and targeted use of existing grants and other finance.
- Create changes to Local Housing Allowance (LHA) alongside developing measures to improve the supply of properties at LHA rates and improve quality.
- Improve support for people to reduce housing costs and access employment.
- Link social rents to local earnings to address affordability issues.
- Develop vehicles to deliver both locally tailored responses and strategic action at a wider scale.

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JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. *Effective housing for people on low incomes in the Welsh Valleys* plays an important part in looking at how to boost incomes and reduce costs – a key focus of our [strategy to solve UK poverty](#).

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# Executive summary

## Key points

Achieving an adequate provision of housing for people on low incomes has long been a key policy challenge in the South Wales Valleys. Continuing effects of economic restructuring have provided enduring challenges. More recently successive government's Welfare Reform programmes have seriously undermined the communities living in the Valleys and those seeking to support them. This has prompted serious debate and concerns about the future housing offer for people on low incomes in the Valleys.

In response, the Joseph Rowntree Foundation (JRF), working with a group of interested stakeholders, commissioned the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University to develop evidence and recommendations for addressing the housing challenges for those on low incomes in the Valleys.<sup>i</sup> This is the second report to emerge from the study. It proposes five recommendations for a more effective provision of housing for people on low incomes in Valleys. The combination of these recommendations will go some way to avoid the bleak future if the current challenges are not addressed.

Housing responses are the focus of this report. However, many of the underlying challenges facing the Valleys are born out of the long running economic change that the area has experienced. To really address these challenges, and for the Valleys to realise its potential, requires housing solutions working alongside those that address the economic situations of the Valleys.

## Methods

The research activities, including the process of moving from baseline analysis to the final recommendations, are summarised in Figure 1.

Figure 1: Study process and methods



Four stakeholder workshops entailed an open request for proposals and recommendations to improve the housing offer in the Valleys. This generated a large number of proposals of varying scale, focus and ambition. The emerging solutions were then road tested in three resident focus groups.

The workshop and resident focus group sessions enabled us to develop a set of outline recommendations. These were the platform for three roundtable discussions with Welsh Government and a mix of representatives from local authorities, housing providers, academia and national membership bodies. These workshops explored the recommendation's viability and sought views on variations and refinements.

## The challenges in three broad categories

The baseline analysis identified three broad challenges facing the provision of housing for those on low incomes in the South Wales Valleys:

- 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.

There is also a distinct polarisation across the Valleys in terms of low and high demand areas. Broadly speaking three housing markets operate, each running horizontally from West to East across the Valleys. These markets appear to relate to each area's relative access to employment and services. The highest demand area – what we have termed the Valleys' mouths – run across the bottom of the Valleys. It included many settlements within easy access to the employment centres in Cardiff, Newport and along the M4. The lowest demand areas are in a band across the middle of the Valleys, what we have called the Valleys' hearts. These areas have the worst connectivity. Finally, the heads of the Valleys, covering an area running both sides of the heads of the Valley's road, has a middling level of demand.

## **A framework for developing policy and practice recommendations**

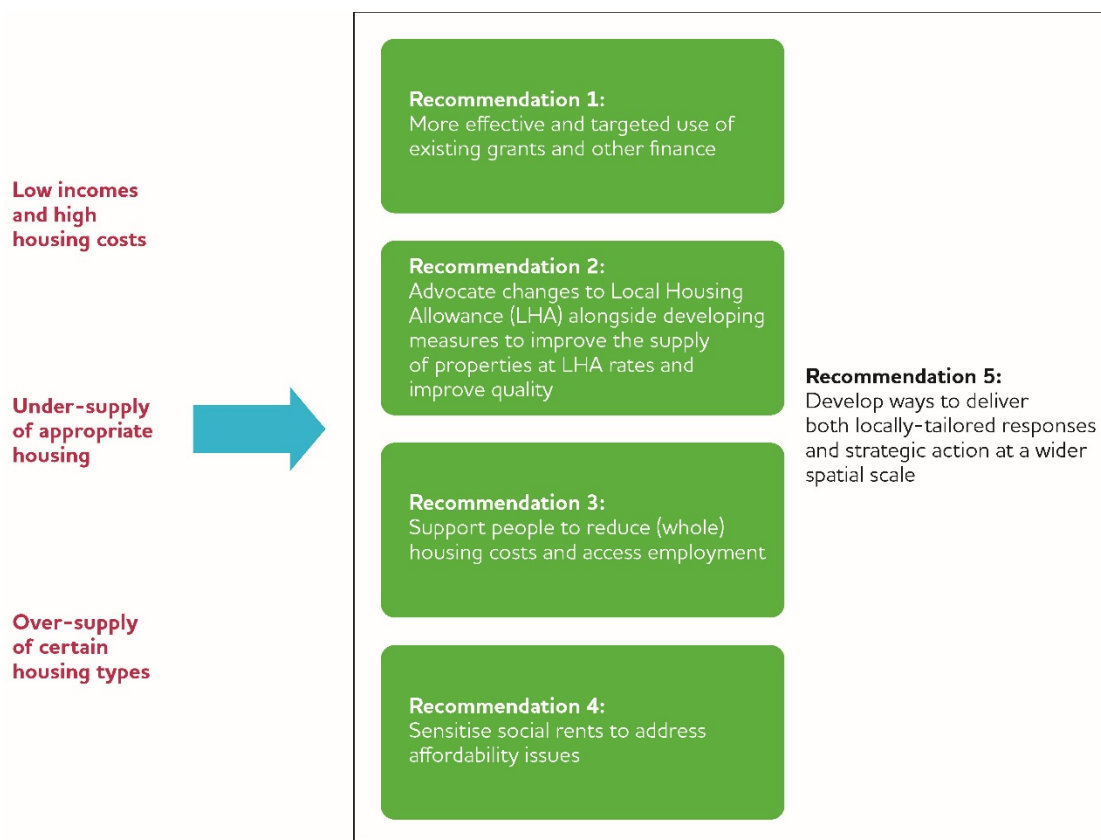
To respond to these challenges the framework for developing policy and practice recommendations focused on interventions to:

- Ensure housing is affordable to residents and financially viable for providers.
- Improve and reconfigure existing stock to meet current needs and demand.
- Build the housing required, developing new housing products targeting specific needs and demands.

## **A summary of the recommendations**

Figure 2 summarises the five recommendations to address the key housing challenges facing the South Wales Valleys. It is important to note these recommendations have been designed to impact across challenges.

Figure 2: A summary of the policy and practice recommendations



**Recommendation 1: more effective and targeted use of existing grants and other finance.** This involves:

- Strategic targeting of grant allocations based on priority demand-side factors.
- Allowing greater adjustment of grant levels between lower and higher demand areas.
- Allowing different grants to be portable or transferrable as local schemes require.
- Providing longer term settlements on grant programmes to create greater certainty and strategic planning.

This recommendation responds to the markedly different demand pressures facing different areas of the Valleys. An implication of this is an undersupply of appropriate housing in some areas where as other areas face an oversupply of certain housing types.

**Recommendation 2: advocating changes to LHA alongside developing measures to improve the supply of properties at LHA rates and their quality.** This includes action to:

- Ensure a better match between localised LHA payments and the rents charged. For example: exploring implications of redefining the Broad Rental Market Areas in the Valleys; ensuring LHA



rates genuinely reflect 30th percentile rents; and action to ensure that the LHA freeze does not further compound unaffordability for low-income households.

- Provide better access to, and better conditions in, the PRS. For example: launching Help to Rent initiatives across the Valleys and an expansion of Social Letting Agency approaches.

This recommendation acknowledges the importance of the PRS for low-income households. However, it seeks to address key issues in the market's availability and affordability, as well as concerns around housing quality and management standards.

**Recommendation 3: support people to reduce whole housing costs and access employment.** This involves developing collaborative and systematic approaches to financial advice and support for households with a focus on reducing housing-related costs and improving access to employment.

This recommendation seeks to address the unaffordability of housing costs. It acknowledges that efforts have been made. However, these have tended to be short term initiatives provided inconsistently across the Valleys – often reacting to symptoms such as rent arrears – with limited sharing of good practice.

**Recommendation 4: sensitise social rents to address affordability issues.** This involves:

- Setting out a measure of affordability for the sector.
- Defining if and how the regulatory framework for housing associations can identify affordability issues.
- Strengthening the role of tenants in developing rent policies.

This recommendation responds to the current unaffordability of rents in the social housing sector and the increased exposure to unaffordable rent for tenants on the lowest incomes following their transition onto Universal Credit. The recommendation seeks to depart from the above inflation increases that are part of the current rent setting policy.

