

<b>Subject:</b>	<b>Rent Policy for new council homes</b>	
<b>Date of Meeting:</b>	<b>15 January 2020</b>	
<b>Report of:</b>	<b>Executive Director for Housing, Neighbourhoods &amp; Communities</b>	
<b>Contact Officer:</b>		
	<b>Name:</b>	<b>Craig Garoghan, Tel: 01273 291262, Diane Hughes, Tel: 01273 293159, Sam Smith Tel: 01273 291383</b>
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<b>Ward(s) affected:</b>	<b>(All Wards);</b>	

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 At its meeting on 15 November 2017 Housing & New Homes Committee agreed a Rent Policy for new council homes. Members asked that this policy come back to Housing Committee to be reviewed.
- 1.2 The priorities and work plan for the Housing Committee and service for the next four years, 2019 to 2023, agreed at Housing Committee on 18 September 2019 includes to review the rent policy to maximise the number of council homes replaced at social or living wage rents.
- 1.3 This report outlines the current Rent Policy which applies to all new council homes including new build, conversion and properties purchased under the Home Purchase Policy and how in future the rent policy may seek to maximise the number of council homes replaced at social or living wage rents.
- 1.4 This includes analysis and options whereby: it may be more appropriate for social and 27.5% Living Wage rents to be set for homes purchased under the Home Purchase Policy or through the Hidden Homes programme or property conversions (3.10); Results of sensitivity analysis for different rent levels for new development show that a surplus is estimated for homes delivered on Local Housing Allowance rents and a subsidy is required on all other rent levels (3.11); a mix of 37.5% Living Wage rent levels and LHA rates would also provide a viable option (3.12); it may be possible to deliver lower rents for a portion of new homes by cross subsidising from market sales and other tenure within a development (3.13); consideration could be given to using any underspent budget to support the Rent Reserve to support lower rents on future projects or purchases (3.15); members could chose to set targets for the number of homes delivered at different rent levels across the range of housing supply initiatives (3.16).

- 1.5 Increasing the supply of additional council and other new affordable homes in the city is a priority in the Housing Committee Work Plan 2019-23 alongside a Rent Policy that seeks to maximise the number of council homes replaced at social or living wage rents. 24 sales under the Right to Buy have been made in the 2019/20 financial year so far (as at 15 December 2019) with 57 sales completed in 2018/19.
- 1.6 The report also includes consideration of the impact of higher sustainability standards on resident's energy bills and an analysis of rent setting to date and equalities implications.

## **2. RECOMMENDATIONS:**

That Housing Committee:

- 2.1 Note the current Rent Policy.
- 2.2 Note that a full Equalities Impact Assessment will be undertaken on the implementation of the policy to date.
- 2.3 Approve options to revise the Rent Policy for additional council homes that maximises the number of council homes replaced at social or living wage rents. The options for the Rent Policy to be kept under review.

## **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 At the meeting on the 15 November 2017 members agreed to a number of principles for setting rents for new council homes and agreed the following:

*(1) That Housing and New Homes Committee agrees the proposed principles for a rent setting policy for new council homes as set out in paragraph 3.27 of this report, inclusive of amended bullet points 2, 4 & 5 as follows:*

*(2) That Housing and New Homes Committee approves a rent policy for new build homes as set out in paragraph 3.28 of this report as amended below.*

- 3.2 *The Rent Policy is based on a number of principles for setting rents:*

- Rents for new build council homes should not exceed 80% of Market rates or Local Housing Allowance levels in accordance with the council's Tenancy Strategy 2013;*
- Rents for new build council homes should take into consideration the high quality, amenities, standards and energy efficiency;*
- Rents should be affordable to those in low paid employment as well as households with full benefit entitlement;*
- Rental income from new homes should support an ongoing development programme to continue to build much needed new council homes for rent on council owned land. Schemes with fewer site constraints and/or free*

*HRA land may cross subsidise others that prove more costly to develop due to payments for General Fund land and/or greater site constraints and pressures;*

- *The amount of HRA subsidy for new homes should be minimised over the programme as a whole, with subsidy considerations and calculations taking into account the costs and projected income over the whole 60 year period;*
- *The policy should be able to easily incorporate any funding or subsidy that might become available for any future schemes, so that consistency in rent levels is maintained.*

3.3 The Rent Policy was agreed that rents for proposed new schemes of new build council homes will be modelled as below, with the option of a mix of rents to achieve a spread of affordability on any one scheme to be available:

- Affordable rents capped at LHA rates
- 37.5% Living Wage Rent
- 27.5% Living Wage Rent and
- Target social rent levels

3.4 Since the agreement of the policy it has been applied to new homes schemes on a case by case basis including rents capped at 80% of Market rates or LHA levels, 37.5% and 27.5% Living Wage rents and a mixture across unit sizes. Rents have been agreed by Committee as part of the scheme approval process. More information about these different rent levels is set out below.

