

## AFFORDABLE RENT TENURE (PROPOSED ADJUSTMENT)

Cabinet - 14 July 2016

Report of Chief Planning Officer

Status: For Decision

Key Decision: Yes

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**This report supports the Key Aim of the District Council's affordable housing development programme and wider housing strategy.**

**Portfolio Holder** Cllr. Michelle Lowe

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**Recommendation to Cabinet:** That Members approve an amendment to the rent setting objectives by allowing all new-build Affordable Rented (AR) housing to be set at a rate of up to 80% of Open Market Rent (OMR) values.

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**Reason for recommendation:** To ensure that the District Council continues to be an effective enabler of affordable housing by adapting to emerging national policy.

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### Introduction and Background

- 1 Back in 2012, the Affordable Rent (AR) tenure was introduced to enable Housing Associations (HA) to charge higher rents with a view to becoming self-sufficient and to supplement reduced public subsidy. This new model allowed HAs to charge up to 80% of OMR, whereas the Social Rent (SR) model had been traditionally set at around 60% of OMR.
- 2 Although Local Authorities (LA) were mindful of the change in approach and fully understanding of its purpose, the majority view of Kent LAs was that they should seek to ensure that HAs charged rent at up to 80% OMR (as per Government advice), but to hold to a threshold of the relevant LHA (given the lack of clear Government advice). In doing so, LAs could still ensure a protection net for those tenants fully reliant on Housing Benefit (HB), i.e. those residents could claim 100% HB and not have to fund any shortfall themselves.
- 3 This approach allowed for the AR tenure whilst still corresponding with LA objectives whereby the housing would remain affordable for those most in need. This was all set out in the Kent Tenancy Strategy and the District Council's own subsequent Tenancy Strategy 2012 (which included the LHA

threshold rule). HAs were consulted on this policy and there was no objection to the LHA rule.

- 4 With AR, all housing-related service charges must be included within the AR charge itself. This is completely different to SR where rent and service charges are charged separately. A proportion of the additional revenue generated by AR can be lost to service costs, therefore. With an increasing number of flatted developments in the District and those increasingly being of an executive type (Ryewood and The Pembroke, for instance), service charges can be that much greater. This then leaves a lower net rent available to the HA to service its respective debt. All of this, of course, has a consequent negative effect on any HA development viability appraisals.

### **Recent policy/legislation**

- 5 Having now gained Royal Assent, the Welfare Reform and Work Act 2016 has introduced a statutory 1% rent reduction on social housing rents. This is to tie in with a freeze on Local Housing Allowance (LHA) rates from this year and through to 2020. With HA business plans previously assuming rent increases (typically CPI+1%), rather than a (now) year on year reduction, HAs are left facing an unforeseen and combined reduction of around 14% in revenue through that period (and potentially beyond 2020). Therefore, revenue generated by any new-build housing must be maximised, more than ever, to: 1) counteract the removal of all grant funding for AR housing, and 2) maximise income to offset the effects of the 1% rent reduction.

### **Likely effects of recommended action**

- 6 Assuming a delivery rate of 50 x new AR homes per year in the District over the next decade, an additional 500 x AR properties would be added to the District's social housing stock. By 2026, we would expect there to be 7,650 units of social housing and around 7,000 of those would be SR tenure. The AR housing numbers would therefore amount to around 7% of the total social stock.
- 7 With an average of 341 relets per annum and 7% of AR properties being charged at 80% OMR, this would amount to just 24 x AR (80% OMR) vacancies arising in 2026 - so a very small number and particularly when set against total social lettings for the year. Considering the 10-year projection and its effects at the end of that period, it would take several decades for any real impact to be seen and far too long in the future to be concerned about any tipping of the balance.
- 8 In fact, this additional tenure option (that being AR 80% OMR) would enable the District Council and its partner HAs to target those in low-paid employment and/or not fully benefit-dependent and, in doing so, better support economic development and other strategy associated with protecting the local essential workforce. This would therefore create an alternative product for a different and key client group (and one largely

limited with its options), so it could be seen as good strategy for the long-term future.

### **HA feedback**

- 9 The District Council's key HA partners would welcome this amendment as it gives flexibility to secure funding for new-build projects. Their current expectation is that they will look to secure deals that cap the rents to the lower of either LHA or 80% OMR, but this could change as funding and income is further restricted.

### **Tenure conversions**

- 10 Partner HAs are also now able to convert a proportion existing housing tenancies at the point of vacancy, e.g. SR to AR or SR to shared-ownership - the former generating additional revenue through to the long-term and the latter creating an immediate capital sum by unlocking some equity in the property. This, again, was introduced as a means to create additional funding to support reduced grant. There have been very few conversions in the District to date, however, which is a positive in terms of related housing strategy.
- 11 This position could potentially change as things become more of a struggle for HAs, however, and so the Housing Policy Team will monitor the situation and report back to the Housing and Health Advisory Committee (HHAC) if conversion rates do start to become a concern. For the time being, it is proposed that the relaxation of the LHA threshold only applies to new-build properties, therefore, this being key to creating viable projects.

### **Summary of recommended approach**

- 12 With the above in mind and to ensure that the District Council continues to be an effective enabler of affordable housing into the future, it is recommended that the District Council allows new-build AR social housing to be let at up to 80% OMR from this point forward. That said, the District Council could still support the LHA threshold where viability allowed and develop other models of delivery which would help to maintain LHA levels on new-build housing, e.g. cross-subsidy projects and/or institutional investment.
- 13 If agreed by Cabinet, this approach would be reviewed when the District Council's upcoming housing needs study is complete and as part of the subsequent development of a new housing strategy. This approach would be a potentially interim measure, therefore.

### **Other Options Considered and/or Rejected**

- 14 If the District Council were to retain the current LHA capping rule, it would likely see far fewer active HA partners pursuing development opportunities in the future and the affordable housing programme could potentially grind to a halt, or at least become minimal in its delivery. The recommended

change in approach would help to safeguard the District Council's affordable housing programme by giving its partner HAs the scope to increase revenue and, as a result, maintain development programmes here in the Sevenoaks District by charging up to 80% of OMR.

- 15 The Housing Policy Team will continue to explore new delivery models and this will likely result in a move towards more cross-subsidy and institutional development projects. The recommended change in approach will enable current models to continue to work and will be critical to enabling continued provision in the interim period and until such time as alternative models become the norm.

## **Key Implications**

### Financial

No impact on District Council resources.

### Legal Implications and Risk Assessment Statement.

The above recommended approach accords with all related legal and policy issues. If the District Council were to stick with LHA capping, it would risk future development and, potentially, the whole affordable rented housing development programme.

### Equality Assessment

This approach could potentially cut out a very small number of relets to those fully reliant on welfare benefits, but the added benefits of being able to deliver additional housing far outweighs any negative impact.

### Sustainability Checklist

No negative impacts.

### **Background Papers:**

Kent Tenancy Strategy 2012

SDC Tenancy Strategy 2012

**Richard Morris**  
**Chief Planning Officer**