

# Cabinet

5 SEPTEMBER 2011

**CABINET MEMBER  
FOR HOUSING**

*Councillor Andrew  
Johnson*

**INTRODUCTION OF INTERIM GUIDANCE TO  
SOCIAL LANDLORDS ON THE AFFORDABLE  
RENT TENURE IN LB HAMMERSMITH &  
FULHAM**      **Wards  
All**

This report details the options available to the Council in introducing guidance to social landlords in the borough on rent setting for the new affordable rent tenure on both new build and conversions.

**Recommendations:**

**CONTRIBUTORS**

DFCS  
ADLDS

<b>HAS A EIA BEEN COMPLETED? YES</b>
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<b>HAS THE REPORT CONTENT BEEN RISK ASSESSED? N/A</b>
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1. That Cabinet notes the contents of this report and approves the guidance to be provided to registered providers in the borough in determining their rent setting regime for the new affordable rent tenure for both new build and up to 50% of existing social rented dwellings converting to affordable rent as follows:

1 bed rent of no more than £ 250 pw  
2 bed rent of no more than £ 290 pw  
3 bed rent of no more than £ 340 pw  
4 bed rent of no more than £ 400 pw

(rents to include service charges)

2. That the Director of Housing and Regeneration, in consultation with the Cabinet Member of Housing, reviews this guidance on an annual basis.
3. Where Registered Providers have nomination rights they should promote working households who can afford affordable rent. Registered Providers should have regard to existing levels of benefit dependency in an area and seek to achieve mixed and balanced communities.

## 1. BACKGROUND

- 1.2 In the past 6 months there have been several Central Government announcements changing the way housing will be delivered and managed in the future together with new affordable funding guidelines from the Homes and Communities Agency on how affordable housing will be funded from 2011 – 2015.
- 1.3 Some of these proposals are currently out for consultation and others are adopted policy. Most significant areas of policy change are contained within the following papers:
- Local Decisions : A Fairer Future for Social Housing – November 2010
  - Localism Bill - December 2010
  - Homes and Communities Agency – 2011 -2015 Affordable Homes Programme – February 2011
  - DCLG Planning Policy Statement 3 : Planning for Housing Technical Change to Annex B ( includes affordable rent in the definition of affordable housing for planning purposes) – February 2011
- 1.4 Over the coming year the way the Council interprets these policy changes will need to be reflected in the following key policy documents:
- The revised Housing Strategy which will set out the Council's key housing issues and priorities
  - The proposed Tenancy Strategy Plan under the Localism Bill which provides our guidance to Registered Providers
  - The Allocations Plan which rations the scarce social housing supply available for letting
  - Local Lettings Plans which provide flexibility to tailor our overarching policies to suit local situations
- 1.5 Two of the most significant proposals are:
- The introduction of a new affordable housing product, affordable rent, which will allow landlords of new properties for rent and some social rent relets, to charge rents of up to 80% of open market rents less service charges. This new tenure has been available to Registered Providers since 1st April 2011. Currently registered providers and Councils let properties on assured or secure tenancies at target rents which are approximately between 20% and 33% of open market rents.

- Social landlords will be permitted, once the Localism Bill becomes law, to offer a minimum of two year fixed term tenancies.
- 1.6 As part of these proposals the Council has to issue guidance to Registered Providers (formerly known as Registered Social Landlords) in the borough on the level of rent they should charge tenants in both new build accommodation and re-lets
- 1.7 The Council is supportive of the new proposed rent and tenure regime given the flexibility it provides in the allocation and management of social housing, together with the additional funding created by the new rent regime to support affordable housing development at a time of restricted public funding. The new proposals offer the Council an opportunity to further diversify the tenure mix and income range of those allocated social rented housing, providing a new form of intermediate housing for low to middle income earners. The Council will expect Registered Providers, where they have nomination rights, to promote the new tenure to working households who can afford affordable rent. Registered Providers will need have regard to existing levels of benefit dependency in an area and seek to achieve mixed and balanced communities.
- 1.8 However there are implications for the Council in moving to an 80% of Open Market Value (OMV) rent regime at this time. If the maximum rent increase permissible under the new proposals is applied some larger family sized accommodation would be unaffordable to both non working and working households. There is a risk this would increase the number of households presenting to the Council as homeless, potentially increasing demand for temporary accommodation (including Bed & Breakfast), with a resultant cost impact. There would also be a risk of more larger sized households being housed outside the borough where rents are more affordable. Therefore there is a need to limit the rent increase on dwellings of this size.
- 1.9 It should be noted that the new tenure and rent regime for Registered Providers (RPs) has been available from 1st April 2011 as it is being enacted through regulation from their regulator the Tenants Services Authority; it will not be available to Local Authorities until primary legislation is brought forward.

