Briefing for LGA Members on the Affordable Rent framework

17 February 2011

CLG and HCA published a framework for the Affordable Homes Programme following previous government announcements on reforming social housing.

The framework sets out how the development of new affordable housing will be funded over the next 4 years and how the new Affordable Rent product will work. There is £2.2bn of uncommitted funding for the development of new affordable housing for the period 2011-2015. Affordable Rent will be the primary housing product supported by HCA.

There are four parts of the programme which have been given indicative funding – the Mortgage Rescue Scheme, Homelessness Change Programme, Traveller Pitch Funding and Empty Homes. Some funding will also be retained for proposals that come through the Community Right to Build route over the course of the 4 year period.

Housing providers

- Bids are invited from housing providers for four year investment programmes with indicative proposals, instead of individual schemes. Requests for HCA funding should be for the minimum necessary to make development viable.
- When deciding which programmes to support, the HCA will have a strong focus on value for money and will look for evidence that proposals will meet identified local needs.
- The HCA anticipates that most new developments should be intended for Affordable Rent, or a mixture of Affordable Rent and shared ownership
- Providers will be expected to supplement grant funding by converting vacant social homes into other tenures such as Affordable Rent, shared ownership, disposals or a mixture to all of these, generating cross subsidy, and using s106 and public sector land opportunities.
- Affordable Rent properties will be offered to the same client groups as social housing, through the same allocation mechanisms.
- The deadline for providers to submit proposals to the HCA will be 3 May 2011. The HCA intends that initial contracts will be signed in July 2011
- Providers who wish to work both in London and in the rest of the country will need to enter into two separate framework contracts, one for London

and on for the rest of the country. This is due to the government's intention to devolve more responsibility for investment to the Mayor of London

- Proposals must meet the HCA's Design and Quality Standards and Housing Quality Indicator (HQI) information will still be collected in the normal way
- The HCA will operate framework contracts with providers on a flexible basis. This will include quarterly reviews of the contract and a full strategic annual review
- HCA funding will be on a 'payment by results' basis at completion
- The TSA will also assess proposals and give advice to the HCA on whether the provider is currently in compliance with the TSA's standards, including the Governance & Viability Standard, and whether they are likely to continue to meet the standards

Local authorities

- Local authorities are also invited to respond to the framework and contribute to the delivery of the main Affordable Rent product. However offers for direct provision by local authorities are likely to be for starts after the final HRA settlement (and borrowing headroom) are confirmed later in 2011/12.
- Local authorities will be able to convert existing properties to an Affordable Rent where they have entered into a contract for delivery of new supply. CLG is working with DWP to agree that void properties converted to Affordable Rent and new units delivered as part of the Affordable Homes Programme will be exempt from the Limit Rent. It is anticipated that this will be possible from 1 April 2012.
- New and converted Affordable Rent properties will be exempt from the limit rent mechanism, as long as the revenues generated are invested in new supply
- Local authorities may also intend to deliver new supply without HCA funding - by using their own resources (including headroom within the HRA settlement) and additional income generated from charging Affordable Rents on new and converted properties and free land. They will be requested to indicate the anticipated numbers for new delivery and for conversion on the HCA's standard information template.
- The self financing reform will introduce controls on borrowing solely in relation to debt incurred within the HRA. Other local authority debt is not controlled through this mechanism. Local authorities cannot use borrowing within the HRA to on-lend to other bodies. For this reason, borrowing undertaken by ALMOs or Special Purpose Vehicles (SPVs) will be taken into account in the HCA's value for money assessment of proposals received from those organisations for schemes which start on site either before or after April 2012.
- Local authorities will be required to publish tenancy strategies for their area, which registered providers must have regard to. However, ultimately it will be for individual providers to decide what types and length of tenancy to offer

- Provided that a local authority's overall scheme is framed around the existing Reasonable Preference categories, local authorities can choose to reserve certain properties for allocation to other client groups. This means that a local authority could choose to prioritise groups such as households in work but on low incomes for Affordable Rent properties

