



Cabinet Meeting

23 April 2014

Report title	An Affordable Rent Policy for Wolverhampton Council Housing	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Peter Bilson Economic Regeneration and Prosperity	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable director	Tim Johnson, Education and Enterprise	
Originating service	Housing	
Accountable employee(s)	Jane Trethewey	Section Leader, Housing Development 01902 555583
	Tel	jane.trethewey@wolverhampton.gov.uk
	Email	
Report to be/ has been considered by	N/A	

Recommendation(s) for action or decision:

The Cabinet is recommended to:

Approve the setting of Affordable Rents for new Homes and Communities grant funded council housing at 80% of the market rent level, limited by the Local Housing Allowance caps.

Recommendations for noting:

The Cabinet is asked to note:

That the Council will not seek to apply Affordable Rents to existing council housing by the conversion of properties to Affordable Rent tenure when voids arise.

1.0 Purpose

- 1.1 This report seeks authorisation from Cabinet to introduce an Affordable Rent policy for council housing in Wolverhampton, where new build homes, property refurbishments and acquisitions are supported by Homes and Communities Agency (HCA) grant.

2.0 Background

- 2.1 The Council has set out an ambition to develop new council housing, and one mechanism by which to fund new homes is the use of various forms of grant from the HCA. The Council has already committed to three different development projects funded through this route:
- **Thompson Avenue** – this new housing development is being delivered by Kier Housing Partnerships who are applying Affordable Housing Programme grant funding to reduce the cost to the Council of forty new council houses.
 - **CaSSH Fund** – Care and Support Specialised Housing Funding has been secured to deliver twenty wheelchair accessible homes, of which ten will be new council houses.
 - **Empty Property Fund** – the Council will be buying back former Right to Buy properties and converting commercial property into residential units for council rent.
- 2.2 All of these projects are planned to deliver new council homes within 2015-16, and all have a requirement from the HCA that the units are let on Affordable Rents. The term Affordable Rent, when capitalised in text, has a specific definition.
- 2.3 The Coalition Government's Affordable Homes Programme launched in February 2011 introduced Affordable Rent tenure as the main type of new affordable housing supply. An Affordable Rent is a rent level of up to 80% of gross market rent. In addition housing providers entering into a contract with the HCA have the flexibility to convert a proportion of their existing target or social rent properties to Affordable Rent when re-letting voids. This option was introduced on the basis that the additional borrowing capacity generated would support the delivery of new housing supply.
- 2.4 The Council currently lets all of its housing on Introductory Tenancies and then Secure tenancies, and does not have a form of tenancy in place for Affordable Rent lettings, nor a policy by which to set Affordable Rents. This paper discusses the policy options for setting these rents, leading to a recommendation for a policy to apply to all future Affordable Rent tenancies within Wolverhampton City Council stock.

3.0 How Affordable Rent works

- Set at up to 80% of the gross local market rent
 - Inclusive of service charges
- 3.1 The HCA's guidance is that Affordable Rents should be set at up to 80% of the gross market rents in the locality, reflecting the property size and location. Landlords are advised to assess the gross market rent that the individual property would achieve and

set the initial rent, inclusive of service charges, at up to 80% of that level, making use of a Royal Institute of Chartered Surveyors (RICS) approved valuation methodology.

- 3.2 Affordable Rents are typically higher than social or target rents (although as Wolverhampton is a relatively low market value area for housing the differentials are not as large as other parts of the country). Affordable Rents have to include any service charge within the rent, whereas with social or target rents a service charge can be added to the rent as a separately calculated charge. The local market context should be considered when setting rents, including the Local Housing Allowance (LHA) cap for the Broad Rental Market Area in which the property is located. Wider benefit policy should also be taken into account, such as the local impact on affordability of the Welfare Reform changes.
- 3.3 Where housing is for vulnerable or older people the HCA recommends that gross market rent comparables should be based on similar types and models of service provision. This will be relevant for the Care and Support Specialised Housing Fund properties, which will be large, wheelchair accessible family homes. Where there are insufficient comparables for similar types of provision in the local area, valuers should be requested to identify these from other areas, and extrapolate their best view of the gross market rent applicable in the location in which the property is situated. The Council should then set the initial rent at up to 80% of that level.
- 3.4 In order to provide protection and certainty for tenants, providers and funders, the maximum annual rent increase on an Affordable Rent property is currently intended to be Retail Price Index (RPI) + 0.5%. RPI is taken as at September of the previous year. Additionally there is a requirement to re-base the rent on each occasion that a new Affordable Rent tenancy is issued or renewed for a property, to ensure that the rent remains at no more than 80% of market rent (inclusive of service charges) – this requirement overrides the RPI + 0.5% limit. This may change with the results of the Government's consultation on rent setting and the move to Consumer Price Index (CPI).
- 3.5 Whilst a figure less than 80% of market rents will be considered, the HCA expects providers to use the flexibility to charge rents of up to 80% of market rents to maximise financial capacity. Should the Council propose to charge lower rents, the HCA would need to understand how this would help to meet particular housing needs, deliver value for money for the taxpayer and generate the capacity required to deliver new supply aspirations.
- 3.6 The HCA suggests circumstances where it is appropriate to set rents at less than 80% of market rents. For example where a rent at 80% of market rent would exceed or be close to the relevant LHA cap, or if the local rented market was considered to be particularly weak or fragile (for example on an existing estate where there may be few market rented properties). In all cases, an Affordable Rent should be no lower than the rent calculated based on the current target rent regime. Where an Affordable Rent would otherwise be lower than the target rent for a property, the target rent constitutes a 'floor' for the rent to be charged.

