

## 8. Rents Strategy (Addendum)

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### **Affordable Rents**

#### *(a) Background – Government and HCA Policy*

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) requires all new affordable rented homes built by housing associations and councils with grant from the HCA to 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. Formal approval of the HCA must be obtained before a Council or a housing association can charge affordable rents, but this is generally forthcoming.

Affordable rents are defined by the HCA as being up to 80% of market rents (including service charges). This can be compared to social rents which, very generally, are usually around half the level of market rents. Once properties are let, the HCA’s Affordable Rent Model states that (from April 2015) affordable rents can be increased annually by a maximum of CPI (as at the preceding September) + 1%, until the property is vacated.

On re-let, the rent has to be re-based, taking account of market rents at that time.

#### *(b) Background to the Council’s Affordable Rent Policy*

Prior to embarking on its Housebuilding Programme, the Council decided that affordable rents should be charged for all new and re-let properties built under the Housebuilding Programme. This is for two main reasons:

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

In making this decision, the Council recognised that it would be charging significantly different (i.e. higher) rents for properties built under its Housebuilding Programme, compared to all the Council’s existing properties let at social rents. It was also recognised that it was likely that only applicants with either reasonable incomes or who were in receipt of housing benefit would be able to afford newly-built properties, let at affordable rents. This was because working applicants on lower incomes, but who are ineligible for housing benefit, may struggle to pay affordable rent levels, and would therefore be less likely to bid for them through the Choice Based Lettings Scheme, and only bid for existing Council properties let at social rents.

In July 2013, the Council agreed its Affordable Rent Policy, which was developed further in February 2014. This took account of:

- the Government’s and HCA’s requirements;
- the approach taken by other Registered Providers;
- Local Housing Allowances (LHAs); and
- the effect of the Government’s Welfare Reforms on housing applicants’ and tenants’ ability to meet the cost of affordable rents.

If an affordable rent is charged at a level that is higher than the 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.

Under the Government's Welfare Reforms, a Benefits Cap has been introduced from July 2013 whereby benefit claimants, whose total income from a range of benefits (including housing benefit) is in excess of £500 per week (£350 per week for single claimants without children), have their housing benefit reduced to bring their total benefits income down to a cap of £500 (or £350) per week.

Research undertaken by Moat Housing (one of the Council's Preferred Housing Association Partners) has established that, depending on their household composition, certain tenants subject to the Benefits Cap (i.e. those with large families) will currently be unable to afford rents in excess of £180 per week. Since the rents that the Council would charge for 3-bedroomed properties under its Housebuilding Programme would be in excess of £180, the Council has therefore agreed that its affordable rents should be subject to a Rent Cap.

*(c) The Council's Affordable Rent Policy*

The Council's policy on the use of affordable rents is that:

- (i) When properties are built under its Housebuilding Programme, they be (re)let at affordable rents set at a level equivalent to the lowest of:
  - 80% of market rents for the locality in which the property is situated, as assessed by the Council's Estates and Valuations Division;
  - The Local Housing Allowance level for the Broad Market Rental Area in which the property is situated; and
  - A Rent Cap.
- (ii) Affordable rents be increased annually by CPI (as at the preceding September) + 1% until the tenant vacates, when the affordable rent will be re-based in accordance with the HCA's Affordable Rent Model and (i) above;
- (iii) The level of Rent Cap be reviewed annually and set out within this Rents Strategy each year; and
- (iv) This 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.

*(d) Rent Cap 2014/15*

When the Council's Affordable Rents Policy was first introduced, it was agreed that the Rent Cap should be set at £180 per week.

This was reviewed by the Council's Housebuilding Cabinet Committee, in accordance with the Policy, in February 2014, when it was agreed that the Rent Cap should remain at £180 per week for 2014/15.

It should be noted that, within its Affordable Housing Programme Prospectus 2015-2018, the HCA has said, effectively, that Rent Caps should not be applied to schemes funded by the HCA. However, since (at present) the Council has only sought HCA funding for some of the properties within Phase 2 of its Housebuilding Programme, none of the properties for which funding has been sought would have the Rent Cap applied anyway.

However, this is an issue that will be kept under review, should the Council seek HCA funding in future years.