#### *Affordable Rents*

3.5 Affordable Rents up to 80% market level were introduced by the government as a means to fund new rented housing association and council homes with reduced capital subsidy, in the form of Homes and Community Agency (HCA now Homes England) grant allocation or councils' retained Right to Buy receipts. The extra rent enables the housing provider to borrow more money to pay for building the home in place of the higher grant.

3.6 In approving individual schemes for development, Committee has agreed 'Affordable Rent' levels as defined in the council's Tenancy Strategy 2013. These are set at the lower of either 80% market rent or the Local Housing Allowance (LHA) Housing Benefit limit. This has meant that in practice the vast majority of rents for new council homes being set below 80% market rent.

#### *Living Wage Rents*

3.7 Rents are modelled on 37.5% or 27.5% of gross pay to a household earning the new national Living Wage at 2019. These were initially modelled for the Homes for Brighton & Hove joint venture and approved by the council. Receipts from 50% of new homes being sold for shared ownership will help the Joint Venture achieve this lower rent level for the 50% rented homes. Where financially viable living wage rents have also been applied to former council homes brought back through the Home Purchase Policy,

### *Social Rents*

- 3.8 Social Rents are the rents at which existing council homes are re-let. Their low level, at generally less than 40% of local market rents, reflects the higher capital grants which were historically available to subsidise councils' construction costs, as well as the government's rent setting and rent increase formulae over many years. The Hidden Homes programme converting under used spaces into new homes has also achieved social rents on new homes.

### **Rent options and levels**

<b>Size of new homes</b>	<b>1 bedroom</b>	<b>2 bedrooms</b>	<b>3 bedrooms</b>	<b>4 bedrooms</b>
<b>Affordable/Local Housing Allowance Rent per week</b>	£157.61	£204.20	£237.19	£349.54
<b>37.5% Living Wage Rent per week</b>	£134.70	£161.63	£188.57	£215.51
<b>27.5% Living Wage Rent per week</b>	£98.78	£118.53	£138.29	£158.04
<b>Average Social Rent per week</b>				
<b>Houses</b>	£76.37	£87.42	£98.78	£105.03
<b>Flats</b>	£74.42	£83.22	£97.37	

Note: actual rent figures would be set according to the rates or valuation prevailing close to letting of the homes concerned.

### **Other options and opportunities**

#### Balance of rents across housing supply initiatives

- 3.9 The current process for setting rents is to assess each project on its own merit and to ensure that rents are set to ensure there is minimal cost to the HRA. The current appraisal method assumes that a scheme is viable if it is cost neutral to the HRA.
- 3.10 The Rent Policy could agree that in future the HRA will subsidise rents. Consideration should be given to the balance of rent levels across housing supply initiatives. For example it may be more appropriate for social and 27.5% Living Wage rents be set for homes purchased under the Home Purchase Policy where they are more likely to be viable or viable with a subsidy. This can be managed by continuing to assess the programmes indicative subsidy or surplus to make all purchases viable as a whole for the HRA or to utilise the or the rent reserve, which currently totals £1.050m. The Hidden Homes programme lets homes at a social rent and it is recommended that this will continue with a subsidy from the rent reserve if required. This would have the advantage of rents being similar for new tenants to their existing council tenant neighbours. LHA and 37.5% Living Wage rents may be more suitable for new build schemes where tenants benefit from living in a new and modern home, where the energy bills are likely to be significantly lower due to sustainability measures.

- 3.11 A sensitivity analysis for new developments has been carried out on the impact setting rents at the four different levels within the rent policy. Three different investment costs were assumed ranging from £0.250m per unit to £0.300m per unit. The results of this analysis show that at LHA levels for each cost assumption a surplus is estimated from (£0.004m) at each per unit to (£0.035m). For all other rent levels a subsidy is required, ranging from £0.004m per unit to £0.141m per unit. These subsidies would need to be funded from existing HRA resources. The table below demonstrates this in more detail.

