

CORE analysis

Income profile and rent affordability: new tenant working households 1997/98-2001/02

1. INTRODUCTION

The analysis of the relationship between income and rent has been a primary focus of CORE since it was initiated in 1989. For much of the past 13 years, standardised indices have been used to track trends in incomes and rents, while benefit dependency, rent/income ratios and measures of residual income have been used to monitor affordability. Analysis of CORE data¹ shows that throughout the 1990s, for Housing Association new tenancies, both rent and income recorded cumulative increases. However, for much of this period, the proportional increases in rent have exceeded those for incomes, exacerbating problems of rent affordability for many tenants.² The 1988 Housing Act has been identified by many observers as the main reason for the growth in the gap between rents and income (e.g. Wilson and Morgan, 1998). This Act introduced a mixed funding regime and dispensed with the major repairs grant. These reductions in direct subsidy forced Housing Associations to look to rent increases as a way of ensuring financial viability. The 1988 Act also deregulated rents, thereby providing the opportunity for Housing Associations to increase rent charges. In the first half of the 1990s, Housing Association rents increased by an estimated average of 38% (Wilson and Morgan, 1998).

Concern over these trends, in particular the escalation in housing benefits costs, led eventually to the introduction in 1997 of rent regulation guidelines which 'obliged'

Housing Associations to limit rent increases to the retail price index (RPI) +1%.³ The increasing compliance of Housing Associations with the regulation guidelines had the effect of decelerating the rate of rent increase and in consequence has led to the improvement in many of the CORE affordability measures.

Using CORE rent and income data for working households only, this paper examines the changes in household income and rent over the 5 years since the introduction of the 1997 rent guidelines. We first examine (Section 2) the changing income profile of Housing Association new tenant households, focusing on the pattern of regional income distribution and the income characteristics of the main household types. Secondly, (Section 3) we look at rent affordability trends and thirdly, (Section 4) we examine the way income equivalisation (incomes adjusted for household size and composition) impacts on our interpretation. The conclusion (Section 5) summarises the main findings of the report.

This analysis considers only working households, that is those with income derived, at least in part, from full-time or part-time work. Additionally, since CORE records only the income of tenants and partners, the analysis is further limited to single adult households (with or without dependants) and two adult households (with or without dependants) where the two adults are identified as the tenant and partner.

¹See CORE Bulletins - 1998/99 through 2001/02; available at <http://www.core.ac.uk>

²Other analysis demonstrate that problems of affordability were also evident among existing Housing Association tenants as well as among the new households recorded by CORE. See, for example Wilson, W. and Morgan, B. 1998 'Rent levels, affordability and housing benefit' Research Paper 98/99, House of Commons.

³In April 2002, the Housing Corporation introduced a new rent regulatory regime which requires Housing Associations to adjust their rents over a maximum of 10 years, so that they reflect both property values, property size and income levels. This restructuring to be achieved within the framework of annual rent changes based on RPI+0.5% with an annual rent change limited to £2 on the existing rents for each property. The impact of these changes will be monitored in CORE Bulletins.

⁴CORE reports on four affordability measures: (i) % of working households in receipt of housing benefit, (ii) mean residual income (weekly net income - weekly rent), (iii) % working households paying more than 25% of net income on rent and (iv) % of households failing NHF affordability test (rent + service charges/income + housing benefit).

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2. INCOME PROFILE⁵

The proportion of working households among Housing Association new tenancies has increased by 4% over the past 5 years, from 24% in 1997/8 to 28% in 2001/2. However, new tenancies now, as in the past, are dominated by people who are

not in work. Households wholly dependent on benefits, though registering a 3% decrease since 1997/98, continue to make up the majority of new lettings (Table 1).

