

**Decision Session: Cabinet Member for  
Health, Housing and Adult Social Services**

**24 January 2012**

Report of the Assistant Director, Housing and Public Protection

**The Affordable Homes Framework and Programme 2011-15:  
Opportunities and Challenges**

**Summary**

1. This report advises the Cabinet Member of the framework under which the Affordable Homes Programme 2011-15 has been agreed by the Homes and Communities Agency. It outlines the opportunities and challenges the Framework brings for affordable housing delivery in York and gives details of the Affordable Homes Programme 2011-15 for York.
2. The report also outlines the impact of the Affordable Rent model on homes managed by housing associations in York and seeks a steer from the Cabinet Member on potential changes to the council's affordable housing policy on private developments arising from the new Affordable Rent model.

**Background**

3. The coalition government's comprehensive spending review in October 2010 announced a £4bn (60%) reduction in grant funding for new social housing and an intention to bring rents for new tenants closer to private sector rents with the additional capital raised reinvested in building new affordable homes.
4. In February 2011 the Homes and Communities Agency (HCA) launched a 2011-2015 Affordable Homes Programme Framework to deliver 150,000 additional affordable homes (since increased to 170,000). The Framework set out the criteria by which Registered Providers (mostly but not exclusively housing associations)<sup>1</sup> could put investment "offers" to the HCA for the delivery of affordable

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<sup>1</sup> For the purposes of this report the term "housing association" is used rather than registered provider

housing over the next four years. Requests for HCA funding were to be at the minimum level necessary to make schemes viable.

5. The new framework represents a fundamental shift from the previous funding regime insofar as it is no longer based on a scheme by scheme approach to funding decisions. Instead, housing associations set out their programme of offers over a four year period 2011-15 including proposals on how they will use their existing assets alongside additional borrowing to generate the financial capacity to deliver the new homes with vastly reduced grant funding. In this respect the framework enables more flexibility to the development programme because it considers an organisation's capacity to deliver an agreed number and mix of housing outputs across a defined geographic area without the requirement to necessarily identify specific sites or locations where those homes will be built.
6. The framework is predicated on a number of key criteria of which the most significant is the tie in with the government's Affordable Rent tenure. This is a rent that is *up to* 80% of the gross market rent of an equivalent type of home. On any new homes built with grant funding the HCA policy is that only by exception can new rents be lower than 80% of market rents.
7. In York officers put forward a strong case with housing association partners to the HCA that high rents and low incomes mean for many households an Affordable Rent model set at 80% of market rents won't be affordable at all. The outcome has been that the new 'Affordable' rents accepted by the HCA are generally lower than 80% of market value. This is covered in more detail in paragraphs 16-22 and Table 2 of this report. It is important to remember that if housing associations want to access grant funding from the HCA their rents on new homes will have to be higher than social rents. The negotiation has been around just how much higher.
8. Other key criteria of the new funding framework include:
  - Evidence that funding/development proposals meet identified priorities in the local authority area.
  - Certainty of delivery within the programme timeframe

- An expectation that housing associations will consider disposal of some existing properties to generate capital that is used to cross-subsidise new development.
- A presumption that homes secured under Section 106 planning agreements will have no grant requirement.
- Acknowledgement that Affordable Rent properties can be offered to the same customer groups as social housing and that rents will be covered by housing benefit rather than local housing allowance.
- All homes must meet the HCA's Design Quality Standards including those on S106 sites if these are to be "counted" by the HCA. (sites already with a signed off S106, planning permission or under construction will not have this requirement)
- HCA grant payment will be made at the completion of homes rather than, as previously, in two tranches at start on site and completion.
- Any housing associations wishing to access public funding for new developments are also expected to convert a proportion of their existing stock (on re-lets) to an Affordable Rent.

## **Consultation**

9. In March and April 2011 the Housing Development team met with every housing association that currently develops in York plus two more that have for a number of years expressed a wish to begin a development programme in the city<sup>2</sup>.
10. The purpose of the consultation was to ascertain whether the associations' were planning to submit an "offer" to the HCA and to confirm that this correlated with the council's affordable housing priorities. We also wanted to know the associations' proposals for the Affordable Rent model and how many of their re-lets would be converted to this (higher) Affordable rent.