<b>Affordable Housing Brief - Unit Mix</b>			
One Bed	30%		
Two Bed	45%		
Three Bed	25%		
Four Bed	0%		
<b>Total Cost £'000 (100 units)</b>	<b>25,000</b>	<b>27,500</b>	<b>30,000</b>
<b>RTB Subsidy (30%) £'000</b>	<b>7,500</b>	<b>8,250</b>	<b>9,000</b>
<b>Estimated (Surplus) / Subsidy for 100 homes £'000</b>			
LHA	(3,541)	(1,791)	(41)
37.5% LW	383	2,133	3,883
27.5% LW	6,134	7,884	9,634
Social	10,632	12,382	14,132
<b>Estimated (Surplus) / Subsidy per unit £'000</b>			
LHA	(35)	(18)	(0)
37.5% LW	4	21	39
27.5% LW	61	79	96
Social	106	124	141
<b>Estimated (Surplus) / Subsidy for 500 homes £'000</b>			
LHA	(28,328)	(8,955)	(205)
37.5% LW	1,915	10,665	19,415
27.5% LW	30,670	39,420	48,170
Social	53,160	61,910	70,660

- 3.12 A further analysis has been carried out that indicates a mix of LHA rates and 37.5% Living Wage rent levels would also provide viable options for the HRA. Each individual project will need to be assessed against the different rent levels agreed as part of the Rent Policy and reported to Housing Committee for approval.

#### Mixed tenure and ownership

- 3.13 It may be possible to deliver lower rents for a portion of new homes by cross-subsidising from market sales and other tenure within a development. For example the viability of a project may be improved by including a number of market sales, shared ownership or market rents within a development enabling lower rents to be set on the remaining homes. There are restrictions within the HRA that would not allow cross subsidising from market rented properties, for example. To cross subsidise in this way would require the creation of a wholly

owned housing company, where the inclusion of market rent properties is permissible.

- 3.14 This would have the advantage of creating communities with a broader mix of residents, but would reduce the overall number of affordable rented homes delivered. This may not work if the sales or rental values in the area are low, but has been shown to work in the Homes for Brighton & Hove joint venture model where Shared Ownership is used to cross-subsidise 37.5% Living Wage rents. There is an opportunity to model different scenarios with larger projects such as the Moulsecoomb Hub development.

#### Projects delivered under budget

- 3.15 Setting rents at the point when the initial budget is approved for new build projects means that if the development is delivered significantly under budget the rent level may have been able to be set at a lower rate than that agreed by Housing Committee. Consideration could be given to using any underspent budget to support the Rent Reserve to support lower rents on future projects or purchases. An example of this would be the Lynchet Close project that was delivered under budget and committee would have been able to set a lower rent had the true budget figure been known when the rents were set. This needs to be balanced against projects that are delivered over budget and it should be noted that a number of projects have been delivered over budget as well as under budget on the programme to date. It is also important to recognise that assumptions for certain costs for management and maintenance have also been made. Therefore we need to ensure that we are taking account of any risks of large increases in these costs.

#### Monitoring and target setting

- 3.16 In order to maximise affordability, members could choose to set targets for the number of homes delivered at different rent levels across the range of housing supply initiatives. This would provide officers with a clear steer on members' expectations and priorities with rent levels. There is potential that this could be problematic as the project viability may mean that the only way to achieve the target would be significant subsidy from the HRA. However this approach could be applied more readily to the Home Purchase Policy and Hidden Homes programmes where they are more likely to be viable or viable with a small subsidy.

#### Sustainability measures and fuel poverty

- 3.17 New build homes are built to far higher sustainability standards than older homes and this will be even more significant as the council moves towards developing zero carbon homes. The impact of features such as high insulation standards, sustainable heating systems and solar photo voltaic panels should significantly reduce tenant's energy bills and this has been reported by residents of homes delivered to date under the New Homes for Neighbourhoods programme. This represents a cashable saving to tenants whether they are in receipt of LHA or not and could be a consideration in setting higher rents than those for people in