**Recommendation 5: develop vehicles to deliver both locally tailored responses and strategic action at a wider scale.** This includes the:

- Formation of a sub-regional housing partnership to assess and agree cross-boundary priorities and housing related activity, which are set down in a formal memorandum of understanding.
- Creation of a strategic development plan and delivery plan for housing across the Valleys – authorities integration of the sub-regional partnerships into the governance arrangements of the Cardiff Capital Region.
- Development of consortia capable of delivering economies of scale.

This recommendation responds to the need for strategic planning and action at a Valleys-wide level to address the scale and complexity of the challenges facing the provision of housing for those on low incomes. The geographic size and budgets of individual local authorities in the Valleys means there is a natural constraint on their capacity to deal with the challenges facing them. Local authorities are unable to take advantage of the economies of scale that are available when operating at a larger scale. Their capacity to deal with housing market dynamics is challenged by their boundaries, which run vertically up and down Valleys – cutting across natural housing markets – that run horizontally across the Valleys.



## Concluding points

The time is right to advocate for these changes. As Welsh Government considers its range of housing-related policies there is a window of opportunity to act on these recommendations.

Taking forward the recommendations will require further thought, analysis and action. However, the recommendations outlined in this report provide a basis for collaborative and more precise interventions that increase Value For Money (VFM) and effective intervention in new development, renewal and place-making. If implemented, these would directly tackle the underlying challenges facing the provision of housing for those on low incomes in the South Wales Valleys.

# 1 Introduction

## Aim and objectives

Achieving an adequate provision of housing for people on low incomes<sup>ii</sup> has long been a key policy challenge in the South Wales Valleys. Continuing economic restructuring since the latter half of the 20<sup>th</sup> century has provided enduring challenges for residents and housing providers and has meant they are vulnerable to shocks. More recently successive government's Welfare Reform programmes have seriously undermined the communities living in the Valleys and those seeking to support them. This has prompted serious debate and concerns about the future housing offer for people on low incomes in the Valleys.

JRF, working with a group of interested stakeholders, commissioned CRESR at Sheffield Hallam University to develop evidence and recommendations. To ensure maximum availability of secondary data, and a set workable geography for the discussions, the Valleys were defined as the following five local authorities: Rhondda, Cynon, Taf; Merthyr Tydfil; Caerphilly; Blaenau Gwent; and Torfaen.

The aim of this work is to influence the policy and practice of social housing providers, Welsh Government, other landlords and key stakeholders. The project progressed through two stages:

- Firstly, developing a baseline for what is likely to happen to the housing markets in the Valleys, and particularly the supply of housing for people on lower incomes over the next 10 years.
- Secondly, through various local consultations, to develop an improved response to the housing challenges of the area.

It is important to state that housing responses are the focus of this report. However, many of the underlying challenges facing the Valleys are born out of the long running, structural, economic change that the area has experienced. To really address these challenges, and for the Valleys to realise its potential, requires housing policy and practice solutions working alongside those that address the economic situations of the Valleys. This is a point considered more in Section 4.1.

This is the second report to emerge from the study. It outlines a series of policy and practice recommendations – for social housing providers, Welsh Government, other landlords and key stakeholders – to address the current and future housing challenges facing the Valleys which were identified in the first baseline report (Archer et al, 2018).

## Methods

This section outlines the research design and methods used to meet the study's aims and objectives. As summarised above our research sought to establish a baseline of evidence to identify the key housing issues in the Valleys. It then developed effective and feasible recommendations for ensuring that there is an appropriate housing offer for low-income households in future.

The research activities, including the process of moving from baseline analysis to the final recommendations, are shown in Figure 1.

Establishing the baseline position in the Valleys involved detailed analysis to build a picture of likely changes affecting housing in the Valleys in the next 10 years. Our analysis involved consideration of secondary and administrative data, document reviews and interviews with key stakeholders. The analysis focused on the interaction between factors of demand and supply of housing set within the changing context of the Welfare System, population change, economic trends and policy developments such as City Deals. It was guided by the following questions:

- What is the current housing offer in the Valleys?
- What factors will affect the housing markets in the Valleys over the next 10 years?
- How are housing providers likely to respond and change their offer as a result of these factors?

Following our baseline analysis, we facilitated a total of ten local workshops, focus groups and policy development roundtables. Their purpose was to explore the views of diverse groups of stakeholders and develop realistic solutions to the key housing challenges in the Valleys.

The first set of four stakeholder workshops entailed discussions about local housing challenges and an open request for proposals and recommendations to improve the housing offer in the Valleys. These sessions took place at separate locations in the Valleys and involved approximately 35 representatives from local authorities, community organisations, housing providers and representative bodies. Crucially the workshops sought to draw upon participant's local knowledge and experience. In each session we presented the findings from our baseline analysis, and then structured our discussions around a number of key intervention areas. This generated a large number of proposals of varying scale, focus and ambition.

The emerging solutions were then road tested in three resident focus groups. Using relationships with housing associations and other stakeholders in the Valleys, we engaged 16 low-income residents across tenures, and through the three sessions gathered their views on a) the challenges they face in accessing appropriate housing, and b) the extent to which new solutions could alleviate this challenge. While it is recognised that these sessions have not constituted a robust resident consultation, they did provide useful feedback from people affected by the housing crisis, and insights into the types of interventions that might be most valuable to them.

The workshop and focus group sessions enabled us to develop a set of outline recommendations. These were the platform for three roundtable discussions including a dedicated session with senior officers from Welsh Government and two further sessions with a mix of representatives from local authorities, housing providers, academia and national membership bodies. During these workshops we presented the emerging recommendations, exploring their viability and seeking views on variations and refinements. The final recommendations, presented in chapter 4, are the product of these intensive discussions.

## Structure of the report

The remainder of the report is structured as follows:

- Chapter 2 summarises the key challenges facing the provision of housing in the Valleys that were identified in the baseline report.
- Chapter 3 sets out the framework that informed the development of policy and practice recommendations to ensure a more effective provision of housing.
- Chapter 4 details our five policy and practice recommendations to promote a more effective provision of housing for those on low incomes in the South Wales Valleys.
- Chapter 5 provides concluding comments from the study, setting the recommendations in the current policy context and advising on how the recommendations might be taken forward.

# 2 The challenges facing the provision of housing in the Valleys

## Introduction

This chapter sets out the key housing challenges and implications to emerge from the baseline assessment: to establish the current situation and what is likely to happen to the housing markets in the Valleys for people on lower incomes. The points are then summarised into three broad categories which inform the development of policy and practice proposals targeted at social housing providers, Welsh Government, other landlords and key stakeholders.

## Implications for the future of housing for people on low incomes in the Valleys

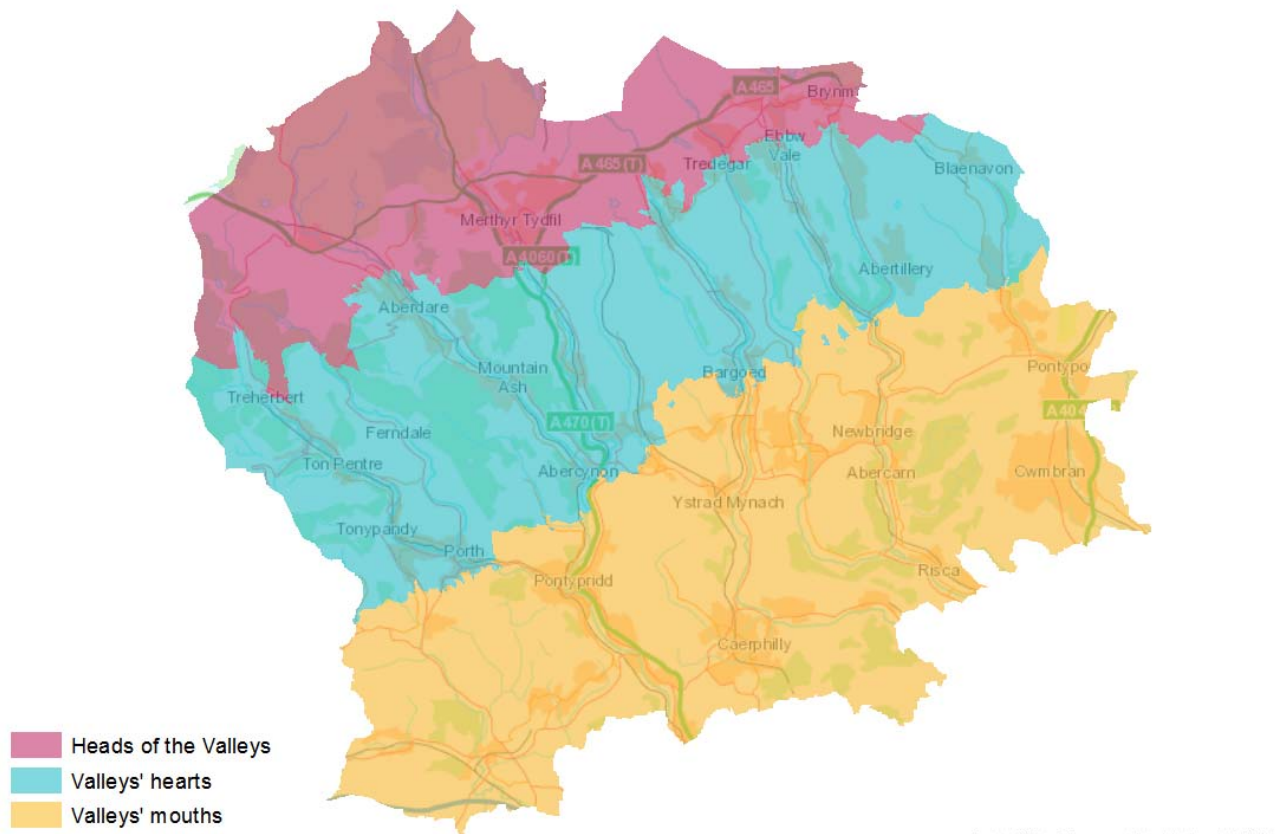
The baseline analysis highlights the following implications for the future of housing for people on low incomes in the Valleys:

