

# **Towards a Shared Understanding of Housing Affordability: Short Life Working Group, 2022-24**

**Final Report and Recommendations  
to Ministers**

**Chair: Professor Kenneth Gibb,  
University of Glasgow**

**October 2025**

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## Summary and Recommendations

The Short Life Working Group (SLWG) on 'towards a shared understanding of housing affordability' arose from a recommendation of the Housing to 2040 housing strategy which argued for the need for a single shared Scotland definition fit for the future that could cut through the different measures and definitions of housing affordability inconsistently used in Scotland and the UK. An independent group was established (see Annex 1) in 2022 chaired by Kenneth Gibb, a brief and working practices were agreed, including new primary research and a range of consultation exercises. This report in draft was first tabled to the SLWG at the end of April, and was subsequently redrafted in July 2024, in the light of feedback from the group, from civil servants and subsequent detailed written feedback. A further round of comments on the second draft led to further work and discussions on remaining details which took quite some time to sort out. This final revision is a product of sustained reflection on those matters (discussed further in the main report).

The report sets out in more detail the need for the work, the nature of the problem and a sense of what previous commentators have said about the issue. It then goes through three forms of primary research – focus groups and interviews with residents organised by *The Lines Between*, household survey responses incorporated in a 2024 *YouGov Scotland Omnibus Survey*, and an online survey of SLWG members. We also tested ideas and sought views speaking at conferences in Scotland and invited external speakers to contribute to our SLWG meetings.

This approach allowed us to identify both the key fault lines in the affordability debate and a series of key questions that need to be tackled if we were to make progress towards the shared understanding (see the box at the beginning of section 5 of the main report). The existence of these different questions explains why a shared understanding is so intractable – affordability is normative, judgmental and subjective. We contend that there is no simple objective scientific answer to such a definitional question. Instead, we have tried to be straightforward, pragmatic and build a consensus around the (what we consider) reasonable principles set out below and in section 5 of the report.

Throughout this report, we recognise a critical issue that has informed our proposal. We confront rising problems of rental unaffordability in Scotland, particularly for low-income households, directly impacting on child poverty and making the human right to adequate housing more difficult to attain. Nonetheless, adopting a new affordability standard should not be used to punish housing providers if a combination of historical decisions on (then) prevailing norms and new pressures on rental income, mean they would fail such a standard. Rather, we need to view the new shared understanding as doing two things – setting a standard for newly initiated intervention by government (e.g. affordable new supply) that impacts on affordability, but also the sense that, as with the right to adequate housing, this needs to be conceived of as a long-term project where there is a progressive realisation of the new standard over time, directly linked to its achievement by the end of the *Housing to 2040* strategy timespan. This should be a clear joined-up goal of Government prioritised within the National Performance Framework.

This exercise has been a daunting undertaking. The SLWG was designed to reflect a wide range of stakeholder perspectives. We anticipate much discussion and disagreement arising

from our recommendations. That is inevitable given the subject matter. Throughout we seek to outline our decisions and the reasoning behind them, grounded in the prior belief that there is no unique scientific, objective answer to the question: what is housing affordability? Instead, we recognise the position taken is normative (what ought to be), subjective and judgmental. So, our question becomes, given that insight, what is the best we can achieve – and that is what we try to do.

The report explains the way we end up with our nine key recommendations (set out below). The principal recommendation is 7a. It says that a shared understanding of housing affordability (the policy assumption for government going forward) should have three components, all of which need to be met:

1. A maximum of 30% of net income should be accounted for by rent and service charges.
2. A minimum residual income should be achieved based on 100% of the After Housing Costs Minimum Income Standard set by Joseph Rowntree Foundation (see Annex 3 for more details).
3. The household should exceed the UK after housing costs poverty threshold.

### Recommendations

Recommendation 1: As a key plank of fighting child poverty and constructing the human right to adequate housing, the new shared understanding definition ought to be a component part of the National Performance Framework national outcome indicators *in line with the Government's proposal for a new National Outcome for Housing*.

Recommendation 2: the shared understanding focuses on social, affordable and private rental affordability, but this is on the basis that other aspects of housing policy are supporting access to home ownership, also working and lobbying to support policies to help owners in financial difficulty.

Recommendation 3: on grounds of simplicity and the existence of other complementary policies, we propose not to include minimum standards regarding housing conditions/standards in the working definition other than to be clear that the rent charged by a landlord should be based on meeting minimum legal and regulatory standards.

Recommendation 4: on grounds of simplicity, locus of decision-making and alternative policy domains relevant to certain property related costs, we conclude that a narrow measure of cost, rent plus service charge, should be used.

Recommendation 5: agreeing a framework for the shared understanding should allow regular monitoring and periodic review to consider updating of the indicators used in the light of evidence collected about affordability. In this way it should be possible to adopt the shared understanding to both immediate and longer-term questions re housing policy.

Recommendation 6: it is essential that we have a shared understanding of what social rent levels are and the extent to which future rent increases in social housing can rise to over time but still meet the accepted sense that rents remain at social levels. The Scottish Government should undertake further work to better understand what that social level is

across the existing housing stock and how it compares for instance to assumptions within published guidance regarding registered social landlord social rent benchmarks. Affordability scrutiny is also required for the mid-market rental sector, specifically, regarding future mid-market rental sector rent increases.

Recommendation 7a: (1) national policy guideline or assumption – rent and service charge is no more than 30% of net monthly income; second, there is a minimum residual income relating to the after-housing costs version of the Joseph Rowntree Foundation Minimum Income Standard (with a possible supplementary indicator based on the Annual Survey of Hours and Earnings 30<sup>th</sup> percentile, as discussed, conditional on it being successfully refreshed in the light of tax and benefit changes since its introduction and use in the Scottish Federation of Housing Associations affordability tool); third, if, after housing cost income is below the UK poverty benchmark, the housing is therefore not affordable.

Recommendation 7b: (2) disaggregated version of policy assumption guideline – as (1) but with focus on average national measures for significant groups of household types where we expect to observe and analyse important variations e.g. working age single adults, single families, couples, couples with children, single and couple retired households, young adults, women, ethnicity and other important protected characteristics. This will require a degree of new data capture, analysis and publication to support work done by providers, trade bodies and wider citizen interests.

Recommendation 8: Scottish Government, local authorities and providers need to collaborate to undertake a series of economic and equality impact assessments around the new affordability measure. They also need to consider how the new measure might be efficiently but fairly transitioned over time to deliver a progressive realisation of the new shared understanding. There will need to be new data collected to support monitoring the measure. This can draw on recent experience with the new fuel poverty measure.

Recommendation 9: The shared understanding should be viewed as a long-term objective or target of the Housing to 2040 strategy. Targets should be progressively realised by its end date, but with ongoing monitoring. At the same time, the shared understanding target should be used forthwith to influence and shape future policy discussions relevant to affordability e.g. seeking to converge over time the definitions of affordability used in policymaking.

### Final Words

It is now for the Scottish Government to reflect on the shared understanding proposed here and decide how to both respond to the report and to factor it into future decisions about housing policy for new build and the existing housing, where there are direct and indirect affordability consequences of policy.

We also stress that this is not a prospectus to reduce rents, but rather one to achieve affordability objectives, mindful that this is a whole government project (and beyond), because affordability can only be understood as the combination of housing costs, incomes and benefits. Labour market, broad anti-poverty and welfare policies are equally important to reducing after housing cost poverty. Affordability has been worsening and tackling it over

the coming 15 years requires, on the one hand, committed all-government focus (including with the UK government regarding Universal Credit, Housing Benefit and Local Housing Allowances), and at the same time, to explicitly assess the trade-offs arising from new regulatory and investment policies that put upward pressure on rents. The Housing Investment Taskforce recommended a comprehensive financial capacity study for social housing (and this should include council housing business planning). This is an important part of making these affordability-informed housing policy decisions, as is full consultation with the providers and the sector, including tenants.

## Introduction and Background<sup>1</sup>

In 2021, the Scottish Government published their comprehensive long-term strategy, Housing to 2040. The strategy consisted of an ambitious vision and principles statement, centring the programme around the progressive realisation of the human right to adequate housing, within which affordable housing is an essential component. The strategy route map contains many proposed actions, such as ending homelessness, a two Parliament duration affordable supply programme, delivering a housing retrofit decarbonisation programme to 2045, and raising standards and conditions across all housing tenures, among several other interventions. Within Part 2 of the route map, Affordability and Choice, the document states (p.32):

“Stakeholders during our consultation told us that how affordability is currently understood and defined does not always deliver the best outcomes for people, meaning the right to an adequate home cannot be realised. We know that there is no one universally accepted definition of rent affordability, with differing accounts being taken of household incomes and other housing costs.

We will therefore work with stakeholders to **develop a shared understanding of affordability which is fit for the future** and takes into account the drivers of poverty and inequality, the economic challenges of the housing market, the financial sustainability of the affordable rented sector and the real costs of living in a home and a place”.

The independent short life working group – Towards a shared understanding of housing affordability (hereafter the SLWG) - was established to debate and deliver recommendations to arrive at such a shared understanding.

The quote above suggests several of the fault lines confronted when seeking a shared understanding. Chief among them are three points.

- First, in current practice, working definitions of affordability do not always help achieve desirable housing outcomes.
- Second, there are different definitions of affordability and different applications of affordability used at the same time, creating inconsistency and possibly undermining policy and practice.

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<sup>1</sup> As chair, I would like to thank the Scottish Government secretariat who have supported this process throughout (Janine Kellett, Andrew Weild and Nicole Pettigrew). I also acknowledge the time and effort put in by the members of the working group (full list in annex 1). I would like to thank specific individuals who have been helpful in different ways in bringing this work together: Gillian Young, Madhu Satsangi, Edward Pybus, Craig Sanderson, Tony Cain, Eli Harji, David Bookbinder and Aoife Deery. I am also grateful to Adam Krawczyk from the Scottish Government who commented helpfully on the work at different stages of its development. We are also grateful to *The Lines Between* who undertook the qualitative research and thank CAS who allowed us to piggyback questions in the 2024 YouGov Scotland Omnibus survey. I also thank my academic colleagues with whom I have discussed affordability over many years: Duncan MacLennan, Alison More, Glen Bramley, Tony O’Sullivan, Steve Wilcox, Geoff Meen, Christine Whitehead, Joe Frey, Chris Leishman and Craig Watkins. All views and opinions remain my responsibility.



- Third, the shared understanding needs to fit with prevailing notions of poverty, real housing costs and the financial sustainability of the sector providing social and affordable housing. It will also need to be robust and resilient over time.

Affordability and affordable housing emerged in the late 1980s. The wider use of the term affordable housing has always been ambiguous, sometimes specifically concerned with an intermediate provision of housing somewhere between standard social housing and the market but sometimes referring to all sub-market housing. This was never just about rent levels, but also the rights and duties that went along with social and affordable tenancies.

Affordability entered housing sector parlance when the UK Department of the Environment brought in American consultants to help shape what would be the 1989 mixed finance scheme for housing association grant. The consultants used the term affordable to describe the sub-market rents that would be generated by a combination of grant, private loans and assumptions about operating costs. Subsequently, in Scotland, the responsible national agency, Scottish Homes, expected housing associations to undertake empirical work that demonstrated that such rents would be affordable for low to moderate income tenants in work. This figure was originally intended by the Scottish Federation of Housing Associations (SFHA) to be 25% of disposable income echoing the nostrum that there should be a week's wages for a month's rent (Scottish Homes did not contest this but did not have an official position either as a funder or regulator: it was for associations and their trade body to argue through the finer details). This helped create the problem – government had no wish to set the parameters themselves and thereby created the space to have multiple definitions, scales and levels of affordability thresholds.