Table 1: Economic status of households 1997/98 – 2001/02

	1997/98		1998/99		1999/00		2000/01		2001/02	
	No.	%	No.	%	No.	%	No.	%	No.	%
Working households (ft)	27099	18.7	28053	19.2	28708	19.4	32085	21.4	34449	21.7
Working households (pt)	8341	5.8	8914	6.1	9666	6.6	9799	6.5	10590	6.7
<i>All working households</i>	<i>35440</i>	<i>24.4</i>	<i>36967</i>	<i>25.3</i>	<i>38374</i>	<i>25.9</i>	<i>41884</i>	<i>27.9</i>	<i>45039</i>	<i>28.3</i>
Wholly dependent on benefit	82025	56.5	79375	54.4	81658	55.3	80955	53.9	84267	53.0
Other households	27662	19.1	29713	20.3	27647	18.7	27182	18.1	29659	18.7
Total	145127	100	146055	100	147679	100	150021	100	158965	100

Source: Housing Corporation - CORE

Incomes for Housing Association new tenant working households increased by 22% over the 5 year period, from a median of £180 in 1997/8 to £220 in 2001/2. However, throughout this period, despite this increase, the recorded income of Housing Association new tenants was significantly

lower (by approximately 30%) than that of the average income for all English households (Table 2). Housing Association tenants continue to represent some of the most needy in society.

Table 2: Housing Association and total population median income

	1997/98	1998/99	1999/00	2000/01	2001/02
Housing Associations	180	186	200	205	220
England	261	274	285	303	n/a
% difference	31	32	30	32	-

Source: Department of Works and Pensions & Housing Corporation - CORE

2.1 Regional income analysis

The median household income for all regions recorded a year-on-year increase over the 5 years 1997/8 to 2001/2. While southern regions - London (£48), South East (£50), South West (£47) and East (£45) - recorded the largest *absolute* increases (Table 3), some of the largest *proportional* increases were experienced in the north: Merseyside, the North East and the North West all recorded increases of 25%. The South East and South West also recorded increases of approximately 25% (Figure 1).

These absolute and proportional changes, however, had little impact on the uneven pattern of regional income distribution. The southern regions in 2001/2, as in 1997/8, all recorded incomes in excess of the national average for all new tenancies, while the regions of the North and the Midlands recorded incomes below the national average (Table 3 and Figure 1).

⁵Income as recorded by CORE includes: tenant or tenant and partner net weekly income, excluding housing benefit, council tax benefit and interest from savings. Net weekly income is made up of (i) take home pay (i.e. net earnings from paid work - after deductions of tax and national insurance - and tax credits, e.g. working families' tax credit), (ii) child benefit, (iii) other state benefits, (iv) other incomes (excluding income investment).

