

Bath & North East Somerset Council		
MEETING/	Planning, Housing and Economic Development Policy Development & Scrutiny Panel	
MEETING DATE:	11 September 2018	EXECUTIVE FORWARD PLAN REFERENCE:
TITLE:	Affordability in New Rented Housing Delivery	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1: Affordability in New Rented Housing Delivery - A briefing for LDF Steering Group (July 2018)		

1 THE ISSUE

- 1.1 Members often express concern over the affordability of new rented homes being delivered across the District through our Core Strategy Policies and through housing association-led development.
- 1.2 A briefing paper on this issue was presented to the Local Development Framework Steering Group and is now being presented to PHED PDS for information. It explains the formal, planning policy and housing sector definitions for affordable housing, the different rented tenures this incorporates and provides information on the costs of new affordable housing currently being secured. It also outlines some measures that are being implemented to maximise affordability and makes suggestions as to further measures to be considered through future policy development.

2 RECOMMENDATION

- 2.1 That Members note the report and the measures being explored to maximise affordability in new rented housing

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 3.1 Homes England have recently introduced a programme of funding for social rent products that was not reflected in the Briefing paper attached. There are currently no live bids for HE funding from our housing association partners, but future schemes will seek to maximise social rent subject to levels of funding required.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 The National Planning Policy Framework has been amended since this briefing note was presented, but amendments to the definitions of affordable housing do not change the contents of the paper or the continued approach to rented delivery.

5 THE REPORT

- 5.1 Full LDF Briefing paper is appended

6 RATIONALE

- 6.1 n/a

7 OTHER OPTIONS CONSIDERED

- 7.1 n/a

8 CONSULTATION

- 8.1 This briefing paper was developed in conjunction with the Council's partner housing associations

9 RISK MANAGEMENT

- 9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

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Background papers	<i>New affordable housing Bathnes</i> <i>NPPF 2018</i>
Please contact the report author if you need to access this report in an alternative format	

Appendix 1: LDF Briefing Paper

Affordability in new Rented Housing Delivery

A briefing for LDF Steering Group
July 2018

Purpose of this briefing paper

There is concern over the affordability of new rented homes being delivered across the District through our Core Strategy Policies and through housing association-led development.

This short briefing paper explains the formal planning policy and housing sector definitions of affordable housing and the different tenures this incorporates and provides information on the costs of new affordable housing currently being secured. It also outlines some measures that are being implemented to maximise affordability and makes suggestions as to further measures to be considered.

The National Picture:

The National Planning Policy Framework (NPPF) sets out a broad definition of what 'affordable housing' means:

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 (as defined in section 80 of the Housing and Regeneration Act 2008), 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 as affordable housing for planning purposes.

The key things to take from this definition are that the affordable housing products are:

- Available in perpetuity (or the subsidy recycled)
- Available to eligible people
- Discounted from market levels by a *minimum* of 20%

It should be noted that we are expecting the NPPF definition of Affordable housing to be amended at some point in the near future to introduce new affordable housing tenures. These are likely to include Starter Homes and Build to Rent options. Consultation following the Housing White Paper was carried out earlier this year and a softening from a prescribed level of starter home delivery is likely to result instead in a fixed % requirement for low cost home ownership delivery.

Our Local Approach to Affordable Housing Delivery

In Bath and North East Somerset, our approach to affordable housing is set out in the Planning Obligations SPD, where we stipulate and prioritise affordable housing tenures we feel are appropriate to meet local housing need.

Affordable housing tenures can be divided into two groups – rented and low cost home ownership. We typically aim to delivery 75% of new affordable homes as a rented product and 25% as low cost home ownership. The majority of new affordable homes are delivered by our housing association partners but we are increasingly seeing opportunities to deliver affordable homes with other providers.

A profile of every affordable housing development under construction in the District can be found here: [New affordable housing | Bathnes](#)

Almost all of the affordable housing delivered in B&NES has eligibility requirements established by our Homesearch Policy. They are available to people who live or work in the District, are not home owners and have a household income of less than £60,000. ([Homesearch web page](#))

Rented Products:

Our preferred rented product is **Social Rent**. This is the traditional rented tenure of local authorities and housing associations and sits at around 60% of the market rent. Social rent is calculated using the national formula (the Target Rent Regime). The level of annual rent increase is nationally prescribed. Social rents do NOT include service / estate charges. Because even social rents have their basis in the value of the home, social rents vary quite dramatically across the District and between new build and re-let homes.

