

# Establishing the need for provision of ‘Affordable Rent’ housing in Blaby

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# Establishing the need for provision of Affordable Housing in Blaby

## *Summary*

There are multiple political drivers for the Affordable Rent (AR) policy – including raising money for new development, changing perceptions and realities of social housing, benefit reform - reduction of the total bill, reduction of dependency on benefit, promotion of personal responsibility and so on.

The likely levels of AR have been estimated from published data on market rents. Comparison shows that, on average, rents at 80% of market rents – the maximum for AR - would be between 18% to 61% higher than social rents.

Affordability issues are likely to be greatest for three and four bedroom properties, where the differences are around £45 a week, some 50% to 60% higher for AR. In practice complexity of the interactions between earnings, tax, rents and benefits makes it difficult for tenants to make informed decisions. The proposed changes to the benefits system and rent levels are likely to make it more difficult for tenants to make informed rational decisions about what housing costs they can realistically afford in the long term.

Potential rent levels have then been compared to household incomes data from CACI Paycheck and CORE lettings logs to estimate the proportions of residents that can and cannot afford them. This suggests that to best meet the current profile of housing need in Blaby the overall supply of all lettings should be close to 50% Social Rent : 50% Affordable Rent This makes the balance between new lets and relets important in policy decisions, since most new properties are likely to be let at Affordable rent.

However in reality most higher rents will currently be covered by increased Housing Benefit (HB) payments up to set 'Local Housing Allowance' (LHA) limits. These limits will be used as a cap on Affordable Rent. This may also mean that AR could cause disincentives to work, but there are many unknowns – benefit interactions are complex and difficult to predict for the Council and the individual. Rents would have to be lower than current social rents to get many households off benefit altogether.

The additional HB cost could be in the region of £146,000 to £197,000 a year if all relets were converted to AR, although this cannot happen in reality because HCA agreement for providers to convert existing properties will only be given where they have signed a framework contract with the Homes & Communities Agency (HCA) , and not all Registered Providers will do so. The cost of HB is currently covered by government through the Department of Work and Pensions.

At the same time the potential additional rental revenue to Registered Providers (mainly housing associations) could be around £250,000 a year, £20,000 a month, at the current general needs relet rate and profile, which could in theory support additional borrowing of around £3.5 million, which in turn might fund perhaps 30 additional affordable units a year. However there are many steps, costs and variables along this path so the reality would probably be rather different. The additional capital raised would be tied to the HCA defined geographical area, not the district.

## *Background*

This paper sets out to look at the implications of the 'Affordable Rent' (AR) regime, and to identify consequent changes to the analysis currently contained within the SHMA which impact on the mix of Affordable Housing options.

The Coalition government introduced a new regime for affordable housing, by which the rents for properties let to new tenants can be charged at up to 80% of private sector market rents.

"Affordable Rent is designed to:

- maximise the delivery of new social housing by making the best possible use of constrained public subsidy and the existing social housing stock
- provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent

Affordable Rent falls within the definition of social housing in section 68 of the Housing and Regeneration Act 2008 (and, in particular, the definition of low cost rental accommodation in section 69 of that Act). Affordable Rent properties will therefore be subject to regulation by the Tenant Services Authority - and its Homes and Communities Agency successor - where they are provided by a Registered Provider.

Affordable Rent will offer housing associations the flexibility to convert vacant social rent properties to Affordable Rent at re-let, at a rent level of up to 80 per cent of market rent. Housing associations will be able to convert vacant properties to Affordable Rent where they have reached an investment agreement with the Home and Communities Agency about how additional rental income will be reinvested in the supply of new affordable housing. "

*Written statement by Minister for Housing and Local Government 9/12/2010*

The Planning Policy ( PPS3) definition of affordable housing has been amended to include :-

***"Affordable rented housing is:***

*Rented housing let by registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is not subject to the national rent regime but is subject to other rent controls that require a rent of no more than 80 per cent of the local market rent."*

PPS3 also notes an important point of difference :-

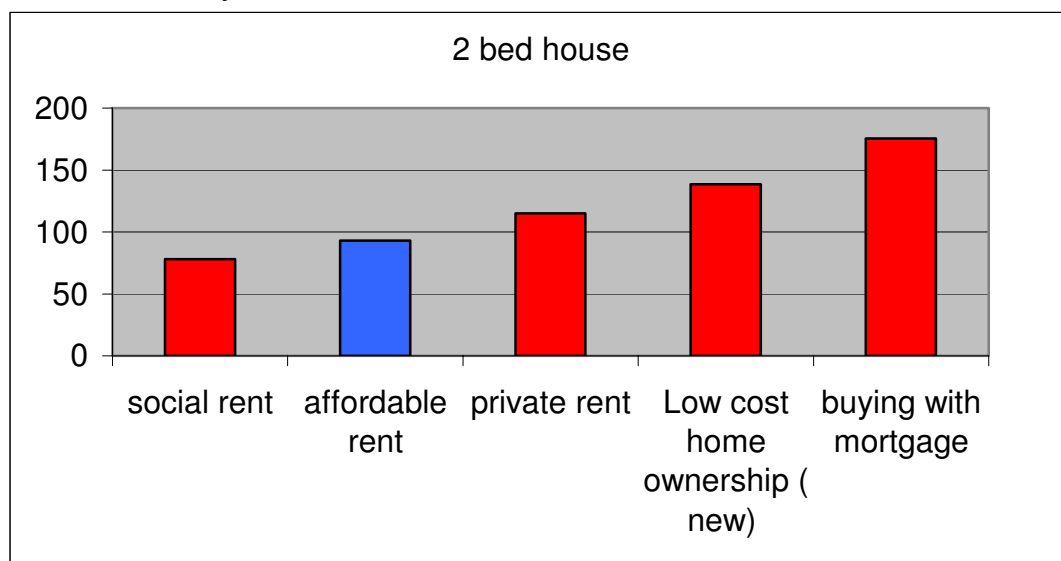
*"The terms 'affordability' and 'affordable housing' have different meanings. 'Affordability' is a measure of whether housing may be afforded by certain groups of households.*

*‘Affordable housing’ refers to particular products outside the main housing market.”*

This new AR product is intended to increase the income revenue stream from PPS3 compliant affordable housing which can then be used to support borrowing to develop more of it. It is also aimed at a new target tenant segment, more likely to be working, with higher incomes, or as a ‘step on the ladder’ rather than a long term housing solution – ‘a tenancy for life’.

Affordable Rent is intended to fit into a wider spectrum of provision, covering a range of options and needs with easier transitions between them than current quite polarised tenures with large price gaps between them. This would give weekly costs for a two bed house approximately as shown in the chart below.

Chart 1. Weekly costs of a 2 bed house in different tenures



It therefore raises questions about the potential nature and size of this group, what rents should be within the local Blaby context, for whom these rents can be considered affordable, and the effects on housing benefit, development and supply.

*Assessing affordability for ‘Affordable Rent’ housing.*

The new ‘Affordable rent’ for Registered Providers raises issues of the ‘affordability’ of such rents, and how they are likely to affect tenants, but also the interactions with welfare benefits and potentially the cost to local authorities of Housing Benefit, and if this will all be covered by HB subsidy.

Concern about rental affordability is not new, and was the subject of extensive analysis and debate in the late 1990’s, when it became clear that the previous Conservative government’s policy of *‘let Housing Benefit take the strain’* was resulting in increasing RSL rents and rising HB costs. This led to the introduction of ‘rent restructuring’ for social housing, which is only now reaching the end of its 10 year plus implementation period.

In the lead up to this policy various options were proposed and research carried out to try to 'define' affordability. Probably the most authoritative piece of work was Freeman, Holmans, and Whitehead, (1999) *Evaluating housing affordability : policy options and new directions*. LGA. This examined all the complicated detail of trying to define and operationalise affordability, including a comparison of 'ratio' and 'residual income' methods. It demonstrated that affordability cannot be 'defined' as such, because there are too many variables and judgments inevitably required, but it can be measured in various ways.

The study concludes :- *The analysis we have undertaken suggests that it would be inappropriate to base the assessment of affordability on a single measure, especially one which takes no direct account of income levels or household types.*

It also noted that this:- *requires good quality information about capital values and rents, about the groups of households being accommodated in the rented sector, where they are on the income scale and the housing they achieve, and particularly about local earnings. These data are not available in adequate detail in the public domain.*

This at least has improved considerably since 1999, and much more data is now available about rent levels, types of household housed, and incomes. Also available are more rapid ways of assessing the effect of rents on benefits and residual incomes. This allows the effects of higher rents to be modelled more effectively, although this does not lead to simpler judgments about policy – on the contrary it shows how complex they must be to properly reflect reality.

#### *Assessing need and demand for Affordable Rent*

The housing needs models developed in the SHMA can be adapted to show the proportion of need which could in principle be addressed by Affordable Rent, by comparing and linking housing costs, incomes, household projections and housing register data. However, this essentially numerical analysis cannot take full account of housing choices and preferences of the target client group, and Affordable Rent housing will increasingly compete directly with the private rented sector. How this works out in reality will depend on many other variables which are difficult to anticipate.