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<sup>2</sup> Meetings were held with Yorkshire Housing, Home Group, Tees Valley Housing Group, York Housing Association, Broadacres Housing Association, Chevin Housing Association and Joseph Rowntree Housing Trust.

## **The Affordable Homes Programme 2011-15**

- 11 The Affordable Homes Framework has a simple ambition; to reduce capital grant funding requirements for affordable housing by increasing rental streams that can be capitalised to enable investment in new homes and bridge the gap left by reduced grant funding. Although a straightforward premise the model carries risks and uncertainty for housing associations.
12. The financial viability of the model works best in high value areas where market rents are significantly greater than social rents. York is one such place where there is scope to use the Affordable Rent model to raise additional income or headroom for reinvestment. Nevertheless, as a revenue based model it carries risks for housing associations:
  - Rents that are adjusted on every re-let to a percentage of the current market rent can go down as well as up and this exposes housing associations to greater risk especially with their lenders. This makes long-term business planning and borrowing assumptions more difficult for housing associations.
  - The introduction of the model has occurred at the same time as a range of welfare benefit reforms. Proposals to introduce single room rates, universal capping of benefits to a weekly maximum, higher non-dependent charges and a proposed reduction in housing benefit for under-occupying households are some of the issues and uncertainties going into the next few years. The collective impact of these changes is that housing associations will be more cautious in setting their long-term investment plans.
  - With grant levels at around £22,000 per home (compared with recent levels of around £57,000) housing associations will need to borrow significantly more to fund developments. The social housing sector has traditionally been seen as a safe bet for lenders, but doubts about the demand for and stability of the Affordable Rent model is manifesting itself in higher costs attached to borrowing. The increased level of debt that housing associations are expected to take on is impacting on their loan covenants and interest rates; making both more expensive and potentially reducing the headroom created through increased rents.

13. Seven housing associations submitted offers to the HCA to deliver homes in York and five were successful. Those that were unsuccessful have indicated they will still have the financial capacity to deliver on S106 schemes without grant funding. Table 1 below shows the successful offers as they relate to York schemes specifically and to the wider geographic area of the Leeds City Region.

<b>Table 1</b>		
National Affordable Homes Programme 2011-2012		
Housing Association	York	Leeds City Region
Broadacres	29	0*
Chevin	0	0*
Fabrick (Tees Valley HA)	0	0*
Home Group	18	271
Joseph Rowntree Housing Trust	99	0
York Housing Association	12	0
Yorkshire housing	0	500*
<b>Total homes</b>	<b>158</b>	<b>771</b>

\*These housing associations have indicated a capacity to invest in affordable homes secured under nil grant S106 developments

14. This is an encouraging outcome for York and it should be remembered that this grant funded development programme is in addition to schemes already funded from the 2008-11 programme including Derwenthorpe, Lilbourne Drive, Seventh Avenue and Lea Way. Nor do the figures include private developments where affordable housing has already been agreed and which are already being built (for example Revival, Hungate) or waiting to be built. These include The Chocolate Works (Terrys) and Germany Beck.
15. The development programme of non site-specific schemes is particularly important. Housing associations had to make their offers at a “minimum geographic level”. For York that meant either in York itself under our Local Investment Plan priorities agreed with the HCA or at the Leeds City Region level (which includes York). A

key priority for the council is to ensure as many as possible of the 771 homes Yorkshire Housing and Home Group have committed to delivering across the Leeds City Region are built in York.