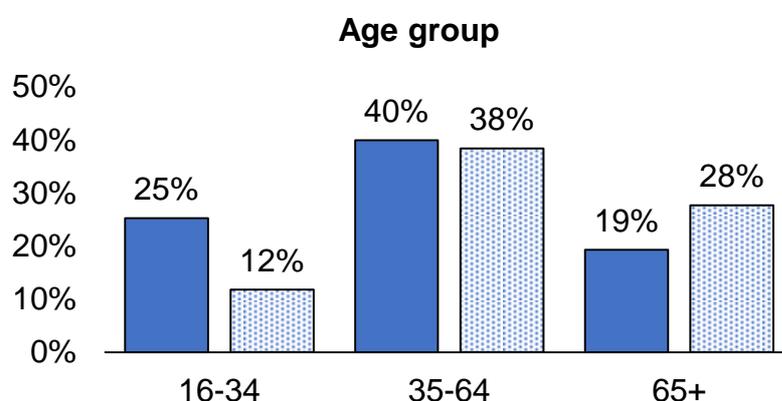
existing council stock. For example research has shown that gas heating in a Passivhaus home can deliver almost £600 in gas savings annually<sup>1</sup>.

### Analysis of rent setting to date and equalities implications

- 3.18 An initial and high level equalities impact assessment has been carried out on the implications of rents on the 198 households that have moved into new general needs and seniors ‘extra care’ council homes built or acquired since 2015. The data is as of 30 September 2019.
- 3.19 Of the 198 homes, 178 are occupied by sole tenants, and the remaining 20 are occupied by joint tenants. The equalities analysis has included all tenants, therefore the total used is 218 tenants, rather than the 198 households. To help keep things in proportion, percentage figures are also used to compare the data.
- 3.20 As the table below indicates, 5 of the 218 tenants (2%) are charged rents at social rent levels, 19 (9%) are charged at the intermediate 37.5% Living Wage rent, and the majority of new tenants are charged at Local Housing Allowance (LHA) levels.

Rent type	No. tenants	% of tenants
Social rent	5	2%
37.5% living wage rent	19	9%
LHA rent	194	89%
Total	218	100%

- 3.21 With regard to age, the bar chart below shows there is a higher proportion of younger tenants represented among tenants in the new homes (25%) than there are among the general tenant population (12%); while the reverse is true of the representation of people age 65 and over in the new homes.



- 3.22 The data relating to ethnicity showed little variance between tenants moving into the new council housing and those in the total tenant population. When considering disability, there are slightly higher proportions of tenants with a disability moving into the new housing than in the wider tenant population at 61% compared to 53%.

<sup>1</sup> <https://great-home.co.uk/energy-efficient-homes-eco-houses-zero-carbon-homes-and-passivhaus/>

3.23 In terms of affordability, it has been difficult to fully assess the relative proportions of people on particular benefits because there are 14% of tenants in the new homes who are not on benefit or where the data is not known. Also there is 34% of the full tenant population who are not in receipt of help with their rent, or where the data is not known. However, the table below shows that a total of 85% of tenants in new homes are known to be in receipt of full or partial benefit to help with their housing costs.

Housing related benefits	New council homes		All council homes	
	No. tenants	% of tenants	No. of tenants	% of tenants
Full Housing Benefit	107	49%	4,654	36%
Partial Housing Benefit	42	19%	2,010	15%
Universal Credit	38	17%	1,905	15%
None or unknown	31	14%	4,505	34%
Total	218	100%	13,074	100%

3.24 The table below outlines the proportions of households receiving help with their rent at the three rent levels, with the lowest being for the social rent level (although the numbers are also very small). The council will continue to support tenants into work, however it is increasingly the case that people in priority need for social housing are also those who are furthest away from being able to work or ready for work. This is likely to account for the lower proportion in the general tenant population of 66% who are known to be on full or partial benefit to help with their housing costs.

3.25 Increasing the rent subsidy on council accommodation is likely to result in lower exchequer costs in the form of benefits to meet housing costs, and to reduce the viability of some future housing schemes or to mean that fewer council homes will be provided.

Rent type	No. households receiving help with rent	% households in this group receiving help
Social rent	3 of 5	60%
37.5% living wage rent	16 of 19	84%
LHA rent	153 of 194	79%

3.26 Our initial analysis shows that while a higher proportion of households in new homes are in arrears compared to other households whose tenancies started in the past five years (45% and 31% respectively), the average arrears are very similar at £550 for the former and £555 for the latter group. Further and detailed work would be required to account for the full reasons for this, however possible contributory factors could be the impacts of Universal Credit, and the time some new tenants need to settle into their new homes and meet their housing set up costs including furniture, carpets and white goods etc.

