HOUSING & NEW HOMES COMMITTEE	Agenda Item 29 Brighton & Hove City Council

Subject:		**Living Rent**	
Date of Meeting:		**23 September 2015**	
Report of:		**Acting Executive Director Environment, Development & Housing**	
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Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 At the Housing & New Homes Committee (17 June 2015) the Chair responded to a public question concerning Living Rent calculations on new council housing being developed in the City. The meeting resolved that the public question be noted. The Executive Director, Environment Development & Housing advised that there would be a report to the next meeting of the Committee showing the difference between rental levels.

1.2 This report outlines some of the key challenges and considerations when developing a Living Rent model.

1.3 The report also notes that the following matters have arisen since Housing & New Homes Committee on 17 June that are material to any meaningful review of Living Rent models, are currently subject to consideration by officers and will require a full report to a future Committee meeting:

- The Government’s Summer Budget 2015 announcements, including that rents in social housing sector will be reduced by 1% a year for the next four years, will have a material impact on the Housing Revenue Account Business Plan and budget decisions, including rent calculations on any new housing schemes.
- Initial discussions are taking place with Greater Brighton partners about new models of delivery, including exploring Living Wage housing models, as part of the emerging Devolution proposals.

2. RECOMMENDATIONS

2.1 That the Housing & New Homes Committee notes the contents of this report.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 Housing & New Homes Committee on 17 June 2015 considered the following public question:

‘*At the March meeting of the Housing Committee, Councillor Randall said that the council would be carrying out Living Rent calculations on the new council housing being developed and that the Head of Housing Strategy and*

Development promised to report on his work in the June meeting. Councillors wished to find ways to offer new council housing at a Living Rent rather than an unaffordable 80% of market rent. Do these models include the option to extend the repayment period on the building costs of new homes, so that rents can be lowered without increasing the subsidy required?'

The Executive Director, Environment, Development and Housing replied that there would be a report to the next meeting. Our initial outline of some of the key challenges and considerations to be taken into account when developing a Living Rent model are outlined in paragraphs 3.6 to 3.19 of this report.

3.2 On Wednesday 8 July 2015 the Chancellor announced his Summer Budget to Parliament. Key announcements in relation to reforming the welfare system included that rents for social housing will be reduced by 1% a year for 4 years, and tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rate, or near market rate, rents.

3.3 The impact of the measures in the Summer Budget for the HRA Business Plan is currently being reviewed by council officers and will require a full report back to a future Housing & New Homes Committee, including implications for the modelling of rents on the building costs of new homes. Registered Provider partners in the City are also considering the implications of reduced social housing rents on their ability to borrow to deliver new rented homes in Brighton & Hove.

3.4 In addition:

- Discussions are taking place with Greater Brighton partners about new models of delivery, including exploring Living Wage housing models, as part of the emerging devolution proposals.
- Following a report to Policy & Resources Committee (14 October 2014) on 'Improving Housing Supply, Off Plan Procurement & Residential Acquisitions', and a successful bid to Department of Communities & Local Government for case study funding, modelling is being undertaken to review options for the Council to intervene in the local housing market as potential purchaser (or lessee) of new housing being brought forward on development sites in the City to meet housing needs.

3.5 It is proposed more information on both of these intiatives, in particular as it relates to any considerations aligned to Living Rent models, also be included in a future report to Housing & New Homes Committee.

Living Rent – an outline of key challenges and considerations

3.6 A key Housing Strategy 2015 priority is support for new housing development that delivers a housing mix the city needs with a particular emphasis on family, Affordable Rent and where feasible, Social Rented housing. The Government introduced Affordable Rent to help fund the development of new affordable housing using less public subsidy. Those homes developed with Government funding (and some existing homes when vacant), including those funded by use of Right to Buy receipts, are now let at a rent up to 80% of market rent. The extra rent enables the housing provider to borrow more money to pay for building the home in place of higher grant.

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3.7 Through the Tenancy Strategy (2013) the council is committed to:

- Ensuring that existing council tenants will continue to enjoy lifetime tenancies within the existing Social Rent framework, with no conversion of vacant Council homes to Affordable Rent;
- Keeping Affordable Rents affordable, ensuring that Affordable Rents to be set at the lower of either 80% market rent level or the Local Housing Allowance (LHA) limit.