Criticism of this vagueness (and its implications) was apparent as early as the bedding-in of these new financial arrangements (MacLennan, et al, 1990; and Hancock, 1992,). Subsequently, over the next 30 years or more, versions of affordability, affordable models and usage of the term proliferated and became more and more enmeshed in different aspects of housing policy and practice, extending to S75 planning agreements and local affordable housing policies, assumptions within housing social security, non-market rent-setting (supported by an SFHA rent affordability model), subsidy definition, assumptions within Housing Needs and Demand Assessments, and innovations in affordable housing supply – leading to multiple uses and definitions, all the more so if looking beyond Scotland (Wilson and Barton, 2022).

Housing to 2040 was undoubtedly correct in seeking to bring consistency and clarity to the definition of affordability as a threshold, beyond which housing costs impose an intolerable burden, as viewed by policy and practice (to paraphrase MacLennan and Williams, 1990). This is the SLWG's principal concern. However, as we explore further in this report, it quickly becomes challenging when considering the practical implications of shifting from the present confusion to working with a single consistent shared understanding. This is because there are further consequences and wider implications of moving from inconsistency to a single measure. In this report we will concentrate on these questions, but four examples illustrate the extent of the challenge.

- First, setting a consistent threshold beyond which housing is deemed unaffordable has repercussions for rent-setting, financial viability, and the required level of grant in individual social or affordable housing developments.
- Second, it raises questions about what is the specific difference between general needs social rents and affordable rents (i.e. we need to define what we mean by a social rent as distinct from an affordable one). While the Scottish Government have in the past used terms such as mid-market rent, GRO private rent and intermediate rent – we still have elements of inconsistency within them too. Linked to this is the question of how affordable are market rents and how do these outcomes compare with experience in the non-market sectors?
- Third, a shared understanding operates at different levels - as a consistent policy input or assumption into social and affordable housing, but also for instance to set a threshold for adequate social security for housing. There is also a need to distinguish between the general policy assumption of the shared understanding as a whole and to provide illustrative effects how this works in practice for different kinds of households with varying forms of need.
- Fourth, moving toward a common working definition is likely to have fiscal impacts on capital programmes and on benefit expenditure, as well as material consequences for providers. We need a sense of these scales of magnitude. Note, however, that economic impact assessment, once we have a shared understanding in principle (and a commitment to its progressive realisation, one which will require appreciation of the budgetary impact on capital funding and subsidies required to ensure that rents start out (and remain) affordable) - goes beyond the scope of the present exercise.

This exercise has been a daunting undertaking. The SLWG was designed to reflect a wide range of stakeholder perspectives but, in fact, it would be difficult to arrive at consensus from any one of those perspectives, let alone any two people working even in the same part of the housing system. We anticipate much discussion and disagreement arising from our recommendations. That is inevitable given the subject matter. Throughout we seek to outline our decisions and the reasoning behind them, grounded in the prior belief that there is no unique scientific, objective answer to the question: what is housing affordability? Instead, we recognise the position taken is normative (what ought to be), subjective and judgmental. So, our question becomes, given that insight, what is the best we can achieve – and that is what we try to do.

### Is affordability getting worse?

We resisted quantifying the degree of and trends in affordability in contemporary Scotland. In large part this was not done because it begged the question of the meaning of affordability used when we were established as a group to reach that conclusion among competing and different claims on the meaning of affordability. However, it is important, that regardless of how much we do so implicitly, that we clearly state and recognise that affordability is worsening and that this has been going on for some time. Some facts and trends are identified below:

- Pre-Covid, a 2017 Scottish Government study indicated that 34% of social tenants were paying more than 30% of net income in rent, with an average of 24% (comparative figures were 25% for PRS and 8% for mortgaged owners). This study also suggested that 59% of social tenants were on Housing Benefit (HB) and 47% had household incomes below £15,000 a year.
- In 2022-23 for the Chartered Institute of Housing (CIH) we calculated (Watson, et al, 2024) that if eligible, only 8% of PRS tenants would have their rents covered by LHA and only 1% of adverts were below the Local Housing Allowance (LHA) threshold. In the same year rents from adverts grew by 14.3% while inflation was 9% (when the rent freeze for existing tenancies was in force). Long term data suggests a wide variation in rental values (adverts) but a recent history of upward real terms growth in cities like Glasgow and Edinburgh.
- Additionally, Scotland and the UK has experienced the cost-of-living crisis centred on energy and food costs. Welfare benefits have generally risen with inflation but not of course the LHA.
- Wages and earnings have not kept up with inflation over the long term (particularly in the lower half of the income distribution), inequality has worsened, as has specific dimensions of poverty (increasing for working age households).
- Need is growing within the well-rehearsed current housing emergency in Scotland, while the affordable housing supply programme has come under considerable budgetary pressure, with two years of significant cuts followed by a restoration of the programme initial levels in the most recent financial year. Given rent pressures, the trajectory of wages and benefits, and the other symptoms of the housing emergency in many parts of Scotland, it is not surprising to find that the new national affordable need study for CIH, Shelter and SFHA published in September 2025 shows a 50% increase in affordable need compared to 2020 (Marshall, et al, 2025).
- We also present some new survey evidence later in this report.

What does this mean for the shared understanding? It is hard to make a compelling case that rental costs are stable or that housing is becoming more affordable. If that conclusion is accepted, then there is a stronger case to develop a shared understanding of a progressive set of targets for affordability and their inclusion into forward-looking operational government considerations such as starting rents for grant-funded new social housing. The affordability problem has been worsening and society needs to act. One way we can do this is by agreeing on such a shared understanding because it is important for the housing system and increasingly urgent for tenants. It is a real-world problem that requires purposeful response and the shared understanding is a necessary part of making progress. However, as we discuss further below, that does not mean that providers should come under pressure to lower rents.

The rest of this report is in five further sections. Section 2 briefly sets out the remit and working practice of the SLWG. Section 3 is contextual and provides a sense of the range of affordability meanings and definitions and why the lack of consistency matters in practical terms. It highlights the fundamental fault lines from the academic and research literature on affordability, and then asks what does this mean for moving towards a shared understanding? Section 4 presents the primary findings of the new evidence we assembled from the SLWG: focus groups and interviews; bespoke household survey data evidence, and a questionnaire of SLWG members. Section 5 analyses and reflects on the evidence we have brought to the working group and attempts to reach reasoned judgements on the fault lines we have identified through the SLWG meetings and evidence gathering. Finally, section 6 summarises and concludes by setting out our recommendations for Scottish Ministers.

## Background to the Short Life Working Group

### Remit and Terms of Reference

The 2022 terms of reference for the SLWG described the group's purpose to be:

“[bringing] together stakeholders and experts from across Scotland's housing sector with the aim of reaching a consensus on a shared understanding of affordability. The group is intended to be a short-life working group with members playing an active role in realising the shared understanding of housing affordability for Scotland.”

In practical terms, the group's responsibilities involved:

- Critically reviewing the main working definitions of affordability and the different uses of affordability in policy and practice.
- Agreeing the process of consensus-building.
- Commissioning and co-designing focus group work.
- Agreeing a set of provocations by different speakers at regular SLWG meetings.
- Test out and debate a shared understanding of affordability for Scotland.
- Agreeing draft recommendations for Scottish Ministers.

The group's activities were to be guided by four principles:

- **A human rights-based approach** i.e. housing is not affordable if its cost threatens or compromises enjoyment of other human rights. The other three elements are sub-components of the human right to housing:
- **A person-centred perspective** i.e. affordability is viewed from the standpoint of the household rather than the marketplace.
- **Equality and anti-discrimination at the heart** i.e. women, minority ethnic people, young people, disabled people, migrants and refugees should have equal access to affordable housing and barriers to this should be understood and addressed.
- **A system-wide approach** which considers the interactions between the social rented sector, private rented sector and owner occupation, balancing affordability, decarbonisation, quantity and quality of provision.

These principles reflect the underlying values of Housing to 2040 and wider government goals and aims. However, they are not independent of each other, and this arguably raises challenges for the nature and meaning of housing affordability. A specific illustration is the

system-wide approach identified above. A system-wide approach is intimately related to the housing strategy's focus on a well-functioning housing system<sup>2</sup>. Although Housing to 2040 does not fully define such a housing system, it clearly speaks to both market and non-market sectors working sufficiently harmoniously – so it is difficult to wholly abstract affordability from market circumstances entirely, even if we seek to focus in on people-centred attributes and not rely solely on the market to determine affordability.

At the same time, we reject the simplistic notion that any housing that is being paid for by a household must be, by definition, affordable to that household. Rather, we think rising and high housing costs that are placing households under strain, or locking others out of specific markets, are a sign of imperfection and even market failures which require wider and different interventions – which, through future iterations of the housing system, can in turn reduce the extent of non-affordability. Systems thinking around the concept of a well-functioning housing system (e.g. O'Sullivan, et al, 2004) takes account of the interaction of all tenures, multiple stakeholders, land, planning and place, but also quality/quantity of provision and decarbonisation. The other great value that thinking in systems provides for the current task is that it helps us think analytically in wider terms about the consequences, strengths and weaknesses of different ways of understanding and measuring affordability (Gibb and Marsh, 2019).

### Why this Approach?

Why was there a demand in Housing to 2040 for this shared understanding and why does it remain so in 2025? We have seen that the Government's agenda is underpinned by realising the right to adequate housing and this means that a shared understanding of affordability, as a target and a threshold, is critical to its achievement. Housing costs are a key trigger for the Government's priority objective of reducing child poverty, and in the setting up of a separate working group to develop a minimum income guarantee, following on from earlier work to redefine fuel poverty in residual income terms - all closely relate to the shared understanding of housing affordability.

More immediately, the housing system is facing considerable pressures arising from the cost-of-living crisis, a serious new supply downturn and rapidly rising private rents for new tenancies. And, at the same time, the Scottish government and 13 local authorities have now<sup>3</sup> announced a local housing emergency with action plans to follow, all after SOLACE/ALACHO (2023) warned in the summer of 2023 of the scale of problems facing the homelessness and temporary accommodation systems. To deepen these difficulties, large budget cuts compounded over the last two years have added to the external pressures inhibiting the delivery of the affordable supply programme and the meeting of affordable housing need across Scotland (Dunning, et al, 2020).

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<sup>2</sup> The UK Collaborative Centre for Housing Evidence (CaCHE) has recently worked with the Church of England and Nationwide Foundation to deliver a long term housing strategy for England ([Homes for All: A Vision for England's Housing System](#).) This includes (pp.24-26) an 18-point summary of what a well-functioning housing system might look like. A follow up report to the Nationwide Foundation on the wider value of housing to other social and economic domains, can be found [here](#).

<sup>3</sup> December 2024

These sorts of problems, in different ways, impact on the affordability of housing. The pressure grows and the call for a clear and consistent approach to what we mean by, and what we can do, regarding increased housing unaffordability – becomes more urgent.