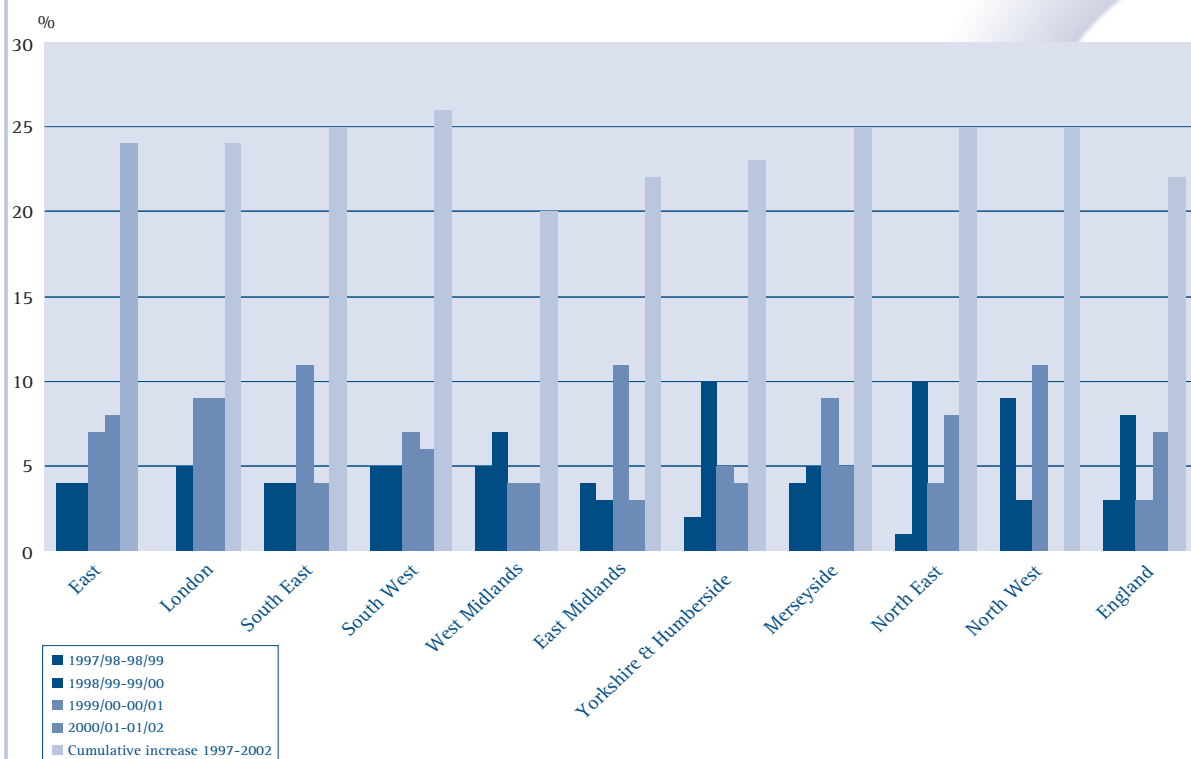
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Table 3: Regional pattern of new tenant income (median £)

	1997/98	1998/99	1999/00	2000/01	2001/02	absolute increase 1997-2002	% increase 1997-2002
East	185	193	200	213	230	45	24.32
London	200	200	210	228	248	48	24.00
South East	200	208	216	240	250	50	25.00
South West	183	193	202	216	230	47	25.68
West Midlands	172	180	193	200	207	35	20.35
East Midlands	169	175	180	200	206	37	21.89
Yorkshire & Humberside	163	167	183	193	200	37	22.70
Merseyside	160	166	175	190	200	40	25.00
North East	160	162	178.5	185	200	40	25.00
North West	160	174	180	200	200	40	25.00
England	180	186	200	205	220	40	22.22

Source: Housing Corporation - CORE

Figure 1: Regional median incomes: % increases 1997/98-2001/02 New tenant working households



N.B. There was no increase in London incomes between 1997/98 and 1998/99 or in the North West between 2000/01 and 2001/02

2.2 Household Income Analysis

Weekly incomes for all household types increased on average by £40 (22%) between 1997/8 and 2001/2. Two adult households (including elderly households) with or without children recorded significantly higher incomes than single adult households throughout the period. The largest absolute increase (£67) and the largest proportional increase (31%) was experienced by two adult households with

children, taking them from the third highest income group in 1997/8 to the highest income group in 2001/2. Among households with only one adult, lone parents experienced the most significant increase in income, £48 (30%). Lone adult households, while registering a 25% increase over the five year period, continued to record the lowest incomes in 2001/2 as five years earlier (Table 4).

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Table 4: Household type: median income for working households

	1997/98	1998/99	1999/00	2000/01	2001/02	absolute increase 1997-2002	% increase 1997-2002
Two adults + children	218	229	250	266	285	67	31
Elderly couple	225	226	240	266	282	57	25
Two adult	230	243	250	260	280	50	22
Lone parent	160	165	177	192	208	48	30
Lone adult	150	150	162	176	187	37	25
Elderly person	165	169	180	200	200	35	22
<i>All working households</i>	<i>180</i>	<i>186</i>	<i>200</i>	<i>205</i>	<i>220</i>	<i>40</i>	<i>22</i>