3.8 In practice, due to the increasing gap between market rents and the LHA levels, Affordable Rents in the city are not set at 80% market rate but are capped at the LHA limit. When compared to 2014/15 market rents, the LHA equates to around 78% and 64% of market rent for a one bedroom flat and a three bedroom house respectively.

3.9 A number of consultation responses to the development of the new Housing Strategy 2015 and deputations to Committee have argued that Affordable Rents or LHA rents are too high for those on low incomes who see little noticeable difference in their disposable incomes from their work efforts and have called for a Living Rent in Brighton & Hove that is affordable to those on lower incomes.

3.10 In theory, the Local Housing Allowance (LHA) provides a safety net that supplements incomes for those with rents beyond their affordability. However, even when rents are within LHA limits, the high cost of renting in Brighton & Hove means that a household needs to be earning a significant sum before they see a real increase in their disposable income beyond the minimum disregards and taper allowances afforded by the LHA. In effect, all those earning below the level required to be free of the LHA see very small differences in their disposable income despite the range in hours worked and money earned.

3.11 The Living Rent is intended to be a level below LHA limits, where those in work but at lower income levels can see a noticeable difference in their disposable income.

3.12 However, there is no set definition of a Living Rent and a multitude of assumptions, options and methodologies that could be used to set such a level.

3.13 A true Living Rent would be based on the individuals income irrespective of the size of the property they needed to live in which brings us back to the traditional rent model with LHA to top up the shortfall which has its own shortcomings as outlined above.

3.14 This shapes the real meaning of what is behind the Living Rent concept to effectively having “a lower rent” that is between the higher LHA level rents and Social Rents such as those charged on existing council homes. The lower the rent, the more subsidy required to build a new home which, without additional investment or alternative borrowing strategies, risks fewer new affordable homes being built overall.

3.15 To define what this lower rent level may be, a number of assumptions will need to be made. Each of these assumptions has the potential to be considered in a number of ways and would therefore be subject to an options appraisal that would require a range of stakeholder input. Some of the challenges in defining a Living Rent include:

What proportion of income is affordable to spend on housing costs? An affordable housing cost is defined by various researchers and agencies in a number of ways, such as 25% of net income, 35% of gross income. The real circumstances of households vary so much – wages, numbers earning, tax, national insurance, child care, location costs etc. adding to the complexity of linking rents to earnings and what is affordable.

- **At what level do we set the rent?** A key consideration is whether we set rents based on the specific household's ability to pay. Research has shown that tying rents directly to individual's incomes raises concerns about work incentives and social mix, as well as increased administration costs. To counter this, a mechanism for linking rents to average local earnings data, such as that available from the Annual Survey of Hours and Earnings (ASHE) produced by the National Office of Statistics (which is updated annually) could be used as a basis to set rent levels. It is also important to recognise that service charges are also an important aspect to rent setting and need to be considered as part of the whole affordability approach. Critically, if the level is set too low, the rent will not be enough to cover the property costs and the higher the level, the fewer the people who would be able to afford it.

- **How do we account for different property sizes?** A household can afford a fixed level of rent based on their income. A key Living Rent challenge is therefore whether the same rent should be charged / paid irrespective of the property size required? A method could be used to adapt the figures arising from the average earnings data to reflect the differing composition of household in different sized properties. This would allow for the fact that household income for low paid families with children is likely to be enhanced by government support.

3.16 One of the biggest challenges is that a Living Rent is about an individual household's ability to afford their home which is dependent on their income Where-as, the rent of a property is dependent on the cost to build, maintain, manage the home. By their very nature, larger houses are going to cost more to build and maintain, however, a single earner on the minimum wage can afford the same rent level irrespective of whether they need to live in a 1, 2, 3 bed or larger home.

3.17 Reduced public subsidy and higher income risks aligned to welfare reform have made borrowing to build homes for rent a much higher risk for Registered Providers with a significant shift away from development of homes for both Social Rent (no new homes planned) and Affordable Rent. The City Council has responded to these challenges by initiating a programme to develop new affordable council homes for rent on HRA owned land.

3.18 Housing Committee unanimously agreed at its meeting on 6 March 2013 that a range of funding, rent and home ownership options should be provided in new housing to be developed on HRA land under the Estate Regeneration Programme in order to ensure that development is viable and to increase the number of new homes the Estate Regeneration Programme can deliver. The report indicated the level of Affordable Rents and the impact these higher rents would have on the number of homes the HRA could develop.