Why is a single shared understanding of affordability so intractable? There are in fact several problems that must be surfaced and decisions taken to progress towards our goal. When a property is let by a social landlord or indeed in other rental tenures, the financial structure of the project may well be deemed initially affordable (against some benchmark). But it needs to also remain affordable in terms of both rent increases and the underlying drivers that push rents up e.g. rising costs, further development, investing in decarbonising retrofit and long-term repairs, among other factors. While this may seem to some to be fundamental asset management decisions, rents may also be altered and reshaped by different future policy priorities, too. The Regulator seeks to balance the continuing affordability of rents with the retention of financial viability. This is challenged by new policy requirements e.g. retrofit standards and by external shocks such as inflation and interest rate increases.

**The Right to Adequate Housing** was recognised in the 1948 Universal Declaration of Human Rights and in the 1966 International Covenant on Economic, Social and Cultural Rights. The Right contains freedoms and entitlements. Moreover, for shelter to be adequate, it must meet the following criteria:

- security of tenure
- availability of services, materials facilities and infrastructures
- affordability [the UN (n.d.) states ‘housing is not adequate if its cost threatens or compromises the occupants’ enjoyment of other human rights’:
- habitability
- accessibility
- location, and
- cultural adequacy.

Young (2021) focuses in on the housing affordability dimension and proposes three potential measures of housing affordability that would provide a sense of progressive realisation of this dimension of the right to adequate housing. These were:

- Households required to spend more than 25% of income on housing costs
- Households with after-housing costs (AHC) residual income below appropriate minimum income standards
- Households that experience housing cost induced poverty.

There are challenges with all three of these measures (Young, 2021, 31-36) but they speak both to our own direction of travel regarding a shared understanding and fit with the UN Rights-based approach.

A second fault line is whether the focus is narrowly or broadly drawn i.e. how wide a view of housing costs does one take – just the rent, or also utilities, service charges, council tax or indeed other elements (we discuss this further later). There are plausible arguments in either direction, for instance, whether to take a broad view of all-home related expenses or, rather, should the housing cost term be focused only on those elements that landlords have control over, or where other policy levers cannot impact on helping with wider housing-related elements of cost (e.g. the council tax reduction scheme). Equally, there are fundamentally different ways to measure and think about income – both a threshold income level or standard that should not fall below an after-housing costs level, and this might be linked to a minimum income guarantee or the living wage or something else. Or more pragmatically, it could be thought of in relative poverty terms as a fixed proportion of the median income.

A third challenge is whether the focus is on all housing or just rented housing. Is owner-occupation different and should the focus there be on accessibility to mortgage finance, the regulatory burden on lending e.g. the size of deposits for first time buyers and stress tests, or does the re-appearance of high interest rates re-emphasize the importance of affordability to existing owners, too? Should the focus be on short term non-affordability or longer term more chronic issues? Again, this may point the analysis in different directions. We return to these themes later. These points also direct us to debate different fundamental approaches to thinking about affordability e.g. cost to income ratio measures versus residual income.

Practically, what is a ‘shared understanding’? It is the presence of sufficient consensus around an approach and its subsequent use for policy. It is a definition that has a shelf life (though presumably it also would embody a mechanism for periodic refresh of no more than 10 years, acknowledging the volatility of housing outcomes and that therefore the measurement and suitability of underlying assumptions of the shared understanding that should be more regularly revised e.g. within 5 years.

Our underlying approach starts from the recognition that shared understanding is elusive because respondents adopt normative positions, what affordability ought to be, and we need to develop consensus or at least accept a tolerable minimum difference around propositions to do with acceptable norms about limits or thresholds regarding where affordability tips into non-affordability. This also involves making decisions over fundamentally different approaches, for instance, how much do we rely on empirical data informing decisions over thresholds, or alternatively, how important are extraneous concepts like income standards. The approach also needs to be feasible and fit for purpose – is there the basic information or data required to assemble the affordability test?

An important question that surfaced during the working group’s discussion was the purposes that the shared understanding will be put to, and related, how would an agreed new standard impact on decisions already made? The recognition that housing in certain sectors and places is becoming less affordable in Scotland<sup>4</sup>, implies that any new standard, if seeking to bring consistency and improvement in outcomes, is likely to be challenging for existing

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<sup>4</sup> Apart from rising rents in adverts for new tenancies in the PRS, members of the working group also pointed to a growing incidence of homelessness applications arising explicitly from the non-affordability of current renting.

providers (who already must manage multiple policy goals e.g. retrofit funding sourced from their finite affordable rental income). Our approach is not to be retrospective and therefore to not seek to identify affordability failures, but rather to view the shared understanding as a policy assumption going forward for new development, future interventions and the like, and that, fundamentally, Government should view the agreed policy assumption as a target to be progressively realised over a period of time (as would be the case with the human right to adequate housing). Reflecting the importance of affordability, this approach could then be incorporated in the National Performance Framework (NPF) and progress monitored.

Our pragmatic way forward has been to draw on evidence from diverse sources: past literature, commentary and analysis; evidence from our meetings and discussions; and, new primary research, both qualitative and quantitative. We then sought to work through the key decisions from this material debating the quality of the arguments used benchmarked against our objectives and working group principles. To repeat, this will not produce an objective silver bullet answer to a shared understanding of affordability – but will iterate us towards some form of consensus, though we do not expect universal approval or acceptance, at least initially. If this is transparent and defensible and due diligence is subsequently undertaken (for example, with respect to some of the wider consequences of arriving at such a threshold), then we will have made genuine progress.

### The Affordability Context: Different Meanings and Uses

The way most people think about the meaning of affordability originates in debates largely in the early 1990s. As we noted earlier, to paraphrase MacLennan and Williams (1990), housing affordability can be conceived of as what a third party considers to be an intolerable burden placed on a household because of their high housing costs relative to their income. Just taking that sentence – we see several areas where we would need to come to an agreement to proceed: how do we define intolerable burden and what kind of income (gross, net, disposable, suitably filtered by other important dimensions like the gender pay gap), what kind of housing costs (gross, net of benefits, inclusive of property-tied costs like elements of fuel and tax, etc.), and how we account for the household (do we equalize to reflect household composition and specific needs<sup>5</sup>), not to mention housing conditions and quality. There is much scope to split hairs (but also introduce more fundamental disagreement).

Key authors in the international debate (Hulchanski, Stone, Bramley, Littlewood, Wilcox and more recently Meen and Whitehead, among others – see references) have argued for decades over the preferred approach to define and understand affordability, usually seeking to find a measurable approach and then to empirically examine its performance in the actual housing system. For brevity's sake we can here focus on the leading alternatives.

- **Rent to income (housing expenditure to income) ratios.** The notion of 25% as a threshold of unaffordability was mentioned earlier, though this seems to have given way to higher upper thresholds of 30% or 33.3%. Authors have also linked this to a quality/conditions threshold, too (e.g. Bramley, 2012). An obvious point, not always

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<sup>5</sup> Noting some specific high-cost provision impact on certain kinds of households e.g. homeless households in temporary accommodation



raised, is which households are we talking about? Is this a typical group of low to moderate income households of working age; is it adjusted for household composition; or are we dealing with the income of real applicants starting a tenancy? In Australia, they focus on households in stress defined as households in the bottom two income quintiles paying more than 30% of their income in rent/housing costs. Many may well feel that the bottom 40% of the income distribution is no longer sufficient to capture affordability risks sufficiently, to account for who is most impacted by increased housing costs or reflect income stagnation over long periods of time<sup>6</sup>.

- **Residual Income** approaches are concerned with how much income one had to pay on non-housing necessities after meeting housing costs. This is at the heart of the welfare state's original conception of housing benefits i.e. that no-one should fall below a minimum level of income after housing costs (taking account of household composition and need), and in the use of poverty standards after housing costs are taken into consideration. What should that list of necessities, or requirements to live a minimum acceptable standard, consist of and who determines it? Who shapes the income equivalization approach<sup>7</sup> – it can have a big effect on specific household capacity to meet or exceed the threshold. Good practice approaches to equivalence scales are discussed later in an appendix to this report.
- Application of the ratio or residual methods to some form of **income standard** (associated with Joseph Rowntree Foundation (JRF), among others). The income standard idea asks the question: what are the necessities or requirements of a decent life? It is an empirical question and one that is regularly constructed and, like the basket of goods and services that create our inflation indices, periodically changes or is updated as tastes and activity popularity wax and wane. There is considerable expertise in how these surveys are designed and conducted but they can be controversial and their application to thinking about residual incomes or the residual implied by a cost to income ratio – is not straightforward. Other relevant income benchmarks that might be used here would include minimum or living wage measures or the principle of a minimum income guarantee, as well as empirically distinguishing income levels before and after housing costs, suitably defined, compared to the Scottish/UK relative and absolute poverty standard.
- **Incomes beyond housing benefit** thresholds can also contribute to understanding affordability (as discussed by Wilcox et al, 2007; and Wilcox, 2009). The idea here is that if incomes have risen sufficiently to end Housing Benefit (HB) eligibility, then this may be a signal that a given household is more likely to be able to meet housing costs (often termed, a stopping rule). One effect of gross incomes exceeding the benefit threshold is that net income will start to increase more rapidly as a consequence of moving beyond tapers of withdrawal. This of course depends on the

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<sup>6</sup> The recent 2024 Homes for All report for the Church of England noted (p.16) that between 1992 and 2022, English median household disposable incomes rose by just over 51% while house prices increased by 377% (ONS).

<sup>7</sup> OECD analysis distinguishes between different models of equivalence scales seeking good practice. See [the methods and concepts section](#).

generosity and effectiveness or otherwise of the benefit system, its uprating and other caps that may apply. Rules operating within Universal Credit and predecessors generate very different affordability ratios for different households e.g. lower for families with children but higher for single persons impacting also on labour incentives and poverty traps which can stretch to higher incomes at the upper end of Universal Credit eligibility. This is a key reason why we may wish to provide disaggregated measures of a shared understanding (concentrating on key groups of interest) as well as a global figure. To be fair to its proponents, the escape from benefit focus was seen as one of a cluster of measures that would provide a more rounded sense of whether or not rents were tolerable, and it does helpfully point to the importance of continuing HB support while in low wage work, but also that the interaction between benefits and rents is a critical part not just of affordability but also child poverty.

- **Combinations of the above** are possible though they present data complications and a higher minimum data need for each case involved. In principle, however, you could combine rent to income ratios with residual income (which may or may not be based on an extraneous or affordability-purposed income standard) and the HB stopping rule (Wilcox, 2007, 2009; Littlewood, 2012). However, not only does this multiply up data and analytical complexity, it also expands the number of assumptions required.

A House of Commons research paper by Wilson and Barton (2022) gives a sense of the extent to which different affordability thresholds are now widely used in housing but also the careless language (i.e. where the same word is used to mean different things) which abounds across Scottish and UK housing practice. These include:

- '[affordable housing is] *subsidised housing that meets the needs of those who cannot afford secure decent housing on the open market either to rent or buy*', ODPM Select committee Affordable Housing Inquiry, 2005-06.
- The 2010 English Affordable rents scheme, with rents up to, depending on local market contexts, 80% of local market rents (this also incorporated charging these higher rents on formerly social rented properties when they fall vacant to help cross subsidise the affordable rent properties).
- London Living rents based on 30% of estimated median gross household income for a given London Borough, varied by bedrooms, and by up to 20% to take account of local house prices and caps to set an absolute ceiling. These are lower than 80% of local market rents.
- Within the planning system, affordable housing quotas through S75 agreements (S106 in England) are germane. In England, the NPF suggests the definition of affordable rents and LCHO products as: '*housing for sale or rent, for those whose needs are not met by the market*'. It goes on to define affordable rent in terms of either the government's 2010 affordable rent policy or at least 20% below local market rents, also that the landlord is a social registered provider and includes provisions to remain at an affordable price for future eligible households. Where build to rent is termed 'affordable private rent', it is expected to be the normal affordable rent provision found elsewhere in England.