### **Housing associations policy on Affordable Rent**

16. Directly linked to the Affordable Homes Programme is the expectation that housing associations will charge Affordable Rents on new homes and a proportion of their existing stock.
17. York is an area where the Affordable Rent model will enable housing associations to continue developing new homes on much reduced public funding. This is because there is a substantial differential between the rent for a social rented home and the cost of renting an equivalent property privately. If Affordable Rents are set at 80% of market rents, the differential is approximately £40pw for a one-bedroom property £51pw for a two-bedroom and £81 for a three-bedroom. Taking the three bedroom home example, the rent differential would equate to £4,212 a year and this could service further borrowing that contributes to bridging the shortfall in grant funding on new homes.
18. However, increasing revenue funding to service capital borrowing is only one side of the equation. The genuine affordability of the Affordable Rent model is also a key issue and has been at the forefront of officer's discussions with housing associations and the HCA. The outcomes of the discussions are summarised in the Table 2 below.
19. There is no single agreed approach. Each housing association guided by our discussions, the direction of their Boards and informed by their investment programmes, have adopted different policies that have been agreed with the HCA. The policies do vary considerably, but very few associations are planning to charge Affordable Rents at 80% of market rents.

<b>Table 2</b>	
<b>Housing Association</b>	<b>Policy on Affordable Rent</b>
Broadacres	<ul style="list-style-type: none"> <li>• Most re-lets at Affordable Rent (none currently in York).</li> <li>• New build grant funded to be at Affordable Rents but will not be greater than Local Housing Allowance</li> </ul>
Chevin HA	<ul style="list-style-type: none"> <li>• Most general needs re-lets to be converted to Affordable Rent where this is financially viable. No immediate impact in York as very little stock and no development programme in the city.</li> <li>• No grant funded new build in programme for York. Will work with CYC on S106 opportunities</li> </ul>
Home Group	<ul style="list-style-type: none"> <li>• All re-lets and new build to be at Affordable Rent, but will benchmark property types against open market comparables and set affordable rents based on the lower of 80% of open market rents, the Local Housing Allowance or 25% of local household incomes.</li> </ul>
Joseph Rowntree Housing Trust	<ul style="list-style-type: none"> <li>• No plan to charge Affordable Rent on any re-lets.</li> <li>• All phases of Derwenthorpe to remain as Social Rents</li> <li>• On new build schemes will charge Affordable Rent but this total must be inclusive of any service charges</li> </ul>
Fabrick (Tees Valley)	<ul style="list-style-type: none"> <li>• Anticipate only a handful of conversions to Affordable Rent in York</li> <li>• New Build to be at Affordable Rents unless dictated otherwise by conditions in S106 agreements</li> </ul>
York Housing Association	<ul style="list-style-type: none"> <li>• Approximately 24% of general needs only re-lets to be converted to Affordable Rent.</li> <li>• All new build funded through the HCA to be at Affordable Rents.</li> </ul>
Yorkshire Housing	<ul style="list-style-type: none"> <li>• No blanket introduction of Affordable Rent. Instead a maximum ceiling of £10pw increases on re-lets (estimated to be 43% of re-lets having some increase) with an average of £7.43pw increase.</li> <li>• On new build homes, 50% to be let at social rent plus £10 (maximum), 50% to be at Affordable Rent</li> </ul>

20. A further consideration is the likely impact of the introduction of Affordable Rents on the profile of the housing association stock in York. In 2009/10 the eight largest housing associations had a combined general needs rented stock of 2,335 homes. In the same period there were 234 re-lets in this stock representing a turnover

rate of 10%. It is clear from discussions with local housing associations that not every re-let will be suitable for conversion to an Affordable Rent. Financially the most attractive conversions are family houses, but these are also the homes with the lowest turnover. The differential in rent on flats is more marginal and they turnover more quickly meaning they have higher management and maintenance costs. Some properties may be in need of modernisation or harder to let and so are unlikely to be suitable for a rent increase. And some homes will be on developments where s106 agreements, leases or funding conditions restrict rent increases.

21. Although it is difficult to predict with certainty the numbers of re-lets that will be converted to Affordable Rents each year, it is likely to be no more than 25% based on our discussions with local housing associations. Using the 2009/10 figures this would equate to 59 homes representing 2.5% of the housing association general needs stock. Clearly this is an estimate only, but it does suggest the impact of Affordable Rent conversions on the social housing stock across the city will be limited in the short to medium term.
22. On new build homes the impact of Affordable Rent could be much more significant depending on the policy the council wishes to adopt on S106 planning gain sites. These developments will deliver large numbers of affordable homes and it is the area where the council can, if it chooses, have the most influence on rent levels.