Affordable Rent

- Providers that enter into a contract with the HCA to develop new supply will be given the flexibility to convert a proportion of social rent properties to Affordable Rent at re-let
- Affordable Rent can be set at up to 80% of the gross market rent, including service charges. Providers can choose to charge lower rates. However the HCA will need to understand how the proposal helps to meet particular housing needs while still delivering value for money and generating the capacity required to deliver new supply
- Affordable Rent cannot be lower than the rent calculated on the current target rent regime
- Tenants in Affordable Rent properties will be eligible for Housing Benefit, rather than Local Housing Allowance
- Providers can use a fixed term or a secure/assured tenancy under Affordable Rent
- The maximum annual rent increase on an Affordable Rent property will be Retail Price Index (RPI) +0.5%. Additionally there will be a requirement to rebase the rent each time a new Affordable Rent tenancy is issued or renewed
- At the end of an Affordable Rent tenancy, providers and their tenants may choose to convert it to shared ownership
- Providers converting existing social homes to Affordable Rent will be encouraged to reinvest the funds raised in new supply within the same wider housing market area. However, funding will not be ring-fenced to particular areas.
- When ending an Affordable Rent tenancy, providers will be required to offer reasonable advice and assistance to the tenant to find alternative suitable accommodation.

Challenges for providers and strategic local authorities

- Defining the length of tenancy to offer each household. A clear tenancy policy will be needed. Local authorities' tenancy strategies should help to inform these but the timing isn't right as they will not be required to publish them before April 2012 and they will not be binding. Strong partnership working will be crucial to ensure local authorities coordinate with housing providers.
- Ending Affordable Rent tenancies.
- Providers operating across many local authority areas will have to consider a number of different tenancy strategies across their stock

- A new focus on asset management. Providers will have to make informed decisions about the proportion of stock they decide to convert to affordable rent and financial implications.
- A new level of risk from linking affordable rent to market rents. Rental income could fall because local private rent levels fall. These risks will need to be addressed in business plans.

Affordable home ownership

- The framework encourages providers to increase their offer of affordable home ownership, by including it in their proposals for new development and by offering to tenants leaving Affordable Rent,
- The HCA funding for affordable home ownership will be in the form of shared ownership and equity loans, branded as HomeBuy outside London and First Steps in London,
- The maximum equity loan that can be offered by providers will be 20% of the value of the property
- The HCA will no longer fund Rent to HomeBuy or Intermediate Rent as distinct products. However, providers could offer these to Affordable Rent tenants at the end of their tenancy.
- Existing social tenants and serving armed forces personnel will retain a priority for access to affordable home ownership. Beyond this local authorities, and their partners, will have the flexibility to set the priorities for access to affordable home ownership in their area
- The HCA will also welcome proposals for two types of variant on shared ownership for vulnerable groups – Home Ownership for people with Long-term Disabilities (HOLD) and Older People's Shared Ownership.

LGA comments

Most of our comments are the same as our response to *Local decision: a fairer future for social housing*

The LGA welcomes the increased flexibilities for local authorities and social landlords around social housing generally. However, these changes are taking place against the background of very significant changes to housing benefit, very big reduction in funding for new social homes and central government grant to councils. This will make it therefore very challenging for councils and social landlords to be in a position to meet the legitimate housing aspirations of all local people.

We are pleased that the government has included the possibility for local authorities to introduce affordable rents should they wish to. Technically at least, council landlords are now able to bid for the affordable homes programme, something the LGA has been campaigning for. Whether in practice they will be able to put together a bid which has any hope of success depends whether they can overcome the current public borrowing rule which puts them at a disadvantage compared with a housing association as a private sector entity whose borrowing doesn't count to the public sector.

In their strategic role, councils would be concerned if HCA agreed proposals from housing associations which the local council doesn't think appropriate. Many of our membership have questions and concerns regarding the affordable rent scheme:

- In particular there is concern that the 80% market rent rate may be more than the new housing benefit (HB) limits in some places. Putting workless people into higher rents will worsen the existing benefits trap and will increase the cost of HB bill at a time when government is trying to reduce it.
- We are also concerned that the change will mean authorities need to revisit their affordable housing requirements and viability assumptions in their local planning documents.
- Larger homes will be far less viable under the new affordable rent model and there will likely be an increase in small-size properties being developed. This might be an issue in London where overcrowding is high.
- There are significant questions as to whether some Housing Associations will have the financial capacity or whether banks will fund developments of the new product as there is a much greater element of financial risk in the model.
- There are serious issues around the ability to deliver any future estate regeneration schemes as leasehold acquisition and minimal private sales cross subsidy potential will make estate regeneration very difficult to achieve without substantial grant funding.
- Including supported housing in the affordable rent model is going to be challenging in particular as supported housing, targeted specifically at the most vulnerable in society, and may not be affordable at 80% market rent. From a practical point of view it will be difficult to determine 80% market rent, given the absence of comparable schemes charged at a market rate as the basis for any calculation.

If you have any questions or want to discuss any of the issues above please contact laura.shimili@cih.org