## **2. THE NEW RENT REGIME FOR AFFORDABLE RENTS**

- 2.1 From 1<sup>st</sup> April 2011 RPs are permitted to charge up to 80% of Open Market Rents on all new build rented accommodation funded from April 2011 by the Housing and Communities Agency (HCA) and also on relets as they occur. The HCA have indicated to RPs that they expect 50% of relets to be converted to the 80% of open market rents

threshold to subsidise development. The calculation of the market rent will be based on a residential lettings estimate for a property of the appropriate size, condition and area.

The new rent regime will only be available to RPs who have entered into a contractual arrangement with the HCA to deliver affordable homes, which are expected to be in place by September 2011. It is anticipated most of the major Registered Providers will be in a contractual relationships with the HCA by September. The affordable rent tenure will reform the financing of new affordable housing by reducing capital subsidy and moving to greater reliance on revenue funding for new provision.

- 2.2 The HCA Affordable Homes Programme states that in limited or exceptional circumstances, less than 80% of OMV may be appropriate when rents are close to or exceed Local Housing Allowance caps or for regeneration schemes where prior commitments have been made and for some specialist housing.
- 2.3 RPs not prepared to adopt the new affordable rent regime on new lets and re-provision will not be able to enter into contractual agreements with the HCA to secure grants and will therefore either become non grant funded developers or non developing associations.
- 2.4 Of concern to local authorities is that there are no mechanisms to ring fence the surplus derived from substantial rent increases in high value areas such as LBH&F, and therefore there is likely to be leakage that will subsidise development in other areas.
- 2.5 Registered Providers have bid for 83 new affordable dwellings on specific sites in the borough for the 2011 – 2015 HCA affordable housing programme. Of these, 42 are for affordable rent and 41 for intermediate sale. All of the 42 affordable rent properties are either 1 or 2 bed properties.
- 2.6 The Government's proposed revision to notional planning guidance (PPS3) clarifies that Affordable Rent is considered to fall within the definition of affordable housing for planning purposes. The Council's draft Local Development Framework Core Strategy proposes that 40% of new housing is affordable, being provided as intermediate housing and/or affordable rent.

### **3. WELFARE REFORM**

- 3.1 From April 2011 proposed housing benefit caps are as follows :
  - £ 250 for a 1 bed property
  - £ 290 for a 2 bed property
  - £ 340 for a 3 bed property

- £ 400 for a 4 bed property

- 3.2 The Government is also proposing that from 2013 the Universal Credit will bring together all the working and housing benefits for working age people into a single benefit stream. There will be a maximum entitlement to benefit of £ 500 pw for a couple/lone parent and £ 350 pw for a single person household.
- 3.3 London Councils have undertaken work that indicates, for different sized households, the amount available for housing rent after all other allowable benefits have been deducted from the indicative universal credit caps :

Household Type	Bedroom Requirement	Amount Left from Universal Credit for rent support
Single person over 25	1 bed	£ 282 pw
Single parent with child	2 bed	£ 352 pw
Couple with Child	2 bed	£ 314 pw
Single parent with 2 children	2/3 bed	£ 290 pw
Couple with 2 children	2/ 3 bed	£ 252 pw
Single parent with 3 children	3/4 bed	£ 228 pw
Couple with 3 children	3/4bed	£ 190 pw
Single parent with 4 children	4 bed	£ 166 pw
Couple with 4 children	4 bed	£ 127 pw

It can be concluded from the above analysis that 1 and 2 bed accommodation remains affordable under the new regime but 3 bed accommodation and above becomes increasingly unaffordable.

#### **4. OPTIONS FOR THE SETTING OF AFFORDABLE RENTS**

4.1 There are four main options:

- 1) Setting all rents at 80% of Open Market Value
- 2) Capping rents at Housing Benefit Levels
- 3) 80 % of OMV or a cap of no more than £ 250 pw rent across all bedsizes, whichever is lower
- 4) A Rent setting policy that addresses all levels of affordability