Source: Housing Corporation - CORE

3. HOUSEHOLD INCOME AND AFFORDABILITY

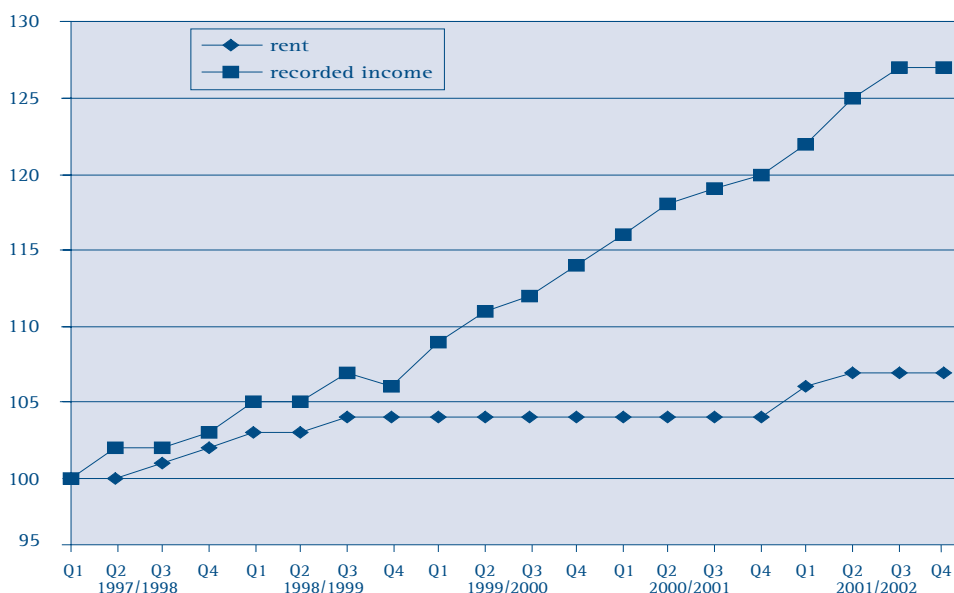
An examination of CORE affordability measures indicates that the gap between rents and incomes has been falling over recent years. This has been particularly apparent since the introduction in 1997 of the RPI + 1% rent guidelines, and its subsequent adoption by most Housing Associations.⁶

3.1 Rent and income indices

Since CORE was established in 1989, relative trends in rent and income have been calculated using the first quarter of 1989/90 as the reference

base. This 13 year sequence suggests a widening gap between rent and income (that is, rents increasing more rapidly than incomes) for most of the period. However, since 1997 there have been indications that rent increases have tapered off, while incomes have continued to rise. A recalibration of these indices (Figure 2), using the first quarter of 1997/8 as the reference base, clearly demonstrates that since 1997/8, and particularly from the first quarter of 1999/2000, incomes have been outpacing rents. In the final quarter of 2001/2 the median recorded income for Housing Association new tenants was 27% higher than in the first quarter of 1997/8, in comparison rents were only 7% higher.

Figure 2: Rent and Income Indices (base first quarter 1997-100)



Source: Housing Corporation - CORE

⁶ See also Kincey, J and Banks, D. 2001 'Housing Associations and changes in rent' Sector Study 6, Housing Corporation, London

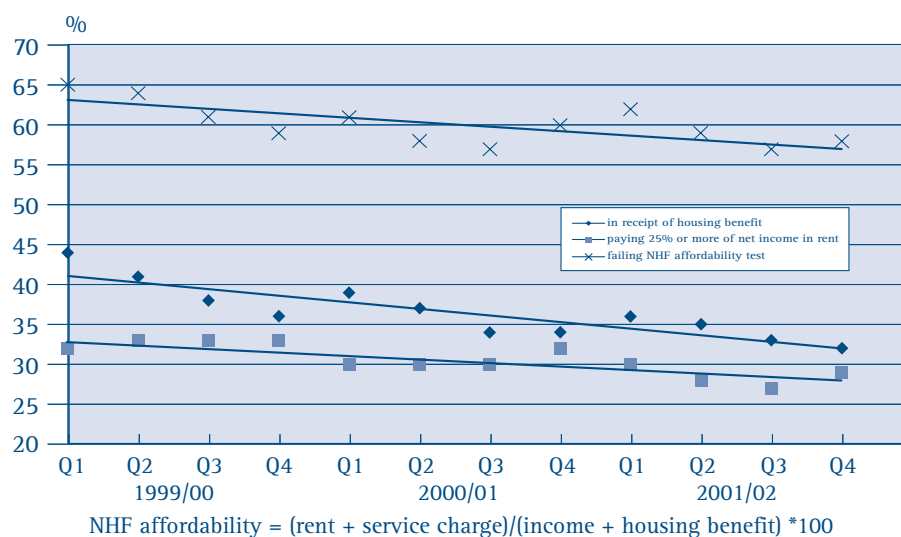
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3.2 Affordability measures