4.0 Tenancies

- 4.1 The HCA does not specify the type of tenancy we should use when homes are let on Affordable Rent terms. There is flexibility on the type of tenancy to be offered, with the option to offer lifetime tenancies, for example. The Government expectation is that providers use this flexibility to ensure that help and support are focused on those who need it most, and to build 'strong and cohesive communities'.
- 4.2 Tenancies for Affordable Rent properties must be for a minimum period of two years but the flexibility is available to offer longer tenancies. The requirement to specify a minimum term, as well as the revision to the rent-setting clause, means that the Council tenancy agreement will have to be re-worded for Affordable Rent properties. We must meet the regulatory requirement to publish clear and accessible policies outlining our approach to tenancy management.
- 4.3 Allocations and nominations processes for Affordable Rent homes are expected to mirror the existing frameworks for social rented housing. The Council has a published Tenancy Strategy which states that we will not use flexible or fixed term tenancies, and it is suggested there is no necessity to deviate from this for Affordable Rent lets. We are under the same statutory and regulatory obligations when allocating Affordable Rent homes as when allocating properties for social rent.

5.0 Affordable Rent Options

- 5.1 There are a number of different options for the Council to consider in applying Affordable Rent both to its newbuild and its existing housing stock.

Table 1 - Options for New Stock

Options	Benefits	Risks
1. Set Affordable Rents at the maximum 80% of the market rent for the locality of each property	<ul style="list-style-type: none"> Maximised rental income to support Housing Revenue Account (HRA) borrowing to deliver additional housing in future 	<ul style="list-style-type: none"> Tenancy turnover risks being higher due to affordability issues
2. Set Affordable Rents at a percentage level to most closely match existing Council secure tenancy rents, i.e. below 80%	<ul style="list-style-type: none"> More equitable across all tenures of Council housing More sustainable tenancies 	<ul style="list-style-type: none"> Will require justification to the HCA, and their audit process Lower rental yield
3. Set Affordable Rent percentages differentially for different property sizes, reflecting the higher cost of larger	<ul style="list-style-type: none"> Maximises rental income only in properties where the weekly rent does not create an unaffordable level 	<ul style="list-style-type: none"> Will require justification to the HCA, and their audit process Lower rental yield

units in the market	<ul style="list-style-type: none">• More sustainable tenancies	
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Table 2 - Options for Existing Stock

Options	Benefits	Risks
1. Convert a proportion of existing properties to Affordable Rent for a proportion of void properties arising	<ul style="list-style-type: none"> • Maximised rental income to support HRA borrowing to deliver additional housing in future • More consistent approach across new build stock and existing stock 	<ul style="list-style-type: none"> • Administratively difficult to market and manage units differently • Harder to let at higher rents • Tenancy turnover risks being higher due to affordability issues • AR rents fluctuate with the market, and have to be re-based for every re-let
2. Leave existing stock for social rent tenancy letting	Simpler to administer and to explain to tenants	<ul style="list-style-type: none"> • Failure to maximise the council's HRA income for the support of newbuild

6.0 Proposed policy

- 6.1 The Council's surveyors have provided a view on local market rents by post code areas across the City. The Council's Finance team has then taken the average rents of properties in each area as they currently are, and taken this as the basis of the market rent for the calculation of the Affordable Rent. It has not been proposed to calculate any further uplift on the basis that the newbuild Council properties are likely to be newer than the general stock in an area.
- 6.2 Calculations have been made for current market rents, current HRA rents, and 80% of market rents for each postcode area in the City. The Local Housing Allowance (LHA) caps for Wolverhampton are as shown on Table 3 below.

Table 3 – Local Housing Allowance Caps

Number of rooms	Weekly*	Monthly
1 bedroom	£86.54	£375
2 bedroom	£106.13	£459.90
3 bedroom	£117.92	£510.99
4 bedroom	£150	£650

*based upon 52 weeks

- 6.3 Using the WV1 post code area as an example, the difference between current weekly Council secure rents and 80% market rents using this calculation and applying the LHA caps are set out in Table 4 below. However when reading this table it is important to note that the Affordable Rents shown must incorporate any service charges. This means that

they are more affordable than at first glance where service charges are highest, which is likely to be in the smaller, flatted accommodation. This shows that only the largest unit of 5 bedrooms is limited by the LHA cap, with all other figures coming in below this level. This would mean that Housing Benefit would be fully payable where households are eligible.