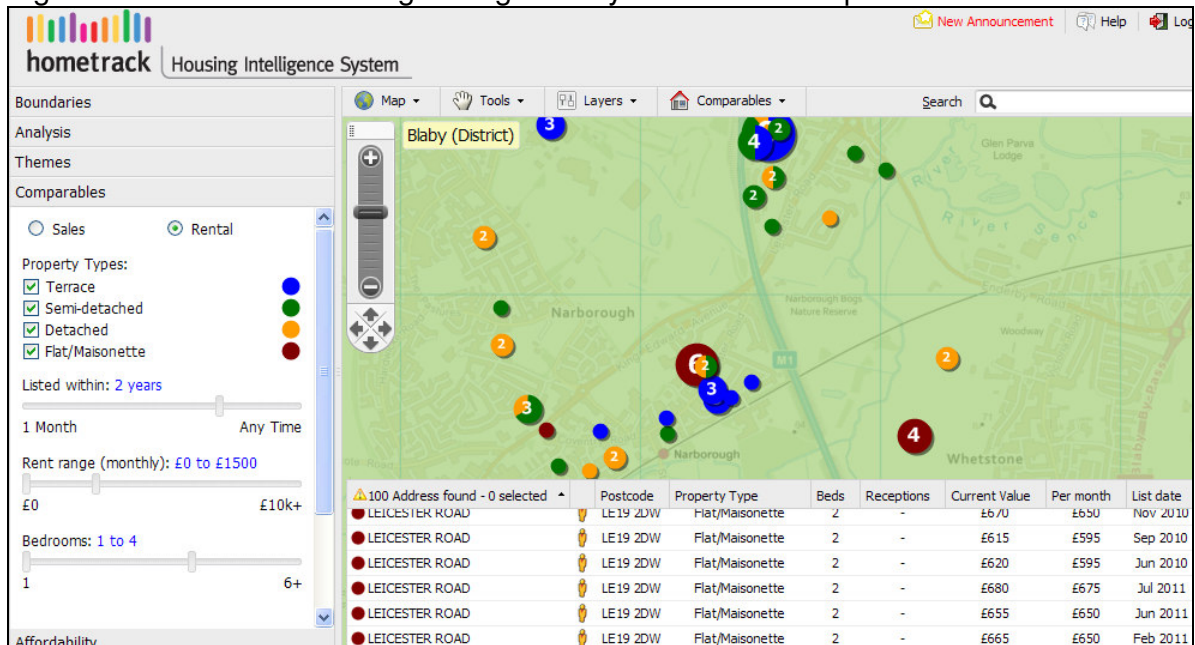
It is also important to recognise that any method of assessing affordability will always involve value judgments, - it is impossible for a 'definition' of what is affordable to emerge from the data itself. It may be clear and unanimously accepted that a rent is affordable or unaffordable at either end of the scale, but where to draw the line in the middle of the continuum is ultimately, and inevitably, a political decision.

## Private Sector Rents

The first step is therefore to find out what these new rents will be on average across different market areas in Blaby.

There are several sources of data on private sector rent levels, although many are aimed at potential renters, and all have limitations. Since the introduction of Affordable Rent a few commercial companies have developed rental comparison systems, using data that they collect from properties that have passed through their lettings services, or provided by lettings agents and landlords. These are charged commercial services, with subscription costs of £2,000 upwards and/or charges for each specific property rent assessment. These will probably be required for the Registered Providers to set specific property rents, because *the maximum rent level for Affordable Rent should be assessed according to the individual characteristics of the property*. An example from the Hometrack Housing Intelligence System is shown below.

Figure 2. Hometrack Housing Intelligence System – rent comparables



However for this more high level analysis for local authority strategic planning, the likely general levels of Affordable Rents are required. The Find a Property free web site uses a sophisticated data driven methodology by Calnea Analytics<sup>1</sup> for showing average asking rents by property type for postcode districts. Asking rents are not necessarily realised, and because the figures are data driven the averages can change quite rapidly, reflecting what is on offer rather than actual rent levels achieved. Nor does the sub area geography used by Find a Property completely reflect that used by Blaby DC for planning.

These give a limited but robust guide to average asking rents from a sound, up to date, extensive data source and thought out method, and from these 80% rent levels can be easily estimated.

<sup>1</sup> <http://www.findaproperty.com/rental-index.aspx>

Table 3. Private sector rents in Blaby – November 2011

Enderby	Average asking prices		
	(per month)	weekly	80%
<a href="#">Studio Flats</a>			
<a href="#">2 Bed Houses</a>	£542	£125.08	£100.06
<a href="#">3 Bed Houses</a>	£663	£153.00	£122.40

LFE	Average asking prices		
	(per month)	weekly	80%
<a href="#">1 Bed Flats</a>	£410	£94.62	£75.69
<a href="#">2 Bed Flats</a>	£521	£120.23	£96.18
<a href="#">2 Bed Houses</a>	£524	£120.92	£96.74
<a href="#">3 Bed Houses</a>	£620	£143.08	£114.46
<a href="#">4 Bed Houses</a>	£554	£127.85	£102.28
<a href="#">5 Bed Houses</a>	£516	£119.08	£95.26

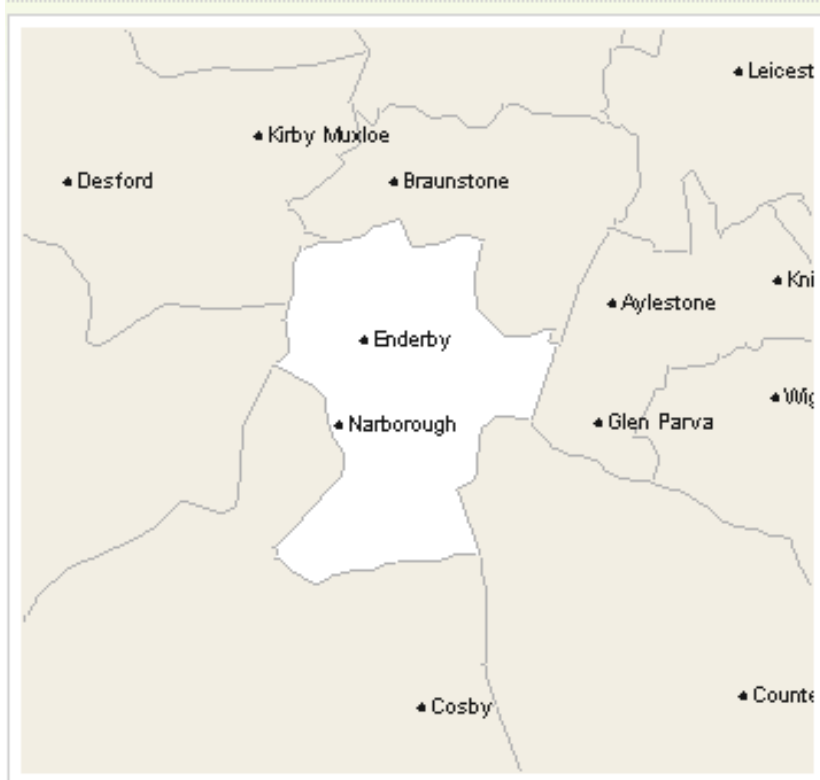
Countesthorpe	Average asking prices		
	(per month)	weekly	80%
<a href="#">1 Bed Flats</a>	£425	£98.08	£78.46
<a href="#">2 Bed Flats</a>	£562	£129.69	£103.75
<a href="#">1 Bed Houses</a>	£465	£107.31	£85.85
<a href="#">2 Bed Houses</a>	£564	£130.15	£104.12
<a href="#">3 Bed Houses</a>	£671	£154.85	£123.88
<a href="#">4 Bed Houses</a>	£925	£213.46	£170.77

Source: Find a Property web site – November 2011

### *Geographical variations*

However the geography used appears to use rough combinations of postcode sectors, which may broadly reflect some differences in the market as reflected in the data , but is not the same as that used for planning in Blaby.

Map 4. – Find a Property rental market areas



Extracted from Find a Property web site

The rents are however similar enough to take an average for the district level analysis.

Table 5. Averaged asking rents in Blaby, November 2011

Blaby overall	monthly asking rent	weekly	80%	typical household type
1 bed flats	£418	£96.35	£77.08	young single person/couple
2 bed flats	£542	£124.96	£99.97	Couple, sharers, SP + 1 child
1 bed houses	£465	£107.31	£85.85	couple
2 bed houses	£543	£125.38	£100.31	single parent (SP) /couple +1
3 bed houses	£651	£150.31	£120.25	SP/couple + 2 or more
4 bed houses	£740	£170.65	£136.52	SP /couple + 3 or more

Source: Find a Property web site – Nov 2011

A cross check for these figures can be obtained from the Rent Service Market Evidence . These give the range of rents obtained and show the 30<sup>th</sup> percentile, now used for the Local Housing Allowance, which is the limit on Private Sector Rent Housing Benefit payable in the Leicester Broad Rental Market Area, and apparently also now applies to Housing Benefit for Affordable Rent .



