

Report to the Council Housebuilding Cabinet Committee



**Epping Forest
District Council**

Report reference: CHB-019-2015/16

Date of meeting: 24 March 2016

Portfolio: Housing

Subject: Rent Levels – Open Market Property Purchases

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

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Recommendation:

- (1) That the type of rents to be charged for new or existing empty properties purchased by the Council off the open market as part of its Council Housebuilding Programme be as follows - reflecting the fact that newer properties have much more modern standards and facilities, including greater energy efficiency (resulting in lower fuel bills for tenants), and that older properties are more like the Council's current housing stock:**
 - (a) Affordable rents - to be charged for new properties, or properties built since 2010; and**
 - (b) Social rents - to be charged for properties built before 2010; and**
- (2) That applications be made to the Homes and Communities Agency (HCA), as necessary, to enter into "short-form agreements" with the Council to enable the Council to charge affordable rents when required.**

Executive Summary:

The Cabinet Committee has agreed to purchase some empty properties off the open market, in order to ensure that all of the Council's Right-to-Buy (RTB) "one-for-one" replacement capital receipts are spent within three years of receipt. The Council now needs to determine whether these purchased properties are charged affordable rents (which will be charged for new properties built under the Council Housebuilding Programme) or social rents (which are charged for the Council's existing 6,350 properties).

Most of the existing Council properties were built between 20 and 70 years ago. Since the Council needs to be able to justify to housing applicants and tenants why the rents for a relatively small number of new Council properties built under the Housebuilding Programme are much higher than the rents for most other Council properties, it is suggested that the type of rents to be charged should be based on the age of the properties – since newer properties generally have much more modern standards and facilities, including greater energy efficiency (resulting in lower fuel bills for tenants).

The suggested approach is therefore as set out in the recommendations. This approach will result in, for example, social rents to be charged for former Council properties purchased off the open market on a Council housing estate built many years ago and affordable rents to be

charged for new affordable properties that the Council purchases from developers on Section 106 sites (e.g. at Barnfield, Roydon), in the same way as for new properties built by the Council itself under the Housebuilding Programme.

Reasons for Proposed Decision:

The Cabinet Committee needs to determine whether properties purchased by the Council off the open market are charged affordable rents or social rents.

Other Options for Action:

The main options appear to be:

- (a) Either social rents or affordable rents could be charged for **all** properties purchased off the open market; or
- (b) A different year to the proposed 2010 could be selected for determining whether affordable rents or social rents should be charged.

Introduction:

1. At its last meeting, the Cabinet Committee agreed that it will be necessary to purchase empty properties from the open market under the Council Housebuilding Programme, to let to Council housing applicants, in order to ensure that all of the required Right-to-Buy (RTB) “one-for-one” replacement capital receipts are spent within three years of receipt, as required under the legal agreement the Council has entered into with the Department for Communities and Local Government, so that no receipts have to be passed to the Government (plus interest).

2. The current estimate is that 6 properties will need to be purchased by the end of December 2016. However, this is dependent on a number of factors and may well change. The main issues that will affect the number of market properties that need to be purchased are:

- The purchase prices for the market properties that are purchased;
- Progress with Phase 1 of the Housebuilding Programme;
- Progress with Phase 2 of the Housebuilding Programme; and
- The start on site date for the development at Barnfield, Roydon by a private developer, for which the Council has entered into a Development Agreement with the developer to purchase the required affordable housing

3. At its last meeting, the Cabinet Committee requested a report considering the types of rents that should be charged to tenants for the empty properties purchased from the open market.

Rent Levels

4. There are two options available to the Council for the type of rents to be charged to tenants of the purchased properties, as follows:

- | | |
|----------------------|---|
| (a) Affordable rents | The Council has agreed to charge affordable rents for all of its new properties, built to modern standards, under the Council Housebuilding Programme |
|----------------------|---|

- (b) Social rents The Council charges social rents for all of its existing 6,350 Council properties

(a) Affordable Rents

5. Affordable rents are defined by the Homes and Communities Agency (HCA) as being “up to 80% of market rents (including service charges)”. However, 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 (which is set by the Valuation Service, based on the lowest 30th percentile of market rents in the BMRA), the difference between the rent and the LHA cannot be met from housing benefit. In such circumstances, if a tenant is in receipt of housing benefit, they have to pay the difference between the LHA and the affordable rent themselves. For this reason, if 80% of a property’s market rent (including service charges) is higher than the LHA level, most social landlords set affordable rent levels at the relevant LHA.

6. Indeed, the Council’s agreed policy on the use of affordable rents is that rents are set at a level equivalent to the **lowest** of:

- 80% of market rents (including service charges) for the locality in which the property is situated;
- The Local Housing Allowance level for the Broad Market Rental Area in which the property is situated; and
- A Rent Cap (currently £180 per week).

7. Like social rent levels, the anticipated Welfare Reform and Work Act 2016 will require affordable rents to then be reduced by 1% per annum for 4 years from April 2016, after which they can be increased annually by a maximum of CPI + 1%, until the property is vacated. On re-let, the rent has to be re-based, taking account of market rents at that time.

