

Item No.

**By:** Mark Worrall, Leader TMBC  
**To:** Ambition Board 2 (AB2) – 27 January 2012  
**Subject:** Future of Social Housing

## FOR ACTION

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### SUMMARY

This paper provides an update on funding for social and affordable housing in Kent and sets out proposed actions to respond to the identified key challenges. The move to the predominance of affordable rent over social rent in new supply may have implications on low income essential workers and therefore their wider communities, which requires robust examination.

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### 1. Introduction

1.1 The funding regime for affordable housing has been radically changed by the coalition Government. The Homes and Communities Agency's (HCA's) grant funding of social rent homes has been **replaced** by the '**Affordable Rent Framework**', based upon letting at up to 80% of the immediate local market rent on fixed term tenancy agreements. By comparison the previous social rents equate to around 40-50% of market rents. The other key change is that housing associations will be able to offer affordable rented properties on flexible tenancies as opposed to the existing lifetime tenancies of social rent, with around 5 years expected to be the norm. Both of these reforms are very significant, and whilst they may bring some advantages, they will nonetheless require considered implementation. This Paper briefly seeks to highlight these issues.

1.2 Estimates based on bids to the HCA's Affordable Homes Programme and informal discussions with housing associations and local authorities show that around 4,000 new affordable homes are planned in 2011/12 to 2014/15 in Kent and Medway but at a much reduced average grant rate - approximately a third of historic levels of investment in social housing. This is a highly positive outcome at a time of such wider austerity, and represents approximately half the annual rate delivered through HCA investment in Kent over the previous four years. This is a better position than many in the sector expected and is a product of the quality of joint working between local authorities and housing associations across Kent, and shows that affordable rent can provide new homes.

1.3 The Government's stated aim with the reforms is to '*develop a stock of affordable homes that better reflects the ability of households to afford them and to provide providers with greater funds which can be channelled back into new development.*'

1.4 However there are differences between social rent and affordable rent that this Paper seeks to examine and assess. In simple terms for some parts of the County 80% of market rent will be unaffordable for many low income essential workers, and in others there can be limited difference between social and market rents and so affordable rent is likely to do very little to raise funds for new housing development. Many low income essential workers are unlikely to see step changes to their income throughout their working life that would enable them to meet an escalating rental cost.

1.5 This shift from capital to revenue funding of affordable housing will clearly offer short term savings on grant for government, but the housing benefit bill will rise as rents increase. Housing associations are now making operational their four year development contracts with the HCA to deliver exclusively affordable rent homes, leaving four years without any new supply of social rent.

## **2. Benefit Reform**

2.1 The introduction of a Universal Credit, planned for 2013, which aims to bring together income support benefits for working age people into a single payment will have huge implications for those who provide social housing and those that live within it.

2.2 At its core, welfare reform is all about reducing the public spend on benefits whilst at the same time incentivising work. Some households may decide (or be forced) to live in over-crowded or poor conditions as a means of reducing their housing bill. This will have knock-on impacts for children in these households as the negative effects of overcrowded and poor condition housing on health and education outcomes are well researched.

## **3. Tenancy Strategies**

3.1 Local authorities have a statutory duty to produce a Tenancy Strategy to inform and shape housing association's decisions over tenure provision in their geographic areas, but this key document will not be completed until late 2012 or early 2013. Clearly each Tenancy Strategy runs the very real risk of being too little, too late if the key issues described in this Paper are not understood and tackled early on.

3.2 Kent Housing Group is developing a Tenancy Strategy for the County that provides as much common ground as possible between local authorities. This will enable housing associations to operate within Kent without the near impossible task of having to interpret 13 different sets of instructions. The Tenancy Strategy presents the greatest single opportunity for local authorities to address the nature of concerns raised in this Paper.

3.3 Some housing associations, such as West Kent Housing Association, have already given a commitment to continue to grant lifetime tenancies whilst the Kent Tenancy Strategy is formulated and made operational. This approach is to be commended as are the housing associations which have given commitments to revisit and review their Tenancy Policies to reflect the final Kent Tenancy Strategy.