Chart 6. Local Housing Allowance at 30th percentile of market rents

LHA Category	Number of rents	Minimum Rent £pw	Maximum Rent £pw
<b>One Bedroom</b>	1348	£34.62	£196

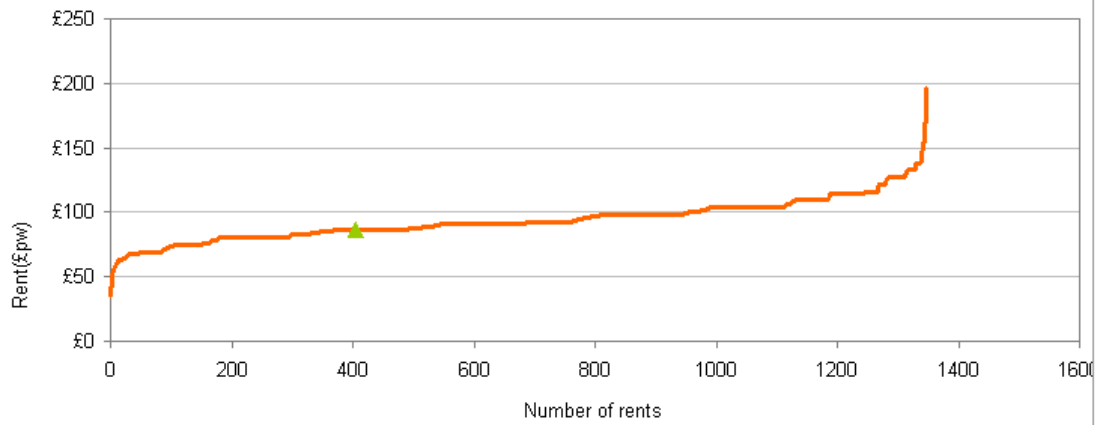


Chart 7. Local Housing Allowance at 30th percentile of market rents

LHA Category	Number of rents	Minimum Rent £pw	Maximum Rent £pw
<b>Two Bedrooms</b>	3020	£40.38	£346

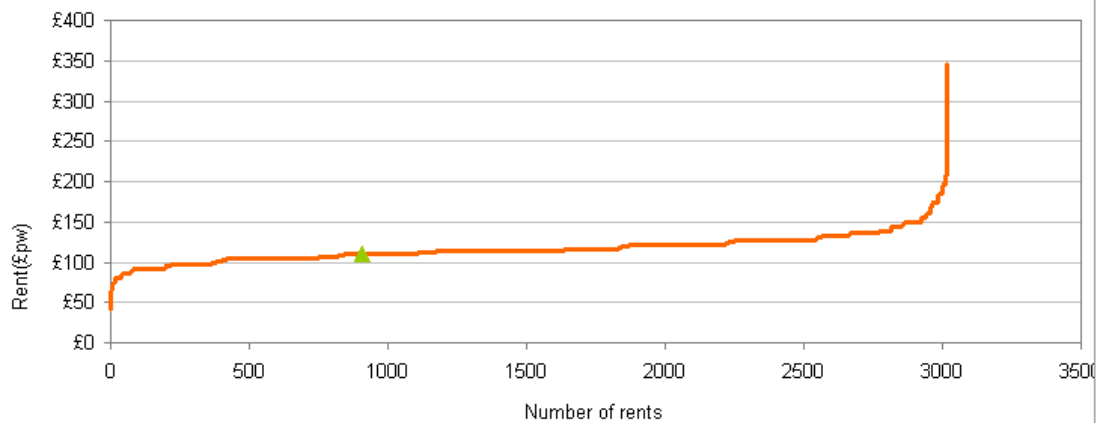
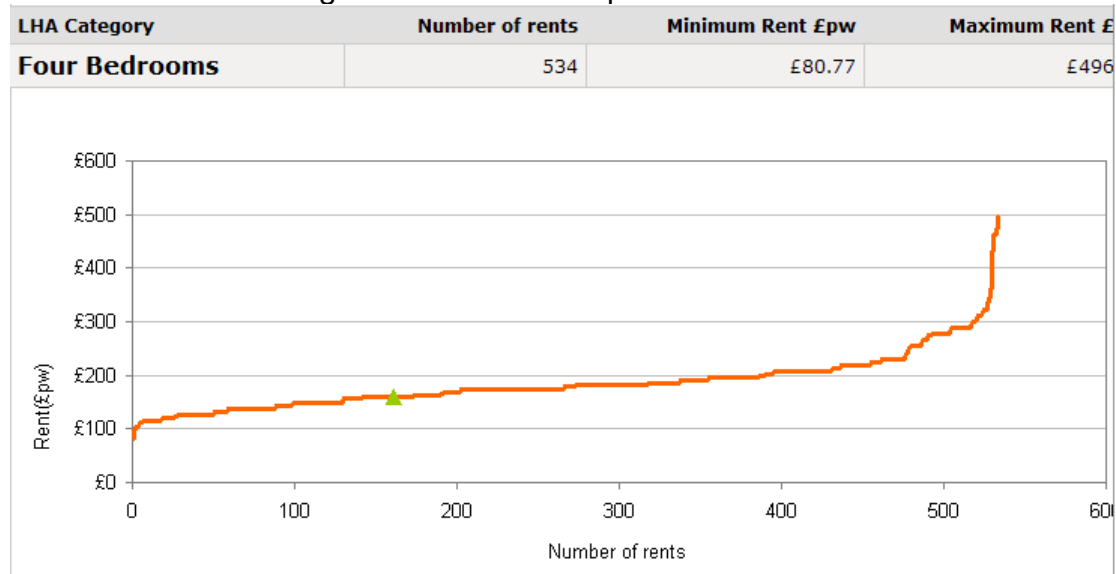


Chart 8. Local Housing Allowance at 30th percentile of market rents

LHA Category	Number of rents	Minimum Rent £pw	Maximum Rent £pw
<b>Three Bedrooms</b>	2165	£68.08	£925



Chart 9. Local Housing Allowance at 30th percentile of market rents



Although the Rent Service does not give the full data, the median in the charts appear to be roughly the same as that in the Find a Property asking rents. They also show that rent levels are quite similar across the middle range of the distribution, confirming that most rents fall into a fairly narrow range around the median.

### *Affordability*

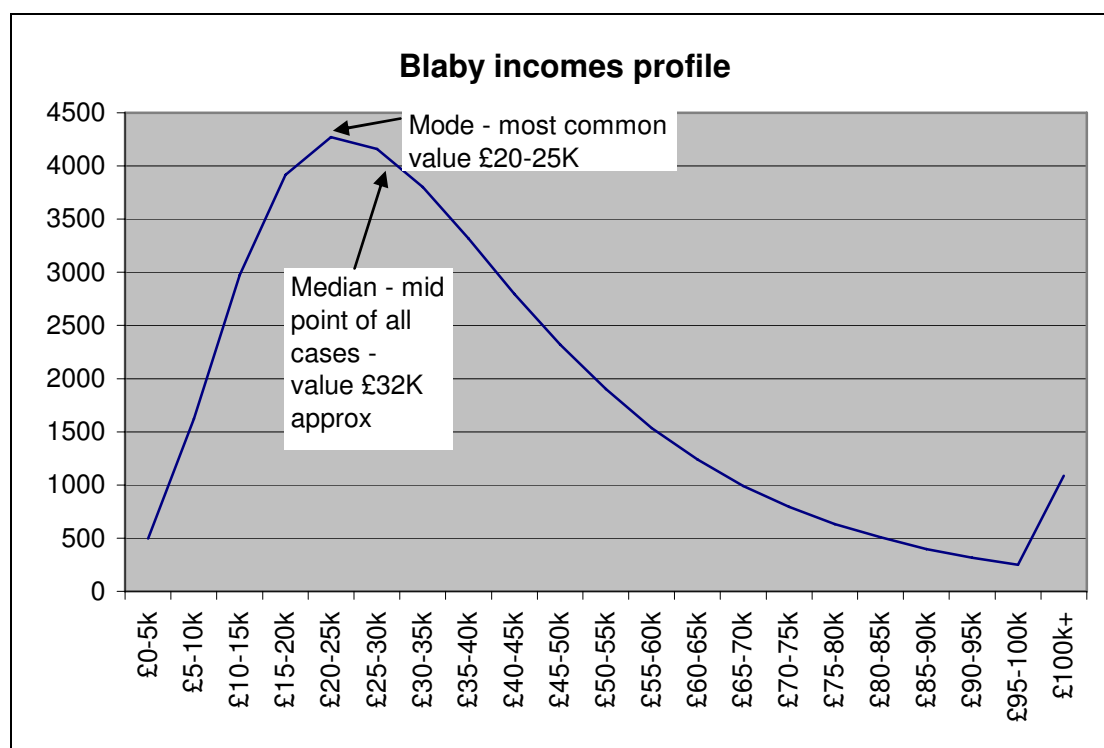
The more difficult and complicated question is then how affordable are these rents, and for whom. Affordability can be assessed in various ways, the most common of which are:-

- to use a percentage of income which is considered to be affordable, and/or
- a residual income estimate which looks at the amount a household has 'left to live on' after housing costs.

Percentages are simpler to apply, although even here there are complications of whether gross or net household income should be used, and around benefit entitlements and take up. Housing needs guidance typically suggests that rents should be no more than 30-35 % of income to be considered affordable. This ratio can be readily applied to the 80% rents, and then compared to income levels to estimate what proportion can afford them.

Incomes data is available from CACI Paycheck, provided by HI4EM at district level. The data is from 2009, but since incomes have not risen since then, - and indeed have fallen for some - , this is considered to be robust for the purpose. It is modelled incomes, based on many sources including consumer surveys, linked with Census and other financial data, and gives a profile of household incomes in £5,000 bands, and follows a typical 'log normal' distribution.

Chart 10.– Blaby - household incomes profile source: CACI Paycheck 2009



Applying a 33.3% affordability ratio to the 80% of PRS levels Affordable Rents and comparing this to the CACI Paycheck incomes profiles gives the proportions of all households that cannot afford these rents, based on these criteria.

Table 11. – average Affordable Rents and proportion unable to afford

	1 bed	2 bed	3 bed	4 bed
monthly rent 80% PRS	£ 334	£ 435	£ 521	£ 592
weekly rent	£ 77	£ 100	£ 120	£ 137
equivalent income (x12x3)	£12,024	£ 15,648	£ 18,758	£ 21,298
can't afford	5%	13%	23%	23%

Derived from Find a Property PRS rents and CACI Paycheck household incomes profile.

These various different percentages unable to afford cannot all be applied to households who may need housing, but the proportions of different sizes of home required can be estimated from the model developed for the affordable housing type and size mix. These weightings can then be applied to the proportions who cannot afford, to give a single figure.

Table 12. – % emergers unable to afford and type/size mix combined

cannot afford AR	1 bed	2 bed	3 bed	4 bed
cannot afford	5.4%	13.0%	22.9%	22.9%
proportions in need mix	8%	35%	52%	5%
overall can't afford AR	0.4%	4.6%	11.9%	1.1%
overall % cannot afford			18.0%	

### Comparisons and limits

At this point it is useful to compare these rents with current social sector rents. It should be noted that Affordable Rents will have to include service charges, so compare with gross social rents.