- 6.4 The 80% of market rent figure shows a significant uplift from the current Council rents for these properties. However, the properties will be let through the Choice Based Lettings system, and therefore be taken up by residents who consider they are able to cover this charge, either directly or through benefits support. The Council can choose to apply a lower percentage than the 80% figure. It can also choose to apply different percentages to different property sizes, dependent on the impact upon lettings.
- 6.5 There is currently an increased demand for smaller units, as a result of Welfare Reform creating a need for individuals and smaller families to move into accommodation that more closely matches their household size. In light of this it would appear inappropriate to simultaneously create higher rents in existing stock by applying Affordable Rents here.
- 6.6 However, the Council may still choose to apply these Affordable Rents to newbuild or newly acquired and refurbished stock, where the provision of modern accommodation is more likely to be seen to justify the higher rental charge. Were the Council to apply AR rents in existing stock, it would lead to significantly different rents being charged for identical neighbouring properties, where one had become vacant and the other had a sustained Secure tenancy. This is likely to lead to management difficulties.
- 6.7 Affordable Rent tenancy rent setting is proposed to be handled through a yearly valuation. This will set the level of rents for each post code locality (within the strictures of the guidance) for the year ahead.

Table 4 – Social Rents, Affordable Rents set at 80% of Market Rents, and Market Rents

Property Size/type	1 Bed Rent £ weekly			2 Bed Rent £ weekly			3 Bed Rent £ weekly			4 Bed Rent £ weekly			5 Bed Rent £ weekly		
	Social*	AR	Market	Social*	AR	Market	Social*	AR	Market	Social*	AR	Market	Social*	AR	Market
Flat	64.53 (62.05)	83.33	104.17	71.59 (68.84)	106.67	133.33									
Bungalow	73.19 (70.38)			84.91 (81.64)	100.00	125.00									
Terraced				83.93 (80.70)	91.00	113.75	92.89 (89.32)	102.50	128.13	101.85 (97.12)	115.00	143.75	107.31 (103.18)	134.00	167.50
Semi				86.08 (82.77)	97.00	121.25	91.96 (88.42)	116.67	145.83	100.72 (96.85)	144.00	180.00	94.31 (90.68)	150.00	200.00

*The Council's Social rents are based upon payment over 50 weeks of the year. The bracketed figures show the social rent recalculated for payment over 52 weeks, which is more directly comparable to the Market and Affordable Rent figures.

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[NOT PROTECTIVELY MARKED]

7.0 Recommendation

- 7.1 It is recommended that for new HCA funded homes the Council pursue option 1 in Table 1 above, and apply the Affordable Rent charges at an 80% level, subject to review in application. This will maximise the rental revenue from newbuild stock and provide additional income to support new housing development. Provided this rent is held below the LHA cap in all cases, as guidelines recommend, this charge will still be supported by benefits where applicable.
- 7.2 It is further recommended that Affordable Rent is not applied to existing housing units, as set out in option 2 in Table 2 above. This is on grounds that this is not so justifiable in terms of the quality of the units, and risks widely differential rents in neighbouring properties. Also to apply AR tenure more widely would increase workloads excessively in recalculation of rent levels, disproportionate to the likely benefit to the HRA.

8.0 Financial implications

- 8.1 It is a condition of Homes and Communities Agency (HCA) grant funding that the Council applies an affordable rent to properties financed by this grant.
- 8.2 The income generated from these properties will offset any expenses associated with building them or bringing them into a lettable condition and make a positive contribution to HRA resources over the life of the thirty year business plan.
[CF/07042014/D]

9.0 Legal implications

- 9.1 The Council's standard Introductory and Secure Tenancy agreements will be amended to reflect the slightly different terms required by the Affordable Rent aspect of these tenancies. This does not require consultation as it will not affect existing tenancies.
[JH/02042014/H]

10.0 Equalities implications

- 10.1 An Equality Analysis on the impact of this policy has been undertaken. This indicates that there may be a negative impact upon low earning working households, who might struggle to afford to take up Affordable Rent tenancies. However, this is offset by the contribution of additional high quality housing at below market rent in the City, the additional income that this generates for further new housing, and the increased availability of this stock to more vulnerable households who are entitled to full Housing Benefit to support their housing costs.

11.0 Environmental implications

- 11.1 There are no environmental implications to this report.

12.0 Human resources implications

12.1 There are no human resources implications arising from the recommendations.

13.0 Corporate landlord implications

13.1 There are no Corporate Landlord implications to this report.

14.0 Schedule of background papers

- Improving the City Housing Offer – Provision of Specialist Affordable Housing with Care and Support – 3 January 2013 Cabinet
- Improving the City Housing Offer – Delivering Empty Property Funded Homes - 23 July 2013 Cabinet (Resources) Panel
- Housing Development Land Review: sites for consideration – 15 October 2013 Cabinet (Resources) Panel