### **Affordable Rent on Section 106 developments**

23. The government and HCA expect that affordable homes on planning gain (S106) sites will be delivered without grant. However, in making their 'offers' to the HCA for 2011-15 housing associations have been encouraged to include nil grant S106 schemes in what is being termed a blended grant calculation. The nil grant homes will be counted in the 'offer' thereby reducing the 'blended' average grant rate across all the homes in the programme.
24. For any S106 nil grant, homes to be 'counted' by the HCA, the homes must meet the HCA's Design Quality Standards. These relate primarily to internal space within the home, the external environment and sustainability. They are higher standards than those required in the private house building industry. In York there is no current requirement for housing association homes on private developments to meet the Design Quality Standard beyond



sustainable homes code level 3. However, to introduce this will add some additional cost to the developer and may therefore also have some impact on the financial viability of developments. Overall, it is considered that meeting Design Quality Standards can form part of the detailed negotiations housing associations have with developers when they are taking homes on private developments.

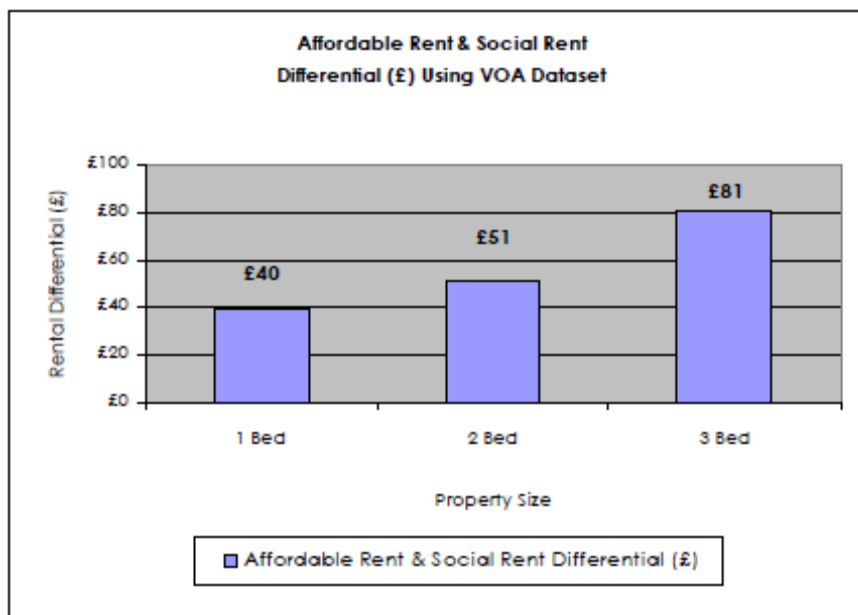
25. All S106 homes are delivered through local authority planning policies and are therefore outside of the HCA funding and Affordable Rents framework. It is for local authorities to stipulate rent levels, design standards and set any other parameters in S106 agreements. In York the current policy is for these to be social rents with homes exactly the same as those developed for the private market. A proportion of homes (generally 30%) are identified for Discounted Sale. These are unaffected; it is only the rented homes that are under consideration here. There are two aspects to this discussion around policy. Firstly the potential for re-lets on *existing* S106 schemes to be at new Affordable Rents, and secondly the rent setting policy on *new* S106 developments.
26. Most existing S106 agreements have definitions that require homes to let at “affordable rents” or “target rents” in line with housing association rent setting policies or the current definitions of the Housing Corporation/HCA. At the time these S106 agreements were drafted the term “affordable rent” was generally agreed to be a social rent and there have never been any problems in negotiating agreements on this basis. However, the introduction of a specific rent model called ‘Affordable Rent’ that is supported by the HCA, soon to be embedded in housing association rent setting policies and included in a revision to the government’s Planning Policy Statement 3, may muddy the waters. It is quite likely that the definitions in existing S106 agreements will be open to wider interpretation and perhaps challenge.
27. On new S106 agreements that have not yet been negotiated any change to the current policy will need to be included in supplementary planning guidance as well as the emerging LDF.
28. It is therefore important that the council establishes a clear policy around Affordable Rent both on new S106 developments and on the conversion of homes on existing developments. The same policy decisions should also apply to existing and new affordable housing developments on land owned by the council. Lease agreements with housing associations generally have the same

definitions and clauses relating “affordable rents” as S106 agreements. It will therefore be prudent for policy to cover these sites too.