Table 13. – Registered Provider (housing association) average gross rents (including service charges) March 2011

<b>Blaby</b>	bedsits	1 bed	2 bed	3 bed	4 bed
DE MONTFORT	£ -	£ 71.17	£ 81.15	£ 93.00	£ -
DERWENT HA	£ -	£ 78.37	£ 83.92	£ 89.60	£ 97.80
EAST MIDLANDS	£ -	£ 71.90	£ 80.09	£ 91.46	£ 96.04
FCH HOUSING	£ -	£ 68.34	£ 74.07	£ -	£ -
HEART OF ENGLAND	£ 65.16	£ 75.69	£ 75.43	£ -	£ -
LEICESTER HOUSING	£ -	£ 72.83	£ 79.58	£ 90.38	£ -
NOTTINGHAM COMMUNITY	£ -	£ 78.90	£ 89.37	£ 97.43	£ 101.38
RAGLAN	£ -	£ 70.54	£ 75.17	£ -	£ 98.15
SANCTUARY	£ -	£ -	£ -	£ -	£ 97.38
THE RIVERSIDE GROUP LIMITED	£ -	£ 73.76	£ 79.72	£ 87.69	£ -
Three Oaks HA	£ 46.92	£ 53.76	£ 61.17	£ 71.28	£ 82.12
<b>Blaby average/total</b>	£ 59.32	£ 65.16	£ 71.23	£ 74.79	£ 90.83

Source: Regulatory and Statistical Returns (RSR) to Tenant Services Authority (TSA)

Comparing these shows that , on average, Affordable Rents would be between a fifth to two thirds higher than social rents, with less difference for smaller one and two bedroom properties, and more for larger three and four bedroom houses.

Table 14. - comparison of RP social rents 2011 and potential Affordable Rents

Blaby	average RP gross social rents	equivalent 80% Affordable Rent	£s difference	% difference
Bedsits	£59.32	-		
One bedroom	£65.16	£77.08	£11.92	18%
Two bedrooms	£71.23	£100.31	£29.08	41%
Three bedrooms	£74.79	£120.25	£45.46	61%
Four bedrooms	£90.83	£136.52	£45.69	50%

The difference for 1 beds, which are mainly flats, is the smallest at about £12 a week or 18% higher for Affordable Rent. Affordability issues may be greater for larger properties, where the differences are £30 to £50 a week, some 40% to 60% higher for AR. But, as discussed above, ratio measures do not in any case capture the real position well, because they do not take proper account of Housing Benefit, except insofar as it is reflected in overall household incomes. This requires consideration of the types of household which will typically live in different sizes of home, and to assess their particular benefits circumstances and entitlements.

### *Housing Benefit limits*

A first potential issue is the limit on rent levels which could apply for Housing Benefit, although this is not straightforward because of the distinction between Housing Benefit, which applies to PPS3 compliant Affordable Housing, and Local Housing Allowance, which applies to the private rented sector (PRS). The Homes and Communities Agency (HCA) *2011-15 Affordable Homes programme – Framework* said:-

*“The TSA is therefore not proposing to restrict the maximum rent that Registered Providers can charge for Affordable Rent properties based on the Local Housing Allowance. However, landlords will wish to consider the local market context when setting rents, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located.”*

This rather loose direction has apparently now been made somewhat firmer, although not in any official form, with a CLG response to an article in Inside Housing that *“Rents will be set at 80 per cent of market levels, but will not be allowed to rise above LHA levels.”*<sup>2</sup>

There are now absolute caps that Local Housing Allowance rates cannot exceed:

- £250 for a one bedroom property,
- £290 for a two bedroom property,
- £340 for a three bedroom property,
- £400 for a four bedroom property.

These are clearly aimed mainly at high rent areas such as London, and will not normally affect districts in the East Midlands.

There are also local LHA limits which are now set at the 30th percentile of all private sector rents in each Broad Rental Market Area (BRMA) rather than the median, as previously.

Table 15. – Broad Rental Market Area Local Housing Allowance upper limits

Leicester BRMA	per week
Shared Accommodation Rate	£58.00
One Bedroom Rate	£86.54
Two Bedrooms Rate	£109.62
Three Bedrooms Rate	£126.92
Four bedroom rate	£160.38

These are mostly comfortably above potential Affordable Rents. The extent of the differences between potential affordable rent levels and the LHA rates are shown in the table below

<sup>2</sup> <http://www.insidehousing.co.uk/news/housing-management/-rent-rises-to-be-lower-than-expected/6512218.article>

Table 16. Blaby overall average of rents ( unweighted)

	monthly	weekly	80%	LHA	LHA above AR @ 80% PRS
<a href="#">1 Bed Flats</a>	£418	£96.35	£77.08	£ 86.54	£ 9.46
<a href="#">2 Bed Flats</a>	£542	£124.96	£99.97	£ 109.62	£ 9.65
<a href="#">1 Bed Houses</a>	£465	£107.31	£85.85		
<a href="#">2 Bed Houses</a>	£543	£125.38	£100.31	£ 109.62	£ 9.31
<a href="#">3 Bed Houses</a>	£651	£150.31	£120.25	£ 126.92	£ 6.67
<a href="#">4 Bed Houses</a>	£740	£170.65	£136.52	£ 160.38	£ 23.86

### Comparable earnings limits

A further limit introduced in the 2010 Budget is that no household should be better off on benefits than a household earning £25,000 a year. In practice this is complicated to assess because, depending on its circumstances, a working household could itself receive benefits which affect its total take home income.

### Welfare benefit interactions

In reality the interactions of incomes, taxes, benefits and rents combine to create an income trap, which it is difficult to escape. This can be demonstrated using an adapted Department of Works and Pensions (DWP) tax/benefit<sup>3</sup> model;-

*The DWP Tax Benefit Model is designed to illustrate the weekly financial circumstances of a selection of hypothetical families, either as local authority tenants or private tenants when in work. It does this by calculating the interaction between income tax, National Insurance, tax credits, and certain benefits when working for a minimum of 16 or 30 hours per week. It also shows for the same hypothetical family the weekly financial circumstances when out of work and entirely reliant upon benefits. In addition the model presents a comparison between these in and out of work scenarios.*

However the model is based on the current benefits system, not the proposed new Universal Credit system, because the details of this are still being worked out. It is not expected to be implemented until 2014 onwards

On the basis that the new system will have similarities with the current system, case studies of various household types can be exemplified, using typical values for rent and incomes in Blaby. This allows evidence based judgments to be made about what levels of 'left to live on' income is sufficient to decide that the rent is affordable, and to see the implications for earned income retention and benefit traps.

<sup>3</sup> <http://research.dwp.gov.uk/asd/index.php?page=tbmt>

It is important to emphasise again that affordability cannot be 'defined' from the data alone, but understanding all the interactions and implications allows a more informed consideration. This then allows evidence based judgements based upon their financial status to see how it impacts on their ability to choose and sustain a suitable affordable housing option to meet their needs.

### *Effects on the overall Housing Benefit bill*

These increases will mean that if tenants cannot afford the higher rents then housing benefit payment will go up to cover them, unless they are limited by LHA rates or overall caps. The increase in total Housing Benefit payable can be roughly estimated; CORE lettings data gives the proportions of new tenants on Housing Benefit.

Table 17. New General Needs tenants - Housing Benefit

Household type	Housing Benefit			Total
	Yes	No	Do not know	
1 elder	3%	1%	3%	7%
2 elders	0%	1%	1%	2%
1 adult	20%	8%	7%	35%
2 adults	3%	2%	1%	6%
1 adult & 1+ children	25%	2%	3%	30%
2+ adults & 1+ children	5%	6%	4%	15%
Other	2%	1%	2%	6%
Total	58%	22%	20%	100%

Source: CORE 2010-11

Though a fifth do not know, at least 58% and possibly up to 78% may be eligible for HB. Not all of these will receive full HB, but the way the system works means that if they are eligible at all then any additional rent, up to the limits, will be covered by HB.

Based on the number of lets in 2010/11 and the difference between the social rent at letting and affordable rent, an estimate can be made of the increase in total HB costs.

Table 18. Effects on Housing Benefit total costs of switch to Affordable Rent

	Frequency	Percent	Social Rent	Affordable Rent	Difference	Total additional HB cost	HB at 58%	HB at 78%
1 bed	62	35%	£65.16	£77.08	£11.92	£739	£429	£576
2	70	39%	£71.23	£100.31	£29.08	£2,035	£1,181	£1,588
3	44	25%	£74.79	£120.25	£45.46	£2,000	£1,160	£1,560
4	2	1%	£90.83	£136.52	£45.69	£91	£53	£71
Total	178	100%				Total	£2,822	£3,795
Total additional HB per year							£146,751	£197,355

This suggests that *if lettings are made to the same type of applicants as previously* then Housing Benefit costs will increase by between about £2,800

and £3,800 a week, or £150,000 to £200,000 a year. While this cost is usually currently covered by the Department of Works and Pensions, changes to the benefits system are being developed, and there are other implications for individual households, considered below in case studies.

### *Future changes to benefits*

The Welfare Reform Bill was published in February. It contains principles and objectives with powers to publish regulations rather than the detail of how the new system will work with thresholds, tapers and specific eligibility – all of which must necessarily be more flexible and variable. The headline for housing is :- *creating a fairer approach to Housing Benefit to bring stability to the market and improve incentives to work.*

What this will mean is unclear, but suggests that it is unlikely to increase housing benefit rates, so there may be a risk that higher rents are not all covered by Housing Benefit under the new system. The incentives to work comment sets a theme which has been reinforced with a recent comment by Iain Duncan-Smith, the Secretary of State for Work and Pensions:- *"Income through benefits maintains people on a low income, whereas income gained through work can transform lives."*

These, it could be argued, may indicate that setting rents at levels which mean that even working tenants have to rely on benefits to pay them may not be a sustainable policy.