#### 4. Kent: Examples of Area Based Perspectives of Affordable Rent

4.1 Clearly there will be a differential impact of the new arrangements in different housing markets in Kent. As an example the **Ashford** Strategic Housing Market Assessment in April 2011 showed the following average weekly rent costs for a 3 bed property as: £186 in the private sector, £89 for social rent via the local authority, £94 from a housing association, and £149 at the new “affordable rent”. Therefore tenants moving from social rent to affordable rent will be paying a very significant £60 per week more. This will not initially be a problem for tenants in receipt of full housing benefit but self funders may choose to overcrowd, or give up work, with a lack of incentives to seek employment as described above.

4.2 **West Kent** although having notable pockets of deprivation is broadly well suited to the implementation of Affordable Rent. Affordability remains a crucial concern, and there are some areas where the ability to seek the full 80% of market rent levels may not be suitable on these grounds alone. Also the current continuing escalation of rent in the limited private rented sector means a watchful brief will have to be maintained. The housing requirements of low paid essential workers will require particular focus and action, to meet both the needs of these workers and our wider society

4.3 However the affordable rent model struggles in some parts of **East Kent** where social rents match or are sometimes higher than prevailing market rents, so an uplift of rental income to replace capital grant from government will not materialise.

4.4 Given the above differences of application across Kent we will need to be mindful of any potential migration impacts across the County, where households seek to move from their established communities to where they can simply afford to pay the rent under the new system. This will also be true of inward migration to Kent from other higher housing cost areas.

4.5 Homes for affordable rent are not derived purely from new build homes delivered under the HCA’s Affordable Homes Programme 2011-15, as they will also be created through rent conversion of existing social rent properties at the point they are re-let, (for any reason). In an era where homes for social rent are not built outside of the most exceptional circumstances this will mean a slow but steady deletion of the existing pool of homes of this tenure. This depletion will have an enduring impact upon the County’s ability to strategically address its identified housing need, as the tenures may suit different types of household.

4.6 The depletion of the existing pool of social rented homes will not be quick, as turnover over these homes can be very slow. However these homes are a scarce and very valuable resource already under extreme pressure, and therefore every loss can be seen as significant.

4.7 Housing associations are being strongly pushed by government to 'sweat' their existing assets in this fashion, however some household types will be exempt, such as vulnerable or elderly people, who are clearly not best suited to the new affordable rent tenure. However it would still be prudent to expect an impact on a wide range of factors such as social mobility, ability to influence transfer moves to address under-occupation and the sustainable mix of communities.

## **5. Key Factors**

5.1 The primary concern is the wholesale shift from social rent to affordable rent, and what this means to households. There is a worry that this change will impact part-benefit recipients, and the low income essential workers described earlier. The rationale is that families that are entirely benefit dependant suit "affordable rent" as their housing costs are protected from the threats posed by welfare reform, high unemployment, and future economic uncertainty. This may make them the safest group for housing associations to cater to, and base income projections upon in obtaining future borrowing. However, those who are low earners and part-benefit recipients are naturally at a far greater risk of the threats posed by welfare reform, high unemployment, and possible future economic uncertainty, making them potentially less desirable customers for housing associations for the affordable rent tenure. In these circumstances the new tenure may be a disincentive for potential tenants to seek employment and be less reliant on welfare.

5.2 This factor is compounded when combined with the much lower level of security offered by affordable rent, which will probably mean a 5 year tenancy. We would therefore wish to commend those organisations proposing longer term tenancies moving forward.

5.3 Universal credit (as described above) will be paid direct to benefit recipients in the form of a monthly credit. Recipients will then have to manage and budget for all of their outgoings from this one amount, including their housing costs. There are likely to be transitional issues for those used to having their housing benefit paid directly to landlords. This covers the majority of those who live in the social rented sector and receive housing benefit. This will represent a major change for some households in the social rented sector, many of whom are long standing tenants who have never had to manage paying rent before. However, there are risks that this will increase rent arrears with the implication that housing associations will spend more time chasing arrears. This could also impact on the housing association's ability to borrow and fund their activities.

## **6. Sustainable Communities Questions**

6.1 On new developments the “needs” being met by the new affordable rent flexible tenancies could move to servicing those who pre-credit crunch would have previously bought on the open market. This creates pressures on strategic housing authorities in seeking balanced and stable communities whilst also wishing to tackle their identified housing need. Another perspective could be that affordable rent leads to households requiring housing benefit to meet rent costs, whilst historically with social rent the same household could have saved towards future home ownership.