These recent trends in income and rent have had a notable impact on the measures of affordability. Figure 3 plots the quarterly estimates of three CORE affordability measures from the first quarter of 1999/2000 to the last quarter of 2001/2.⁷ A 'trend line' which indicates the predominant direction of change has been superimposed on each plot. For all

three measures the trend lines demonstrate improvement. In comparison with the first quarter of 1999/2000, in the last quarter of 2001/2 a lower proportion of new households were in receipt of housing benefit (a 12% reduction), fewer households were paying 25% or more of net income on rent (a 3% reduction), and the percentage failing the NHF affordability test had decreased by 6%.

Figure 3: Affordability measures
Working households: April/June 1999 - April/June 2002

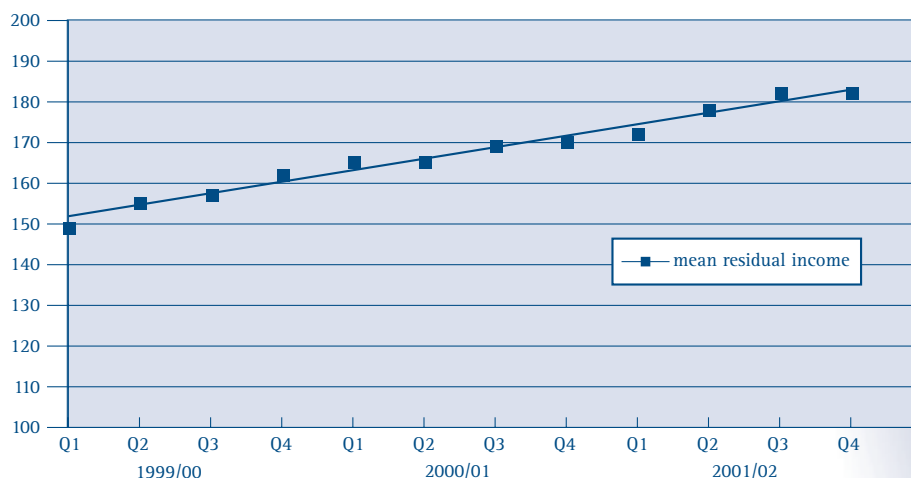


Source: CORE Housing Corporation

A similar picture emerges when household residual incomes are examined (Figure 4). From the first quarter of 1999/2000 there has been a

cumulative increase of nearly £30 in the amount of income households have left after rent has been paid.

Figure 4: Affordability measures: residual income* of working households
April/June 1999 - April/June 2002



*Mean residual income = net weekly income (excluding housing benefit, council tax benefit and interest from savings) minus weekly rent (includes any service charges)

Source: CORE Housing Corporation

⁷ Changes in the way affordability is measured, introduced in 1999, do not allow direct comparison with preceding years.

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4. INCOME EQUIVALISATION⁸

A common adjustment made by government and other agencies seeking to establish the impact of costs on household budgets, is to equivalise household incomes by taking account of household size and composition. The McClement scale is typically used for such equivalisation. This scale is based on the assumption that smaller working households on the same income as larger households will be significantly better off. The scale takes childless, two adult households as standard (that is, they are weighted by 1) and scales up the income of households with fewer

people and scales down the income of households with more.⁹

Equivalisation significantly increases the overall median income of Housing Association working households for each of the five years between 1997/8 and 2001/2 (Table 5). These increases reflect the predominance of lone adult households (whose income is scaled up by equivalisation) among working new tenant households: in each of the five years lone adults comprised between 35% (1997/8) and 40% (2001/2) of all new tenancies.