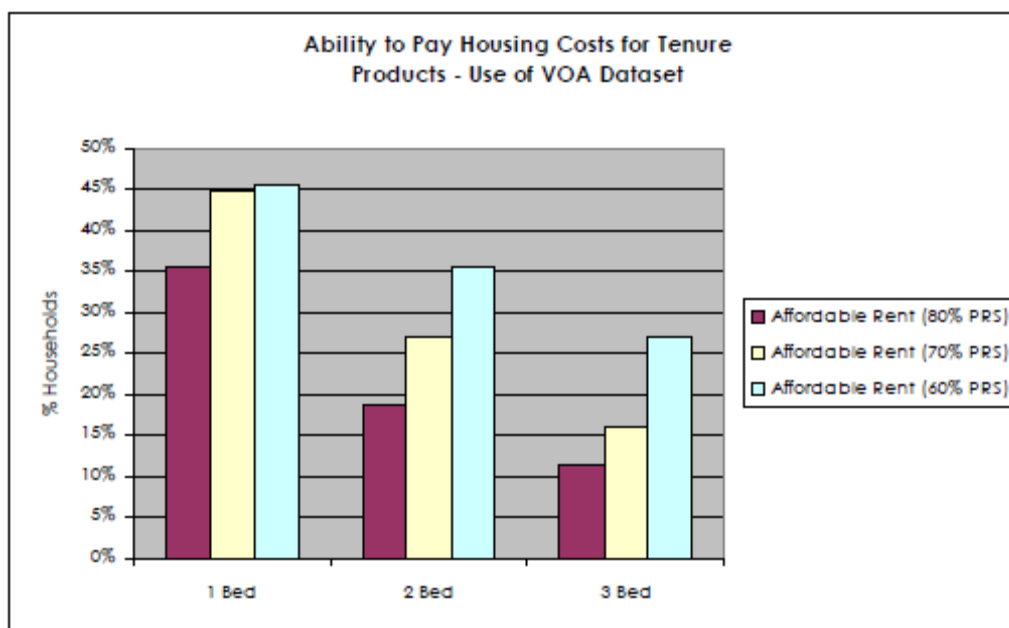
29. Evidence gathered for the council’s new Strategic Housing Market Assessment is helpful in establishing the affordability of the Affordable Rent model and informing policy options.

### **Affordability of Affordable Rent dwellings in York**

30. The 2011 Strategic Housing Market Assessment (SHMA) - which will be presented to Cabinet in early 2012 for adoption as an evidence base - includes an analysis of the affordability of Affordable Rents in York.
31. The SHMA considers the income profile of household in housing need and the cost differentials between open market rent, Affordable Rent and social rent. The table below, taken from the SHMA illustrates the Affordable Rent (at 80% of market) and social rent differentials



32. The study then considers the proportions of households in housing need able to afford Affordable Rent housing (at 80%, 70% and 60% of open market). The analysis is based on household expenditure on rent not exceeding 25% of total income.



33. The analysis shows that 35% of households in housing need could afford Affordable Rent at 80% of market rent for a one bedroom property, increasing to 46% of households if the Affordable Rent is at 60% of market rent.

34. For two bedroom homes only 18% of households in housing need could afford a home at 80% of market rent, rising to 35% per cent of households if the Affordable Rent is set at 60% of market rent. For three bedroom homes affordability falls to just 12% of households at 80% of the market rent rising to 27% of households if the Affordable Rent is set at 60% of market rent.

35. The SHMA concludes there is potential for Affordable Rent homes to 'plug' a gap in the rental market between those who require traditional social housing and those who could afford to rent on the open market. Nevertheless, it is clear that at 80% of market rent very few families in housing need could afford the rents without recourse to housing benefit.