In England, this has been further complicated by the recent First Homes policy which planned to use part of or all the affordable housing quota from S106 agreements for use as discounted first homes (in perpetuity) at a minimum level of 30%.

Arguably, the levels and rules around housing benefit, with different basic eligibility levels by housing tenure (e.g. it covers rent but not mortgage interest) also creates further inconsistencies in the underlying affordability thresholds.

In addition, a further benchmark widely used is to set rents in the affordable rent sector (e.g. mid-market rent in Scotland) in relation to the maximum local housing allowance for that broad rental market area by property size – which has inconsistently been linked to the 30<sup>th</sup> percentile of the distribution of local market rents.<sup>8</sup>

The list from Wilson and Barton suggests wide but inconsistent use of the term, different definitions and quite separate meanings. In Scotland, this definitional inconsistency arises in still further ways:

- The affordability dimension of the introduction of a human right for all to adequate housing.
- The assumed starting rent in social housing grant allocations.
- The assumed rent with mid-market rent<sup>9</sup> grant allocations.
- The continuing affordability of rent increases in the social and mid-market sectors (and whether such questions are or are not adequately monitored).
- The levels of equity loans implied by Help to Buy products for first time buyers and the wider rules governing these policies in terms of price ceilings, etc.
- Planning assumptions for S75 planning agreements regarding what is affordable housing.
- Technical assumptions in the housing needs and demand analysis toolkit as to what constitutes affordable renting and owning.
- Assumptions about affordability that might play a role in helping to determine the format and content of any new national rent control policy included in the new Housing Bill.

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<sup>8</sup> LHA has of course been capped at the 30<sup>th</sup> percentile (prior to which it was at the median of the rent distribution), frozen, un-frozen and changed many times since 2010. There have also been criticisms of both the size of Scottish Broad Rental Market Areas (BRMA) and the rent data used – largely new advertised rents. There is also the generally overlooked statistical point that one distribution's 30<sup>th</sup> percentile relative to the median can in practice look very different to that found in another BRMA – it depends on the degree of bunching and concentration of the rent distribution, which can vary significantly between markets.

<sup>9</sup> MMR is an affordable rent product in Scotland that uses grant to housing associations so that they can provide housing to key workers, normally, a starting rent at or close to the local housing allowance level for the relevant property size. Subsequent rent increases should typically not exceed the median rent in the relevant BRMA rent distribution. Further detail on MMR rent rules can be found within Scottish Government guidance on the grant-funded element of the Affordable Housing Supply Programme. It has also been demonstrated that this can be done without grant in certain market contexts by using Financial Transactions Capital as a cheap long term repayable loan instead.

There is little point in developing a sector wide shared understanding of what we mean by housing affordability, unless it operates systemwide on a consistent basis. There is a reasonable requirement therefore to expect a form of economic impact assessment and equalities impact assessment regarding the consequences of a common change rolled out presumably over time across these different dimensions of affordability.

Much of the critique has been about the fact that a lot of new affordable housing simply is not affordable – in other words, being tied to a relatively fixed proportion of market rents may over-emphasise the discount to market but say little about stagnant or falling incomes and the freezing or cutting of welfare benefits. So, if market rents are rising strongly relative to incomes, an affordable rent can be beyond the means of target households, and this undermines the notion of what a subsidised affordable model is supposed to do.

Affordable housing policies in the sense of products that generate sub-market rents or cheaper mortgage costs ought to be directly related to the same underlying meaning or definition of affordability. To repeat, we are not suggesting that the purpose of the shared understanding is to make a series of providers unaffordable overnight in parts of their housing stock; rather the aim is to provide an assumption for affordability for new interventions but also over time to seek the progressive realisation of a generally more affordable housing system.

We are also concerned with the affordability or otherwise of market rented housing. Some would argue that private rents are simply the product of demand and supply, or that they are affordable to those who can bear them. While the latter argument does not really advance the debate practically, we consider that the actual outcomes of what people pay in the PRS is highly relevant to our shared understanding, as would be low residual income (after housing costs) for such households. Moreover, vulnerable private tenants on low incomes will interact with Local Housing Allowance (LHA) and Universal Credit. This means that private renting affordability levels have active public policy dimensions which in turn need to engage with how a shared understanding would help guide the extent to which social security benefit levels are contributing effectively or otherwise to meeting affordability and adequate housing goals.

Moreover, not all affordability dimensions are in the gift of Scottish Ministers e.g. welfare benefits, or affordability stress tests for mortgages. But the prize of eliminating variation in what we mean by affordability for all devolved matters is surely a sensible end of reform. This would require, as is suggested above, economic and equality impact assessments and a more measured assessment of consequences on policy design and outcomes.

#### [New Evidence initiated by the SLWG and its members](#)

In addition to working group meetings, it was also the intention to undertake independent curated focus group meetings with renters (drawing on previous experience from the 2019 Lord Best Affordability Housing Commission in England). This was an important way to both understand what citizens think, but also to test out some of the emerging discussion from the group. We also surveyed the working group members individually to ensure we captured the different perspectives that make up the group. Doing this also reinforced the challenge of reaching simple group consensus with significantly different views expressed on the

substantive questions asked. Finally, thanks to Citizens Advice Scotland, we were able to add affordability questions to a large scale representative Scottish population survey questionnaire (the *YouGov Scotland Omnibus Survey*). In this section we report and reflect on the findings from these three research instruments.

### Focus Groups

The purpose of the qualitative research was to (1) find out what ‘affordable’ housing or housing ‘affordability’ means to tenants; (2) understand their concept of what constitutes a decent standard of living in relation to housing costs; (3) reflect as fully as possible the views of different groups experiencing unaffordability reflecting different demographic and other characteristics for participants; and, (4) explore the focus group members’ experiences of housing stress and unaffordability issues. The research was tendered and was carried out by *The Lines Between* who undertook the work in the summer and autumn of 2023<sup>10</sup>.

The research was a mix of focus groups and one-to-one interviews. In their final report the research team said (2023, pg. 1):

“A total of 24 participants took part in the study; the sample was designed to ensure adequate representation across several distinct categories, including: age; gender; local authority; rurality; and household and tenancy type [see figure 1 below]. Data collection involved online focus groups and one-to-one online/telephone interviews exploring tenants’ experiences of housing stress and unaffordability; housing aspirations; views on what constitutes a ‘decent’ standard of living; and views on different approaches to measuring and defining housing affordability”.

There was agreement among participants that housing costs should be defined for affordability purposes in a broad way relating to three categories: rent, utilities and council tax. Some did go further to include service charges, factoring, deposits, start-up costs when for example moving into unfurnished accommodation, and the cost of travel, which can be directly related to the spatial distribution of housing costs and amenities.

The participants identified specific housing affordability concerns arising from:

- Being stretched financially and having to make difficult trade-offs like reducing spending on entertainment, non-essentials, but also basics like food, in order to pay key bills for housing and fuel.
- Payment pressures were associated with losses in mental and physical well-being.
- Several said they were struggling to meet recent rent increases.
- High demand for social housing meant that there was little choice for many private tenants and hence respondents were more exposed to affordability risks. Overall, experiences were more favourable for social than private tenants.

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<sup>10</sup> [Housing affordability study: Findings report](#)

**Figure 1: Sample profile<sup>11</sup>**

Demographic	Breakdown
Gender	50% male (12) 46% female (11) 4% non-binary (1)
Age	21% aged 21-30 (5) 21% aged 31-40 (5) 13% aged 41-50 (3) 17% aged 51-60 (4) 17% aged 61-70 (4) 13% aged 70+ (3)
Location	14 different local authorities across Scotland <sup>12</sup> 75% Urban (18) 25% Rural/Remote (6)
Tenancy type	58% social landlord (14) 38% private landlord (9) 4% n/a (struggling first time buyer living with parents) (1)
Living arrangements/ household type	38% living alone (9) 25% have child(ren) living with them (6) in total - 4 with partner/spouse, 2 single parents) 25% living with flatmates (6) 8% living with partner/spouse only (2) 4% living at home with parents (1)

Figure Reference: The Lines Between (2023)

The respondents were asked what they perceived to be the essentials of decent housing as part of the tripod of affordability questions (along with housing costs and standards of living). Apart from basic minimum standards, they also highlighted quality of life basics like safety, security, privacy, respectful neighbours, dignity and affordability as essential to mental well-being.

Participants were asked to discuss and express views about different ways to measure or conceptualise housing affordability (see the summary discussion in Figure 2 below). Overall, participants preferred the residual income measure to the cost to income ratio approach, although there were criticisms and reservations expressed with both. There were mixed views expressed about the adoption of a minimum income standard (MIS), particularly around its inevitable averaging out of specific individual circumstances. The most common alternative suggested by respondents was to replace a MIS with the minimum or living wage as a better proxy for low income in-work scenarios.

<sup>11</sup> Percentages may not add up to 100 due to rounding

<sup>12</sup> Aberdeen City (2) Aberdeenshire, City of Edinburgh (5), East Ayrshire, Falkirk, Glasgow City (5), Highland, Midlothian, North Lanarkshire, Orkney Islands, Renfrewshire, Scottish Borders, Shetland Islands (2) and South Lanarkshire

**Figure 2: Views on measures of affordability**

Measure + Description	Overall	Positives	Negatives
<b>1) Cost-to-income ratio</b>  The percentage of a household income spent on rent; requires an agreed 'affordable' benchmark to be set.	Mixed views.  Views on a fair or reasonable housing cost-to-income ratio were mixed. 25-30% was the most common suggestion; other ratios between 20%-50% proposed.	Standardised: could be used on an international scale.  Gives a good sense of perspective.  Easier to explain and understand than residual income.	Does not take into account individual circumstances, varying incomes or other essential expenses that people have.  Need to establish whether to include just rent or core housing costs.  Some struggled to understand the concept or to estimate how much of their income goes on rent.
<b>2) Residual Income</b>  How much a household can afford to spend on housing costs without sacrificing other necessities or a decent standard of living, i.e. what remains of a household's income once non-housing expenses (food, childcare, travel, savings) have been deducted.	Generally preferred to the cost-to-income ratio, but reservations were expressed about its effectiveness and suitability.	Fairer/more equitable approach than cost-to-income ratio.  Takes into account a wider range of circumstances.  Aligns with people's approach to budgeting.	Does not account for emergencies/unexpected one-off expenses.  Difficult to explain/apply widely.  Difficult to determine essential costs and a 'decent' standard of living.  Potentially open to exploitation, either by renters 'exaggerating' costs or by landlords 'taking all they can get'.
<b>3) Minimum Income Standard</b>  The annual income needed to reach a minimum acceptable standard of living. In April 2022, Joseph Rowntree Foundation concluded that a single person needs to earn £25,500 and a couple with two children needs to earn £43,400 between them.	Mixed views - some felt this was a fair approach; others felt it was too generic.	Easy to explain and understand.  Support for this if more personalised approach is used (i.e., individual calculator).  Some felt this would be enough live comfortably.	Does not take into account individual circumstances (such as where you live, stage of life savings).  Questions over how to define a minimum acceptable standard of living.  Relies on effective and accessible public services to achieve an acceptable standard of living.  Some felt this was not enough to live on.