3.19 To illustrate the impact of a notional Living Rent on new affordable housing development, for illustrative purposes only, a rental figure of £600 per month modelled for the recently approved Findon Road scheme and applied to all units regardless of number of bedrooms (based on 1/3 of an average local wage of £22,000 per annum) would increase the subsidy required from the Housing Revenue Account (HRA) from £17,000 per unit to £71,000 per unit; an overall increase of £54,000 per unit. Over the Findon Road development this is an overall increase of HRA scheme subsidy requirement of around £3.100M. This is modelled over 40 years which is in line with housing sector standards where schemes are generally modelled on between 30-40 years.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 This is a scoping report outlining some of the key considerations to a Living Rent. If a Living Rent was defined for Brighton & Hove, a wide range of financial options and permutations will have to be explored.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 Consultation on the Housing Strategy 2015 and deputations to Committee have repeatedly called for some form of rent restraint, whether in the private rented sector or with affordable social housing. Any new Living Rent model would have to be developed with full stakeholder engagement.

6. CONCLUSION

6.1 The challenges in developing a Living Rent model raises the key consideration that affordability or a 'Living Rent' is a factor of the households ability to pay rather than being based on the property size, value and costs to develop and manage. Any 'Living Rent' level that we could suggest risks being a theoretical concept that would be difficult to apply in practice.

6.2 Based on the above, this would suggest a larger scale research project may be required that would require extensive stakeholder engagement. Clearly, with Brighton & Hove being a low wage economy with excessively high property costs, there is a need to consider how best we can support households within our financial envelope and perhaps this may be a matter for an independent body such as the Fairness Commission or one of the Universities to consider.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 Officers are currently reviewing the impact of the Government's Summer Budget 2015 announcements (Welfare Reform bill) on the Housing Revenue Account (HRA) 30 year Business Plan. The most significant announcement for our authority's HRA is the proposed 1% reduction in in social housing rents from April

2016 for 4 years. Although the 4 year rent reduction may be seen as good news for some tenants, the reductions in rental income has a significant impact on the HRA financial plans, and therefore the resources available to deliver services, property and estate improvements and development plans.

7.2 The budget statement also included provision for high income (£30k household income) tenants to be charged a market or near market rent (‘Pay to Stay’) with the additional rent raised by local authorities to be returned to the Treasury. This is expected to be introduced from April 2017.

7.3 Other announcements were also made on the on-going welfare reforms, including

- Roll out of universal credit, payments to claimants rather than to landlord
- 18-21 will no longer be automatically entitled to Housing Benefit
- Benefit cap for working age families reduced to £20,000
- Continuation of bedroom tax.

7.4 Officers are reviewing what actions can be introduced to mitigate the loss of rental income within the HRA from the recent budget announcements, including how the future plans of investment in existing stock, as well as building new homes can be managed within the funds available to the HRA.. A full report will be presented to a future New Homes and Housing Committee.

7.5 The example in this report of a reduced notional living rent modelled for Findon Road scheme, shows a potential increase in HRA subsidy required of approximately £3.100M as detailed in the body of the report.

Finance Officer Consulted: Name Susie Allen Date: 13/09/2015

Legal Implications:

7.6 Rents for council properties are required to be reasonable (section 24 Housing Act 1985). This gives the council a wide discretion to fix their own rents.

Lawyer Consulted: Name Liz Woodley Date: 11/09/2015

Equalities Implications:

7.7 A Living Rent set below the Local Housing Allowance or legally defined Affordable Rent level (80% market rent) will reduce housing costs and increase disposable income for those affected households. This will benefit vulnerable groups. However, if the trade off is that fewer affordable homes are developed then overall, fewer households can be helped. This trade off will need careful consideration.

Sustainability Implications:

7.8 None arising from this report.

Any Other Significant Implications:

7.9 Increasing a household's disposable income via reduced rents will improve their quality of life as they will be more able to heat their homes, provide adequate food and clothing, engage in social activities and cultural opportunities that Brighton & Hove is able to offer. However, there would be implications for the HRA Business Plan which will be reported to a future meeting.

SUPPORTING DOCUMENTATION

Appendices:

1. None

Documents in Members' Rooms

1. None

Background Documents

1. None