283 of the new affordable homes delivered between 2015-2018 were for social rent and we have a pipeline of around 607 social rent homes being delivered in 2018/9 and beyond

Sometimes, our housing association partners deliver homes as **Affordable Rent Tenure (ART)** which was introduced in 2011/12 by the Government as its preferred rented tenure. ART homes have a rent of no more than 80% of market rent and include all service and estate charges. Rented homes delivered with government funding or that the housing association puts into their Homes England (HE) programme will be ART *but* here in B&NES we require ART rents to be delivered below Local Housing Allowance levels or 80% of market rent *whichever is the lower*, and housing associations can sometimes achieve ART rents at similar affordability to social rent levels plus service charge.

108 ART homes were delivered between 2015 - 18 with a further 67 ART units in the pipeline

Not all affordable homes are delivered by our housing association partners. Some developers retain a long term interest in the affordable homes they are required to deliver and will rent them directly or through an agent. The s106 agreement will establish rent levels, mechanisms for rent increases and standards around allocations and management. The homes secured through this mechanism are generally referred to a **Discount Market Rent (DMR)**. The rent, including service charges, will be set somewhere between 60-80% of local market rent depending on the development and allocations will usually be made through Homesearch.

There are 65 DMR homes in the current pipeline for delivery in the next few years, 15 secured at social rent levels

Rented affordability across the District

The affordability of someone's housing costs can be determined as a % of their gross income. Best practice suggests that this figure should be no more than 35% and that needs to include rent, mortgage and any service or estate charges but does not include utility bills, council tax or any care and support costs.

Please note intended occupancy for each house type: 1 bed flat= 2person, 2bed house =4 person, 3 bed house =5 person, 4 bed house =6 person

Bath:

<i>Site</i>	<i>Unit size</i>	<i>Tenure</i>	<i>Rent p/w</i>	<i>Total Service Charge p/w</i>	<i>Total housing cost p/w</i>	<i>Income required to pass 35% affordability test</i>	<i>LHA p/w</i>
<i>Warminster Road</i>	<i>2bed house</i>	<i>SR</i>	<i>£132</i>	<i>£4.90</i>	£136.90	<i>£20,340</i>	<i>167.23</i>
	<i>3 bed house</i>	<i>SR</i>	<i>£151</i>	<i>£4.90</i>	£155.90	<i>£23,162</i>	<i>195.96</i>
	<i>4 bed house</i>	<i>SR</i>	<i>£165</i>	<i>£4.90</i>	£169.90	<i>£25,242</i>	<i>300.66</i>
<i>Mulberry Park</i>	<i>1bed flat</i>	<i>SR</i>	<i>£95</i>	<i>£20</i>	£115	<i>£17,086</i>	<i>139.81</i>
	<i>2bed house</i>	<i>SR</i>	<i>£112.81</i>	<i>£3.45</i>	£116.26	<i>£17,273</i>	<i>167.23</i>
	<i>3 bed house</i>	<i>SR</i>	<i>£135</i>	<i>£5.18</i>	£140.18	<i>£20,827</i>	<i>195.96</i>
	<i>4 bed house</i>	<i>SR</i>	<i>£155</i>	<i>£6.91</i>	£161.91	<i>£24,052</i>	<i>300.66</i>
<i>Ensleigh North, Lansdown</i>	<i>2bed house</i>	<i>SR</i>	<i>£144.38</i>	<i>£6.83</i>	£151.21	<i>£22,465</i>	<i>167.23</i>
	<i>3 bed house</i>	<i>SR</i>	<i>£165.81</i>	<i>£6.83</i>	£172.64	<i>£25,649</i>	<i>195.96</i>
	<i>4 bed house</i>	<i>-</i>	<i>£198.89</i>	<i>£6.83</i>	£205.72	<i>£30,564</i>	<i>300.66</i>
<i>Relets of existing stock</i>	<i>1bed flat</i>	<i>SR</i>	<i>£83.52</i>	<i>£1.35</i>	£84.87	<i>£12,610</i>	<i>139.81</i>
	<i>2bed house</i>	<i>SR</i>	<i>£101.03</i>	<i>£0.71</i>	£101.74	<i>£15,116</i>	<i>167.23</i>
	<i>3 bed house</i>	<i>SR</i>	<i>£105.02</i>	<i>£1.82</i>	£106.84	<i>£15,873</i>	<i>195.96</i>
	<i>4 bed house</i>	<i>SR</i>	<i>£112.62</i>	<i>£6.39</i>	£119.01	<i>£17,681</i>	<i>300.66</i>

