

Use of Affordable Rent

1. The following gives a strategic overview of Affordable Rent at both national and local level, followed by details of its impact on Southampton to date and local modelling which has been carried out on affordability of Affordable Rent.

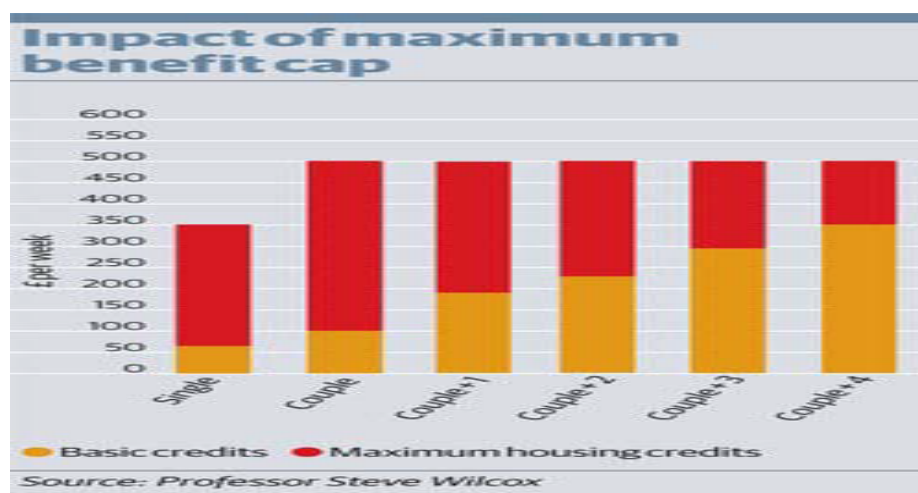
Affordable Rent- background & Government aims

2. The Government announced an intention to introduce a new tenure as part of the October 2010 Spending Review. Under this model social landlords are able to offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is then available for reinvestment in the development of new social housing.
3. Essentially, this model envisages the replacement of the capital grant supply subsidy for social housing with a revenue subsidy. The scheme was expected to contribute to the delivery of 150,000 new affordable homes over 2011-15. After a successful bidding process the Government increased this estimate to 170,000 new homes (of which it is expected that 80,000 will be affordable rent and affordable home ownership properties) utilising £1.8 million in grant funding.
4. Local authorities have been able to build using this scheme since the reform of Housing Revenue Account subsidy is finalised in April 2012.
5. The Government intention for Affordable Rent was to:
 6. maximise the delivery of new social housing by making the best possible use of constrained public subsidy and the existing social housing stock
 7. provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent
8. Grant Shapps (former housing minister) advised parliament that

Another criticism that I have heard is that this will be the end of mixed communities. In fact, it is quite the opposite, because what you are doing is building homes or providing affordable rent in areas that may previously have been only for social rent. You are, therefore, potentially mixing up the community better with people on different income streams and different levels of earning power. You are providing aspirational assistance to people who may continue to live there and pay a higher rent, at the end of their affordable-rent period, or who may even buy that home.

Welfare benefits

9. From October 2013 Universal Credit will introduce a benefit cap which caps benefits at £500pw for families and £350 pw for single people under 35. People in work are exempt from the cap, even if in very low pay work.
10. Universal Benefit Cap limits income to £500 per family per week – so limits amount of rent that different size families can afford after basic benefit credits accounted for:



11. Affordability is only threatened if rent payments plus other benefits exceed the Benefits Cap
12. As an example, a family of 2 non- working adults and 2 children living in a 3 bedroom Affordable Rent property on Townhill Park would pay £166.15 per week from their Universal Benefit, leaving them £333.85 each week for other living expenses, ie £17, 360 per annum once their housing costs are paid.

Affordability for People in Work

13. People in work are not affected by the Universal Benefit cap. Their income remains the same regardless of rent level because Housing Benefit (HB) increases to cover the additional rent – up to the Housing Benefit Cap.
14. Locally the Housing Benefit caps are currently: 1 bed £115.38/ 2 bed £150.00/ 3bed £178.85 / 4bed £242.31.
15. All the proposed Affordable Rent levels for Townhill Park are within these caps, so anyone working on a low income would be able to get help to pay the rent up to the full rent level.