- There is projected to be **significant shortage of social housing in the Valleys** because current increases in the supply of social housing are below the projected need. Based on current additions to stock (between 2011/12 and 2015/16) there will be **5,076 fewer units than required by 2026**.
- The **demand for additional affordable housing is not spread evenly across the Valleys**. Additional provision needs to be targeted at high demand, predominantly urban areas, in the Valleys' mouths and the head of the Valleys with good access to transport and jobs.

- In **lower demand areas housing providers need to ensure their offer meets local needs**. This includes ensuring there are sufficient one- and two- bedroomed properties to allow people to remain in their local area.
- Population growth is going to be concentrated in older age categories. For example, the proportion of persons aged 65 years or over is expected to increase by 12% by 2025. Therefore, **housing options and support need to be developed to meet the needs of an aging population**. The number of 16-35 year olds is expected to reduce by 6% by 2025. The number of one- and two- person households is set to increase. Whilst the proportion of new builds with two bedrooms has increased there has **not been a similar growth in one-bedroom properties**. The **proportion of one-person households is expected to increase by two percentage points to 32%** of all households by 2025. This compares to the proportion of households with three or more persons which are projected to decrease by two percentage points, from 35% to 33%.
- Also, considering these demographic changes, and size criteria restrictions for housing benefit payments, landlords report problems letting larger properties. Actions need to be taken to **ensure larger properties are affordable and appealing to prospective tenants**.
- **Welfare Reform has significant direct and indirect implications for the affordability of rents for those affected**. This in turn is likely to affect arrears, evictions, homelessness and concealed homelessness numbers. The cumulative impact of welfare reform on residents in the Valleys since 2010 is substantial. By the time the current round of reforms has 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).
- **Direct payment of housing costs within Universal Credit will expose many social housing tenants to the possibility of unaffordable rent**. Until recently many households on low incomes in the social housing sector have been protected from the prospect of unaffordable rent (or at least had this limited) due to their Housing Benefit being paid direct to their landlord. As tenants transfer onto Universal Credit most will become directly liable for paying all their rent. With this responsibility comes the opportunity for unaffordable rent which was not there when there was not liability. Using standard ratio measures we estimate average social rents for two-bed properties will be unaffordable for 46 % of social housing tenants in the Valleys. This will increase the need for rent management actions, promotion of financial inclusion and provisions for rent arrears that are built into business plans and have associated risk plans and mitigations.
- The **current rent setting formula for social rent has created challenges at a local level**. It needs to better reflect local contexts and trends in housing demand (for example for smaller properties) as well as recognising the current unaffordability of average social rents for over two in five households in social housing.
- Many housing associations have built up their financial health in readiness of future challenges from welfare reform. In particular resources have been targeted towards void and arrears management. It is **important that landlords maintain a strong financial position so they can take action and make investments to meet housing challenges in the Valleys**.
- **Home ownership is within reach for many working households in the Valleys**. However, there is significant variation in affordability across different areas. The Valleys' mouths have the least affordable housing. In contrast, areas in the heads of the Valleys and Valleys' hearts are most affordable. However, policies to achieve this would need to reflect other considerations which are likely to affect take up of Low Cost Home Ownership (LCHO) and other affordable options. This is likely to include protection from falling house prices and negative equity as well as providing safeguards that buyers can sell their property to move along the housing ladder.

There is also a distinct polarisation across the Valleys in terms of low and high demand areas. Broadly speaking three housing markets operate, each running horizontally from west to east across the Valleys. Figure 3 provides an illustrative location for these housing markets; however it does not provide a precise definition.

**Figure 3: Illustrative location of the three housing markets in the Valleys**



## Summarising the challenges into three broad categories

The previous section highlighted the key housing challenges currently facing the Valleys. To simplify the development of recommendations to address these pressing challenges we suggest that the issues can be simplified into the following three broad categories:

- Residents face **low incomes and high housing costs** - covering a range of issues (impacting across tenures) associated with the welfare reforms, pressures arising from rent setting, low and slow income growth, rising rents in the private rented sector and the price of housing to buy in certain locations in the Valleys.
- There is an **under-supply of appropriate housing** in many areas of the Valleys - covering a range of issues associated with shortages of social housing, accommodation of a certain size, or certain type for certain groups (such as older people's housing), and an under-supply of certain subsidised or low-cost homeownership options.

- There is an **over-supply of certain housing types** in certain locations of the Valleys – covering a range of issues associated with increasing long-term vacant social housing, and large amounts of empty homes in the private rented sector. This also covers issues associated with surpluses in the sheltered housing stock, and excess supply of larger properties.

## 3 Developing policy and practice recommendations

### Introduction

This chapter sets out the framework that informed the development of policy and practice recommendations to provide a more effective provision of housing.

### A framework for developing policy and practice recommendations

The previous chapter identified three broad challenges facing the provision of housing to those on low incomes in the South Wales Valleys:

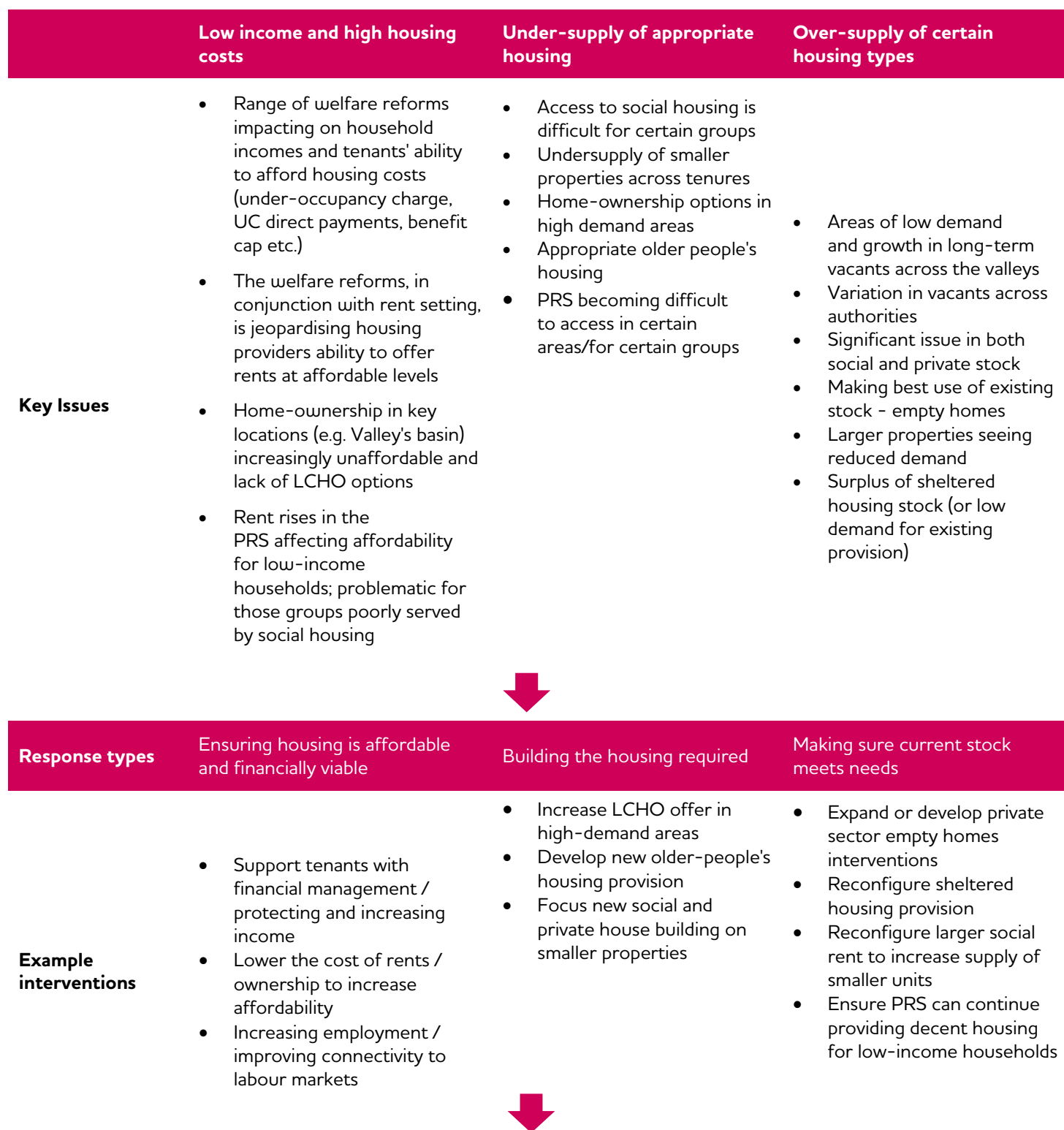
- Low incomes and high housing costs.
- Under-supply of appropriate housing.
- Over-supply of certain housing types.