Table 5: *Equivalised and non-equivalised incomes*

	1997/98	1998/99	1999/00	2000/01	2001/02
working households : equivalised	198	205	225	246	257
working households : non-equivalised	180	186	200	205	220
% increase	10.0	10.2	12.5	20.0	16.8

The impact of equivalisation on individual household types, however, is variable (Table 6). In summary equivalisation :

- decreases the incomes of two adult households with children
- increases the incomes of lone parent households (with the exception of lone parents with older children – see Section 4.2 below)
- increases the incomes of lone person households (lone adults and lone elderly people)
- leaves unchanged the incomes of two person households (elderly couples and two adult households).

Table 6: *Equivalised income by household type*

	1997/98	1998/99	1999/00	2000/01	2001/02
Elderly person	270	277	295	328	328
Elderly couple	225	226	240	266	282
Lone adult	246	246	266	289	307
Two adult	230	243	250	260	280
Lone parent	171	176	191	208	224
Two adults + children	165*	173*	189*	203*	217*
<i>All working households</i>	198	205	225	246	257

**indicates a reduction in income as a consequence of equivalisation – see Table 4*

Equivalisation significantly changes the income of household types from that depicted by recorded (i.e. non-equivalised) incomes, and as a consequence presents a rather different picture of relative affluence and poverty. Lone elderly households and lone adult households, which recorded the lowest household incomes, emerge after equivalisation as the household groups with the highest and second highest incomes respectively. In contrast, two adult households with children, which recorded the highest household incomes prior to equivalisation, after

equivalisation have the lowest incomes of all household types (cf. Tables 4 & 6).

4.1 Affordability and equivalised incomes

The substitution of equivalised for recorded income confirms and enhances the affordability improvements indicated for non-equivalised incomes (Section 3 above). For example, after equivalisation, the proportion of households paying more than 25% of their income in rent is significantly reduced and residual incomes are substantially increased (Tables 7 and 8)

⁸Part of the income of some of the households (less than 25% in any one year) considered in this analysis is made up of needs assessed state benefits but does not include housing benefit (footnote 5 gives a fuller explanation). Some benefit payments are, in a sense, already equivalised in that they take into account household size and number of dependents. However, since benefits make up only a small proportion of the income of the households considered in this analysis, equivalisation is applied to total household income regardless of source. In employing this methodology we are following DWP and Eurostat precedents.

⁹ For details of the McClement Scale see <http://www.statistics.gov.uk/Harmony/Secondary/income.asp> and the appendix to this document.

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Table 7: Proportion of working households paying more than 25% of net income on rent

	1997/98	1998/99	1999/00	2000/01	2001/02
Non-equivalised	36	36	35	33	31
Equivalised	24	24	21	24	16
<i>Difference</i>	-12	-14	-14	-9	-15

Table 8: Median residual* income

	1997/98	1998/99	1999/00	2000/01	2001/02
Non-equivalised	124	129	139	149	158
Equivalised	144	149	167	187	198
<i>Difference</i>	+20	+20	+28	+38	+40

*income left after rent payments

4.2 Equivalised incomes and vulnerable households

Equivalisation indicates that all household categories considered by CORE, except two adult households with children, improve their income status (Table 6). However, a closer examination of households with two adults and children and of lone parent households suggests a rather more complex pattern; a pattern which identifies households with older children as particularly characterised by low incomes and therefore

vulnerable to affordability problems.

Table 9 shows that two adult households with older children have significantly lower equivalised incomes than those with younger children; for all years this household sub-group had equivalised weekly incomes at least £10 below the average for all two adult with children households – and this in a context where the impact of equivalisation on all two adult families has been to reduce their income status.