Finally, participants were asked about how they would respond to an approach based around human rights principles. The research team noted (pg. 18):

“Participants ... also discussed the UN Committee on Economic, Social and Cultural Rights affordability criteria for adequate housing, which states: ‘Housing is not adequate if its cost threatens or compromises the occupants’ enjoyment of other human rights.’ Tenants welcomed this definition as ‘reasonable’ and ‘logical’. One felt it aligned well with the principles of the housing as a human right campaign which they endorsed. Another agreed with the definition in principle but thought it could be strengthened or supported by including a list of relevant or affected human rights”.

To conclude, the qualitative research found that many struggle with housing costs; in most cases, trying to ensure that core bills are paid, but sacrifices are being made and financial problems traded off. Long term financial risks were also an issue, with concerns that tenants may be able to cover their immediate housing costs and other essential outgoings but have little or nothing left to save for the future, or to protect against potential adversity such as unexpected bills, redundancy or ill health. The subjectivity and fluidity of housing affordability were emphasised; participants viewed situations as affordable for some households but not others, depending on their life stage, circumstances and geographic location. Significantly, (pg. 1):

“There was no clear consensus on the best measure or definition of housing affordability; participants described both positives and negatives of cost-to-income ratios, minimum income standards and residual income measures”.

“Few patterns or themes emerged among the views of those with shared characteristics; for example, there were no clear differences in views based on gender, age or family status. Generally, social tenants described more positive experiences of renting than private tenants; and older participants were less likely to express home ownership as a housing aspiration”.

Respondents also made their own suggestions for how best to define housing affordability: linking housing affordability to the minimum wage; linking housing costs to profits to ensure landlords charge a reasonable rent; and a tiered or means-tested approach that recognises that different households require different cost-to-income ratios depending on their circumstances.



Ultimately, the research team concluded (pg. 1-2) that the advice of the participants was that a measure or definition of housing affordability must involve four elements:

1. **Be clear, specific and relative to tenants' everyday lives and finances** i.e. use only that can be applied to and measured against their own housing costs and financial circumstances.
2. **Reflect the realities of the rental market.** Participants suggested that some of the housing affordability definitions were 'only working in theory'. The Scottish Government might well set an official affordable housing cost-to-income ratio of 25%, but there may be insufficient suitable properties on the market which would meet this price point for renters.
3. **Emphasise fairness and dignity for tenants.** Some felt it was important that the definition reflects the idea of tenants receiving 'a fair deal'; i.e. being treated respectfully, living in housing with adequate standards, and not being exploited by landlords. This includes having enough money after rent to live a fulfilled life (including capacity to save for the future).
4. **Consider what is realistic, affordable and allows for 'future proofing'**, especially for people living on benefits or the minimum (or living) wage.

#### SLWG Member Survey

We asked the SLWG members to complete an online survey. Fifteen did so (one took the form of a short interview). The responses were illuminating because they allowed the elaboration of perspectives held on the topics examined in a generally internally consistent fashion in a way that was difficult to fully explore in the working group meetings. The other striking feature was the diversity of views and approaches expressed. There was no sense of consensus on key issues at all. This is not a surprise, but it is both useful in producing a wide range of ideas and arguments and of course it means we still must make the case for a specific approach drawing on these and other varied findings such as the resident focus groups.

Each member of the SLWG was asked to complete a short online survey which asked the following substantive questions (in each case, respondents were able to amplify their answer in free text):

- Should the housing costs terms in an affordability calculation be narrowly or broadly drawn?
- Do minimum quality/conditions/size standards need to be met alongside the affordability definition?
- Roughly how much of a household's net monthly income should be spent on rent (i.e. what is the upper threshold or limit that should not be overstepped)?
- Which of the following affordability measures would you favour (cost to income ratio, residual income, income standard, human rights definition, combination of these)?
- Respondents were also asked to amplify their views on any of the questions above or other relevant issues you would like considered.

### Narrow or Broad Housing Costs

All the respondents thought rent should be included; just over half thought service charges and factor fees should also be incorporated, just over 55% included council tax and utilities within housing costs, and two in five included deposits (where applicable). Individual free text responses to the question included the following points, paraphrased from responses:

- Breadth of approach to housing costs depends on the purpose of the analysis.
- Take a broad perspective because it is about housing costs, not just rent.
- A broader approach is also more consistent with the wider dimensions of right to adequate housing (e.g. habitability, cultural adequacy etc).
- If we go too far beyond rent, it becomes non-comparable and infeasible – so keep it simple, except for also adding service charges.
- Housing cost definitions should equate to those used in the social security system.
- Lack of consistent data is a problem for widening any housing cost definition.
- Focus on the core costs that most of us pay. Focus on the unavoidable costs and not those influenceable by the occupier.
- Direct costs should include deposits.
- A recent Citizens Advice Scotland (CAS) survey indicated 80% felt council tax and energy costs were essential housing costs and should be included.
- Prefer to use whole home costs but if not feasible, then just focus on rent.
- You need to define it in relation to building and new supply so therefore take a narrow view just of housing costs (rent plus service charges).

### Role of physical housing conditions

Broadly, two-thirds thought that conditions should be incorporated, around 30% thought not and a couple of responses were unsure. The free text individual responses included the following paraphrased points:

- Yes: include minimum standards because of the need to incorporate energy efficiency within affordability.
- No: data definition and defining over a wide class would be very difficult.
- No: conditions and physical standards are already considered elsewhere within housing policy frameworks.
- Yes: falling below that should not be considered affordable.
- Yes: quality is a key consideration.
- No: quality is a separate policy consideration dealt with elsewhere.
- Yes: reflect the different quality of social/Mid-Market Rent and the in the PRS.
- Yes: 80% in CAS survey said homes must meet min standards for health, etc.
- Yes: poor quality can incur costs e.g. for heating or dehumidifying.
- No: it is separate issue incorporated within policy so keep affordability simple.
- No: conditions/standards of the home is a separate policy issue, important, etc., but not in relation to housing affordability.

### Upper Limit of Net Monthly Income on Rent

A fifth of respondents thought that the ceiling should be 25% or less; the same proportion thought that a figure of 25-30% was appropriate. A smaller proportion, around a sixth, went for a larger proportion of 30-40%, and one respondent indicated 40-50%. Interestingly, the most common response, at a little more than a third, was 'don't know'. Individual responses said:

- Less than 25% for residual income and living standard reasons, rights or adequacy reasons.
- Don't know but not a single estimate rather one varied by household circumstances and type.
- Letting agents normally assume one-third of income.
- Don't know. Mortgagors set 30% but you could be paying 0 through HB but still have insufficient residual income.
- Less than 25% if it is the narrow measure of rent.
- 25% as rents should not drive poverty so that would be the upper limit.
- 30% is most common benchmark in the RSL sector but it can go higher for single person households (who are negatively affected by UC assumptions)].
- 43% of surveyed households in CAS survey said 25-30%.
- Not above 30% if a young renter is to have sufficient residual income. I think 25-30% so you have 70-75% for everything else.

### Housing Affordability Approach

Just over a third of respondents favoured a combination of methods, with equal proportions (29%) preferring either a cost to income ratio or a residual income measure. No-one opted for the income standard on its own and the human rights conceptualisation was the preferred choice of just over a fifth of respondents. Free text comments on this critical question included:

- Affordable housing is housing available at social rent levels.
- Something like the fuel poverty definition; residual income, which is not as crude as cost to income ratios.
- Combine residual income and cost to income ratio using the minimum income standard (or some other After-Housing Costs threshold) as the residual income measure – also sympathetic to the human rights approach.
- Combine residual income and cost to income ratio, which also fits with human right to adequate housing approach.
- Probably need a linked cost to income ratio and residual income.
- Just adopt cost to income ratio because of data problems for anything more sophisticated.
- Combine cost to income ratio and residual income but using minimum wage as income standard.
- Cost to income ratio but with a minimum income standard.
- Two people said residual income because it is linked implicitly to human rights.
- The simplest one is residual income i.e. after housing costs you have enough to live the rest of your life without housing costs impinging on that standard.

## Wider Views

Wider opinions were aired in the open-ended final question in the survey, and we have included four specific quotes below, which are additional to the points already made and potentially relevant to our analysis: a focus on social rent, those with no recourse to public funds, the critical role of welfare benefits and social security, and the question of allowing individual choices and compromise or trade-offs decided on by those affected.

“Affordable housing is housing available at social rent.... We believe that the definition should be tied to council and social housing rent levels as this is something that is already calculated in a more fair and consistent way, with clear data and rules and clear targets in terms of enabling people, regardless of income to afford their home.”

“Those subject to immigration control may have ‘no recourse to public funds’, and be unable to work, placing them at high risk of destitution. To exercise their UN Human Right to Adequate Housing, they require housing provided at no cost”.

“The UK’s social security system has transitioned from one where most people have entitlement to a certain level of support to one that reduces support for many individuals. Changes to welfare rules, including the benefit cap, two child limit, bedroom tax, local housing allowance, sanctions, and deductions, have all reduced the support provided. Therefore, even if the social security system, theoretically, offers sufficient support for housing costs, the system’s overall inadequacy renders housing unaffordable for many”.

“A more sophisticated approach may be needed but it is also important to allow a household to make their own judgement...folk are entitled to accept compromises in finding housing solutions that work for them.”

## CAS YouGov Scotland Omnibus Survey

Citizen’s Advice Scotland were represented on the SLWG and generously offered to include a small set of questions relevant to the working’s group’s agenda within the regular YouGov Scotland Omnibus Survey). The survey was carried out in early 2024 (January 19-24).

Table 1 refers to two issues, positive and normative, respectively. First (2<sup>nd</sup> column), what do working renter households pay in rent as a proportion of take-home monthly income. The final column, second, asks all respondents what they think a reasonable percentage would be for this proportion? Of the relevant sample, just under 30% pay less than 25% and a further 27% pay between 25-30% i.e. the majority (56%) pay no more than 30%. But 17% pay between 30-40%, a further 9% pay between 40-50% and 5% say they pay more than half of their disposable monthly income on rent. Thus, around 14% pay more than 40% of their disposable monthly income on rent. Note that 6% did not know this proportion and a further 6% preferred not to say.

Turning to the normative second question in Table 1, how much would be reasonable, fully 43% think that the proportion should be less than 25%, and a further 27% think no more than 30% i.e. fully 70% think it should be less than 30%. Around one in eight opt for 30-40% and only 4% suggest more than 40%. Note that 14% (the third highest score) did not know which proportion to opt for. One simple way of looking at this table in the round is to say that respondents think housing should be more affordable than it currently is for a sub-sample of people paying rent.