4.2 Full details of the options together with the issues are set out in Appendix 1 of this report.

## **5. PREFERRED OPTION**

- 5.1 It is officers' view that affordable rent offers a viable tenure that can not only meet housing need but also offer a tenure of opportunity to low and middle income earners in the borough. In many ways it can be seen in part as a transitional tenure between social rented and home ownership as opposed to social rented which has over the years become a marginalised and residualised tenure.
- 5.2 The Council needs to both ensure there is a continued supply of affordable rented accommodation to meet demand and ensure sufficient resources are raised to deliver new homes in the borough.
- 5.3 To achieve this, it is recommended that the guidance given to Registered Providers is that the Council would accept 50% of their relets converting to affordable rents but only on the basis of the rent levels (including service charges) being set at a level within Housing Benefit caps as at April 2011 ( see Option 2 in Appendix 1). This would equate to approximately 90 relets pa converting from social rented housing to affordable rents per annum based on 2009/10 allocations. This will allow RPs to significantly increase their rental income, but at the same time offering protection to the Council's ability to nominate welfare dependent households to which the Council has a statutory duty to rehouse.
- 5.4 It is further known in discussions between the Council and Registered Providers owning stock in the borough that they are being extremely cautious in adopting the 80% OMV rent position, particularly in relation to 3 and 4 bed properties. The Council are therefore reassured that even though Registered Providers have the flexibility to not operate within the guidance provided by local authorities in relation to rent setting of affordable rent tenures, all are expected to operate rent levels within or below the guidance set out in the recommendations of this report.
- 5.5 Clearly the housing landscape is changing significantly and in particular the outcome of the ongoing considerations regarding the level and composition of universal credit will need to be considered when these are concluded.
- 5.6 This policy position is therefore intended to be an interim position whilst further modelling is undertaken in preparation for the Council's Tenancy Strategy Plan and the impact of the proposed welfare reforms becomes clearer. It is further recommended that the Director of Housing and Regeneration, in discussion with the Cabinet Member for Housing, reviews the affordable rent policy on an annual basis.

## 6. OTHER BOROUGH AND REGISTERED PROVIDERS' POSITION

6.1 Most local authorities are in a similar position to LB H&F, seeking an interim policy position subject to further modelling.

- City of Westminster officers are looking at a percentage 65/70% of Local Housing Allowance caps for one and two bed properties which reflects incomes of households on the intermediate register but no increase for 3 and 4 bed dwellings due to the welfare benefit cap.
- LB Wandsworth officers are looking at setting income caps for different sized properties as follows : 1 bed properties let to those on annual gross incomes of up to £ 27,600, 2 bed up to £ 29,700, 3 beds up to £ 33,000 and 4 beds up to £ 35,000.

6.2 Officers have also contacted local Register providers on how they intend to implement the new affordable rent regime across their stock holdings and this is detailed in Table 5.

**Table 5**

Registered Provider	Position on New Build	Position on Relets
Affinity Sutton	80% of market rents on 1 and 2 bed and 65% of open market rents on 3 and 4 bed	Intend to convert 500 units pa to 80% of open market rent for 1 and 2 bed units. In addition will convert 1000 units pa to target rents + £ 5 pw.
L&Q Group	Will set rents at between 40% and 80% of Local Housing Allowances with an average of 60% of LHAs	Will only convert 1 and 2 bed properties to affordable rent in discussion with each local authority
Network HA	Will set rents at either 80% of market rents or the LHA whichever is the lower for 1 and 2 bed units and target rents for 3 bed and larger	44% of all relets will be converted to affordable rent
Notting Hill HG	Rents will be capped at £ 240 pw for a 1 bed, £ 245 pw for a 2 bed and £ 250 pw for a 3 bed	Convert 50% of existing social rent to affordable rents on 1 and 2 bed dwellings leaving 3 and 4 bed properties at target rents

Shepherds Bush HG	Rents will be capped at £ 175 pw for 1 bed and £ 239 pw for 2 bed	Convert 25% of existing social rent stock to affordable rent on 1 and 2 bed units only
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## **7. RISK MANAGEMENT**

7.1 This report is not on the Council's risk register.

## **8. EQUALITY IMPLICATIONS**

8.1 The initial screening assesses the interim guidance as being broadly of neutral relevance to most protected characteristics, albeit this is more complex for Age, Race and Sex, where different aspects of the policy will be more relevant to different groups within these protected characteristics than to others. In some cases, as given above, this will have a positive impact, and in other cases it will be neutral.

8.2 Breaking this down further, for some age and race groups, there could be some slightly positive impacts as the new affordable rent product will give them potentially greater opportunity to access intermediate housing.

## **9. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES**

9.1 Setting rent levels (including service charges) at a level within Housing Benefit caps as at April 2011 would ensure that the Council can nominate welfare dependent households that the Council has a statutory duty to re-house to affordable rent properties under the present Housing Benefit regime.