16. The Government's overriding principle is that work should pay and that no-one working should be in a worst position.

Link between Affordable Rent and Government affordable housing grant

17. The Homes and Communities Agency (HCA) are the organisation that administers all grants for affordable housing.
18. For their 2011-15 bid round the expectation was that any organisation seeking grant funding to build new homes would be charging Affordable Rent. Only in exceptional case would the HCA consider a bid that included social/ target rent. Usually this would be in areas where the Affordable Rent is actually lower than a social/ target rent such as in parts of the North.
19. Although the council did not bid under the 2011-15 bid round for Townhill Park, charging Affordable Rent would at least mean we are in a position to bid should additional funding become available and it was felt a bid was beneficial to the council.
20. It is not yet clear what the position will be after 2015 but it is generally believed that Affordable Rents will remain the norm.

Government's view of allocating to Affordable Rent

21. The HCA's guidance is:

Allocations and nominations processes for Affordable Rent homes are expected to mirror the existing frameworks for social rented housing. Providers will be under the same statutory and regulatory obligations when allocating Affordable Rent homes as they are when allocating properties for social rent.

22. There is scope for local flexibility within the existing allocations framework. Provided that a local authority's overall scheme is framed around the Reasonable Preference categories, local authorities can opt to reserve certain properties for allocation to other client groups. They may decide to exercise this discretion in relation to Affordable Rent, eg to target it at households in work but on low incomes. Similarly, providers will have discretion to allocate properties to households who are in work where those properties do not form part of nominations agreements with local authorities.
23. Effectively then, the council has the opportunity to consider a local lettings plan for Affordable Rent properties. However, any restrictions on who such properties are let to would potentially reduce the choice of applicants and might even impact on tenants wishing to return if they were not within the plan.

Impact on lettings in Southampton to date

24. Since the introduction of AR, the council has allocated 72 housing associations homes (via HomeBid, the Choice Based Letting Scheme) on AR. 15 of these were to tenants not in receipt of HB.
25. So, in 20% of cases the tenant is totally responsible for paying the full rent. In the other cases the tenant receives whole or part HB depending on their level of income. *(This does not mean only 20% are working, as those working on low income would be entitled to some HB too.)*
26. This compares to 25% of cases (in a representative sample) across all lettings including sheltered (excluding sheltered this drops to 18%). Basically then there is little difference in profile of new residents between AR and social rent tenancies.
27. All new council tenants ie non transfers, are now being charged target rent for existing properties rather than 'social rent'
28. The council's Allocations Team confirm that refusals for AR units are no higher than for social/ target rent. Their view is that rent level is simply not a determining factor in refusals. Issues such as parking, location etc are of far more concern to applicants.

Feedback from housing associations

29. As these housing associations (HAs) are working across areas larger than Southampton, their experience is useful.
30. One of our HA partners- (large regional) reported: They have seen no impact since introducing AR. Of their new AR letting, 47% have been to people receiving no HB, 20% to people on partial HB and 33% on full HB. Demand and re-let times have not been affected and income recovery levels remain very good. All AR rents are within current Local Housing Allowance (HB levels).
31. Another partner (national) advises: To date they have not identified any difficulties letting AR properties. Of the units let on AR so far, 40% of tenants have not been in receipt of any HB, 15% on partial HB only and 44% on full HB. They advise this is not significantly different to the overall profile of their social rent tenancies.
32. Another partner (large regional), advised: On 17 AR homes let in Southampton, 22% of residents are economically active compared to 33% of those who enter social rent accommodation.
33. Another partner (large regional), advised: They have had no difficulty letting AR properties (1 refusal from 232 lettings due to rent level), and conversion of existing properties to this rent have

not made any of them hard to let. The data they have shows they have not seen any change to the make up of their tenants following AR, with no change in financial circumstances of new tenants.

34. All advised that they are working hard internally to prepare for any potential impact of welfare reform, but none can quantify what the effect, if any will be.

35. In summary, HAs are not finding that AR is having a significant impact on any aspect of lettings or tenancies.

National comparison

36. For comparison the national breakdown on lettings for 2010/11 is included- this would not have included Affordable Rent tenancies, so is a useful basepoint for comparison.