8. Unless a development is funded by the HCA, an application has to be made to the HCA to enter into a “short-form agreement” if councils want to charge affordable rents for any council properties.

(b) Social Rents

9. Social rents are set according to a Government formula, based on the following methodology:

- 30% of a property’s rent is based on relative property values compared to national property values;
- 70% of a property’s rent is on relative local (county) earnings compared to national earnings; and
- A bedroom factor so that, all other things being equal, smaller properties have lower rents.

10. The formula also takes account of national average council and housing association rent levels, and produces a “Target Rent” for each property. However, due to the early cessation of the Government’s “Rent Convergence Policy”, the rents for many of the Council’s properties are not yet at their Target Rents.

11. Therefore, in order to help reduce the financial impact of the Government’s cessation of its Rent Convergence Policy on the Council’s HRA to some degree, the Cabinet has agreed that, since April 2014, vacant properties should be re-let at their Target Rent (if they are not

already at the Target Rent), and not the same rent level as charged to the previous tenant.

12. As with affordable rent levels, the anticipated Welfare Reform and Work Act 2016 will require affordable rents to then be reduced by 1% per annum for 4 years from April 2016, after which they can be increased annually by a maximum of CPI + 1%.

(c) Comparison of Rent Levels

13. Since the Council has only recently had to assess appropriate levels of affordable rents, for a relatively small number of properties across the District, the amount of empirical data is limited. However, the rent levels used by East Thames for feasibility studies to date, compared with the Council's social rent levels for next year (2016/17 – including the 1% rent reduction) are as follows: *(Note: in order to ensure an equitable comparison, the social rent levels also include average service charges)*

Differences between social rents and affordable rent levels			
Property Type	Social Rent (per week)	Affordable Rent (per week)	Difference (per week)
1 Bed	£87.77	£119.59	£31.82
2 Bed	£99.45	£165.58	£66.13
3 Bed	£109.95	£180.00	£70.05
Average	£99.06	£155.06	£56.00

14. It should be noted that the actual affordable rents that will be charged when the new homes built under the Council Housebuilding Programme are actually let, will be assessed by reference to 80% of the actual market rents in the locality of the developments and in accordance with the Council's Affordable Rents Policy set out at Paragraph 6 above.

Proposed Rent Levels for Market Purchases

15. The introduction of affordable rents for newly-built Council properties has resulted in the Council adopting a "two-tier" approach to Council rents (affordable rents for newly-built properties and social rents for much older, existing Council properties) – which has become the norm across the country.

16. Most of the Council's existing properties were built between 20 and 70 years ago, with 6% built before the Second World War. Indeed, the last general needs properties to be built by the Council were in the mid-1990s, over 20 years ago.

17. Therefore, bearing in mind that all Council housing vacancies are advertised through HomeOptions, the Council's choice-based lettings scheme, it is considered important to be able to justify to housing applicants and tenants, in practical terms, why the rents for a relatively small number of newly-built Council properties are much higher than the rents for most other Council properties, and to have a differentiated approach between the application of the two types of rent levels.

18. The clearest practical difference is that properties for which affordable rents will be charged will all be much newer than existing Council properties. They will have much more modern standards and facilities, including greater energy efficiency (resulting in lower fuel bills for tenants).

19. Indeed, it was for this reason that the Cabinet Committee previously agreed that the recently converted properties at Marden Close, Chigwell Row (which were originally built over 50 years ago) should be charged social rents and not affordable rents.

20. Therefore, in considering whether to charge social rents or affordable rents for empty properties to be purchased off the open market, it is suggested that a similar approach is adopted – i.e. that the approach should be based on whether the properties are relatively new (e.g. either new or, say, built since 2010) or are older properties, and more like existing Council properties (say, built before 2010). Accordingly, the suggested approach is as set out in the recommendations of this report.

21. This would mean, for example, that:

- Affordable rents would be charged for new affordable properties that the Council may purchase from developers on Section 106 sites (e.g. at Barnfield, Roydon), in the same way as for new properties built by the Council itself under the Housebuilding Programme; but
- Social rents would be charged for former Council properties purchased off the open market on a Council housing estate built many years ago.

Resources Implications:

On average, the difference in rental income between social rents and affordable rents is around £56.00 per week, as shown in detail in the table within the main report.

Legal and Governance Implications:

Legally, the Council can charge either social rents or affordable rents, subject to the HCA entering into a “short-form of agreement” allowing the Council to charge affordable rents.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

None.

Risk Management:

There are no material risks associated with the recommendations – although it should be noted, of course, that the rental income received from tenants is less at social rent levels than affordable rent levels.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Although charging (higher) affordable rent levels is likely to have a greater economic impact on tenants than social rents, no equality issues affecting any of the groups with defined protected characteristics under the Equality Act 2010 have been identified. In any event, since no affordable rents will be set at levels higher than the relevant local housing allowance, tenants will be eligible to receive full housing benefit if required.