**Table 1 YouGov Scotland Omnibus Survey (2024) Affordability Responses**

	What % of take-home disposable monthly income do you pay in rent?	What do you think is a reasonable percentage of take-home disposable monthly income in rent?
<25%	29%	43%
25-30%	27%	27%
30-40%	17%	13%
40-50%	9%	3%
>50%	5%	1%
Don't know	6%	14%
Prefer not to answer	6%	-
observations	180 <sup>1</sup>	1043 <sup>2</sup>

1 – weighted working adults in rented accommodation

2 - full sample

**Table 2 YouGov Scotland Omnibus Survey (2024) Which, if any, is an Effective Approach to Affordability (please select all that apply, N=1043)**

<i>Approach</i>	<i>% responded</i>
Cost to income ratio	32
Residual income	21
JRF Minimum Income Standard	33
UN Human Rights Adequate housing definition	24
Affordability based on minimum wage	48
Affordability linked to profit/property maintenance costs	25
None of these	6
Don't know	25

Note: definitions based on those used with explanatory flashcards based on *The Lines Between* qualitative research study. See definitions in annex 2.

Table 2 allows multiple responses, which need to be interpreted carefully. It is also important to note that we do not have a sense of which people would have preferred to combine options, something that was an option for SLWG members in their online survey. On this basis the most popular option was to link affordability to a minimum wage income standard (48%), followed by the Joseph Rowntree Foundation (JRF) income standard (33%) and the cost to income ratio (32%). Note that the residual income method scored less (21%) than

either the human rights adequate housing approach (24%)<sup>13</sup>, or tying affordability to profits or maintenance costs (25%). Also, note that 6% said 'none of the above' and fully 25% did not know.

In summary, the survey seems to be saying, within broad parameters of accuracy and error, that:

- 56% of working age renters pay no more than 30% of their take home monthly disposable income on rent; with 14% paying more than 40%.
- 70% of all respondents believe that the reasonable level of net disposable income (so defined) paid on rent should not exceed 30%.
- This figure rises to 83% if the threshold is 40% of net income.
- The most common choice of affordability approach was related to a minimum wage standard (48%) with lower scores for cost to income ratio (32%) and residual income at only 21%. Higher scores were given for JRF income standard (33%) and for the UN right to adequate housing method (24%).

### Synthesis and Reflections on the Evidence

The empirical evidence assembled for the SLWG provides several important insights that shape our recommendations:

- There is much support expressed for a **combination of approaches** to the shared understanding of housing affordability.
- Most of the focus has been on **renters only** though there were some considerations of struggling home owners and distinctions made between affordability and accessibility for both renters and owners.
- There is considerable support from the different sources available for a **relatively low target rent to income ratio**.
- There is also, however, **disagreement in the details and some fundamentals** both within the members who responded to our survey and with respect to the qualitative research with renters.
- Significant differences relate to whether the shared understanding should adopt **broad or narrow** definitions of housing and housing-related costs, especially relating to the question of whether to focus on the narrowing that is implied by only looking at the costs' households have no influence over (i.e. rent plus service charges).
- Differences also applied to how we think about the **denominator in the ratio (income)** and whether it should relate to an income standard of some kind, be it a minimum income guarantee a JRF income standard or a minimum/living wage concept.
- The three forms of evidence also produced **different preferred routes** to how we might understand housing affordability.

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<sup>13</sup> Which does in fact require the use of a ratio or residual income measure

We anticipated that there would be considerable difference, lack of consensus, and high scores of ‘don’t know’ - and so it turned out. However, the new evidence, our reading of the literature and our meetings all provide useful material that helps the SLWG to address the major issues in defining our approach and allows us to make a series of decisions that shape what our shared understanding of housing affordability is, and how we think it should be advanced going forward. We start this process of establishing the necessary decisions and the reasons for them in the next section, before finally going on to set down our recommendations to ministers in the concluding section.

### Analysis: Assembling a Shared Understanding

Up till now this report has set out the range of views expressed about what affordability means and how it might be redefined and understood. From here on we try to build a case for a particular perspective, one that achieves sufficient consensus to move things forward. We have already indicated decisions about the shared understanding in earlier sections. First, we view the shared understanding affordability policy assumption as something that should be progressively realised (between now and 2040). Second, the fundamental heterogeneity and different experiences of different types of households, especially through interaction with the social security system, is likely to generate very different affordability outcomes, and these need to be part of any analysis of how affordable Scottish housing works in practice.

What are the remaining critical questions that still need to be determined to achieve our shared understanding objectives? These are summarised in the box below and examined in the rest of this section.

#### Questions to Address in Advancing a Specific Shared Understanding

1. Do we look just at renters or also include owner-occupiers?
2. Should we include housing conditions and minimum standards?
3. Where do we situate the analysis in terms of the spectrum of narrow housing to broad home costs? Can we do more to consensually define costs and income measures?
4. To what extent is this definition related to immediate short-term considerations or longer term more chronic housing unaffordability?
5. Do we require clear definitions around the level of social rents, affordable (e.g. mid-market) rents and the basis by which they change over time so that they remain affordable?
6. Do we propose a single or combined measure of housing affordability and should it distinguish between an overall policy assumption or guideline regarding the meaning of housing affordability and a more specific application to be used and defended in housing practice for individuals and specific providers?
7. What due diligence approaches are required to support the introduction of the shared understanding proposed here? What are the concerns over transition to a feasible operationalisation of the shared understanding?

## The Shared Understanding, the right to adequate housing and the National Performance Framework

We think that the centrality of the progressive realisation of housing affordability on Scotland's overarching child poverty goals, and as a cornerstone of the human right to adequate housing, means that the shared understanding of housing affordability should be enshrined in the National Performance Framework within key national outcome indicators, and their performance measured and reported. This means that the commitment to shared affordability goals should be reflected on, and considered in, all policy decisions that directly or indirectly affect housing affordability. This also recognises the centrality and pervasiveness of housing outcomes across a wide range of prioritised social and economic domains and their desired policy outcomes (Marsh, et al, 2025). This will enhance the preventative profile of housing within public policy and make explicit policy trade-offs that must be addressed (e.g. the impact of net zero retrofit funding on rents).

**Recommendation 1:** As a key plank of fighting child poverty and constructing the human right to adequate housing, the new shared understanding definition ought to be a component part of the National Performance Framework national outcome indicators in line with the Government's proposal for a new National Outcome for Housing.

### All tenures or just renting?

Affordability, potentially, is an issue for all households regardless of tenure. However, there is a qualitative difference between owners as purchasers of assets and renters as tenants. A further fundamental difference is that mortgage regulation – the binding deposit constraint on first time buyers alongside affordability stress tests – is a UK function, and not devolved. However, existing owners, having overcome these accessibility barriers, have in recent times faced rising interest rates and vulnerability to large increases in monthly bills.

Our conclusion for the purpose of the present task is to focus on renter affordability only – owner-occupier concerns do need to be considered by the Scottish Government, but the issue must primarily be about accessibility given deposit size, mortgage stress tests and underlying excessively high price to income ratios in most parts of Scotland. Among existing borrowers, affordability and financial hardship clearly remain an issue in a context of rising interest rates and potential income shocks. Nonetheless, we observe the long-term exponential increase in affordability cost to income ratios faced by the bottom quintile of private renters across the UK that sets them apart from the rest of the distribution and which we think, along with child poverty and residual income concerns, makes them the key focus of the shared understanding (see Tomlinson, 2019). We also note that our SLWG members identified that both RSLs and mortgage lenders tend to currently adopt the same cost to income threshold ratio of 30% (see further discussion under recommendation 6).

A second tenure issue relates to private renting where market rents function and, as one tenant in the qualitative research noted, establishing an affordability ratio as a maximum payment may simply mean many properties are out of reach. Clearly, there are other housing policies that are concerned with rent regulation and control. Developing a coherent set of policies for the PRS, including lobbying to reform the local housing allowance, is informed by better evidence and this in turn will be supported by the gap between what people pay in the PRS and what the shared understanding of affordability suggests is the



upper limit of affordability. This is an important additional function that such an indicator can provide and a further benefit of a shared understanding.

**Recommendation 2:** the shared understanding focuses on social, affordable and private rental affordability, but this is on the basis that other aspects of housing policy are supporting access to home ownership, also working and lobbying to support policies to help owners in financial difficulty.

#### [Include conditions or physical standards?](#)

We have seen that there are wide variations in views regarding whether minimum standards and property conditions should be part of the shared understanding of affordability. On balance, while seeing merit in both perspectives, we are persuaded on grounds of both simplicity and the existence of other complementary policy interventions aimed at raising conditions and standards - not to include it in the working definition. This is on the basis that any landlord charging rent ought to be based on meeting minimum legal and regulatory standards.

**Recommendation 3:** on grounds of simplicity and the existence of other complementary policies, we propose not to include minimum standards regarding housing conditions/standards in the working definition other than to be clear that the rent charged by a landlord should be based on meeting minimum legal and regulatory standards.

#### [Narrow or broad housing costs?](#)

Our primary research suggested very different views among our working group members but evidenced a broader sense of housing costs within the qualitative research findings. We again are struck by the case for simplicity (which is also in part a data issue). We also recognise the merits of the argument that distinguishes between direct housing costs over which landlords have control over and residents have none, relative to those elements of wider home costs that also operate in other policy spheres (e.g. the council tax or indeed energy costs which have seen massive interventions during the recent crisis), and for which there are other mitigations or choices that can be made by the resident. None of this is to in any way discount the impacts that these additional property-related costs have on struggling residents, but we are mindful of the need to draw limits. For these reasons we recommend keeping the housing cost measure narrow and restricting it to rent and service charges. We also note that across the evidence there is for once a degree of consensus around measuring income as net or take-home monthly income.

**Recommendation 4:** on grounds of simplicity, locus of decision-making and alternative policy domains relevant to certain property related costs, we conclude that a narrow measure of cost, rent plus service charge, should be used.

#### [Immediate or more long-term focus?](#)

There are different views expressed as to whether affordability information and hence arguments for intervention to support meeting housing costs should be aimed at achieving long term stable housing cost affordability or more immediate pressing concerns expressing themselves now e.g. very rapid rent increases while incomes are stagnant. The issue is that

on the one hand long term stable affordability relationships may tell us more about trends and sustained need for intervention (and should be routinely monitored). If, however, the view is that housing costs and affordability are more dynamic and that trends are not stable – there is also a second reason to monitor outcomes (and to disaggregate across key different household types).

The shared understanding task arose out of Housing to 2040's specific requirement. There is a compelling case to view the fact that moving the housing system on to the desired path set out in that strategy will take a long time (the existing stock dominates the new flow of housing even over the long term) – implies the need for a long-term target. This allows for a progressive continuous realisation of the achievement of the target and would indicate a target to be met by the end of the strategy's life in 2040 but monitored throughout to gauge performance.

A second timing issue concerns the shelf life of the shared understanding definition. Does the evidence suggest that it needs to be revised in the light of the evidence? If there is agreement on the approach, this then becomes a data issue which can be monitored and regularly updated on an agreed basis (we note in particular the impact of annual decisions about uprating, freezing or changing eligibility rules with the social security system, in turn having impacts on net incomes and affordability). A specific requirement to assess the fitness for purpose of the indicators used should be carried out every 5 -10 years.

Third, we recognise that both initial rents and ongoing rent increases must both remain affordable i.e. the shared understanding has a direct interest in the role of regular rent increases and whether they remain affordable.

**Recommendation 5:** agreeing a framework for the shared understanding should allow regular monitoring and periodic review to consider updating of the indicators used in the light of evidence collected about affordability. In this way it should be possible to adopt the shared understanding to both immediate and longer-term questions re housing policy.