3.27 Initial analysis suggests that there are no particular groups adversely impacted by the range of rent levels set for new homes when compared against the

general tenant population. Also the variance between residents on 37.5% Living Wage rents and those on LHA rents is marginal at 84% and 88% respectively.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 There are a number of potential options for the current Rent Policy including:
- Doing nothing – i.e. leaving the policy in place as it is
  - Changing the policy – i.e. updating the policy in light of new priorities, learning from the programme to date and other considerations detailed in this report

#### **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 Consultation is undertaken with the community on individual new build projects and to date has not included specific focus on proposed rent levels.

#### **6. CONCLUSION**

- 6.1 Housing Committee is asked to note the current Rent Policy and approve a revised Rent Policy to include the options outlined in paragraphs 3.10 – 3.17 of this report. The Rent Policy will be reviewed every two years, or where circumstances change significantly.

#### **7. FINANCIAL & OTHER IMPLICATIONS:**

##### Financial Implications:

- 7.1 The financial viability modelling sets out to show whether a given scheme can pay for the borrowing required by using the new rental stream, (net of service charges, management, maintenance, major repairs and voids costs) over a 60 year period. Assessing the project viability over a 60 year period not only matches the life of the asset but also reduces the need to use existing tenants' rents to support the project. The financial model tests viability of the rent options contained within the policy for each new build scheme and the results are presented to Housing Committee enabling Committee to set rents accordingly.
- 7.2 When setting rents for new build homes, members need to consider the needs of current tenants, tenants of the new homes and also the longer term benefits to the HRA and the aim of increasing housing supply in the City. As outlined in paragraph 3.11, setting rents at the lower of LHA or 80% of market rents is likely to mean there is a surplus for the HRA and therefore an increase in the overall income which could be spent on more services for tenants or further new build schemes. Setting rents at a level which requires a subsidy from current tenants will constrain the amount the HRA can spend on tenants and will not enable any contributions to new build schemes.
- 7.3 Where rents could be set at LHA (or 80% market rent) level and are set at a lower level (such as living wage rent), the council are foregoing this extra income which may in some cases have come from the government in the form of welfare benefits.

7.4 Paragraph 3.11 outlines the sensitivity analysis results. Aside from LHA rates a significant subsidy would be required for all other rent levels. To deliver 500 new developments would require an estimated subsidy of between £1.915m to £70.660m over a four year period depending on the rent level chosen. This is highly dependent on the total investment cost achieved; it is likely to be towards the higher end of the subsidies due to the rising cost of construction and inclusion of zero carbon measures. Under current assumptions this would not be seen as a sustainable approach for the HRA to take over the medium term and would need to be tested fully against the 30 year business plan. Alternative options are likely to be considered to cross subsidise developments to achieve lower rents i.e. the use of market rents.

7.5 The level of rent reserve currently totals £1.050m and is being considered to reduce properties rents being purchased via the Home Purchase Policy from September 2019. This is a finite resource which will support the reduction of a limited number of homes and therefore the Home Purchase Policy still needs to consider rents at 37.5% Living Wage to ensure the purchases remain viable for the HRA.

*Finance Officer Consulted: Craig Garoghan*

*Date: 18/12/19*

Legal Implications:

7.6 Section 24 (1) of the Housing Act 1985 provides that a local housing may make such reasonable charges as they may determine for the tenancy or occupation of their houses. The use of the word “may” in section 24(1) confers a discretion on the council. The law requires a discretion to be exercised reasonably, which involves taking into account relevant considerations, ignoring irrelevant ones and otherwise acting objectively. There is no legal objection to the development of a policy to assist in the exercise of that discretion. The policy would constitute a relevant consideration. Policies should be kept under review to ensure that they remain fit for purpose and relevant.

*Lawyer Consulted: Name Liz Woodley*

*Date: 31/12/19*

Equalities Implications:

7.7 Affordability of new and existing homes is a key issue at a local level, particularly affecting those on lower incomes. Paragraphs 3.18 – 3.27 of this report outlines an initial analysis on the potential impact of the policy on different equalities groups. It is recommended that a full Equalities Impact Assessment is now undertaken on the Rent Policy to date to ensure that it has not had any unintentional impacts on different equalities groups.

Sustainability Implications:

7.8 Higher sustainability standards for new homes, especially in the council’s drive to move towards zero carbon housing, should reduce tenants’ energy bills.

## **SUPPORTING DOCUMENTATION**

### **Background Documents**

1. Rent policy for new build council homes – Housing Committee report 15 November 2017