37. What this shows is that at 20% of all AR units let to residents not receiving any benefits, the current situation in Southampton at worst mirrors the national picture pre Affordable Rent. However it is highly likely the situation in Southampton is better, because the 21% nationally working full time could still be receiving housing benefit.

2010/11

	HA	LA (adjusted) ²	Total (adjusted)	Total %
Working full-time ³	33,200	19,546	52,746	21.1
Working part-time ⁴	15,528	8,778	24,306	9.7
Govt training/New Deal	287	349	636	0.3
Jobseeking	30,711	22,286	52,997	21.2
Retired	11,276	9,706	20,982	8.4
Home/not seeking work	33,120	21,551	54,671	21.9
Student	2,480	1,691	4,171	1.7
Unable to work due to sickness or disability	18,339	11,627	29,966	12.0
Other adult (over 16)	2,423	6,812	9,235	3.7
TOTAL	147,364	102,347	249,711	

Local Modelling of impact of Affordable Rent

38. Sample modelling has been done using the best information currently available. The modelling was done using the AR rent for a 3 bed house- £166.15 pw

Model 1:

39. Based on a family with one working adult, earning the average full time salary in Southampton of £465.50pw (£23,998 pa) gross, the

household would be entitled to partial HB (£83.22 per week) as well as tax credits and council tax benefit.

40. Based on average outgoings, the model shows they would be able to afford to pay the AR each week after other usual outgoings were taken in consideration.

Model 2:

41. Based on the same family but this time with the second adult also working part time and earning £300pw (gross), the family would not be entitled to any benefits.
42. In this model the family would also be able to afford to pay the AR each week after other usual outgoings were taken in consideration.
43. In summary- modelling using realistic examples confirms AR is affordable for working families.

Energy Charges

44. The current average heating charge for a 2 bed council flat is £13.13 per week (based on district heating charges)
45. The indication from national figures provided by the Code for Sustainable Homes website is that the weekly cost for a 2 bed house (the nearest comparator) could be as little as £7.60 per week (for heat and power).
46. This gives a potential saving of over £5 per week. Clearly the actual savings will depend on the type of energy and energy efficiency measures used, and the lifestyle of the individual household.
47. Potentially though, households in the new homes could save over £280 per year on heating alone, in addition to savings on power and water. This will assist further with affordability.

The cost of not introducing Affordable Rent

48. Detailed modelling has been undertaken to illustrate the cost to the Housing Revenue Account (HRA), if the level of rent charged on the 450 social properties proposed for Townhill Park is reduced from the Affordable Rent level, which is equivalent to 80% of Market Rent, to a lower level, which is closer to the Target Rent level for existing HRA dwellings.
49. The attached graph (appendix 1) shows that the total net cost to the HRA, over the period of the 30 year business plan, increases from the **£33.1M** figure, for an Affordable Rent at 80% of Market

Rent, to an increased total net cost of **£47.2M** at 70% Market Rent and **£61.3M** at 60% Market Rent.

Impact of phasing in Affordable rent

50. Another option that has been modelled is a phasing in of the full Affordable Rent levels, so that the rent payable by the tenant is 60% of Market Rent in the first year of occupation and 70% in the second year of occupation. The full Affordable Rent, at 80% of Market Rent, would be payable from the third year of occupation onwards. This option would increase the total net cost to the HRA by £1.4M, i.e. an increase in total net cost from **£33.1M** to **£34.5M**.
51. It is also worth noting that only 8% of tenants eligible to return to Hinkler Green (formerly Hinkler Parade) following the estate regeneration phase 1 work chose to do so. The vast majority positively chose to remain in the property they had been decanted to.
52. The experience to date then would suggest the majority of tenants moving into new properties following the redevelopment of Townhill Park will be 'new' residents and so the concept of 'phasing in' is less applicable because they won't have been paying the previous social rent levels.
53. Any tenants moving in to the new properties will be aware of the new rent level in advance, and will be making a positive choice to move (via HomeBid, the council's Choice Based Letting scheme) HomeBid has been in place for a number of years now and is a well understood and established. The rent level of every property being advertised is very clearly shown in the advert.