Keynsham / Whitchurch

<i>Site</i>	<i>Unit size</i>	<i>Tenure</i>	<i>Rent p/w</i>	<i>Total Service Charge p/w</i>	<i>Total housing cost p/w</i>	<i>Income required to pass 35% affordability test</i>	<i>LHA p/w</i>
<i>Staunton Lane, Whitchurch</i>	<i>1bed flat*</i>	<i>SR</i>	<i>£92.62</i>	<i>£13.21</i>	£105.83	<i>£15,723</i>	<i>128.57</i>
	<i>2bed house*</i>	<i>SR</i>	<i>£128.52</i>	<i>£6.30</i>	£134.82	<i>£20,030</i>	<i>156.05</i>
	<i>3 bed house*</i>	<i>SR</i>	<i>£150.31</i>	<i>£6.30</i>	£156.61	<i>£23,268</i>	<i>186.44</i>
	<i>4 bed house*</i>	<i>SR</i>	<i>£164</i>	<i>£6.30</i>	£170.03	<i>£25,302</i>	<i>249.60</i>

Site	Unit size	Tenure	Rent p/w	Total Service Charge p/w	Total housing cost p/w	Income required to pass 35% affordability test	LHA p/w
Bilbie Green, Keynsham	1bed flat	SR	£90.61	£12.04	£102.65	£15,251	128.57
	2bed house	SR	£123.83	£5.07	£128.90	£19,151	156.05
	3 bed house	SR	£138.62	£5.71	£144.33	£21,443	186.44
	4 bed house	SR	£157.26	£3.94	£161.20	£23,950	249.60
Somerdale	1bed flat	SR	£87.03	£8.99	£96.02	£14,266	128.57
	2bed house	SR	£115	£2.83	£117.83	£17,506	156.05
	3 bed house	SR	£123.64	£2.83	£126.47	£18,790	186.44
	4 bed house	SR	£139.30	£2.83	£142.13	£21,116	249.60
Re-lets of existing stock	1bed flat	SR	£82.39	£0.71	£83.10	£12,346	128.57
	2bed house	SR	£92.80	£0.39	£93.19	£13,845	156.05
	3 bed house	SR	£104.75	£0.44	£105.19	£15,628	186.44

Somer Valley

Site	Unit size	Tenure	Rent p/w	Total Service Charge p/w	Total housing cost p/w	Income required to pass 35% affordability test	LHA
Monger Lane, MSN (s106)	1bed flat	ART	£101.19	-	£101.19	£15,040	139.81
	2bed house	ART	£136.63	-	£136.63	£20,299	167.23
	3 bed house	ART	£163.01	-	£163.01	£24,219	195.96
	4 bed house	ART	£202.38	-	£202.38	£30,068	300.66
St Chads, MSN (RP delivery)	1bed flat*	ART	£101	-	£101	£15,006	139.81
	2bed house*	ART	£138	-	£138	£20,503	167.23
	3 bed house*	ART	£166	-	£166	£24,668	195.96
	4 bed house*	ART	£179	-	£179	£26,594	300.66
Fosseway, MSN (s106)	2bed house	SR	£110	£4.21	£114.21	£16,968	167.23
	3 bed house	SR	£121	£5.36	£126.36	£18,773	195.96
	4 bed house	SR	£142	£5.27	£147.27	£21,880	300.66
Relets of existing stock	1bed flat	SR	£83.02	£3.82	£86.84	£12,902	139.81
	2bed house	SR	£108.48	£2.53	£111.01	£16,493	167.23
	3 bed house	SR	£105.16	-	£105.16	£15,624	195.96
	4 bed house	SR	£128.21	£0.65	£128.86	£19,145	300.66

Rural

Site	Unit size	Tenure	Rent p/w	Total Service Charge p/w	Total housing cost p/w	Income required to pass 35% affordability test	LHA
Temple Cloud (s106)	1bed flat	SR	£79.09	£5.93	£85.02	£12,632	139.81
	2bed house	SR	£100.75	£5.93	£106.68	£15,850	167.23
	3 bed house	SR	£112.20	£5.93	£118.13	£17,551	195.96
	4 bed house	SR	£122.30	£5.93	£128.23	£19,051	300.66
Bathampton (s106)	2bed house	SR	£131.93	£11.25	£143.18	£21,272	167.23
	3 bed house	SR	£146.42	£11.25	£157.67	£23,425	195.96
Relets of existing stock	2bed house	SR	£89.39	£0.74	£90.13	£13,391	139.81
	3 bed house	SR	£105.00	£1.85	£106.85	£15,875	167.23

**Indicative rents / service charges*

Addressing concerns with affordability

The key thing we can learn from the information provided above is that, in parts of the District, the new build rents are not of major concern for many household, taking the 35% income test into account, and where there is a significant problem, this is with larger family homes and housing for single people.

The biggest issue faced by households on lower incomes and in receipt of welfare benefit, is the challenge faced by households seeking to meet their family's housing and other needs within the £20,000 benefit cap (£13,400 for single person households).