### *Possible implications for supply of increased rental revenue*

The same information can be used to make a very crude and speculative approximation of the possible results of the increase on revenue from the higher rents on supply by Registered Providers.

If all one hundred and eighty or so annual lets in Blaby were to become Affordable Rent, the additional rental income to RPs would be some £250,000 a year, £20,000 a month, which would support borrowing of something like £3.5 million, ( at 4.5 % interest rate over 25 years) , which might buy perhaps 30 or so affordable units, if all the additional income found its way into supporting borrowing for development . However, how much actually turns into new supply in Blaby would in practice be very much less than this because:-

- only providers that enter into a contract with the HCA will have the flexibility to convert a proportion of social rent properties to Affordable Rent at re-let;
- for those that can the income may get used up in the long process through the organisation, processes and time,
- nor is any additional income ring fenced to provide housing for where it is generated; - it has been suggested that an unintended consequence of the new system will be an incentive to take revenue



from higher priced areas but develop where it is cheaper and easier to do so.

### Case studies

The examples below show the financial and benefit circumstances for a single person, a couple and a family with children for earnings levels just eligible for HB, the 25<sup>th</sup> percentile, and the median, for average Affordable and then Social rents. Note that earnings are not quite the same as household incomes, as there may be more than one earner, and with two earners the total income and tax/NI position is affected, but less so the benefits.

### Single person

Table 19. Single person in Blaby – 1 bed flat – just eligible for HB, 25<sup>th</sup> percentile and median earnings – gross Affordable Rent of £77 a week (including service charges) .

Affordable rent

Summary	working			unemployed
household type	Single Person - 25 or over with no children			
	<i>working, just eligible for HB</i>	<i>25<sup>th</sup> percentile</i>	<i>median</i>	<i>benefits</i>
<i>ASHE earnings</i>				
earnings/unemployment benefit	£ 216.00	£390.00	£514.00	£67.50
rent	£ 77.00	£77.00	£77.00	£77.00
Gross income	£ 216.00	£390.00	£514.00	£67.50
Income tax	£ 14.45	£49.25	£74.05	not applicable
National Insurance	£ 9.24	£30.12	£45.00	not applicable
Take home pay/benefit	£ 192.31	£310.63	£394.95	£67.50
Working Tax Credit	£ 14.03	0	0	not applicable
Child Tax Credit	£ -	0	0	not applicable
Child Benefit	£ -	0	0	0
Housing Benefit	£ 1.12	0	0	£77.00
Council Tax Benefit	£ -	0	0	£14.00
Before housing costs	£ 207.46	£310.63	£394.95	£158.50
After housing costs	£ 116.46	£219.63	£303.95	£67.50
Marginal Deduction Rate	91%	32%	32%	not applicable
Replacement Ratio	58%	31%	22%	not applicable

A single over 25 year old needs to be earning less than £216 a week, £11,232 a year, to become eligible for HB at the £77 average Affordable Rent. There are clearly advantages for tenants and providers in avoiding the need to claim Housing Benefit, especially for partial amounts which vary with earnings because this can cause frequent HB changes and confusion.

Table 20. Single person in Blaby – 1 bed flat – just eligible for HB, 25<sup>th</sup> percentile and median earnings – gross Social Rent of £66 a week  
Social rent

Summary	working			unemployed
	Single Person - 25 or over with no children			
household type				
<i>ASHE earnings</i>	<i>working, just eligible for HB</i>	<i>25<sup>th</sup> percentile</i>	<i>median</i>	<i>benefits</i>
earnings/unemployment benefit	£173.00	£390.00	£514.00	£67.50
rent	£66.00	£66.00	£66.00	£66.00
Gross income	£174.00	£390.00	£514.00	£67.50
Income tax	£6.05	£49.25	£74.05	not applicable
National Insurance	£4.20	£30.12	£45.00	not applicable
Take home pay/benefit	£163.75	£310.63	£394.95	£67.50
Working Tax Credit	£ 31.25	0	0	not applicable
Child Tax Credit	0	0	0	not applicable
Child Benefit	0	0	0	0
Housing Benefit	£1.00	0	0	£66.00
Council Tax Benefit	0	0	0	£14.00
Before housing costs	£195.00	£310.63	£394.95	£147.50
After housing costs	£115.00	£230.63	£314.95	£67.50
Marginal Deduction Rate	130%	32%	32%	not applicable
Replacement Ratio	59%	29%	21%	not applicable

For a single person aged over 25 the minimum wage ( increased to £6.08 an hour in 2011/12) is enough for them to be deemed not to require Housing Benefit to be able to afford the social rent of £66 a week.

For an unemployed over 25 year old the rent is all covered by Housing Benefit as long as it falls below the LHA rate, which seems probable in Blaby; - but for an unemployed under 25 year old the 'single room rent' applies, and they can only get Housing Benefit for bed-sit accommodation or one room in shared accommodation. Currently this would limit the HB to £58 a week ( Nov 2011).

## Couple

Table 21. Childless couple in Blaby – 2 bed flat – just eligible for HB, 25<sup>th</sup> percentile and median earnings – Affordable Rent £100 a week, with service charges

Affordable rent

Summary	working			unemployed
household type	Couple with no children			
	<i>working, just eligible for HB</i>	<i>25<sup>th</sup> percentile</i>	<i>median</i>	<i>benefits</i>
<i>ASHE earnings</i>				
earnings/unemployment benefit	£352.00	£390.00	£ 514.00	£105.95
rent	£100.00	£100.00	£ 100.00	£100.00
Gross income	£352.00	£390.00	£ 514.00	£105.95
Income tax	£41.65	£49.25	£ 74.05	not applicable
National Insurance	£25.56	£30.12	£ 45.00	not applicable
Take home pay/benefit	£284.79	£310.63	£ 394.95	£105.95
Working Tax Credit	0	0	£ -	not applicable
Child Tax Credit	0	0	£ -	not applicable
Child Benefit	0	0	£ -	0
Housing Benefit	£1.37	0	£ -	£100.00
Council Tax Benefit	0	0	£ -	£19.00
Before housing costs	£286.16	£310.63	£ 394.95	£224.95
After housing costs	£167.16	£191.63	£ 275.95	£105.95
Marginal Deduction Rate	76%	32%	32%	not applicable
Replacement Ratio	63%	55%	38%	not applicable

Table 22. Childless couple in Blaby – 2 bed flat – just eligible for HB, 25<sup>th</sup> percentile and median earnings – Social Rent £78 a week, with service charges

Summary	working			unemployed
household type	Couple with no children			
	<i>working, just eligible for HB</i>	<i>25<sup>th</sup> percentile</i>	<i>median</i>	<i>benefits</i>
<i>ASHE earnings</i>				
earnings/unemployment benefit	£212.00	£390.00	£ 514.00	£105.95
rent	£72.00	£72.00	£ 72.00	£72.00
Gross income	£212.00	£390.00	£ 514.00	£105.95
Income tax	£13.65	£49.25	£ 74.05	not applicable
National Insurance	£8.76	£30.12	£ 45.00	not applicable
Take home pay/benefit	£189.59	£310.63	£ 394.95	£105.95
Working Tax Credit	£ 52.59	0	£ -	not applicable
Child Tax Credit	0	0	£ -	not applicable
Child Benefit	0	0	£ -	0
Housing Benefit	£1.07	0	£ -	£72.00
Council Tax Benefit	0	0	£ -	£19.00
Before housing costs	£243.25	£310.63	£ 394.95	£196.95
After housing costs	£152.25	£219.63	£ 303.95	£105.95
Marginal Deduction Rate	91%	32%	32%	not applicable
Replacement Ratio	70%	48%	35%	not applicable

In this example the rent difference is larger at £28 a week, although it may be distorted because the rent for private flats probably reflects more new build properties, while the two bed social rent does not distinguish between flats, (which are likely to be older anyway), and houses, (likely to be mostly terraces). Nevertheless if this is the comparable PRS rent for new flats it may well be the level applied to new PPS3 compliant affordable housing.

The higher rent then directly reduces the amount the couple have left to live on, or, perhaps as relevant, the amount they may be able to save while in rented accommodation on a fixed term tenancy. So for example on 25<sup>th</sup> percentile ( lower quartile ) earnings of £390 a week the couple have £191.63 left to live on in an Affordable Rent flat, and £219.63 in what could be the same flat at a social rent flat, the whole of the difference in rent. It could be argued that this is a significant amount that could be saved towards a deposit to move on at the end of the fixed term tenancy.

### Families

For families with children the effects and interactions of in work benefits like Working Tax and Child Credit ( and potentially the new Universal Credit ) become even more complicated , and could also include child care costs, though these are not shown here.

