

Report to the Council Housebuilding Cabinet Committee



Report reference: CHB-001-2013/14
Date of meeting: 10 July 2013

**Epping Forest
District Council**

Portfolio: Housing – Cllr David Stallan

Subject: Affordable Rents Policy – Council Housebuilding Programme

Responsible Officer: Alan Hall, Director of Housing (01992 564004)

Democratic Services Officer: Jackie Leither (01992 564756)

Recommendations:

(1) That the Cabinet's previous decision that "affordable rents" should be charged for Council properties built under the Council's Housebuilding Programme be re-affirmed;

(2) That when such properties are (re)let, the Council's affordable rents be set at a level equivalent to the lowest of:

- (a) 80% of market rents for the locality in which the property is situated, as assessed by the Council's Estates and Valuations Division;**
- (b) The Local Housing Allowance level for the Broad Market Rental Area in which the property is situated; and**
- (c) A rent cap of £180;**

(3) That affordable rents be increased annually by the Retail Price Index (as at the preceding September) + 0.5% (or any other maximum increase determined by the Government), until the tenant vacates, when the affordable rent will be re-based in accordance with the Homes and Communities Agency's (HCA's) Affordable Rent Model and the policy at (2) above; and

(4) That the Council's rent cap level be reviewed annually and set out within the Rents Strategy Chapter of the HRA Business Plan each year.

Executive Summary:

The Cabinet has previously agreed that "affordable rents" should be charged for the properties built under the Council's Housebuilding Programme, which will be higher than the "social rents" charged for the Council's existing properties.

It is necessary for the Council to adopt a policy, explaining its approach to how affordable rent levels will be set, within the HCA's Affordable Rent Model. The maximum affordable rent is 80% of the market rent for the same type of property in the same locality, including service charges.

The report proposes an approach to how the Council should set its affordable rents.

Reasons for Proposed Decision:

It is necessary for the Council to adopt a policy, explaining its approach to how affordable rent levels will be set, within the HCA's Affordable Rent Model.

Other Options for Action:

The other main options are:

(a) The Council could set rents at a lower level than 80% of market rents – but this would have implications for the viability of new developments.

(b) No reference could be made to the LHA level – but this could result in rents not being covered in full for tenants in receipt of housing benefit.

(c) No rent cap is imposed, or a lower or higher rent cap could be adopted. However, if a higher rent cap is adopted, it could have implications for tenants in receipt of housing benefit when Benefit Caps are introduced under the welfare reforms. If a lower rent cap is adopted, it could affect the financial viability of developments.

Background

1. Councils and, until recently, housing associations generally charge “social rents” for their properties. These are set in accordance with a Government formula, based on:

- Property value;
- Average earnings for the county; and
- Property size

2. The Government's Rent Convergence Policy (which has been adopted by the Council), seeks to ensure that (within a 5% tolerance) similar rents are charged for the same type of property in the same location, irrespective of whether the landlord is a council or a housing association.

3. The Government's target date for convergence to be achieved across the country is April 2015. However, the Council's target is to achieve rent convergence by April 2017 – although it should be noted that many of the Council's properties will not reach their target rent by April 2017, because to do so would breach the Government's maximum annual rent increase for individual properties, which is currently RPI + 0.5% + £2 per week. As part of the Government's Comprehensive Spending Review (CSR) announced on 26th June 2013, the Government stated that social rents can be increased by the Consumer Prices Index (CPI) + 1% per annum from April 2015 for at least the following 10 years.

4. To enable the Government to significantly reduce the amount of grant required to develop new affordable housing, the Homes and Communities Agency (HCA – the Government agency that funds and regulates all registered providers of housing, which includes the Council) has said that all new affordable rented homes built by housing associations and councils with grant from the HCA must charge “affordable rents”. Even if HCA grant is not provided, in order to minimise the amount of subsidy required from other sources, most developing housing associations now charge affordable rents for newly-developed affordable rented housing. It should be noted that the formal approval of the HCA must be obtained before a Council or a housing association can charge affordable rents, but this is generally forthcoming.

5. In addition, the HCA expects registered providers who have funding contracts with the HCA to also convert the rents of a proportion of re-lets to vacant properties (usually around 1/3) from social rents to affordable rents when they are re-let, and to use the additional rent to fund its new developments. This is to reduce a developing housing association's reliance on grant from the HCA.

6. Affordable rents are defined by the HCA as being up to 80% of market rents (including service charges). Very generally, social rents are usually around half the level of market rents. Once properties are let, the HCA's Affordable Rent Model states that affordable rents can be increased annually by a maximum of RPI (as at the preceding September) + 0.5%, until the property is vacated. On re-let, the rent has to be re-based in accordance with policy and market rents at that time. Although at the time of the Government's CSR announcement, information and certainty was given about future rent increases for social rents, it made no reference to future rent increases for affordable rents. Further information on this may be provided in advance of the Cabinet Committee meeting, in which case an oral update will be given.