#### Clarifying what is a social rent

We note that one perspective from working group members was to simply define affordability as social rents. This begs questions about how this could be achieved in practice in the PRS and raises wider questions about the consistency of existing social rents and guaranteeing them in the future and for new developments. It also raises important challenges regarding the level and future path of affordable rents in the case of mid-market rents (and their relation to both the LHA and to social rents). We also must recognise the affordability consequences associated with the private sector rent control regime envisaged in the current housing Bill going through the Scottish Parliament.

Ideally, social rents would be differentiated on a consistent basis though some form of harmonious rent policy across Scottish social housing. However, the rent convergence experience in England in the 2000s suggests this is a risky and complex policy commitment (and there has never been appetite in Scotland for a national rent policy). The social sector housing system is dominated by the stock of existing homes, and it would be more feasible to focus on rent increases within the stock and maintaining their position in the non-market

hierarchy, as well as ensuring that new stock, social or mid-market, are initially, and remain, genuinely below market depending on the subsector they inhabit. The affordability outcomes to avoid are that in the future rent increase shift rents out of a recognisably social level if in the social sector, or that mid-market rents grow beyond what can reasonably be defined as affordable. A further important concern is that the shared understanding definition can play a role in informing how future higher rent, non-grant-aided new build is considered, especially where such provision is proposed to be the subject of Scottish Secure Tenancies and, therefore, is claimed to be social housing.

**Recommendation 6:** it is essential that we have a shared understanding of what social rent levels are and the extent to which future rent increases in social housing can rise to over time but still meet the accepted sense that rents remain at social levels. The Scottish Government should undertake further work to better understand what that social level is across the existing housing stock and how it compares for instance to assumptions within published guidance regarding RSL social rent benchmarks. Affordability scrutiny is also required for the mid-market rent sector, specifically, regarding future MMR rent increases.

#### [Single or combined measures? Towards Measures of a Shared Understanding](#)

There is we believe a case that can be made for a combined approach but one that is also simple to understand and deploy. This takes its lead directly from the right to adequate housing and its sense of what constitutes housing affordability, but also incorporates the cross-government focus on reducing child poverty.

In doing this we need to make an important distinction between the overall policy measure or guideline that the Scottish Government would apply as a standing policy assumption, and the application of the proposal to disaggregated groups of households facing very different affordability outcomes. Thus, in the former case, the policy assumption would guide questions such as the affordability central measure in Housing Need and Demand Assessments, in local affordable housing policies, in starting rents in new social and affordable housing supply, to use as evidence to argue for policy reform, and in the monitoring of household survey data to analyse affordability across Scotland. The latter measure would facilitate a more considered analysis of how different groups are impacted by their interaction with benefit systems and the types of housing they occupy.

Below we propose three elements to a shared understanding: a cost: income ratio, a residual income measure and an after-housing cost poverty measure. The issue that raised the most contention was the form of the residual income measure (not that there should be a residual income element).

The essential reasoning behind incorporating a residual income into the shared understanding reflects both the shortcomings associated with the housing costs to income ratio but also the logic of the right to adequate housing. The residual income focuses on post-shelter net income and it is standard practice to compare the actual income of a household, or all renter households in this case, with a benchmark or standard to be achieved. One area of concern raised by housing providers concerning a benchmark such as the after-housing costs (and income equivalised) Joseph Rowntree Foundation Minimum Income Standard (MIS), which was described by some as challenging and aspirational, and

not in the real world of providers setting rents. However, the same MIS (90%) is the basis of the legislated fuel poverty definition in Scotland, something supported by housing providers. It is also a direct source of intelligence used in the SFHA rental affordability toolkit. Further exploration of the MIS can be found in Annex 3.

A perhaps plausible alternative can also be found directly in the SFHA rental affordability tool in the form of the Annual Survey of Hours and Earnings 30<sup>th</sup> percentile (ASHE30) benchmark. This is a measure of a specific distributional point in the distribution of earnings from the ASHE survey. The 30<sup>th</sup> percentile is of such interest because the developers of the tool argued that the equivalent level of household income implied by ASHE30 tended to be around the level where means-tested benefits run out – it is a proxy for low to moderate income households on the margins of benefit reliance. This is also a clear echo of the original late 1980s definition of housing affordability in Scotland of housing cost to net income for low to moderate working age working households i.e. affordability for those not significantly supported by means-tested housing benefits. Bear in mind that through the third proposed shared understanding indicator, we are also tracking after housing cost renter poverty.

More detail on the way ASHE30 is used in the rent affordability tool is provided in guidance published by SFHA, March 2021 for users of the tool. On pg. 11 it says:

*“The figures shown in the tool are net, reflecting income tax and national insurance thresholds and bands”.*

*“Moderate incomes are calculated based on the 30th percentile for each local authority, which is above housing benefit eligibility. The justification for using these moderate incomes is that incomes converge around this point once housing benefit and tax credits are included in lower incomes. Following the Joseph Rowntree Foundation’s Living Rent methodology, the household incomes are weighted to account for additional income for adults and child benefit entitlements”.*

*“The method assumes that a single person’s earnings have a value of 1.0 while each additional adult or child aged over 14 years ‘earning’ an extra 0.5 score for the household, with younger children scoring 0.3.”*

In other words, the utilisation of ASHE30 in the tool has important assumptions inherent to it:

- The earnings of the individual (the output data from ASHE) are reweighted based on a JRF equivalence scale to generate a household income (also incorporating child benefit entitlements).
- Gross income (the survey measure) is netted off by applying relevant tax and national insurance bands and thresholds (presumably also personal allowances).
- The 30<sup>th</sup> percentile of the income distribution generated is considered to be a convergence point of moderate income, just above Housing Benefit eligibility.

There are pros and cons with both MIS and ASHE30 measures.

The MIS is a widely accepted, carefully developed standard with which to base a long-term tracker of affordability on the country as a whole and for specific disaggregated groups. It does include broader measures of standards of minimum consumption based on survey evidence. It is also an evolving annually updatable model. It is a UK national model but does have weights for rurality. Focusing on this level of income also helps to counter the point we heard more than once that net rents are much more affordable for tenants in receipt of benefit. MIS plays an analogous role in the fuel poverty definition to the multi-strand shared understanding of affordability we propose here, establishing a precedent: 90% of MIS is used as a residual income measure alongside a ratio measure of 10% of income spent on fuel in a suitable heating regime. A range of 75-90% of MIS might be used as a long term goal with the sense that falling below 75% should represent a warning about low residual income.

On the other hand, ASHE30 is favoured by some, not just on the argument that housing policy needs to focus on the aspiration of residents moving off benefits, it allows the focus to move on to those without such support but still on incomes well below the median. ASHE30 is a potential proxy for the low in work income level for working age households, but it is essential to confirm regularly if this specific percentile point remains the actual tipping point as described when the rent tool was established using ASHE30's percentile point specifically. Changes to benefits and their interactions with means tested benefits alter over time as does the distribution captured by ASHE. It would be surprising if this key policy percentile did not shift over time.

The ASHE30 indicator, built on the assumptions noted earlier, leads to reflection on the SFHA rent affordability tool itself. This is a web-based model that allows users to plug in their own rents and potential rent increases for different property archetypes and sizes. It is important to recognise that the SFHA make it clear that the tool is only that – an illustrative guide under different scenarios to help providers consider the implications of different rents. Nonetheless, it is important to recognise that the income measures are hypothetical points in different income or earnings distributions (or an application of the living wage) – they do not operate in the real world, as it were.

Following from this debate, what is proposed as a recommendation regarding the shared understanding definition and, specifically regarding this choice of which measure to use for our residual income component?

The clear statement that this is a long-term measure covering the period to the end of the Housing to 2040 span, and therefore about the gradual and progressive realisation of the implied targets of the three-part definition, should lessen immediate worries regarding the rent-setting implications of the residual income choice. This is reinforced by the widespread use and acceptance of the JRF MIS for fuel poverty, and its use as a comparator in the SFHA rent affordability tool.

It is apparent why providers might prefer the ASHE30 definition, but there are three important caveats. First, it clearly needs to be periodically refreshed and reappraised to confirm that it remains correct to say that the 30<sup>th</sup> percentile is the general tipping point between benefit dependence and full exposure to rent levels and rent increases. We need robust contemporary evidence to this point, which we don't currently have. It may now be

too high or indeed too low (and not at the Goldilocks point, as it were). Second, this is a measure at a point in the income i.e. earnings distribution – it is a fairly crude proxy conceptually for low to moderate income. This contrasts with the well-developed, conceptually and empirically robust, regularly updated MIS, which as we saw earlier is widely used across social policy analysis in the UK. Third, there is a chain of assumptions that goes from individual gross earnings to net household income that also need to be regularly assessed and revalued.

On this basis, the proposal is that we adopt the MIS as the primary measure of residual income and chart its progress over time both nationally and with respect to the disaggregated groups identified in the main report. However, provided that the appropriate measure of switchover on/off housing benefit eligibility for low to moderate incomes can be identified empirically, and there is a commitment to regularly revisit this and other key assumptions, the ASHE30 (or other point observed in the distribution with this characteristic) measure could be a supplementary indicator of residual income for the national and disaggregated scales, focused more on shorter term performance of affordability – but should be assessed for fitness of purpose on the grounds above before doing so.

Overall, looking at the evidence and at our guiding principles, we consider that a combined approach could work well and embrace three different aspects of affordability that are considered important. The housing cost to income measure remains a useful summary measure for both existing and new rents but its shortcomings can be reduced by incorporating a residual income element.<sup>14</sup> Here we propose an adaptation of the Joseph Rowntree Foundation income standard (i.e. after housing costs). Third, and even if the cost to income ratio was less, and the residual income so defined was more, than the stated threshold for unaffordability, if the household's net after-housing cost (AHC) income remained below the standard UK poverty threshold, then the housing, would be deemed unaffordable<sup>15</sup>. We propose 30% of net income for the cost to income ratio – beyond the range of views in this broad area, one further argument for 30% rather than 25% is the contention that the latter is the more commonly used ratio for home owner access by lenders - should the desire be to widen the definition to all housing. The ratio incorporates service charges<sup>16</sup>.

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<sup>14</sup> According to OECD the two good practice options for the deployment of income equivalisation scales to take account of differing household sizes and compositions, are: (1) OECD modified scale (adopted by ONS), which weights a household as 1.0 for the first adult and 0.5 for each additional adult and 0.3 for each child under 14 and 0.5 if 14 or over; (2) the square root scale, recently (2024) used by the Resolution Foundation in their housing and incomes analysis, multiplies household income by the square root of the number of household members i.e. a household of four requires twice the income of a single person household.

<sup>15</sup> The UK (and Scottish) relative poverty standard says that to be out of relative poverty, After Housing Cost equivalised net disposable household income should exceed 60% of the UK median household income. Housing costs include the following: rent (gross of housing benefit); water rates; mortgage interest See further details at: [https://data.gov.scot/poverty/#Poverty\\_measurement](https://data.gov.scot/poverty/#Poverty_measurement)

<sup>16</sup> These service charges, on grounds of simplicity, should be those that are clearly property-related or eligible for housing benefit.