Previous to the introduction of the cap in 2012 housing benefit would cover rents up to the LHA rate, and the household's remaining income would serve to meet their other costs. The benefit cap was reduced in November 2017 from £26,000 for couples and households with children and £18,200 for single people. Under the benefit cap, all of the household's costs must be met within £20k, regardless of the number of children. In high value areas, tenants are therefore disproportionately affected by the amount of rent charged, as are larger families, leaving them with less disposable income. In Bath particularly, new larger family homes for rent do cause concerns around affordability. There is also a significant issue arising with housing for single people, whose housing options are limited due to supply and affordability.

The challenge for the affordable housing sector is how to address this affordability concern in a way that fits within regulation, expectations on value for money, development viability and growing need. Some of the measures being put in place in B&NES, or being discussed with our housing association partners, include:

- Limiting requirements for the delivery of new 4 bed homes
- Retaining Social Rent as our primary tenure
- Restricting Social Rent to 95% for larger homes (under the Target Rent regime for setting of social rents, the housing association can charge between 95-105% of Target Rent)
- Setting limits on service and estate charges – more work needs to be done on this
- Using B&NES Affordable Housing capital programme to increase subsidy levels and improve affordability, particularly on larger homes

- Capping ART to 80% of the market or LHA, whichever is the lower
- Development of single persons 'studio' type homes / micro housing
- Delivering a 'shared housing' product for single people
- Introduction of an ART product based on 50% of market rents

However.....

Greater affordability comes at greater cost. The lower the rent, the lower the amount of borrowing that can be supported and the higher level of subsidy required. This means that:

- We can deliver less units for our Capital Funding
- In high value areas such as B&NES, the value for money parameters expected by Homes England means that increased levels of subsidy are not available.
- Viability on s106 sites can become an issue and we are faced with the option of fewer units but greater affordability :v: more units but worsening affordability (or a lower proportion of rented units in favour of more shared ownership)

One of our housing association partners recently modelled a number of rent level options on a site they are hoping to secure for 100% affordable housing development. For a scheme of 14 homes, the subsidy requirement from B&NES, on top of a Homes England grant of £686,000 and RP subsidy of £140,000, for each rent level option would be:

Unit type	Rent p/w			
	80% ART (inc s/c)	Midpoint rent (inc s/c)	Social Rent (+ sc)	50% ART (inc s/c)
2B3P flat	£124.19	£110.00	£96.01 (+£16 sc)	£77.62
2B4P flat	£128.78	£115.00	£98.05 (+£16 sc)	£80.49
2B4P house	£137.98	£120.00	£109.28 (+£5 sc)	£86.24
3B5P house	£156.38	£135.00	£120.73 (+£5 sc)	£97.74
Total Subsidy required from B&NES	£150,000	£425,000	£475,000	£975,000

Housing options for households affected by the welfare benefit cap

It should be noted that the level of new build rented provision delivered since 2015 amounts to only 18% of all allocations, the bulk of which were through relets in the existing social housing sector.

	Total lettings opportunities (new build and relets)	Total new rented provision	New provision as 100% of lettings
2015-16	646	125	19%
2016-17	797	114	14%
2017-18	746	152	20%
Total	2189	391	18%

This does mean that the majority of housing allocations in B&NES are made through re-lets in the existing stock, where rents (particularly in the ex-council stock) are substantially lower than new build provision. The purpose behind the Choice Based Lettings approach to housing allocations is that applicants get to select and bid for properties they feel are right for their household. The housing association allocations teams assess the affordability and sustainability of a potential tenant before making the final allocation, thus ensuring (as far as possible) the household can live within their means in the property.

There are non-planning related options to explore with our housing association partners around making the best use of our affordable housing stock, particularly larger, under-occupied homes

Next Steps

Officers will continue to work with developers and our housing association partners to address affordability concerns, looking at innovation, funding, making best use of housing stock and will be using the opportunities provided by the New Local Plan and resulting SPD to re-establish affordability parameters in light of the welfare benefit caps.

Members of the LDF Steering Group have asked what they can do at Party and Central Government level to help address the affordability issues in the District. Two key suggestions to lobby on:

- Weighting of benefits caps in high value Districts outside of London
- Recognition of the increased subsidy costs of delivering affordable housing in high value areas when it comes to Homes England 'value for money' tests.

In order to understand the affordability issues specific to Bath & North East Somerset, members might like to look at the latest South West Home Truths research issued annually by the National Housing Federation: [South West | Home Truths 2017/18 | Resources | National Housing Federation](#), Home Truths reports are available for all of the regions. It is interesting to also look at the South East and London reports; comparing the affordability ratio for B&NES clearly demonstrates the difficulty faced in the District.

Please contact Louise Davidson, Team Manager (Enabling and Development) for further information

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