Table 23. Couple with one child under 5 in two bed house – Affordable Rent  
£100 a week  
Affordable rent

<b>Summary</b>	<b>working</b>			<b>unemployed</b>
household type	Couple with 1 child under 5			
<i>ASHE earnings</i>	<i>working, just eligible for HB</i>	<i>25th percentile</i>	<i>median</i>	<i>benefits</i>
earnings/unemployment benefit	£253.00	£ 390.00	£ 514.00	£ 105.95
rent	£100.00	£ 100.00	£ 100.00	£ 100.00
Gross income	£253.00	£ 390.00	£ 514.00	£ 105.95
Income tax	£21.85	£ 49.25	£ 74.05	not applicable
National Insurance	£13.68	£ 30.12	£ 45.00	not applicable
Take home pay/benefit	£217.47	£ 310.63	£ 394.95	£ 202.48
Working Tax Credit	£ 35.78	£ -	£ -	not applicable
Child Tax Credit	£ 70.03	£ 49.64	£ 20.90	not applicable
Child Benefit	£ 20.30	£ 20.30	£ 20.30	£ 20.30
Housing Benefit	£ 31.90	£ 7.86	£ -	£ 100.00
Council Tax Benefit	£ 1.05	£ -	£ -	£ 22.00
Before housing costs	£376.53	£ 388.43	£ 436.15	£ 324.48
After housing costs	£254.53	£ 266.43	£ 314.15	£ 202.48
Marginal Deduction Rate	96%	91%	32%	not applicable
Replacement Ratio	80%	76%	64%	not applicable

Table 24. Couple with one child under 5 in two bed house – Social Rent £72 a week

Social rent

Summary	working			unemployed
household type	Couple with 1 child under 5			
<i>ASHE earnings</i>	<i>minimum wage</i> £6.08 x 35	<i>25th percentile</i>	<i>median</i>	<i>benefits</i>
earnings/unemployment benefit	£ 213.00	£ 390.00	£ 514.00	£ 105.95
rent	£ 72.00	£ 72.00	£ 72.00	£ 72.00
Gross income	£ 213.00	£ 390.00	£ 514.00	£ 105.95
Income tax	£ 13.85	£ 49.25	£ 74.05	not applicable
National Insurance	£ 8.88	£ 30.12	£ 45.00	not applicable
Take home pay/benefit	£ 190.27	£ 310.63	£ 394.95	£ 202.48
Working Tax Credit	£ 52.18	£ -	£ -	not applicable
Child Tax Credit	£ 70.03	£ 49.64	£ 20.90	not applicable
Child Benefit	£ 20.30	£ 20.30	£ 20.30	£ 20.30
Housing Benefit	£ 10.92	£ -	£ -	£ 72.00
Council Tax Benefit	£ 3.21	£ -	£ -	£ 22.00
Before housing costs	£ 346.91	£ 380.57	£ 436.15	£ 296.48
After housing costs	£ 252.91	£ 286.57	£ 342.15	£ 202.48
Marginal Deduction Rate	96%	73%	32%	not applicable
Replacement Ratio	80%	71%	59%	not applicable

For this example the difference between the Affordable and Social rents would again be around £28 a week, and the amount they would need to earn not to be eligible for HB would be £253 for the Affordable rent, compared to less than the minimum wage for Social rent.

For larger families the combined effects and interactions between tax/child credits and housing/council tax benefit increase, and in effect means that the family is still eligible for means tested benefits until its earnings reach the top quartile.

Couple with two children over 5 in three bed house – Affordable Rent £120 a week

Table 25. Affordable rent

Summary	working			unemployed
household type	Couple with 2 children and no child care costs			
<i>ASHE earnings</i>	<i>working, just eligible for HB</i>	<i>25th percentile</i>	<i>median</i>	<i>benefits</i>
earnings/unemployment benefit	£ 574.00	£ 390.00	£ 514.00	£ 105.95
rent	£ 120.00	£ 120.00	£ 120.00	£ 120.00
Gross income	£ 574.00	£ 390.00	£ 514.00	£ 105.95
Income tax	£ 86.05	£ 49.25	£ 74.05	not applicable
National Insurance	£ 52.20	£ 30.12	£ 45.00	not applicable
Take home pay/benefit	£ 435.75	£ 310.63	£ 394.95	£ 254.59
Working Tax Credit	£ -	£ -	£ -	not applicable
Child Tax Credit	£ 12.91	£ 88.35	£ 37.51	not applicable

Child Benefit	£ 33.70	£ 33.70	£ 33.70	£ 33.70
Housing Benefit	£ 1.00	£ 33.30	£ 11.53	£ 120.00
Council Tax Benefit	£ -	£ 0.32	£ -	£ 27.00
Before housing costs	£ 483.36	£ 466.30	£ 477.69	£ 401.59
After housing costs	£ 336.36	£ 319.30	£ 330.69	£ 254.59
Marginal Deduction Rate	91%	96%	91%	not applicable
Replacement Ratio	76%	80%	77%	not applicable

It can be seen that whatever their earnings, the amount 'left to live on' stays much the same, only increasing by some £17 when their pay goes up from £390 to £574, which is above median earnings and a £184 increase. It can also be seen that the left to live on income when working, even on the median earnings of around £514 a week, is just £76 above the level of benefits when unemployed ( i.e. £330.69 - £254.59).

Couple with two children over 5 in three bed house – Social Rent £75 a week  
Table 26. Social rent

Summary	working			unemployed
household type	Couple with 2 children and no child care costs			
	<i>working, just eligible for HB</i>	<i>25th percentile</i>	<i>median</i>	<i>benefits</i>
<i>ASHE earnings</i>				
earnings/unemployment benefit	£ 317.00	£ 390.00	£ 514.00	£ 105.95
rent	£ 75.00	£ 75.00	£ 75.00	£ 75.00
Gross income	£ 317.00	£ 390.00	£ 514.00	£ 105.95
Income tax	£ 34.65	£ 49.25	£ 74.05	not applicable
National Insurance	£ 21.36	£ 30.12	£ 45.00	not applicable
Take home pay/benefit	£ 260.99	£ 310.63	£ 394.95	£ 254.59
Working Tax Credit	£ 9.54	£ -	£ -	not applicable
Child Tax Credit	£ 108.74	£ 88.35	£ 37.51	not applicable
Child Benefit	£ 33.70	£ 33.70	£ 33.70	£ 33.70
Housing Benefit	£ 1.11	£ -	£ -	£ 75.00
Council Tax Benefit	£ 4.26	£ 0.32	£ -	£ 27.00
Before housing costs	£ 418.34	£ 433.00	£ 466.16	£ 356.59
After housing costs	£ 316.34	£ 331.00	£ 364.16	£ 254.59
Marginal Deduction Rate	96%	78%	73%	not applicable
Replacement Ratio	80%	77%	70%	not applicable

This table shows that on a lower social rent of £75 a week a couple with two children with lower quartile ( 25<sup>th</sup> percentile) earnings of £390 a week are about £12 a week better off. (i.e. £ 331.00 - £ 319.30 )

This clearly all becomes very complicated, and almost impossible for tenants to actually work out what they will receive and have deducted. In general terms lower rents reduce the income levels at which benefits interact – and make it easier to escape from the 'benefits trap' and keep more of any additional earned income. The overall situation is one in which many lower and middle income families receive in work and means tested benefits, because wages are not high enough to take them out of eligibility.

For a four bedroom home the earnings at which a couple with four children are no longer eligible for Housing Benefit for a social rent of £90 a week is £465 a week gross – close to the median - , while for an affordable rent of £137 it is £733 a week gross, which is above the 75<sup>th</sup> percentile. This means that any additional rent charged for a larger family is simply adding to Housing Benefit costs until they move into the top quartile of earnings.

There are different – essentially ideologically different - ways of interpreting this. It could be argued that wages are too low so that benefits are necessary for families to afford the cost of living; or it can equally be argued that wages have to be affordable and competitive and the state takes on responsibility for supporting incomes at lifestages when such help is needed.

However the mechanisms of implementing such a policy inevitably become complicated, because there have to be thresholds, tapers and eligibility criteria. The benefits system is currently being reviewed and re-engineered, but the detailed outcomes of this will not be known for some time.

For higher rents the government policy aim to the effect that *no family on welfare will be better off than one earning an average income from work* may also become more relevant. Again, however, this generalised one size fits all intention is difficult to determine in practice. For the modal ( most common) household income of about £500 a week<sup>4</sup> the same family of four in a four bed house will always be about £90 a week better off than a similar but unemployed family on benefits, - due to the tapering of in-work benefits they receive - , and not unless the rent fell below £85 a week would this differential increase. If the rent is at the 80% PRS /LHA level of about £160 a week, even if they increase their earnings they will only keep about 10 pence in the pound of the extra, after tax/NI and benefits interactions, until income rises to over £830 a week, when they break free of the benefit tapers.

#### *Making sense of rents, benefits and affordability,*

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However the mechanisms of implementing this policy inevitably become complicated, because there have to be thresholds, tapers and eligibility criteria. The benefits system is currently being reviewed and re-engineered, but the detailed outcomes of this will not be known for some time<sup>5</sup>.

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<sup>4</sup> Source: CACI Paycheck 2009, via HI4EM

<sup>5</sup> The Bill has been published, containing general principles and objectives.  
<http://services.parliament.uk/bills/2010-11/welfare-reform.html>

### *Fixed Term tenancies*

If it is expected that families with children will have Fixed Term Tenancies and be able to move after five years, perhaps to buy, then higher rents will also have an effect on their ability to save for this, in the same way that higher private sector rents do already.

The affordability judgment to be made is therefore whether the full Affordable Rent of 80% of PRS levels will create a benefits trap, work disincentives, and work against the intention for this new tenure to be a 'step on the housing ladder'. The evidence suggests that this is most likely to apply for larger properties and higher rents, and hence there are arguments that these should be set at less than 80% of the full PRS levels, or that social rents should be required for larger homes.

### *Policy judgements*

Making such policy judgements on acceptable rent levels is clearly difficult when faced with such complex interactions between many variables, which gives rise to a continuum of possible outcomes such that deciding where to 'draw the line' will ultimately always have an arbitrary element.

Looking at opposite ends of this spectrum can help clarify the extremes. For example. At one end:-

- for a couple with four children on lower quartile earnings of £390 a week, rent for a four bedroom house would have to be just £77 a week for them not to be entitled to Housing Benefit.
- For the same family on median earnings of £514 a week rent would have to be £99 a week for them not to be entitled to Housing Benefit.