To develop suitable responses to these challenges we facilitated various workshops, focus groups and roundtable discussions with local and national stakeholders, as well as residents of the Valleys. These are described in more detail in Section 1.2. To structure the discussions in the sessions we derived a set of general types of response, or 'response themes,' from the baseline analysis. These focused attention on interventions which would be capable of:

- Ensuring housing is affordable to residents and financially viable for providers.
- Improving and reconfiguring existing stock to meet current needs and demand.
- Building the housing required developing new housing products targeting specific needs and demands.

Figure 4 sets out the framework that was used within the workshops, focus groups and roundtables. This connects the housing challenges identified with three broad types of response.

Figure 4: A framework connecting housing challenges with broad response types



**Tailor interventions for specific geographies**



The process for developing the policy and practice recommendations is described in Section 1.2. Using this framework the initial workshops provided a wealth of possible housing related interventions. This ranged from small technical changes to policy, to more radical and structural proposals to affect economic changes and wider poverty reduction. These proposals were then refined in conjunction with the Project Advisory Group, so an amalgamated and smaller set of recommendations could be agreed.

As discussed in the next section, the final recommendations have focused on housing-related interventions.

## **4 Five recommendations to promote a more effective provision of housing**

### **Introduction**

This chapter first summarises the five policy and practice recommendations developed out of the workshops, to provide a more effective provision of housing for those on low incomes in the South Wales Valleys. The recommendations are then outlined in more detail.

Before summarising the recommendations it is important to acknowledge that the study has focussed on housing-based responses. They target identified challenges in the housing system operating in the Valleys, accepting that certain conditions and contextual factors will persist. Indeed, many of the challenges facing the Valleys can be traced back to the long-running economic change that it has experienced. To really address the challenges facing the provision of housing to those on low incomes therefore also requires policy and practice solutions that address the economic situations of the Valleys. Several bodies are focused on this task. Current efforts include those by the Valleys' Task Force and improvements to the rail network to improve connectivity across the whole region. It is acknowledged that these economic and infrastructure interventions will have a bearing on local housing provision.

In light of this, the housing recommendations in this report should be viewed as supporting existing and forthcoming efforts to boost the economic and social prospects of the whole Valleys area. If implemented, the overall effectiveness of these recommendations will be directly affected by changes in economic and social conditions. However, at the very least they can help mitigate some of the worst potential outcomes from the interplay between changing demographic patterns, future housing supply issues, and potential threats to affordability of housing for those on low incomes.

### **A summary of the recommendations**

Figure 2 provides a visual summary of the five policy and practice recommendations emerging from the study to address the key housing challenges facing the South Wales Valleys. It is important to note these recommendations have been designed to impact across challenges rather than each focus on one particular challenge.

## Five recommendations to ensure an effective provision of housing

This section details the five policy and practice recommendations emerging from this study to provide a more effective provision of housing for people on low incomes in the South Wales Valleys. The combination of these recommendations will go some way to avoid the bleak future facing the provision of housing in the Valleys if the current challenges are not addressed.

### Recommendation 1: more effective and targeted use of existing grants and other finance

Welsh Government to review its allocation of social housing grant and other grants to:

- Better target allocations based on demand-side factors.
- Allow for greater adjustment of grant levels between lower and higher demand areas.

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.

### Specifying the challenge

Areas of the Valleys are experiencing markedly different demand pressures. For example, some local authorities will see 2% increases in their population in the next 10 years, whilst others will see a net decline. Some localised areas have up to 360 jobs per 100 residents, whilst others have as few as three. In some hotspots, average house prices have swelled 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.

This diversity in housing markets throws up a conundrum: to invest more in 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.

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.

“Yes it would be good to have more houses for younger people – more smaller places for one or two people that they can afford.”

(Housing Association tenant)

Similarly, demographic changes – particularly concerning the ageing population – could 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 should local authorities plan to build more older people's housing, improve the stock that's there, or assume that most people will spend their later life in general needs housing?

“My house is fine – I've been in here ten years now. It could do with some work, but it's ok. I can't get out much now though. I get a taxi to the [shops] every week. There is a bus, but not up in my part, near the bottom and I can't walk far.”

(Housing Association tenant, aged over 70)

At the heart of these issues is the lack of a sub-regional governance structure in which issues of housing demand, supply and allocation of resources can be planned (see Recommendation 5). Yet even if local authorities and sub-regional bodies had a clear vision for how to intervene, the funding they receive still needs to be used to best effect. Social Housing Grant has, as we heard in our workshops and roundtables, been allocated in a relatively equitable way to local authorities, rather than being varied 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. It is recommended that decisions on the balance between building on one hand and regeneration and renewal on the other should be taken strategically, by stakeholders in the Valleys. This contrasts to the current position where the balance is heavily influenced by the Welsh Government (who has a national perspective) through the relative scale of grant funding pots that it makes available for each type of activity.

## Recommendations for action

There are no easy answers to the question of whether to target investment at higher-demand or lower-demand areas. It is likely that political realism will prevail and entail investment in both. Hence, 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. Lessons may also be learned from the approach taken to allocating funds through the Innovative Housing Programme, where a number of housing and non-housing criteria shape funding decisions (Welsh Government, 2017).

Ideally, grants – such as SHG – would be managed and allocated via the sub-regional partnership proposed in Recommendation 5. This would ensure they are used in a more strategic fashion across the whole of the Valleys, they respond to cross-boundary factors affecting demand and maximise economies of scale.

However, if this is not possible then 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 was required to get the best impacts for the amount of grant available.

Allied with this are opportunities to think about how local authorities might use SHG and regeneration funding in more flexible ways. Welsh Government should consider:

- Allowing different grants to be portable or transferrable as local schemes require.
- Providing longer term settlements on grant programmes to create greater certainty and strategic planning.

## Understanding the implications

Changes to government grant programmes can only go so far in addressing issues of under- and over-supply of housing. In order to steer the private housing market a joined up and shared approach to spatial planning is required (see Recommendation 5). Similarly, new supply is constrained by land availability, and our workshop participants highlighted challenges in identifying, remediating and releasing suitable sites for development, and developer's difficulties in this regard. Recent studies by Welsh Government suggest that all but one of the Valleys' local authorities have a land supply of less than two years. This highlights the need for more concerted work to understand how more land can be released (Welsh Government, 2017).

Focusing on the proposed recommendations above, housing associations and developers using SHG to develop in higher-demand areas may object to some of these proposals. In particular, the recommendation to reduce grant funding levels in higher demand areas to offer more generous grants in other locations. One response may be that this would affect their total output. With the balance of priorities currently fixed on overall supply of housing, this is an important consideration.

However, in our workshops evidence was given of developers, such as Tirion Group,<sup>iii</sup> building social housing without any SHG in Valleys' hearts through cross-subsidy models. Encouraging this and other approaches could protect overall output and ensure a flow of grant to support housing development further up the Valleys.

Unless these issues and decisions are addressed at the right spatial scale however, a fragmented approach which displaces issues across administrative boundaries will prevail. Assessing future demand across the Valleys as a whole and developing a shared set of priorities for investment is a first step to addressing this. This reasserts the importance of Recommendation 5 concerning the governance structures and partnership arrangements required to achieve this.