## Options

36. Taking into account the evidence emerging from the SHMA, the views of housing associations and the pragmatic reality of reduced grant funding for new development, four options are presented to the Cabinet Member for consideration.

37. The options all relate to the provision of affordable housing on private developments and on sites sold or leased by the council to housing associations. There remains the possibility that the council may build new council homes directly. Should such opportunities arise it is assumed that subject to funding or other constraints, these would be set at social rent levels and so align with the existing council housing stock.

### 38. **Option One**

- Existing S106 and lease agreements: No change - rented homes remain on re-let as social rented.
- New S106 and lease agreements: No change to current policy - rented homes to be at social rents.

**Analysis:** This would seek to maintain the status quo. On new S106 sites it would mean that housing associations could not raise additional capital by increasing rents. However, discussions with housing associations suggest that few if any are reliant on new S106 schemes for this and instead are relying on a proportion of re-lets to raise rents and thus investment headroom. On *existing* S106 sites it is possible that some housing associations may therefore seek to increase rents on re-lets. The council can make clear in its Tenancy Strategy (and before publication of that, in correspondence with housing associations) this is not supported. The definitions used in existing S106's may not be helpful given the term "affordable rent" now has a very different interpretation to that first intended. Legal advice would be needed on this, but in any event a voluntary agreement with each housing association to confirm that rents are to remain at social rent levels would seem the most pragmatic way forward.

Private housing developers may challenge this policy. They could view Affordable Rent as meaning housing associations can afford to pay more for the homes on S106 sites. In the emerging LDF it is proposed that the council fix prices at which affordable homes are transferred to housing associations. If it is decided that rents can be higher than social rents, a decision will need to be made on whether that increase is reflected in the transfer prices (which may help with scheme viability and meeting affordable housing targets) or if the transfer prices remain the same with the increase in rents

used to create headroom for the housing associations to reinvest in their development programmes.

### 39. **Option Two**

- Existing S106 and lease agreements: Agree for a proportion of re-lets to be at Affordable Rent in line with each housing associations rent setting policy. The remainder to be at social rents.
- New S106 and lease agreements: Agree for a proportion of rented homes to be Affordable Rent in line with each housing associations rent setting policy with the remainder at social rent.

**Analysis:** On existing S106 agreements this would enable housing associations to create some funding headroom for investment in new homes. The numbers of conversions to Affordable Rent are likely to be low and most of the housing associations have agreed Affordable Rent levels much below the maximum 80% of market value. A Cabinet member agreement on the exact proportions of homes that could be converted to Affordable Rent would be needed. For example, *'a maximum of xx% of social rented homes on any existing S106 development may at the discretion of the housing association be converted from social rents to Affordable Rent in accordance with the housing associations rent setting policy'*

On new S106 sites a similar agreement would be needed. This would potentially assist in the financial viability of schemes and could increase the mix of households and range of household incomes on developments. There would need to be a clear policy decision on whether Affordable Rent homes were let to a different customer group (i.e. intermediate market) rather than as now to those in the highest housing need. These issues can be covered in the Tenancy Strategy that the council will be producing in spring 2012 and before that in individual agreements with housing associations and through marketing through the choice based letting scheme.

### 40. **Option Three**

- Existing S106 and lease agreements: Agree for a proportion of re-lets to be at Affordable Rent in line with each housing

associations rent setting policy. The remainder to be at social rents.

- New S106 and lease agreements: Agree for all homes to be at Affordable Rent in accordance with each housing associations policy.

**Analysis:** As with Option Two above; only the proportions of Affordable Rent homes changes.

#### 41. **Option Four**

- Existing S106 and lease agreements: No change. Rented homes remain on re-let as social rented.
- New S106 and lease agreements: Stipulate Affordable Rent levels that are higher than social rent, but capped at no more than 60% of market rents for 1 bedroom homes and 55% for two, three and four bedroom homes.

**Analysis:** On existing agreements the analysis is the same as that for Option One above. On new agreements this option would acknowledge the reality of the new Affordable Rent model being integral to raising borrowing for new investment but would balance that against the need for rents to remain meaningfully affordable.