7. The Cabinet has already agreed in principle to charge affordable rents for the Council's Housebuilding Programme. This is for two main reasons:

- (a) To ensure that developments are viable, since they would require significant subsidy if social rents were charged instead of affordable rents; and
- (b) To charge similar rents for similar newly-built affordable rented properties as housing associations are charging for their new developments – i.e. to provide “an even playing field”.

8. However, when charging affordable rents for the Housebuilding Programme, there are some issues that members need to understand, as follows:

- (a) The Council will be charging significantly different (i.e. higher) rents for properties built under its Housebuilding Programme, compared to all the Council's current properties (which are let at social rents);
- (b) It is likely that only applicants either with reasonable incomes or in receipt of housing benefit will be able to afford newly-built properties, let at affordable rents. Working applicants on lower incomes, but who are ineligible for housing benefit, are likely to struggle to pay affordable rent levels, and are therefore more likely not to bid for them through the Choice Based Lettings Scheme, and only bid for existing Council properties let at social rents.
- (c) If an affordable rent is charged at a level that is higher than the “Local Housing Allowance” (LHA) for the “Broad Market Rental Area” (BMRA) in which the property is situated (set by the Rent Officer Service, based on the 30th percentile of market rents in the BMRA), the difference between the rent and the LHA cannot be met from housing benefit. Therefore, if a tenant is in receipt of housing benefit, they have to pay the difference between the LHA and the affordable rent themselves.
- (d) The Government's welfare reforms will result in some affordable rents being unaffordable to those on benefits (i.e. universal credit) if 80% of market rents are charged – mainly larger families in larger properties. For this reason, housing associations and councils who charge affordable rents generally have a rent cap, which limits the maximum rent that can be charged, in order for rents to be

affordable to any tenant in receipt of housing benefit (or universal credit). This is covered in more detail below.

9. Since the Council has determined that affordable rents should be charged for properties built through its Housebuilding Programme, an Affordable Rent Policy needs to be adopted explaining the approach to how Council rents will be set. The Policy needs to be agreed at this meeting, since East Thames, the Council's Development Agent, needs to know the rent levels to input into their financial appraisals for the Council's potential development sites, the first of which are due to be considered at this meeting.

Proposed Affordable Rent Policy

10. The approach that most housing associations take (who have now been operating affordable rents for some time) is to set affordable rents at the lowest of three factors:

- 80% of the market rent for the property;
- The LHA level for the property within the BRMA; or
- A self-imposed rent cap – that avoids any tenants losing money as a result of the introduction of the Government's Benefits Cap under the welfare reforms

11. The rent cap adopted by most housing associations that have one, generally takes account of the Government's new Benefits Cap level (£500 per week for couples and single people with children and £350 per week for single people without children) and tenants' estimated living costs. Rent caps adopted by the Council's Preferred Housing Association Partners vary, between £180 and £225 per week. It is officers' view that, for the Epping Forest District, a rent cap of £180 per week would be appropriate, bearing in mind that an affordable rent at this level would be significantly higher than the social rents charged by the Council for its existing properties.

12. It is worth noting that, for the proposed developments within Package 1 of the Council Housebuilding Programme (reported to the Cabinet Committee as a later agenda item), the proposed Affordable Rent Policy has been applied and that, as a result, it has been necessary for the rents of all the 3-bedroomed houses (10 properties on two sites) to be set at the proposed rent cap of £180 per week.

13. Therefore, it is proposed that the Affordable Rent Policy set out at the commencement of the report be adopted.

Resource Implications:

The Affordable Rent Policy has a direct bearing on the rental income received for new developments, and their financial viability. The higher the rents are set, the greater the income and the less subsidy is required from other sources (e.g. capital receipts from Right to Buy sales, Section 106 contributions etc).

Legal and Governance Implications:

Formal approval from the HCA will be required before affordable rents can be charged, but this is generally forthcoming.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's Preferred Housing Association Partners have been consulted on their approach to affordable rents.

East Thames, the Council's Development Agent, has been consulted on the contents of this report, and their comments have been taken into account.

Background Papers:

None

Impact Assessments:

Risk Management

Since the Affordable Rent Policy has a direct bearing on the rental income received for new developments, the greatest risks are that either new developments become unviable as a result (if rent levels are too low) or too many housing applicants are unable to afford the rents (if they are too high).

These risks are mitigated by the Council being able to learn from the experiences of housing associations, who have been charging affordable rents for some time. The risk of setting rents too high is mitigated by the proposed rent cap, which should avoid any properties being unaffordable to tenants in receipt of housing benefit. It is proposed that the rent cap level is reviewed annually.

Since the Cabinet Committee will consider and sign-off financial appraisals for every proposed development, the financial effects of the Affordable Rent Policy can be monitored. If, over time, a problem is identified, the Cabinet Committee can review its policy.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
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Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A
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What equality implications were identified through the Equality Impact Assessment process?

It should be noted that an Equality Impact Assessment has already been formulated for Housing Strategy and Development.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A