## Recommendation 2: advocate changes to LHA alongside developing measures to improve the supply of properties at LHA rates and improve quality

Changes to the system for setting LHA rates should be pursued to ensure a better match between localised payments and the rents charged. This includes:

- Redefining the Broad Rental Market Areas in the Valleys.
- Ensuring LHA rates genuinely reflect 30th percentile rents.
- Ensuring that the LHA freeze does not further compound unaffordability for low-income households.

Opportunities to provide better access to, and better conditions in, the Private Rented Sector (PRS) should also be prioritised. For example:

- Evaluating the impact of Rent Smart Wales.
- Launching Help to Rent initiatives across the Valleys.
- An expansion of Social Letting Agency approaches.

For the future, a more radical overhaul of the PRS should be considered to deal with accessibility, affordability, quality and security of tenure.

### Specifying the challenge

The PRS plays an important role in the housing markets of the Valleys, and it has a particularly important function for low-income households. The baseline report suggested that there were key issues in the Valleys' PRS market around availability and affordability. This message was reinforced in the workshops with stakeholders and residents who also suggested that housing quality and management standards were a cause for concern.

"I'm paying top-up. I can't understand why they're giving out housing benefit but not enough to pay all the rent. ... so it comes out of my other benefits, but they're not meant to be for rent are they? I already owe the landlord some."

(Private tenant)

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 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'. As a result, those seeking private rented accommodation at LHA rates find access to housing increasingly difficult. Local authority officers reported that PRS landlords were now more reluctant to rent to those in receipt of housing benefit; this is supported by evidence from other recent research (Pattison and Reeve, 2017). Stakeholders also noted that there were few mechanisms and limited capacity at present for the social rented sector to provide an alternative choice for the majority of low-income households living in the PRS.

"I'm renting from [a private landlord]. There aren't really any council housing near here so I don't really want to go and live somewhere else. It's not great - the door opens onto the main road, so I have to watch it with the kids. There's a tiny yard, so a garden would be nice."

(Private tenant)

By contrast, rents in the heads of the Valleys have been more static. In these areas the private rented sector was reported to be in direct competition - on rent levels - with the social rented sector. Housing Association officers reported that some households were moving between sectors, seeking out the best offer.

The quality of housing in the private rented sector was also a pertinent issue. Local authority and government initiatives were helping to improve housing standards in the private rented sector. For example, many local authority officers cited the positive work that landlord forums had made by engaging with private landlords as well as the introduction of Rhentu Doeth Cymru / Rent Smart Wales, though its effects are not yet realised. Although, some private landlord groups fear that it is creating a bureaucratic culture that detracts from actually enforcing standards, other stakeholders suggested that enforcement action was being taken across Wales and the service was due to be independently evaluated shortly. However, stakeholders and residents frequently reported poor conditions in the PRS. Particularly in older terraced properties where damp, low thermal comfort and poor insulation were cited to be problematic.

"The housing here isn't great, it's damp and paint is peeling off. The kitchen's coming to pieces. But if there's anything newer, it's too expensive ... it's just not possible to do a deposit and get a mortgage for one of those new houses."

(Private tenant)

"My house isn't the best. Damp. Really damp and it's not cheap either. I think all these houses down here are damp. My landlord says it's my fault."

(Private tenant)

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. This affects the affordability of the PRS sector to households with low incomes living in the Valleys. Affordability is particularly pertinent to local authorities in the Valleys whose areas encompassed higher-rental areas in the Valleys' mouths and lower-rental areas in the Valleys' hearts and heads of the Valleys. Some organisations believe that the setting of LHA rates has actually been at percentiles well below the 30<sup>th</sup>, severely restricting the ability to secure rented properties at the LHA rate. While some stakeholders questioned the validity of BRMA areas and the rent levels set, others believed that more fundamental reorganisation of the sector was required. This

included, for example, capping rent levels, greatly improving security of tenure and lever-in institutional investment in new-build PRS accommodation to raise standards and increase supply.

“I just want my benefits to cover the rent. I've got the smallest flat I could find, but it's still more than I get. Then I've had all these things to pay ... like fees for this and that - things the estate agent charges for like £25 for a list of the things in the flat.”

(Private Tenant)

## Recommendations for action

It is important to stress that the PRS will continue to be a key tenure for low-income households into the future. It is therefore critical that issues of affordability, access, quality and security of tenure are tackled.

Turning first to **affordability and availability**, changes to the system for setting LHA rates should be pursued to ensure a better match between localised payments and the rents charged. This includes examining the BRMAs in the Valleys with a view to redrawing the boundaries and ensuring that LHA rates genuinely reflect 30th percentile rents in the area. There is a process for requesting a review to the Valuation Office Agency (Value Office Agency, 2017). However, our recommendation for a first call for action is a strategic review of the potential implications of redrawing the BRMA boundaries. If BRMA were to run west to east, as opposed to the current north to south, then one negative consequence is absolute LHA awards in the Valleys' hearts and heads of the Valleys are likely to reduce from current levels. This is likely to reduce affordability in lower-demand areas, where incomes are likely to be lower. Conversely, award amounts are likely to increase in more buoyant markets, particularly those along the Valleys' mouths. This will increase the (relative) affordability of PRS housing in these areas.

Improving **access** to the PRS and **security of tenure** are important for ensuring that low-income households are properly housed in the Valleys. To achieve this, we recommend that services to mediate between tenants and landlords and negotiate better conditions should be introduced more widely in the South Wales Valleys. For example, Help to Rent initiatives have been shown to better support tenants into decent and affordable housing by broadening the pool of landlords willing to rent to those on low-incomes and providing tenancy support and assistance that helps to sustain tenancies in private sector housing. In addition, recent ongoing research for the Joseph Rowntree Foundation and Nationwide Foundation is examining the role that Social Letting Agencies (SLAs) play to support fairer access to the PRS by offering lettings services that act in favour of low-incomes households seeking housing in the PRS. Existing evidence suggests that such models can play a key role in homelessness prevention, particularly where they are supported by local authorities. Welsh Government should consider how it can support these initiatives, acknowledging that upfront capital investments can catalyse SLAs, alongside revenue funding to ensure they provide appropriate support and advice to landlords and tenants.

Raising the **quality** of the PRS in the Valleys is also critical to improving the housing offer for low-income households. We recommend that this should be made a priority for the Welsh Government and Local Authorities. Reductions in local government funding have limited local authorities' ability to investigate and take enforcement action. The PRS in the Valleys has very 'informal' elements to it: part-time and 'accidental' landlords often require support, either through grant-aid or advice, to improve the housing offer to their tenants. Therefore, more investment into managing conditions in the PRS is required. Local authorities will only be able to achieve this if additional ring-fenced funds are made available.

Furthermore, we note that Rent Smart Wales is due to be evaluated. We recommend that the evaluation focuses particularly on the scheme's potential for improving the quality of homes and the quality of management in the PRS for the benefit of low-income households.



## Understanding the implications

These recommendations for intervening in the PRS will require extra resources, specifically targeted at initiatives. In the case of fostering better mediating services, such as Help to Rent and SLAs, an infrastructure for these is also required. Where such schemes exist and are effective, they are often founded by local voluntary organisations and/or individuals who are driven to establish and run them. Such an infrastructure and personal reserve may not exist in the Valleys. However, partnerships with Housing Associations should be explored – who can lend their expertise and resources to working in the PRS. Good practices exist here, such as those developed by Cartrefi Hafod Lettings.

Ultimately the measures above are responses that will moderate the PRS in favour of low-income households and more vulnerable groups, to a degree. However, to fundamentally address the concerns in the PRS' provision of housing to those on low incomes, consideration should be given to **radical changes to the sector**. Indeed, many stakeholders who participated in our study advocated:

- Measures to greatly improve security of tenure by replacing assured shorthold tenancy agreements with longer-term tenancies that offer greater protections to tenants.
- Restricting rent level increases in the PRS to align them with increases in inflation and local incomes.
- Leverage for greater institutional investment in new-build PRS accommodation to raise standards and increase supply.

However, consideration of these changes would also need to explore the extent to which they affect landlord participation in the PRS as well as the quality of those properties available. Broader and radical changes to the PRS obviously go well beyond the purview of the Valleys' authorities. The Welsh Government's housing remit gives it some of the controls necessary to make radical reforms in the PRS. However other changes, such as those involving the tax system, would require fundamental changes at the UK level.

## Recommendation 3: support people to reduce (whole) housing costs and access employment

Housing providers and their partners should develop collaborative and systematic approaches to financial advice and support for households. This should focus on reducing housing-related costs and improving access to employment.

This includes:

- Financial capability and income maximisation initiatives.
- Housing investment and interventions to lower household bills.
- Employment initiatives, including tailored support for those furthest from the labour market and assistance to access key employment areas.

The cost and benefit of different approaches needs to be understood before good practices are transferred and expanded across the Valleys.