6.2 As discussed earlier in this Paper it may be that social rent and affordable rent suit different client groups, with social rent being better suited to the more vulnerable in society, so any shift in supply will have an effect on an authority’s ability to strategically address its identified housing need. For example, affordable rent may not be suitable for older persons who are less likely to be economically active, or go through a process of increasing income. Those authorities that have historically transferred their housing stock to a housing association will have no direct control over decisions to retain a certain level of social rent moving forward.

## **7. Next Steps**

7.1 Local authorities may have to explore innovative new ways of ensuring a continuing supply of social housing. One such approach could include directing any capital returns arising from shared equity property disposals into subsequent schemes elsewhere. Alternatively authorities may determine that monies via commuted sums from earlier S106 sites could be used to invest in social rent in the future where viability would otherwise preclude them. These would sit outside of the HCA’s affordable rent framework and would be linked to an identified need for social housing in a local area.

7.2 Government have encouraged local planning authorities to be flexible in negotiating S106 agreements in order to reduce the burden on development and thereby assist in easing and facilitating the supply of new and affordable homes. In most cases it will become increasingly important for decisions to be examined in detail in order that the viability of housing development schemes can be fully assessed and local authorities can guard against ‘selling their communities short’ in terms of the overall sustainability of development.

7.3 There is a range of issues raised in this Paper which link to related topics including the private rented sector, supported accommodation, and housing revenue account and these are being considered within the refresh of the Kent Forum Housing Strategy.

## **8. Funding New Social Rent Homes?**

8.1 The loss of social rent through ongoing re-lets and the lack of new supply of this tenure means that Kent housing authorities may wish to explore ways of

continuing its provision, outside of the HCA's 2011-15 Affordable Homes Programme.

8.2 Clearly any proposals to stimulate additional homes at a social rent between now and 2015 will need subsidy in the short and medium term and a source or sources for this funding need to be identified.

8.3 The funding could come from the provider (housing association), but they are already under immense pressure and fully stretched in providing their existing affordable rent programmes. Local authorities could provide free land or explore new long-term capital investment models, or perhaps other subsidy from sources such as commuted sums from S106s.

8.4 The realities of the new funding arrangements for providing social housing require innovation and even greater levels of joint working if we are to respond to ever growing housing need and aspiration. Local authorities need to ensure that housing associations respond to key local priorities in letting the new affordable rent homes, so robust and monitored Tenancy Strategies are very important.

## 9. Recommendations

9.1 We must give proper recognition to all that the new affordable rent regime is clearly achieving in delivering new affordable homes whilst, at the same time, recognising it also presents challenges which need to be addressed.

9.2 We need to better understand the differences between social rent and affordable rent and hence **encourage** Kent housing authorities to evaluate the need for a continuing supply of the former. There may be a need for a strong strategic commitment to support delivery of social rent within Housing Strategies, Sustainable Community Strategies, and Tenancy Strategies.

9.3 **AB2** to recommend to the Kent Forum:

(i) Affordable rent homes developed by Housing Associations must be maximised to respond to the duties and strategic priorities of Kent local authorities. This must be translated into a coherent position across Kent local authorities on the use of social rent and affordable rent in Kent **Tenancy Strategies**;

(ii) local authorities to work together, with the **Private Sector** and **Housing Associations** to find new and innovative responses to the mixed economy of housing aspiration in the County. We should not be complacent and need to respond to the continued rise in the average age of first time buyers and growing housing waiting lists;

(iii) a short term stimulus is needed to the housing market. Local authorities may want to consider **flexing S106 Affordable Housing contributions** as an immediate reaction to the slow down in delivery. This should be a time limited

(or deferred contributions) approach with clear expectations of delivery over the next 18 months;

(iv) this paper highlights a number of areas of concern that remain uncertain in terms of impact. It is recommended that **Kent Housing Group** are requested to **monitor the impact** of benefit reform, affordable rent framework and Tenancy Strategies on our ability to respond to local need and report back to AB2. This recommendation should have a direct link to the emerging refresh of the Kent Forum Housing Strategy and implementation plan.

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