9.2 However if universal credits are implemented as currently proposed there is a risk that welfare dependant households who have already been nominated into affordable rent properties may receive benefits which are insufficient to cover their rent. These households may then need to be re-housed or subsidised by the Council depending on their circumstances. This would be a cost to the general fund.

9.3 As part of the MTFS an element of growth has been included as a corporate risk to allow for the future likely changes to housing benefit. This will require careful monitoring to ensure it is sufficient to cover any additional costs.

9.4 It is therefore also critical that this policy is reviewed on an annual basis in the light of Housing Benefit changes to ensure that the Council



retains the ability to nominate to affordable rent properties without increasing costs in the general fund.

**10. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)**

10.1. There are no legal issues arising at the present time from these proposals.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Affordable Rent File	Ian Ruegg/Ext 1722	Housing and Regeneration, 3 <sup>rd</sup> Floor, Hammersmith Town Hall Extension
2	Affordable Rent – Equality Impact analysis Initial Screening	Ian Ruegg/Ext 1722	Housing and Regeneration, 3 <sup>rd</sup> Floor, Hammersmith Town Hall Extension
<b>CONTACT OFFICER: Ian Ruegg</b>		<b>NAME: Ian Ruegg EXT. 1722</b>	

# Appendix 1

## Options for Rent Setting

### 1) Setting all rents at 80% of Open Market Value

This is summarised in the following table:

Bedsizes	Current Average Social Rents	Rent to be Charged 80% of Average OMV rents	Housing Benefit Caps	Income pa required to afford 80% OMV rents*
1 bed	£ 83	£ 200	£ 250	£ 37,142
2 bed	£ 92	£ 264	£ 290	£ 49,028
3 bed	£ 105	£ 340	£ 340	£ 63,142
4 bed	£ 119	£ 520	£ 400	£ 96,571

\* Assumes 40% of net income is spent on housing costs with net income assumed to be 70% of gross annual household income.

For one and two bed size properties 80% of OMV rents are within housing benefit levels, for 3 bed size properties there is parity and for 4 bed size properties 80% of OMV is significantly above housing benefit levels under current regulations.

Working households would need a minimum income of over £ 37,000 for non family sized dwellings or incomes of between £ 49,000 and £ 96,000 for the larger family sized accommodation for these rates to be affordable.

However, this proposal does not deal with the impact of the proposed new housing benefit regime, and larger family sized household would have insufficient resources to pay their rent under this regime and there would be a risk that the Council would have to make discretionary housing benefit payments or that the number of large households presenting as homeless would increase with an associated increase on the demand for temporary accommodation.

## 2) Capping rents at Housing Benefit Levels

This is summarised in the following table:

Bedsize	Current Average Social Rents	Housing Benefit Caps	Rent to be charged	Income pa required to afford 80% OMV rents or capped rent*
1 bed	£ 83	£ 250	<b>£ 250</b>	£ 46,428
2 bed	£ 92	£ 290	<b>£ 290</b>	£ 53,857
3 bed	£ 105	£ 340	<b>£ 340</b>	£ 63,142
4 bed	£ 119	£ 400	<b>£ 400</b>	£ 74,285

\* Assumes 40% of net income is spent on housing costs with net income assumed to be 70% of gross annual household income.

This option would ensure that all rents are within current housing benefit caps.

Affordability for 4 bed properties would be improved, they would be close to the London Mayor's proposed new affordability intermediate income threshold for 3 bed + dwellings of £ 74,000.

When proposals for universal credit are implemented officers will need to consider these rent levels and whether they would still be appropriate under the universal credit regime.

### 3) **80 % of OMV or a cap of no more than £ 250 pw rent across all bedsizes, whichever is lower**

This is summarised in the following table:

Bedsize	Current Average Social Rents	80% of OMV Rent	Rent to be Charged	Percentage of OMV rents	Income pa required to afford 80% OMV rents*
1 bed	£ 83	£ 200	£ 200	80%	£ 37,142
2 bed	£ 92	£ 264	£ 250	76%	£ 46,428
3 bed	£ 105	£ 340	£ 250	59%	£ 46,428
4 bed	£ 119	£ 520	£ 250	39%	£ 46,428

For all household types, the rents would be well within housing benefit levels and apart from larger households would also be affordable within universal benefit caps.

For those larger households that could not sustain rents within universal credit thresholds, it would still be possible to provide them housing within the existing housing stock as and when it became available that was not converting from social rents to affordable rents.

One way to enable this and ensure a reasonable supply of larger properties let at a social rent, would be for the Council to say in the guidance that it did not agree to the conversion of 3 and 4 bed properties on relet to affordable rent to protect the supply of affordable social rented larger family sized accommodation, but agree to affordable rents being charged on new build.

