

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.

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.”*²

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

² <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
1 Bed Flats	£418	£96.35	£77.08	£ 86.54	£ 9.46
2 Bed Flats	£542	£124.96	£99.97	£ 109.62	£ 9.65
1 Bed Houses	£465	£107.31	£85.85		
2 Bed Houses	£543	£125.38	£100.31	£ 109.62	£ 9.31
3 Bed Houses	£651	£150.31	£120.25	£ 126.92	£ 6.67
4 Bed Houses	£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/benefit³ 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.

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

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 25th 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, 25th 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>ASHE earnings</i>	<i>working, just eligible for HB</i>	<i>25th percentile</i>	<i>median</i>	<i>benefits</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, 25th percentile and median earnings – gross Social Rent of £66 a week

Social rent

Summary	working			unemployed
household type	Single Person - 25 or over with no children			
	<i>working, just eligible for HB</i>	<i>25th percentile</i>	<i>median</i>	<i>benefits</i>
<i>ASHE earnings</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, 25th 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>25th 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, 25th 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>25th 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 25th 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

Summary	working			unemployed
household type	Couple with 1 child under 5			
	<i>working, just eligible for HB</i>	<i>25th percentile</i>	<i>median</i>	<i>benefits</i>
<i>ASHE earnings</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 (25th 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 75th 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 week⁴ 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,

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 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 time⁵.

⁴ Source: CACI Paycheck 2009, via HI4EM

⁵ 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 75th 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 75th

percentile - , while a rent of £150 a week would put it £810 a week – back above the 80th 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 rent⁶.

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 2010⁷. 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.

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

⁷ http://www.blincousing.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 overall⁸.

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 work⁹.

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

subarea	LA	derived AR %	%of LA need in subarea	HR applicants
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

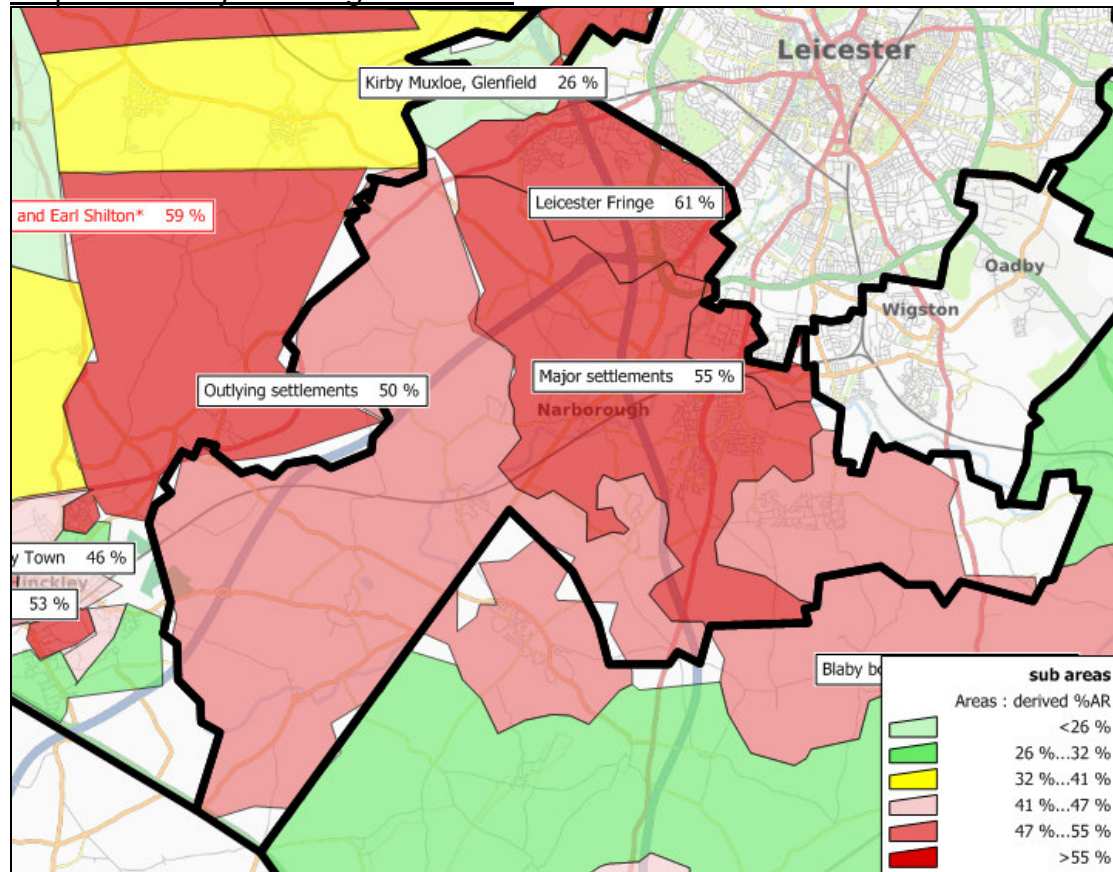
⁸ Elster (Local Justice, 1993) explains it thus *act-utilitarianism* and *rule-utilitarianism* . The former enjoins us, on every single occasion, to perform the act that will maximize total utility on that occasion. The latter tells us to act according to the rule that, when followed invariably, will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

⁹ <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 housing¹⁰.

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.

¹⁰ <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.