

Report to the Council Housebuilding Cabinet Committee



Report reference: CHB-010-2013/14
Date of meeting: 04 February 2014

**Epping Forest
District Council**

Portfolio: Housing – Cllr David Stallan
Subject: Review of Rent Cap – EFDC Affordable Rent Policy
Responsible Officer: Alan Hall, Director of Housing (01992 564004)
Democratic Services Officer: Jackie Leither (01992 564756)

Recommendations:

- (1) That the Council's Rent Cap remains at £180 per week for 2014/15;**
- (2) That the Council's Affordable Rents Policy be applied to both:**
 - (a) Financial Appraisals for potential developments; and**
 - (b) To the actual rents charged for properties when they are let;**

in relation to market rent levels, Local Housing Allowance (LHA) levels and the Rent Caps applicable at that time;

- (3) That the Council's Rent Cap next be reviewed by the Cabinet Committee towards the end of 2014/15, in time for inclusion within the Rents Strategy Chapter of the HRA Business Plan for 2015/16.**

Executive Summary:

The Cabinet Committee previously agreed and adopted an Affordable Rents Policy for the Council Housebuilding Programme, explaining the approach to the setting of affordable rents for the Council Housebuilding Programme.

The Affordable Rents Policy includes the use of a Rent Cap, relating to the maximum rent to be charged for affordable rented properties; in July 2013, the Cabinet Committee agreed that this should be set at £180 per week for 2013/14, but that the level should be reviewed by the Cabinet Committee annually.

Since the Rent Cap was only agreed less than 7 months ago, it is suggested that the Council's Rent Cap remains at £180 per week for 2014/15.

The report also clarifies and confirms that the approach and rent levels set-out within the Affordable Rents Policy (including the level of Rent Cap), when applied to both Financial Appraisals for potential developments and to the actual rents charged for properties when they are let, relate to those levels that are applicable at that point in time, which may be different, due to the time lapse between the Financial Appraisal stage and when the properties are built and let.

Reasons for Proposed Decision:

It is a requirement of the Council Affordable Rents policy to review the level of Rent Cap each year.

Other Options for Action:

The other main options are:

- (a) To either reduce or increase the level of Rent Cap; or
- (b) To no longer have a Rent Cap.

Background

1. At its meeting on 10th July 2013, the Cabinet Committee agreed and adopted an Affordable Rents Policy for the Council Housebuilding Programme, which explains the approach to how affordable rents for new Council properties built under the Programme will be set.

2. "Affordable rents" are defined by the HCA as being up to 80% of market rents (including service charges). 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. Following a change in approach by the Government, from April 2015, the maximum increase will change to CPI (as at the preceding September) +1%. The Cabinet Committee agreed that, once the properties have been re-let, the Council's affordable rents should be increased annually by the maximum increase.

3. On re-let, the rent has to be re-based in accordance with Affordable Housing Policy applicable at that time.

4. The Council's Affordable Rents Policy states that affordable rents will be set at the lowest of three factors:

- 80% of the market rent for the property;
- The Local Housing Allowance (LHA) level for the property within the Broad Rental Market Area (BRMA); or
- A Rent Cap self-imposed by the Council – that avoids rents being unaffordable, even if they are less than the first two factors, particularly with regard to the introduction of the Government's new Benefits Cap as part of its welfare reforms

5. It is anticipated nationally that the Government's welfare reforms will result in some affordable rents being unaffordable to those on benefits (i.e. housing benefit and, in the future, universal credit) if 80% of market rents, or even the LHA level, are charged – mainly for those larger families in larger properties. For this reason, many housing associations and councils that charge affordable rents generally apply 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 in the future).

6. Having regard to the Rent Caps applied by a number of other councils and housing associations, and to the Government's Benefit Caps, the Cabinet Committee agreed in July 2013 that a Rent Cap of £180 per week should be applied in respect of the Council's Housebuilding Programme for 2013/14, bearing in mind that an affordable rent at this level

would still be significantly higher than the social rents charged by the Council for its existing properties.

7. The Cabinet Committee also agreed that the Council's Rent Cap level should be reviewed annually by the Cabinet Committee - and then set out within the Rents Strategy Chapter of the HRA Business Plan each year.

8. Since the Rent Cap was only agreed less than 7 months ago, and particularly in view of the fact that the Government has not increased its Benefits Cap from £500 per week (£350 for single people without children), it is suggested that the Council's Rent Cap remains at £180 per week for 2014/15.

9. For the avoidance of doubt, it is also suggested that the Council's Affordable Rents Policy is applied to both:

- Financial Appraisals for potential developments; and
- To the actual rents charged for properties when they are let;

in relation to the market rents, LHAs and Rents Cap applicable at that time. So, for example, although Financial Appraisals prepared now would use a Rent Cap of £180 per week, when the properties that are the subject of the Financial Appraisal are eventually let (which could be up to 2 years later, or more for developments undertaken in later phases which are appraised over the next 12 months) the Rent Cap agreed for that financial year would be the one applied to actually set the rents.

Resource Implications:

The Rent Cap 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, including East Thames (the Council's Development Agent), have previously been consulted on the Council's Affordable Rents Policy and the use of Rent Caps and raised no concerns or objections.

Background Papers:

None

Impact Assessments:

Risk Management

Since the use of Rent Caps within 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 the Rent Cap is too low) or too many housing applicants are unable to afford the rents (if it is 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, including the use of Rent Caps.

Since the Cabinet Committee will consider and sign-off financial appraisals for every proposed development, the financial effects of the Rent Cap and the Affordable Rent Policy more generally 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

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

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