In this option the same rent would be charged across 2, 3 and 4 bed properties which potentially could dissuade people from down sizing. It would also deliver a situation where a working household would be paying exactly the same rent for occupying a 2 bed property as a 4 bed property or larger.

#### **4) A Rent setting policy that meets all levels of affordability**

This is:

Bedsize	Current Average Social Rents	Rent to be Charged	Percentage of OMV rents	Income pa required to afford 80% OMV rents*
1 bed	£ 83	£ 200	80%	£ 37,142
2 bed	£ 92	£ 250	76%	£ 46,428
3 bed	£ 105	£ 190	45%	£ 35,285
4 bed	£ 119	£ 127	20%	£ 23,585

If the above rent regime was implemented then all rents should be affordable to all household types whether housing benefit caps or universal credit were applied and they would make the larger sized accommodation considerably more affordable to those in work.

Given one of the purposes of moving to an affordable rent model is to maximise the rental income to support new affordable housing, these rent levels would not achieve this and may be opposed by developing RPs who require the higher rent levels to support their development programme.

In addition, adopting this rent regime would create a position where a household occupying a 4 bed property would be paying less than half the rent of a household occupying a 2 bed property.

## Appendix 2

### LBH&F Housing Profile

- 1.0 LBH&F has a relatively high existing stock of social rented housing, making up 32% of the housing stock in the borough, compared to 24% for Greater London as a whole. Therefore, the Council is in an advantageous position whereby it is anticipated that most of housing need, both current and projected future demand, can be met over the next 10 years from existing supply.

In contrast there is only a small amount ( less than 2%), of intermediate housing ( which may now include the new affordable rent tenure) meaning low to middle incomes who can not afford to purchase market housing due to high values in the borough, have to move away.

- 1.1 The Council's Strategic Housing Market Assessment (2010) estimated that there would be a housing need of 2,358 households requiring housing not including those on band D on Locata. Band D are those on the housing register that are adequately household and have no statutory priority.
- 1.2 Over the last three years (2007/08 –2009/2010, the borough has rehoused an average of 663 households per year (excluding transfers and sheltered housing). In 2009/10 181 social rented relets and 45 social rented new lets were provided by Registered Providers.
- 1.3 Table 1 below shows the ratio between the average number of bedrooms of those properties used in rehousing and the number of bedrooms required by the housing register. The ratio compares the demand for units by bedroom size against the number of units available of that size. For all households in housing need and just those in urgent housing need, the ratio increases with the number of bedrooms required.
- 1.4 For example for every one three bed unit that becomes available there are almost five households requiring that size unit and almost two will be in urgent housing need. For those households in urgent housing need, there are fewer people seeking one bed or bedsit units than stock available.

**Table 1 – Housing need by bedroom size compared to availability of bedrooms**

	<b>Number of bedrooms required/available</b>							
	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed	7 bed	8 bed
No. of Households in need	927	825	385	144	51	23	2	1
No. in urgent housing need	147	70	119	46	10	8	1	0
No. rehoused	318	211	82	14	1	0	0	0
Ratio of demand to supply								
All households to supply	2.91	3.92	4.71	10.29	38.25			
Urgent housing need to supply	0.46	0.33	1.46	3.29	7.50			

- 1.5 Hammersmith and Fulham has a comparatively high average income compared to the rest of London. However there is a large scale of economic polarisation with 21% having incomes of less than £ 20,000 pa and 19% having incomes of more than £ 60,000 pa. The boroughs average income is £ 34,821 pa.
- 1.6 Of those on the housing register it is estimated that 26% have an annual income of more than £ 19,000 pa and 7% have an income of more than £ 30,000 pa.
- 1.7 The Council low cost home ownership team, H&F Home Buy also maintain a register of those living or working in the borough interested in purchasing intermediate housing i.e. shared ownership, shared equity or intermediate rent. The current list stands at 3,548 households with 1521 households earning up to £ 30,000 pa, 1580 households earning between £ 30,000 and £ 50,000 and 447 earning above £ 50,000 pa.
- 1.8 Clearly there are a number of borough residents on either the housing register or H&F homebuy list who could afford to pay higher rents than existing social housing rents who have little opportunity to access any form of affordable housing. This leads to social housing being allocated to those on low incomes maintaining the poor income levels for those in social housing, fails to deliver mixed and balanced households in social housing and means that for those in work wishing to move into intermediate housing, there is little opportunity for them to access housing in the borough.