## Specifying the challenge

This report demonstrates that, for many households, housing costs are becoming increasingly unaffordable in relation to incomes.

"I don't mind renting at the moment but I always worry that the rent's going to go up, or something's going to break down like the fridge or something."

(Private tenant)

In response to stakeholders – social housing providers in particular – have progressively implemented initiatives to improve and assist household finances. This has included: offering advice on money management, ensuring that benefits are being accessed fairly, reducing overall housing costs and improving access to employment. At a strategic level, the Welsh Government and the Valleys Task Force are working towards economic renewal across the region.

Several housing associations described robust systems for offering financial support to their tenants, prompted mainly to mitigate the effects of reductions to welfare benefits and the transition towards Universal Credit (UC). The most interesting of these were looking to help tenants reduce their overall housing costs – for instance relating to rents, energy costs, utility costs and so on. Some organisations are running initiatives themselves while others were seeking to contract out services. Many organisations were also running employment-related programmes.

"It's not just rent is it? It's like it's all gone up. Heating bills, food, credit for my phone. Everything seems to go up. I do work, but the only way to earn more is to do more hours and I can't do that."

(Housing Association tenant)

There were also signs that these initiatives were conducted alongside more robust pre-tenancy assessments and affordability checks. While social housing providers in the Valleys were clear that these assessments were not intended to ration access to social housing, it was enabling support to be directed to those for whom housing affordability was a significant challenge.

Despite much good work taking place several challenges are apparent. Firstly, access to financial support and advice was inconsistent across the Valleys. It was often dependent on the organisational priorities and approach of the landlord as well as the availability of external funding, for example from the Big Lottery Fund, to finance this support. This variability, whilst offering the potential to look at different approaches and assess their impact, is creating a postcode lottery, with some tenants receiving little support, and others intensive help and advice. There is also a tenure divide becoming ever more apparent. Whilst some providers offer their financial and employment support to households in the PRS, others do not. This suggests the need for a more systematic and planned approach.

"You go to the council, but you don't get anywhere and they see you for about five minutes. This one told me to go to this letting office and they'd help me but when I did they said there was nothing I could afford."

(Young woman, living with parents)

"I've not even bothered going on the council list. There's no point if I want to live around here. I don't think there are any council houses. There is some new houses being done at the moment, but there's no way I can afford them. I think they're all to sell."

(Private tenant)

A second challenge emerges in light of the way these services are commissioned and financed. In a climate where social housing providers are becoming more concerned about their cashflows, for instance in response to Universal Credit, the continued funding of services may become uncertain. One interviewee in our study noted that if provider's finances worsen, these forms of tenancy support could well be reduced in cost-saving measures. This may ultimately be counter-productive in terms of the fortunes of low-income households, and in terms of the revenue of those organisations.

## **Recommendations for action**

Collaborative and systematic approaches to financial advice and support for households should be developed, which focus on reducing housing-related costs and improving access to employment. Alongside this there also needs to be increased reach to more households, particularly PRS tenants. This demands greater collaboration between the various agencies interfacing with low-income households. This also involves secure efficiencies and ensuring best practice are shared.

Examples of successful interventions have emerged in this study. For instance, in Blaenau Gwent, Tai Calon's employment services have not only helped people into work, but mitigated the numbers of people receiving benefit sanctions. Similarly, applying a sharp focus on benefit payments, housing associations such as Merthyr Valley Homes in 2016 ensured full Housing Benefit claims were paid to over 1000 tenants, with £106,000 of unpaid Housing Benefit being recovered (Merthyr Valley Homes, 2016). On the issue of energy costs, workshop participants noted the central importance of stock investment, to ensure their housing was as energy efficient as possible, and the potential for collective purchasing of energy and utilities. And on charges made by housing providers, workshop participants noted how they are exploring variable service charging, as a means to reducing costs to households.

However, whilst this shows a wide spectrum of schemes and initiatives taking place across the Valleys, it is unclear which approaches are having the most pronounced impact on the household finances of those on low incomes. It is also unclear how different approaches should be packaged and tailored for different groups to ensure this type of work is most effective.

We therefore recommend that this is an area for urgent further enquiry - by relevant stakeholders such as social landlords and CHC (for example as part of its Housing Horizons work), local authorities, the voluntary and community sector and Welsh Government - which would entail:

- Meta and synthesis evaluation assessing the different initiatives to improve household finances, to understand which generate the best returns for households based on the investments made.
- Determining how different initiatives impact in different areas and for different households, so approaches can be targeted.
- Exploring how support and advice services should be financed and systematised to ensure a fairer and more evenly distributed provision across the sub-region.

## **Understanding the implications**

Providing financial and employment support to low-income households comes at a cost. At present, many social housing organisations in the Valleys are prepared to devote resources to these initiatives to support their tenants and limit rent arrear levels. It is unclear whether all housing providers can bear these costs and there is a danger that access to services will be determined by dint of housing providers, and this could mean that some locations in the Valleys have poorer support than others.

Local authorities have a role to play in delivering financial support to PRS tenants and owner occupiers, and intervening in the private housing sector to improve living standards. There are opportunities to partner with local and national voluntary sector organisations to do this – for example Age Cymru and CAB – but it will require funding at a time when local authorities are facing difficult decisions about sustaining current services, let alone creating new ones.

Our other recommendations have suggested the creation of a broader strategic partnership for housing across the Valleys (Recommendation 5). Providing access to coherent financial advice and support to all low-income households, across tenures, will require such a mechanism for co-ordination.

We should acknowledge that these kinds of initiatives will not be sufficient alone; they are dealing with symptoms not causes. If household incomes continue to fall and housing costs continue to rise, the opportunities to stabilise households and prevent housing problems will become more limited. Similarly, employment-related initiatives can only be effective if they lead to decent, sustainable employment, and in certain parts of the Valleys that will require significant economic renewal.

## **Recommendation 4: sensitise social rents to address affordability issues**

The current review of rent setting policy should:

- 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.

### **Specifying the challenge**

If we accept that housing costs are 'unaffordable' if they exceed 33% of net household income, then we should be concerned about the future affordability of social rented accommodation in the Valleys. Our analysis compared household incomes for social housing tenants to average rents for general needs social housing in the Valleys. It revealed that social rents for 2-bed properties were unaffordable for approximately 46% of tenants in the area.

The full impact of this issue is masked by the historic approach to housing benefit payments. 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 responsibility for all their rent. With this comes increased risk of rent arrears, and as noted above, instances of non-payment of rent can be very high for tenants as they come on to direct payment.

Alongside this issue is the challenge faced in developing an appropriate rent setting policy in Wales. The current system, developed by Welsh Government, allows rents in the social housing sector to increase by CPI inflation plus 1.5% per year. This would have an additional negative effect on the affordability of the rents charged to their tenants. 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.

Participants in our workshops discussed the intrinsic connections between rents and development, questioning whether policy has skewed the balance of priorities toward the latter over the former. The sector should be alive to the reputational consequences of social housing becoming 'unaffordable', and the ethical challenges of funding new development, whilst concurrently worsening financial situations of existing tenants.

## **Recommendations for action**

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 is cognisant 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.

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.

## **Understanding the implications**

The current approach to rent setting is not sustainable. These are not our words but those of the sector (Community Housing Cymru, 2017). And yet, whilst housing providers might want greater flexibility to set their rents, what is arguably required is a renewed focus on ensuring these are affordable.

Developing and applying a new affordability measure may impact on the business plans of housing providers. This may be an unavoidable consequence. However participants in our workshops suggested

that such business plans are already flawed and subject to change. Hence at least there is an opportunity for Welsh Government to reset the focus on affordability as they develop their new approach.

One potential concern is that by developing an affordability measures for providers, this may inform their own affordability checks. A potential, undesirable consequence being that some prospective tenants are turned away from social housing because their incomes are too low. This highlights the need for an affordability measure which is reflective of the viability of housing costs in general terms, but is not set so high as to exclude when applied in specific localities or to individual households.

## **Recommendation 5: develop vehicles to deliver both locally tailored responses and strategic action at a wider scale**

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 the Valleys authorities.
- The integration of the sub-regional partnerships into the governance arrangements of the Cardiff Capital Region.
- The development of consortia capable of delivering economies of scale.

### **Specifying the challenge**

The scale and complexity of the challenges highlighted in this study require planning and action to take place at a variety of spatial scales.

The geographic size and budgets of individual local authorities in the Valleys 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. Workshops with stakeholders revealed limitations in both staff capacity as well as specialist housing and planning skills. This is in part a function of very small local authority areas, with small staff bases, but also large reductions in their 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. We might consider this in reference to the movement of younger people. 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. The combination of these factors is likely to mean that the problems of affordable housing for younger people are displaced beyond the boundaries of these areas.