There would need to be a clear policy decision on whether Affordable Rent homes were let to a different customer group (i.e. intermediate market) rather than as now to those in the highest housing need. These issues can be covered in the Tenancy Strategy that the council will be producing in spring 2012 and before that in individual agreements with housing associations.

42. Taking all of the factors around affordability, the reality of the new capital funding regime and local circumstances it is recommended that Option Four is supported.

#### **Council Plan**

43. The Affordable Housing Framework considered in this report is directly relevant to the Council Plan priorities of *Building Strong Communities* and *Protect Vulnerable People*. The Council Plan recognises the need to deliver the right type and mix of housing to meet the city's needs and highlights the affordability of housing as being crucial in this respect given the gulf between average

incomes and average house prices. The new Affordable Rent product will directly impact on the council's ability to deliver homes for rent that are meaningfully affordable to lower income households.

#### 44. Implications

- **Financial.** There are no immediate financial implications on the council. It is a matter of policy changes only under consideration.
- **Human Resources (HR).** None
- **Equalities.** Any change to the affordability of homes to rent will have adverse equalities impacts and we know vulnerable groups including disabled people, young people and minority ethnic groups can be disproportionately affected. In the context of the Affordable Rent product these impacts are mitigated to some degree by the new rents being eligible for housing benefit. Also, if Affordable Rent homes are targeted/prioritised for the intermediate rather than social rented market this may increase opportunities for housing. An Equalities Impact Assessment will be undertaken as part of the councils Tenancy Strategy in 2012 and it is anticipated this will identify those groups most affected by the changes including recommendations on how this can be addressed.
- **Legal.** The interpretation of the rent setting definitions in existing S106 Agreements may be open to challenge if housing associations intend to re-let any of these homes at an Affordable Rent. If the council wishes to oppose this it will be necessary – probably on a scheme by scheme basis – to establish the strength of legal grounds for doing so. However, it is expected that agreements can be reached with housing association partners without the need for a formal legal intervention. If developers were to challenge a policy of charging social rather than Affordable Rent on new developments legal advice would be needed to determine the strength of grounds for doing so with, if necessary, a further report brought to the Cabinet Member.
- **Crime and Disorder.** None
- **Information Technology (IT).** None

- **Property.** None immediately. There may be a need for Property Services involvement in the re-drafting of existing or new leasehold disposal of land to housing associations to reflect the council's policy on Affordable Rent both on initial and subsequent letting of homes

## **Risk Management**

45. There are no significant risks associated with the recommendations of this report. There is some risk that the council's policy regarding affordable rents on S106 could be challenged by developers and/or housing associations. Were this to happen there could be a cost to the council in legal fees and officer time in defending the council's interests, but overall this is felt to be a low risk.

## **Recommendations**

46. The Cabinet Member is asked to:
  - Note the introduction of the national Affordable Homes funding framework.
  - Note the impact of the Affordable Rent model on existing and new housing association homes in the city
  - Welcome the investment in new affordable housing in York by housing associations during 2011-15
  - To agree option 4, to make changes to the affordable housing policy. In particular;
    - Existing S106 and lease agreements, stipulate no change to current policy for social rented homes to remain on re-let as social rented.
    - New S106 and lease agreements, stipulate that Affordable Rent levels are capped at no more than 60% of market rents for one bedroom homes and 55% of market rents for two, three and four bedroom homes.



**Reason:** To give a clear and consistently applied policy steer so that housing associations, developers, the Homes and Communities Agency, council officers and other interested parties have clarity on the council's policies regarding the Affordable Rent model and its application in York especially on S106 developments and on schemes developed on council owned land.

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Report  
Approved

 Yes

Date 09 Jan 2012

**Report  
Approved**

 tick

**Date** *Insert Date*

Specialist Implications Officer(s)

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**Wards Affected:**

All

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**For further information please contact the author of the report**

**Background Papers:**

Affordable Homes Framework. Homes and Communities Agency, February 2011

North Yorkshire Strategic Housing Market Assessment – Annex 7: York Specific SHMA Analysis. (Draft) November 2011

**Annexes - None**