Table 9: Equivalised incomes and vulnerable households

	1997/98	1998/99	1999/00	2000/01	2001/02
All two adult families	165	173	189	203	217
<i>Two adults with children 5 years or under</i>	177	184	196	216	226
<i>Two adults with children 15 years or under</i>	172	181	204	213	225
<i>Two adults with child(ren) 16 years+</i>	154	161	178	193	203

Similarly, a disaggregation of working lone parent households demonstrates that those with older dependent children have significantly lower equivalised income than those with younger children – the median equivalised income for lone parents with older children for each of the five years ranges between £17 (1998/9) and £20

(2000/1 & 2001/2) less than the average median income for the lone parent group as a whole. Further, in contrast to lone parent households with younger children, lone parent households with older children experience a reduction in income as a consequence of equivalisation (Table 10).

Table 10: Equivalised incomes and lone parent households (non-equivalised in parentheses)

	1997/98	1998/99	1999/00	2000/01	2001/02
All lone parent families	171 (160)	176 (165)	191 (177)	208 (192)	224 (208)
<i>Lone adult with children 5 years or under</i>	192 (144)	196 (148)	208 (157)	230 (173)	248 (186)
<i>Lone adult with children 15 years or under</i>	186 (157)	190 (161)	203 (173)	220 (185)	236 (198)
<i>Lone adult with child(ren) 16 years+</i>	153* (171)	159* (181)	172* (194)	188* (212)	204* (229)

*indicates a reduction of income as a consequence of equivalisation

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5. CONCLUSION

The main findings of this report are :

- Over the five years, 1997/8 – 2001/2, the incomes of new tenant working households have increased, proportionally, more rapidly than rents. This reverses the trend of the preceding years.
- As a consequence, affordability – as measured by housing benefit dependency, by rent to income ratios and by residual income – has improved for most household types over the past five years.
- It is important, however, to emphasise that improvement, does not equal elimination. Significant numbers of new tenant households still experience problems of rent affordability.
- The equivalisation of income (adjusting for size and composition of household) demonstrates the vulnerability, in particular of two adult with children households and lone parent with older children households to affordability problems. After equivalisation, these households recorded the lowest incomes among all household groups considered by CORE.

Appendix

The table shows the numerical values of the McClement scale:

Household member Equivalence scale

<i>Adults:</i>	<i>Weight</i>	<i>Each child aged:</i>	<i>Weight</i>
First adult	0.61	0 – 1	0.09
Spouse of head	0.39	2 – 4	0.18
Other second adult	0.46	5 – 7	0.21
Third adult	0.42	8 – 10	0.23
Subsequent adults	0.36	11 – 12	0.25
		13 – 15	0.27
		16 – 18	0.36

Source : *Institute of Fiscal Studies*

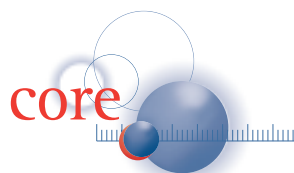
Calculated examples:

- A couple on £200 per week has an equivalised income of £200 i.e. $\text{£}200 / (0.61 + 0.39) = \text{£}200 / 1 = \text{£}200$
- A single adult on £200 has $\text{£}200 / 0.61 = \text{£}327.87$; i.e. their living standard is equivalent to a childless couple on £327.87.
- A couple with an 8 and a 12 year-old child has an equivalised income of $\text{£}200 / (0.61 + 0.39 + 0.23 + 0.25) = \text{£}135.14$; i.e. they are deemed to be as well off as a childless couple on £135.14.

CORE Annual Digest 2001/2002

The CORE Annual Digest for 2001/2002 is available now. The Digest enables associations to review their own statistics against regional and national averages. Following the success of previous editions, the Digest for 2001/2002 comprises a CD-ROM of standard statistical tables and a concise six-page summary of key facts. The price of the Digest and CD-ROM is £15. Please order a copy by calling the CORE office on 01334 463918.

Please visit the CORE Web Site at
www.core.ac.uk



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