“There's not much choice to be honest. People have been really struggling to get transfers. One neighbour spoke to me - she'd been looking at private houses but she just couldn't afford them.”

(Housing Association tenant)

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.

Add to the above that the local authorities in the Valleys extend north to south, whilst the housing markets operate east to west across the Valleys (South East Wales Regional Housing Forum, 2005). This results in an administrative geography and system of governance which spatially is not fit for purpose.

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. Without a means to encourage or incentivise development partnerships and consortia, the ability to achieve economies of scale is hindered. Recent consortia bids to the Innovative Housing Programme, to create a modular and offsite construction facility in South Wales, are promising. However, it is unclear whether planning and housing strategy functions will support and maximise these opportunities, 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.

"I'm not sure that it's going to get any better for people. I just hate to see people without a decent place to live. We really need something to happen. More houses that people can afford I say."

(Housing Association resident)

## Recommendations for action

To address the above problems requires vehicles that can co-ordinate action at a wider spatial scale. We recommend 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 is an approach that has been adopted for example in Greater Manchester to address the complex dynamics of housing markets in the city region, operating across administrative boundaries. Whilst there is no formal combined authority in the Valleys, lessons can be learned from Greater Manchester, where the Greater Manchester Housing Partnership (GMHP) – comprised of 25 housing providers – has developed a shared delivery plan for the city region, as part of a memorandum of understanding (MoU) with the Greater Manchester Combined Authority (GMCA) (GMCA, 2016). This adds to existing frameworks to co-ordinate land supply across the city, notably the Greater Manchester Spatial Framework. The MoU sets out a number of shared strategic aims for housing at the city level. Whereas, the delivery plan focuses on specific issues, for instance growth in housing supply, employment and skills, low-carbon approaches and connections with health and social care. Each workstream is led by a chief executive of a provider organisation, reporting into the GMHP chief executive's meeting and core group which monitors progress and delivery. Furthermore, a dedicated resource of officers within the GMCA, focusing on housing, provides additional capacity and expertise.

Such arrangements would be difficult to mirror in the Valleys, not least given the formal arrangements between providers and the combined authority in Greater Manchester, and the history of collaboration in the city. However, some of these systems could be adapted for the Valleys context. The simple act of



developing and signing-off a memorandum of understanding between housing bodies and statutory partners at city regional level could lead to a clearer focus on housing market issues that transcend administrative boundaries. Action can also be planned and enacted collectively.

For workshop participants, having a mechanism to assert the housing priorities of the Valley's in their own right was viewed as a priority. Some articulated this in terms of the development of a Strategic Development Plan, whereas others saw this about aligning the plans of housing developers and providers in collaborative ways. Irrespective of this, it is important that any sub-regional housing partnership can interact with and influence the City Region's discussions. This becomes more pressing as finance through the Regional Housing Investment Fund comes on-stream. Such a vehicle would provide an important platform for discussions about use of current devolved powers and resources, specifically in the Valleys, and the targeting of any future funds to ensure they met agreed priorities secured through devolution arrangements.

With these mechanisms for setting shared priorities may come opportunities to create new development consortia between housing providers. This would generate greater opportunities for economies of scale and potentially better targeting of activity at specific supply or regeneration issues.

## **Understanding the implications**

We are aware of the history of previous attempts to develop similar vehicles in the Valleys. Seemingly unsuccessful efforts to develop combined authorities, reorganise local authority boundaries and form housing development consortia suggest there is some fatigue with collaboration projects. Indeed, there may be local authorities who have worries about developing effective systems for collaboration, as this may make the case for local government reorganisation more persuasive.

Within our workshops we encountered scepticism about whether the City Region structures can properly account for, and address, the unique housing challenges of the Valleys. Similarly, doubts were raised about the Valley's Taskforce and their ability to shape housing responses and recommendations.

Despite the seeming fatigue in developing vehicles for collaboration and strategy setting, these are urgently required. Incentivising their development through enhanced funding - for instance through the Innovative Housing Programme - should be considered. Similarly, the Cardiff Capital Region should actively support these recommendations as they provide the means to develop a wide-ranging and collectively agreed set of housing proposals for a significant part of the city region.

# 5 Concluding comments

This report outlines a series of policy and practice recommendations (Figure 2) for social housing providers, Welsh Government, other landlords and key-stakeholders, to address the current and future housing challenges facing low-income households in the Valleys. These have been developed in consultations with local stakeholders in the Valleys.

It is the second report to emerge from a JRF funded project. The first developed a depressing baseline for what is likely to happen to the housing markets in the Valleys, and particularly the supply of housing for people on lower incomes, over the next 10 years. This report identified the following three broad challenges:

- **Low incomes and high housing costs** – covering a range of issues (impacting across tenures) associated with the welfare reforms, pressures arising from rent setting, low and slow income growth, rising rents in the private rented sector, and the price of housing to buy.
- **The under-supply of appropriate housing** – covering a range of issues associated with shortages of social housing, accommodation of a certain size (such as one- and two-bed), or certain type for certain groups (such as older people's housing), and an under-supply of certain subsidised or low-cost homeownership options.
- **The over-supply of certain housing types** – covering a range of issues in certain areas of the Valleys associated with increasing long-term-vacant social housing, and large amounts of empty homes in the private rented sector. This also covers issues associated with surpluses in the sheltered housing stock, and excess supply of larger properties.

Responding to these challenges and the complicated juxtaposition of different housing market pressures at the local level in the Valleys is an urgent matter. A failure to respond will escalate the economic and social problems facing both those on low incomes in the Valleys and the wider communities in which they live. The response requires a new approach that goes beyond what has been the case up to now. The Welsh Government's primary focus on additions to total supply will not address the challenges facing the Valleys. Our recommendations, detailed in this report, advocate a more intelligent and nuanced approach that includes responses to:

- Act strategically at the right spatial scale (Recommendations 1 and 5).
- Maximise investments and economies of scale (Recommendation 1).
- Support regeneration efforts (Recommendation 1).
- Provide appropriate, quality accommodation to meet the changing demographics in the Valleys (Recommendations 1, 2 and 3).
- Improve the affordability of housing (Recommendations 2, 3 and 4).

However, 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.

“Yes there are jobs – but it's like part-time or just for two weeks. It takes over an hour to get to Cardiff – longer sometimes – and it's pretty costly if you go on the train every day. It would have to be a good job. Buses take even longer.”

(Housing Association resident)

The time is also right to advocate for these changes. As Welsh Government considers its range of housing-related policies, and with specific reviews taking place concerning rent setting policies, there is a window of opportunity to act on these recommendations.

Taking forward the recommendations outlined in this report will require further thought, analysis and action. For example, dedicated work is required on: devising the best structure in which strategic housing priorities can be agreed and geographic areas targeted; developing appropriate affordability benchmarks and approaches to stress test housing association business plans to lower rents or lower rent increases; and undertaking market sensitivity analysis to improve the formula for grant allocations. Additional work may also consider some of the more radical suggestions from our workshops, such as weighing up the international evidence on the rent caps scheme in the private rented sector.

However, the recommendations outlined in this report provide a basis for collaborative and more precise interventions that increase VFM and effective intervention in new development, renewal and place-making. If implemented, these would directly tackle the underlying challenges facing the provision of housing for those on low incomes in the South Wales Valleys.

## Appendix

This appendix provided a summary of the key findings from the baseline report.

### Housing stock

There were 286,143 units of accommodation in the Valleys in 2015/16. Owner occupied units made up 71% of this total. Social housing accounted for 20% of units and 13% were private rented. **Between 2011/12 and 2015/16 the number of units for private rent increased by 14%.** The stock of owner occupied and social rented remained relatively unchanged.

The Public Policy Institute for Wales estimated a requirement for 10,600 additional (new or reconfigured) units of social housing in the Valleys between 2011 and 2031. This equates to 620 additional units per annum. Over the last four years an average of 282 additional units per year were provided. At this current rate there will be **5,076 fewer units than required by 2026.**

An average of 212 new dwellings were completed per year by Registered Social Landlords/Local Authorities between 2012/13 and 2016/17. In the last few years this number of completions has increased, for example 258 units were completed in the Valleys in 2016/17. There has also 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 the difficulties associated with increasing the stock of one-bed properties. The recent decision not to introduce LHA to the social housing sector may well present an opportunity for social housing organisations to change their approach to new development and conversions that can increase this provision.

The **geographic distribution of social stock is a key issue.** Local Housing Market Assessments (LHMAs), 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. Nevertheless, stakeholders point

out that existing populations in these low-demand areas are often very reluctant to move and that 'managing decline' would be poor social policy.

## Population change

Just over a fifth of Wales' population live in the South Wales Valleys: 640,300 people. Residents aged 16–34 years account for 24% of the Valleys' population. A further 19% are aged 65 years or over.