At the other end of the scale :-

- For the 4 bedroom Affordable Rent LHA maximum of £137 a week the same family would have to be earning £733 a week, - above the 75<sup>th</sup> percentile of earnings -, to be ineligible for Housing Benefit. (N.B. these are single earnings figures – more than one earner will increase household incomes)

A view may be taken that since entitlement to Housing and other benefits results in higher rents making little difference to the income available left to live on for most households, then rents should be charged at the highest rate permissible, to provide more revenue to support development of more housing. This will mean 'letting Housing Benefit take the strain', but that is the implication of the Affordable Rent policy.

Alternatively it might be considered that no household earning above a certain level should need to claim Housing Benefit. A maximum rent of £140 a week would put this earnings figure at some £770 a week, - around the 75<sup>th</sup>



percentile - , while a rent of £150 a week would put it £810 a week – back above the 80<sup>th</sup> percentile.

Another view, especially for larger houses, is that households, even with several children, who have attained these kinds of earnings are less likely to want or need affordable housing, and that four bed houses should therefore continue to be targeted at less well off tenants. In this case they are likely to require low rents for the long term, and charging higher Affordable Rent will simply permanently increase Housing Benefit bills.

### *Meeting housing need – the profile of need and demand*

The issue also arises of how the new Affordable Rent tenure can or will help address housing need in Blaby. This can be explored by applying the new AR housing cost parameters in the housing needs models previously developed for the Leicester&shire SHMA, and by looking at the demand as currently shown by the Housing Register and bidding patterns in the Choice Based Lettings System.

The Bramley based housing needs model is a simplified and generalised summary of the key components of need, set out below. It takes into account different components of need, such as by comparing incomes profiles for emerging household against costs, adding owners falling into need, and backlog need from the housing register applied over a policy period as decided by the local authority. It then takes off affordable supply of lets and LCHO sales to give a net shortfall. It is a simplified, systematised model which does not capture all aspects of need, but nevertheless robustly reflects differences between area with different levels of household growth, house prices and rent, incomes, supply of lets and waiting lists.

#### **Bramley model of housing needs**

The basic model for estimating affordable housing need is as follows.

Net Need (units per year) =

Gross Household Formation x % <35 unable to buy (adjusted for wealth)

+ proportion (33%) x net migration (household equivalent) x % <35 unable to buy

+ proportion x owner occupier households (moving to social renting)

+ proportion of backlog to be housed per year, (e.g. 10% over 10 years, 20% over 5 years) x waiting list 'backlog' above need threshold

' - net lets of social and affordable rented housing

.

The model does not cover all aspects of need - for example homelessness, transient and transitional need, and non trend in-migration- , and is therefore

likely to under-estimate need as experienced in an area, although some of this will be transitory and short term rather than requiring more affordable housing to meet it..

For emerging households the affordable rent levels have been tested against the incomes profile, to estimate the proportion that cannot afford the rent for 1, 2, 3 and 4 beds, based on affordable meaning the household not spending more than a third of gross income on rent<sup>6</sup>.

Since the Affordable Rents range from £77 to £137 a week this produces different figures, from 5% who cannot afford 1 beds, to 23% who cannot afford 4 beds. The proportions of different sizes of affordable housing required have then been taken from the type/size mix model developed for Leicestershire local authorities in the *Leicester & Leicestershire Housing Market Area Managing and Updating of Data* project 2010<sup>7</sup>. This results in a table which allows an average figure for emerging households unable to afford average affordable rents.

Table 27.– proportions cannot afford for different sizes of home

cannot afford AR	1 bed	2 bed	3 bed	4 bed
cannot afford	5.4%	13.0%	22.9%	22.9%
proportions in need mix	8%	35%	52%	5%
overall can't afford AR	0.4%	4.6%	11.9%	1.1%
overall % cannot afford			18.0%	

This overall rate has been applied to the emerging households total to estimate the number that cannot afford Affordable Rent. There remain a higher proportion who cannot afford entry level owner occupation or full private sector rents on income, which has in turn been modified to take account of mortgage rationing and possible resources from other sources, such as parents or legacies. The net result is that almost 70% of emergers could afford Affordable Rent on the basis of it not taking more than a third of their gross income.

It has also been assumed that another component – owner occupiers falling into need – will all be able to afford the new Affordable Rents. There is no data available about the details for this component of need beyond totals repossessions figures from the Ministry of Justice, but as former owners this is an plausible assumption.

Incomes data available from CORE lettings logs indicates that current applicants to the Housing Register, - the backlog need–, have low incomes and so will generally require social housing.

<sup>6</sup> Ratio approaches to affordability have their limitations, and there are others, including residual income methods – discussed in the appendix

<sup>7</sup> [http://www.blinehousing.info/LeicsDataProject/Data\\_and\\_information\\_web\\_links.htm](http://www.blinehousing.info/LeicsDataProject/Data_and_information_web_links.htm) . The model requires some policy judgments about priorities for meeting housing need, which have all been set at 50:50

Table 28. Incomes of new General Needs tenants in Blaby 2010/11

Income range	Household type							Total
	1 elder	2 elders	1 adult	2 adults	1 adult & 1+ children	2+ adults & 1+ children	Other	
under £50	0	0	4	0	0	0	0	4
£50-75	0	1	13	2	1	0	0	17
£75-100	0	0	9	1	8	0	1	19
£100-125	2	0	3	2	8	1	0	16
£125-150	2	0	2	1	4	2	1	12
£150-175	2	0	3	0	7	0	0	12
£175-200	0	0	3	0	6	2	0	11
£200-225	0	0	1	0	3	1	1	6
£225 -250	1	0	7	0	3	1	1	13
£250-275	0	1	2	0	1	0	0	4
£275-300	2	0	5	0	1	2	0	10
£300-325	0	0	1	0	2	1	0	4
£375-400	0	0	0	0	3	2	0	5
over £400	2	0	1	3	1	9	3	19
Total	11	2	54	9	48	21	7	152

Source: CORE 2010/11

Even where incomes are higher, - over £400 a week -, these are mostly families with children and due to benefits, not earned income.

The Blaby Housing Register contained, at November 2011, 83 applicants who were classified as *Have financial means to resolve housing needs*. This is based on an estimate derived from the SHMA on housing costs, and it has been assumed that these cases are able to afford Affordable Rent product. More detailed incomes data collected for the CBL housing register could refine this, and it may also change it over time as the Affordable Rent tenure becomes more widely known and the expectation of obtaining housing increases for those on slightly higher incomes. There are also 77 applicants to the Homebuy Agent, East Midlands Housing Associations, for Low Cost Home Ownership – a broadly comparable figure - , 44 of whom wish to buy in Blaby

The requirement for social rent is therefore the backlog need plus emergers who cannot afford Affordable Rents at a third of their gross household income. The requirement for Affordable Rent is those emergers who cannot afford to buy but can pay Affordable Rents from income, plus owners falling into need.

The overall high level result is a requirement for 46% social rent, and 54% affordable rent, to best meet the current needs profile in Blaby. Note that this applies to **all** lets, including relets, and not just new lets coming out of development. So if there are sufficient relets to meet the need for social rent a higher proportion of new developments, and hence new lets, **could** be at Affordable Rent.

This could also mean shifting the market and appeal of these higher rent, shorter tenure homes towards households on slightly higher incomes, as is the government intention . Which in turn could also require changes in how

the Choice Based Lettings scheme operates. However there are also other issues and unknowns - local authorities can now set their own policies on eligibility to apply for social housing, – that is on who can ‘go on the waiting list’ - , but the requirement to give ‘reasonable preference’ to households in the greatest housing need remains.

This poses complex and controversial issues of judgements of degree and types of need, of ‘worst first’ as against long term unsatisfactory circumstances, - addressing the greatest individual need for assistance as against bringing about the greatest improvement and effective use of resources overall<sup>8</sup>.

Of some concern may be that if local authority tenancy strategies seek to ring fence Affordable Rent tenancies for low income workers they could be subject to judicial review by those in more urgent housing need. Thus they may be compelled to house those who cannot really afford the higher rents, the cost of which will therefore have to be born by Housing Benefits, also trapping the household in unemployment. However a number of local authorities have introduced new allocations policies which prioritise applicants in work<sup>9</sup>.

*Need for Affordable housing mix of tenure for the local sub areas*

Rent levels are not always the same across the whole of a local authority area; - it is clear that there are more expensive and cheaper areas – or *housing submarkets* - in most towns, and more sought after villages can be more expensive to rent in than others.

These differences in rent were therefore taken into account by using a sub area geography. There is not enough sufficiently detailed data on private rents to give the coverage required directly, so Land Registry house prices for sub area were compared to the overall local authority average to give a measure of relative differences in affordability. This gives a guide to the proportion of Affordable Rent in each of these sub areas that should better meet the profile of housing need without making it unaffordable.