**Recommendation 7a:** (1) national policy guideline or assumption – rent and service charge is no more than 30% of net monthly income; second, there is a minimum residual income relating to the after-housing costs version of the Joseph Rowntree Foundation Minimum Income Standard (with a possible supplementary indicator based on ASHE30, as discussed, conditional on it being successfully refreshed in the light of tax and benefit changes since its introduction and use in the SFHA affordability tool); third, if, after housing cost income is below the UK poverty benchmark, the housing is therefore not affordable. **Recommendation 7b: (2)** disaggregated version of policy assumption guideline – as (1) but with focus on average, national measures for significant groups of household types where we expect to observe and analyse important variations e.g. working age single adults, single families, couples, couples with children, single and couple retired households, young adults, women, ethnicity and other important protected characteristics. This will require a degree of new data capture, analysis and publication to support work done by providers, trade bodies and wider citizen interests.

[What due diligence is required for a working definition to be operationalised?](#)

The national policy assumption has many possible consequences and will require impact assessments, an assessment on public spending implications, as well as policy design work to consider how this may be implemented, phased-in and transitioned towards a more consistent approach to affordability on Scotland. These considerations need to also reflect impacts on providers' business plans. As has been indicated, the shared understanding measure will need to be regularly monitored and reports published in a timely way, and this will require data and statistical investment, for the most effective utilisation of the performance of recommendations 7a and 7b.

**Recommendation 8:** Scottish Government, local authorities and providers need to collaborate to undertake a series of economic and equality impact assessments around the new affordability measure. They also need to consider how the new measure might be efficiently but fairly transitioned over time to deliver a progressive realisation of the new shared understanding. There will need to be new data collected to support monitoring the measure. This can draw on recent experience with the new fuel poverty measure.

**Recommendation 9:** The shared understanding should be viewed as a long-term objective or target of the *Housing to 2040* strategy. Targets should be progressively realised by its end date, but with ongoing monitoring. At the same time, the shared understanding target should be used forthwith to influence and shape future policy discussions relevant to affordability e.g. seeking to converge over time the definitions of affordability used in policymaking.

## Conclusions and Recommendations for Scottish Ministers

At the end of this process, we have come to the position of proposing a three-part rental affordability definition which we believe is broadly consistent with the human right to adequate housing sense of affordability and the government's focus on child poverty. The three elements which can be both a general policy assumption and applied in specific practice case e.g. considering the affordability dimensions of a social landlord's proposed rent increase, are:

- Rent and service charge measure of housing cost should not exceed 30% of net monthly disposable income;
- Residual income (100% of the Joseph Rowntree Foundation Minimum Income Standard after housing costs) with the possible use of a supplementary indicator based on ASHE30; and
- After housing cost income should be greater than the official UK poverty line.

The reader will see that the approach taken here has been a pragmatic set of decisions based on the key building blocks regarding housing affordability and the affordability dimension of the right to adequate housing (affordability). There were different views proposed by our evidence (and the literature) throughout. It is now for others to judge how acceptable these are.

## SLWG Recommendations

Recommendation 1: as a key plank of fighting child poverty and constructing the human right to adequate housing, the new shared understanding definition ought to be a component part of the National Performance Framework national outcome indicators in line with the Government's proposal for a new National Outcome for Housing.

Recommendation 2: the shared understanding focuses on social, affordable and private rental affordability, but this is on the basis that other aspects of housing policy are supporting access to home ownership, also working and lobbying to support policies to help owners in financial difficulty.

Recommendation 3: on grounds of simplicity and the existence of other complementary policies, we propose not to include minimum standards regarding housing conditions/standards in the working definition other than to be clear that the rent charged by a landlord should be based on meeting minimum legal and regulatory standards.

Recommendation 4: on grounds of simplicity, locus of decision-making and alternative policy domains relevant to certain property related costs, we conclude that a narrow measure of cost, rent plus service charge, should be used.

Recommendation 5: agreeing a framework for the shared understanding should allow regular monitoring and periodic review to consider updating of the indicators used in the light of evidence collected about affordability. In this way it should be possible to adopt the shared understanding to both immediate and longer-term questions re housing policy.



Recommendation 6: it is essential that we have a shared understanding of what social rent levels are and the extent to which future rent increases in social housing can rise to over time but still meet the accepted sense that rents remain at social levels. The Scottish Government should undertake further work to better understand what that social level is across the existing housing stock and how it compares for instance to assumptions within published guidance regarding RSL social rent benchmarks. Affordability scrutiny is also required for the mid-market rent sector, specifically, regarding future MMR rent increases.

Recommendation 7a: (1) national policy guideline or assumption – rent and service charge is no more than 30% of net monthly income; second, there is a minimum residual income relating to the after-housing costs version of the Joseph Rowntree Foundation Minimum Income Standard (with a possible supplementary indicator based on ASHE30, as discussed, conditional on it being successfully refreshed in the light of tax and benefit changes since its introduction and use in the SFHA affordability tool); third, if, after housing cost income is below the UK poverty benchmark, the housing is therefore not affordable.

Recommendation 7b: (2) disaggregated version of policy assumption guideline – as (1) but with focus on average national measures for significant groups of household types where we expect to observe and analyse important variations e.g. working age single adults, single families, couples, couples with children, single and couple retired households, young adults, women, ethnicity and other important protected characteristics. This will require a degree of new data capture, analysis and publication to support work done by providers, trade bodies and wider citizen interests.

Recommendation 8: Scottish Government, local authorities and providers need to collaborate to undertake a series of economic and equality impact assessments around the new affordability measure. They also need to consider how the new measure might be efficiently but fairly transitioned over time to deliver a progressive realisation of the new shared understanding. There will need to be new data collected to support monitoring the measure. This can draw on recent experience with the new fuel poverty measure.

Recommendation 9: The shared understanding should be viewed as a long-term objective or target of the Housing to 2040 strategy. Targets should be progressively realised by its end date, but with ongoing monitoring. At the same time, the shared understanding target should be used forthwith to influence and shape future policy discussions relevant to affordability e.g. seeking to converge over time the definitions of affordability used in policymaking.

## Final Words

It is now for the Scottish Government to reflect on the shared understanding proposed here and decide how to both respond to the report and to factor it into future decisions about housing policy for new build and the existing housing, where there are direct and indirect affordability consequences of policy.

We also stress that this is not a prospectus to reduce rents, but rather one to achieve affordability objectives, mindful that this is a whole government project (and beyond), because affordability can only be understood as the combination of housing costs, incomes and benefits. Labour market and welfare policies are equally important to reducing after housing cost poverty. Affordability has been worsening and tackling it over the coming 15 years requires, on the one hand, committed all-government focus (including with the UK government regarding Universal Credit, Housing Benefit and Local Housing Allowances), and at the same time, to explicitly assess the trade-offs arising from new regulatory and investment policies that put upward pressure on rents. The Housing Investment Taskforce recommended a comprehensive financial capacity study for social housing (and this should include council housing business planning, and both new build and existing asset investment capacity). This is an important part of making these affordability-informed housing policy decisions, as is full consultation with the providers and the sector, including tenants.

## Annex 1 Membership of the SLWG

- Callum Chomczuk, Chartered Institute of Housing
- Tony Cain (Sher Peek while TC seconded), Association of Local Authority Chief Housing Officers
- Mike Callaghan, COSLA
- Shona Mitchell, Cairn Housing Association (formerly Scottish Federation of Housing Associations)
- David Bookbinder, Glasgow and West of Scotland Forum of Housing Associations
- John Blackwood, Scottish Association of Landlords
- Lisa Borthwick, Shelter Scotland
- Aoife Deery, Citizens Advice Scotland
- Gillian Young, Newhaven Research Scotland/Honorary professor, Heriot-Watt University
- Dr Madhu Satsangi, School of Social and Political Sciences, Glasgow University
- Dr John Boyle, Rettie and Co.
- Helen Shaw, Scottish Housing Regulator
- Sean Baillie, Living Rent
- Prof Angela O'Hagan, Dept of Social Sciences, Glasgow Caledonian University
- Colin Stewart, Social Rented Sector representative
- Rhiannon Sims, Crisis (succeeded by Maeve McGoldrick)
- Kyna Morgan, Private Rented Sector representative
- Bel Ingham, Private Rented Sector representative
- Fionna Kell, Director of Policy, Homes for Scotland
- Susie Fitton, Scottish Federation of Housing Associations
- Eli Harji, Scottish Federation of Housing Associations
- Emma Saunders, Living Rent
- Ed Pybus, independent social security expert

## Annex 2 Affordability Approaches used in the YouGov Omnibus Scotland Survey

1. Cost-to-income ratio - The oldest and most used measure of rent affordability internationally, its formula, is based on the ratio of house prices (in terms of rents) relative to income/ earnings (affordability ratio = rent / income), which measures the proportion of a household's income that is spent on rent.
2. Residual income - It focuses on the difference between incomes and housing costs rather than the ratio. It subtracts from disposable income the monetary value of a pre-defined standard of non-housing needs; this, therefore, determines how much is left to spend on housing.
3. Joseph Rowntree Foundation Minimum Income Standard - The Minimum Income Standard (MIS) sets out what people think is needed to live with dignity in the UK. Since 2008, the MIS has shown what households need to spend to reach an acceptable standard of living, based on detailed deliberations by groups of members of the public.
4. United Nations Habitat affordability threshold - UN-Habitat calculates unaffordability as a net monthly expenditure on housing cost that exceeds 30 per cent of the total monthly income of the household.
5. Affordability based on minimum wage - Someone on the minimum wage should be able to comfortably afford their housing costs.
6. Affordability linked to profit/property maintenance costs - this approach would limit the rental amount to a specific percentage of profit for the landlord, which takes into consideration maintenance costs.

## Annex 3 Illustration of the JRF Minimum Income Standard as Residual Income

### Worked examples using the 2024 Joseph Rowntree Foundation Minimum Income Standard

The Joseph Rowntree Foundation Minimum Income Standard (MIS) is widely used to understand minimum thresholds of income for different kinds of households. Indeed, it forms the basis of the residual income calculation of the Scottish fuel poverty definition now enshrined in statute.

The table below looks at different weekly residual incomes after-housing costs (AHC), calculated from the 2024 MIS calculator spreadsheet. This follows on from the statutory fuel poverty definition which for its purposes takes 90% of the MIS. **Here, we apply 100% of the after-housing costs MIS for different working age household combinations and then calculate 75% and 90% bands.** The impact of equivalence scales for different household combinations (number of adults and children by age) is apparent. A single working age adult has a weekly MIS residual income (AHC) of just £293 while a working age couple with no children have an equivalent MIS of £459. Assuming children of pre-primary school age, a single parent with two 2-4 years age children requires a residual income £608; for a couple with two such children, the figure is £763. For further details, see Davis et al (2024).

**Table A1 Selected Residual Incomes after housing costs per week 2024 JRF Minimum Income Standard Budget Calculator**

Household type illustrations	Weekly MIS budget (ie 100%)	75% of AHC weekly MIS	90% of AHC Weekly MIS
Single person working age	£293.22	£219.91	£263.89
Couple working age	£489.05	£366.78	£440.14
Single pensioner	£228.73	£171.54	£205.85
Couple pensioner	£375.39	£281.54	£337.85
Lone parent two children (2-4)	£608.01	£456.00	£547.20
Couple two children (2-4)	£767.91	£575.93	£691.11

Source: Davis et al (2024) - Joseph Rowntree Foundation MIS Budget Calculator 2024

Note: After housing costs includes rent, council tax, water charges and childcare.

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