The population of the Valleys is projected to increase by 1% by 2025. This is less than the projected 3% growth for Wales' population as a whole. **Growth is projected to be uneven within 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 2% and 1% respectively.

Reflecting 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 Valleys' hearts (for example around Ferndale and Maerdy) have seen significant population decline.

There are projected to be **significant changes to the age of the Valleys' population**. The number of 16–35 year olds is expected to reduce by 6% by 2025. This reduction is significantly larger than projected for Wales as a whole, where the number of 16–35 year olds is expected to reduce by 2%. The **proportion of persons aged 65 years or over is expected to increase by 12%**. This is lower than the expected 14% increase across all of Wales.

The number of households in the South Wales Valleys is projected to increase by 3% from 274,000 in 2017 to 282,400 by 2025. Rhondda, Cynon, Taf (4%) and Caerphilly (3%) are expected to see the largest increases. Within this number is a change in household size. The **proportion of one-person households is expected to increase by two percentage points to 32% of all households**. This compares to the proportion of households with three or more persons which are projected to decrease by two percentage points, from 35% to 33%.

## Affordability of housing

Currently **social housing target rents are below lower quartile private rents** for all but bedsits in Caerphilly and Rhondda, Cynon, and Taf. However, the existing rent setting agreement for social housing in Wales allows target rents to increase by CPI inflation plus 2% per year. Given inflation forecasts **target rents will be 8% higher in 2020**.

An assessment of the affordability of social housing, using the JRF definition that housing costs are unaffordable if they exceed 33% of net household income, finds average **social housing rents 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 their rent. With this comes increased risk of rent arrears**. The DWP's own trial suggested direct payment was associated with a six-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, potentially limiting housing options for those households on the lowest incomes.

Analysis of publicly available data on the number of tenants with rent arrears of 13 weeks or more reveals the number has 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. Landlords also suggest that while the proportion of tenants in arrears has decreased, the value of arrears has tended to increase. This is supported by analysis of rent arrears reported in financial accounts. Rent arrears have risen from 2% in 2015 to 3% in 2016.

Analysis of lower quartile house prices against median and lower quartile incomes in the South Wales Valleys reveals **house prices are relatively affordable for those in work**. All five local authorities in the Valleys feature in the six most affordable local authorities in Wales. Local authority level lower quartile house prices ranged from just 3.2 to 4.8 times their respective lower quartile annual gross income. However, there is significant variation in affordability between different areas. **The Valleys' mouths have the least affordable housing. In contrast, areas in the heads of the Valleys and Valleys' hearts are most affordable.**

## Welfare reform

Welfare reform has resulted in a significant downward pressure on the household incomes of low-income families in the Valleys. This has consequences for the affordability of rents and access to housing for many. This affects households who are in work as well as those who are out-of-work.

It is not just the measures which specifically target support for housing costs that have an impact on people's ability to pay their housing costs. It is the cumulative impact of all the reforms that have reduced overall household income for those reliant on both in-work and out-of-work benefits.

The cumulative impact of welfare reform on residents in the Valleys since 2010 is substantial. 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 Valleys' economy by stakeholders such as the Valleys' 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.

On average, working age benefits will be worth over £25 a week less by 2020/21 than they would have been by the end of the period from the uprating measures since 2010 alone. This increasingly means that low-income households find it harder to keep up with the costs of living including their housing costs.

In the Valleys, approximately 170 young people aged 18 to 21 will lose entitlement to housing support. On average each person affected will be £3,500 per year or £67 a week worse off as a result. Housing options for this group, therefore, will be further constrained. Stakeholders were particularly concerned that while some may be able to remain at home and some may be eligible for supported accommodation, others will be put at risk of homelessness. Although the incidence of rough sleeping in the Valleys was believed to be low, 'hidden homelessness' was reported as a growing concern.

In the Valleys, nearly two thirds of the households capped live in the social rented sector. The average number of social tenants capped rose from 80 per month under the original pre-2015 cap to 430 a month under the new post 2015 cap. The average amount of benefit capped per week also rose from £42 to £52 a week for tenants affected. This equates to £2,700 a year for those affected. DWP estimates that seven out of ten households affected by the new benefit cap are lone-parent families.

## Housing associations

Whilst most housing associations are in relatively good financial health, 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 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.

The package of Welfare Reforms is impacting on housing association finances, though some of these concerns may have been eased by recent announcements. Tenants of certain associations have been affected by Universal Credit which has led to challenges with rent collection rates. Associations such as Merthyr Valley Homes have allocated resources to help move individuals onto direct debit payments and ensuring the full entitlement to housing benefit is claimed. They have also supported over 1,000 tenants to ensure full Housing Benefit claims are paid, with £106,000 of unpaid Housing Benefit being recovered (Merthyr Valley Homes, 2016).

Associations are, however, acutely aware of the potential impact of the roll-out of Universal Credit. Cynon Taf Community Housing suggest this will test households' budgeting and financial management, and be compounded by potential delays in payments, creating 'short-term financial hardship'.

The secondary impacts of the reforms on organisational finances may become manifest in the cutting back of crucial services, which have played an important stabilising role:

"Additional services may start to go, for instance generic tenancy support, which has been so good for health, wellbeing, sustaining tenancies etc. This could be cut for savings on staff costs."

(Senior Housing Association Officer).

## Future economy, growth and transport

Other factors affecting demand will relate to changing employment prospects and improved transport and connectivity. As large employers enter the Valleys, and the Valleys' Taskforce commits to creating 7,000 new jobs, this will impact the locus and scale of housing demand. This is acknowledged in Our Valleys, Our Future (2017) which sets out a plan for new strategic hubs in areas across the Valleys where residential development is focused. This includes Pontypridd/Treforest, Caerphilly/Ystrad Mynach, Cwmbran, Merthyr Tydfil, and Neath. More specifically there is the intention to 'use the opportunities provided by the South Wales Metro to reinvigorate housing in the Valleys.' This will have a **major bearing on housing demand and planning the location and form of new supply**.

Several stakeholders responded positively to the planned improvements to transport links - particularly the Metro and improvements to the road network. However, it was pointed out that in the northern parts of the Valleys, economic strategy required a focus on the local economy, rather than relying on improving access to Cardiff and its bigger jobs market.

Other stakeholders noted how the proposed Metro may have a detrimental effect on the affordability of housing in higher demand areas. A potential limiting factor on the impact of the Metro is the extent to which it will dramatically improve connectivity. It is likely that the biggest effects will be evident in locations with no current stations and those currently poorly serviced by transport networks.

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# Notes

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

<sup>ii</sup> Different studies and agencies define low-income households using a range of measures. For example, JRF produces a Minimum Income Standard (MIS) which is the income for given households to reach what the public think people need for an acceptable minimum standard of living. JRF has also developed a definition of poverty (<https://www.jrf.org.uk/report/definition-poverty>). Similarly, the Government often uses relative low income, taken to be equalised household income it is below 60% of the median income either before or after housing costs. These definitions are useful to measure the absolute number, or level, of low-income households in an area. However, this has not been an aim of this study. Therefore a broad, flexible, view of low-income households has been adopted so as not to limit the analysis. The focus has also been on the supply and suppliers of housing to those likely to be on low incomes, such as social housing organisations, private landlords renting at lower rents or to tenants on Local Housing Allowance, and the suppliers of shared or low-cost home ownership products.

<sup>iii</sup> A new independent not-for-profit residential developer, owner and estate manager; letting and selling homes directly to residents: <http://tirionhomes.co.uk/about-us/our-objectives/>



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## About the authors

Dr Tom Archer is a Research Fellow at the Centre for Regional, Economic and Social Research (CRESR). Tom has spent much of his career working with central and local government on housing and community development policy, as well as managing European projects relating to street homelessness. Tom's research focuses on the private house-building industry, issues concerning the supply of housing, and community-led approaches to housing provision.

Dr Stephen Green is a Research Fellow in Housing Studies at CRESR, Sheffield Hallam University. Steve's work focuses on housing issues facing low-income households in the UK. His research in this field includes a particular interest in the private rented sector, the housing pathways of younger people and solutions to prevent and end homelessness. He is a qualitative researcher with interests in policy-oriented research and evaluation and research involving vulnerable people.

Ian Wilson is a Principal Research Fellow at CRESR in Sheffield Hallam University. Much of Ian's work focuses on evaluating the impact of government policy on the affordability and provision of housing by social housing organisations. A key interest for Ian is evaluating how interventions play out differently for people in different places.

To speak to us about this research, contact our subject experts.

Contact Brian Robson at [Brian.Robson@jrf.org.uk](mailto:Brian.Robson@jrf.org.uk)

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