Table 29.– proportions of Affordable Rent in sub areas to meet the profile of housing need

<b>subarea</b>	<b>LA</b>	<b>derived AR %</b>	<b>%of LA need in subarea</b>	<b>HR applicants</b>
Kirby Muxloe, Glenfield	Blaby	26%	3%	23
Major settlements	Blaby	55%	34%	309
Outlying settlements	Blaby	50%	23%	209
Leicester Fringe	Charnwood/Blaby	61%	30%	536

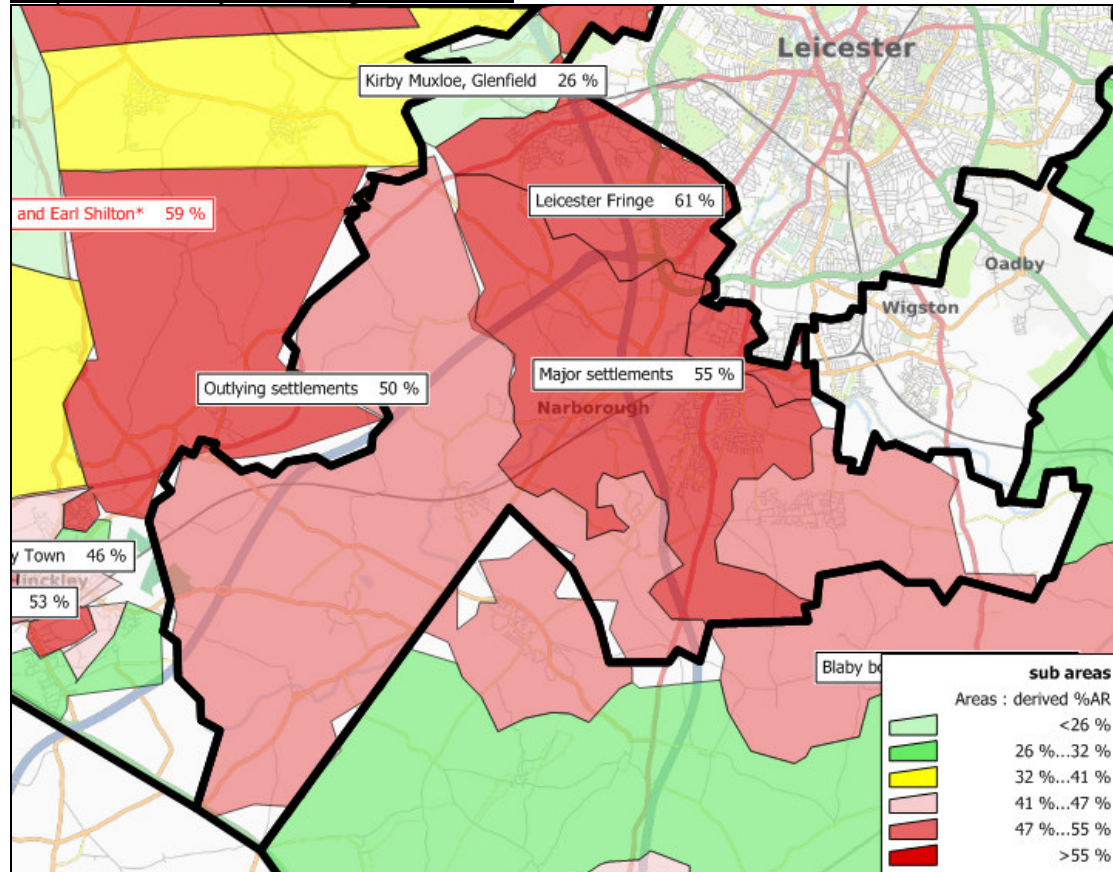
<sup>8</sup> Elster ( Local Justice, 1993 ) explains it thus *act-utilitarianism* and *rule-utilitarianism* . The former enjoins us, on every single occasion, to perform the act that will maximize total utility on that occasion. The latter tells us to act according to the rule that, when followed invariably, will maximize total utility over time. In many circumstances, the rule of acting according to act-utilitarianism will not maximize total utility over time.

<sup>9</sup> <http://www.insidehousing.co.uk/tenancies/housing-leapfrog/6519401.article>

So for example on these criteria the sub area with the lowest proportion of Affordable Rent would be Kirby Muxloe/Glenfield, where only 26% should be AR, while in the cheaper areas of the Blaby border settlements such as the Leicester Fringe, etc, 61% could be AR. A map showing the sub areas is below.

The table also shows the percentage of need and number of applicants arising from within each sub area - though whether they wish to remain within them cannot be ascertained from the data.

Map 30.– Blaby housing sub areas



*Affordable home ownership products and the draft National Planning Policy Framework.*

The definition from the Glossary of the draft National Planning Policy Framework is reproduced below in full:

**Affordable housing:** *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

- *Social rented housing is owned by local authorities and private registered providers, for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.*

- *Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*

- *Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.*

*Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered, for planning purposes, as affordable housing.*

As policy attempts to provide a better range of housing costs and tenures the differences between them may become more blurred ( see chart 1) . It is already the case that some PPS3 Affordable Housing, especially shared ownership, is perceived by some as less good value than market housing<sup>10</sup>.

The NPPF definition for Planning purposes does not take account of this, perhaps unavoidably, but the key criterion appears to be *Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

This will in principle apply to shared ownership housing from Registered Providers, where if it is sold, even 100% on a staircasing basis, will provide a capital receipt which can be recycled into more affordable housing. (Whether this happens in reality is another question).

However it will not apply to 'equity share' deals by developers where a purchaser buys, say, 75% of a house, and commits to pay for the remaining 25%, - at the current full price - , in a few years time. That additional receipt will not be recycled into more affordable housing.

However if the unsold equity were to be permanently held – for example by a benign landowner, or a Community Land Trust -, and this was reflected in the sale price of the house which was held at 25% below market value by covenant in perpetuity, then this could be considered to be PPS3 affordable housing. The key point is that if at any stage the full price of the house and land must be paid for, then it will not qualify under PPS3 affordable housing definitions.

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<sup>10</sup> <http://www.guardian.co.uk/money/blog/2011/oct/28/shared-ownership-flat>

This does not mean that other low cost and assisted purchase products will not help to provide a wider range of housing tenures, prices, types and sizes, and help build more flexible local housing ladders, but they may not be PPS3 affordable housing.

The key point for improving housing market system balance and functionality is that housing costs and prices should fall. According to the Barker thesis of 2004 the main way to achieve this would be by increasing new supply. One of the difficulties with this is that if prices fall, but other factors do not, then developers will be reluctant to build, and will seek devices to maintain prices.

New sale prices also depend on comparative resale prices, which have remained stubbornly high as owners, many sitting on lots of equity, stay put and wait for the house price bubble to re-inflate. This is shown by sales volumes in Blaby falling from 2,775 in 2007 to 945 in 2010. Compounded, of course, by mortgage rationing and the requirement for higher deposits

The policy options and interventions available to local authorities in the face of this overall housing market system environment are limited. The new National Planning Policy Framework does contain some new requirements, which will presumably be backed up by powers, for local authorities to control market housing to a greater extent; – for example that they should

*.....produce a Local Plan .... (which) ... can be reviewed in whole or in part to respond flexibly to changing circumstances*

*ensure that the Local Plan is based on adequate, up-to-date and relevant evidence... ensure that their assessment of and strategies for housing, employment and other uses are integrated, and that they take full account of relevant market and economic signals such as land prices to inform judgements about levels of demand.*

*identify the size, type, tenure and range of housing that is required in **particular locations**, reflecting local demand.*

Probably the best that can be achieved is to get these local aspects as right as possible, by developing a deeper, strongly evidence based understanding of how local housing market systems work, and build this intelligence into the Planning system, aiming to steer new provision, and hence gradually overall stock, to fit need and demand profiles better, - and by doing so also nudge behaviour, with the overall aim of improving how the housing system functions.

### *Section 106 sites*

S106 Planning agreement requirements have become a substantial source of new affordable housing supply. Affordable Rent will directly affect this because it will change the revenue stream and hence the capitalisation of the

rental housing element, and so the price the RP could pay to the developer. The HCA 2011-15 Affordable Homes Programme Framework says :-

*The Programme will introduce a new, more flexible form of social housing, Affordable Rent, which will be the main type of new supply. In addition, providers that enter into a contract with the HCA will have the flexibility to convert a proportion of social rent properties to Affordable Rent at re-let; the additional financial capacity generated **must** be applied to support delivery of new supply.*

and

*the additional borrowing capacity that can be generated from the conversion of social rent properties to Affordable Rent (or other tenures) at re-let, as well as borrowing capacity generated by the net rental income stream of the new properties developed;*

There will be no subsidy (HCA grant, capacity accrued through conversions to affordable rent, affordable home ownership or market sale, Recycled Capital Grant Fund or Disposals Proceeds Fund) used on Section 106 sites developed through the Affordable Homes Programme.

Increased rental revenue will give a higher capitalisation of the affordable rented properties in a development, which may make the scheme financially viable where it was not with social rent, so this would be *supporting the delivery of new supply*. However if the scheme was already viable with social rent there could be a temptation for developers and landowners to press for affordable rent and to ask a higher price for this, a process which has been known to take place by a semi auction process between the developer and RPs.

However if the scheme would have been viable anyway with all of the affordable housing as social rent, then switching some or all of this to affordable rent and paying more for it could have the unintended consequence of just inflating the residual land value. In this type of case the regulations could be interpreted that no more should be paid for the affordable housing by the RP than the social rent value, so that the increased revenue from affordable rent can be used to support delivery of new supply elsewhere; or the proportion of affordable housing on site could be increased within the limits of its viability, provided the housing need can be justified. S106 sites will also become the main source of new social rent properties for local authorities

While generic assessment for viability can aid understanding and give an overview, it could also mean that 'hard coded' percentages in Planning policies based on set figures may not apply, and policies could need to be recast in a more flexible way. This will all make specific site based assessment of viability more important, and require more detailed, localised and open book information from all parties.



Assessing need and viability for S106 sites may well increase in importance if the proposal to *Allow developer challenges to s106 agreements signed before April 2010* in the government's housing strategy '*Laying the foundations: A Housing Strategy for England*' results in the expected flood of challenges.

It is also important to emphasise that the split in requirements between social and affordable rent based on the profile of needs and affordability applies to the *whole* of the affordable supply, including relets. So provided this split is broadly met by the total flow of relets and new lets together then new supply could include a higher proportion of affordable rent.

There are however policy and priority judgments to be made which could alter this balance in favour of social or affordable rent, depending on whether the local authority wishes to prioritise meeting traditional backlog, largely social need, - which currently constitutes most Housing Register applications- ; or more potential need arising from low income working households in the 'squeezed middle'.

These issues should be reflected in Planning and Strategic Tenancy Policies, which will become the principles and frameworks to guide new provision to help provide a better balance in local housing provision.