

## Appendix 2 – Updated guidance on rents and affordability

### Guidance to Registered Providers of Affordable Housing on Affordable Rented housing in the Guildford borough area.

#### Introduction

The Homes and Communities Agency (HCA) introduced a new model of Affordable Rented (AR) housing in 2011 to help fund the cost of new affordable housing development, which is social housing that may be let at higher rents of up to 80 per cent of local market rents. This is in contrast to social rented housing, which has ‘target rents’ which are set by government and are usually between 40 per cent and 50 per cent of market rents.

The purpose of this guidance is to inform Registered Providers (RPs) of the local housing market conditions and factors to consider when setting rents in the borough.

This guidance was updated in October 2014 to reflect current market rental values and in light of actual Affordable Rents charged in the previous year.

#### Definition of Affordable Rented housing

The National Planning Policy Framework defines Affordable Rented housing as “rented housing let by registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is not subject to the national rent regime but is subject to other rent controls that require a rent of no more than 80 per cent of the local market rent<sup>1</sup> (including service charges, where applicable).”

#### HCA position

All RPs that have entered into development contracts with the HCA and receive grant monies are required to charge Affordable Rents for new developments and to convert some of their existing social rented housing to the higher rent level.

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<sup>1</sup> Market rent is based on a RICS valuation for the property. Affordable Rents will increase at up to RPI + 0.5 per cent per annum, up to April 2014 and thereafter at CPI plus 0.5% with re-basing of the rent on each new tenancy.

The HCA expects that homes for rent which are funded with capital grant funding from the 2015-2018 Affordable Homes Programme will be let at Affordable Rent. While bids which include Affordable Rent at less than 80% of local market rent will be considered, in very specific circumstances, such as where an Affordable Rent at 80% of local market rent would exceed the Local Housing Allowance, the HCA generally expects providers to charge rents of up to 80% of market rents to maximise financial capacity.

### **Affordability in the borough**

Evidence contained in the Housing Strategy, the Homelessness Strategy and the Strategic Housing Market Assessment shows that rents in the borough are high and the majority of applicants on the Council’s housing register are unable to afford to access market housing without the help of housing benefit.

The following table shows the employment status of households nominated to council properties in the borough 2013-14.

Employment Status	Percentage
Full time work	35.8%
Part time work	10.3%
Retired	18.1%
Unemployed	6.7%
Not seeking work	20.9%
Disabled/Long term sick	7.8%
Other	0.4%

As the table above shows, almost half of those we house are working, often in low paid employment and may qualify for housing benefit and tax credits. Such households may also have a pattern of being on and off benefits at different times.

As at March 2014, 58 per cent of Council tenants were in receipt of housing benefit.

There is a risk that households on the housing register will struggle to meet higher rents, both now and in the future, whether they are in work or on benefit. The situation is likely to get worse following the introduction of Universal Credit.

We therefore consider that we should take account of the levels of housing benefit (Local Housing Allowance<sup>2</sup>) payable on private rented housing in the borough in setting any guidelines regarding levels of rent for this type of social housing.

#### **Local Housing Allowance Rates (period 1 April 2014 to 31 March 2015)**

NUMBER OF ROOMS	CATEGORY	MAXIMUM WEEKLY AMOUNT	
		GUILDFORD	BLACKWATER VALLEY
Shared Accommodation	A	£80.81pw £350.18pm	£76.85pw £333.02pm
1 Bedroom	B	£168.98pw £732.25pm	£139.84pw £605.97pm
2 Bedrooms	C	£214.38pw £928.98pm	£174.81pw £757.51pm
3 Bedrooms	D	£265.38pw £1149.98pm	£208.61pw £903.98pm
4 Bedrooms	E	£346.15pw £1499.98pm	£300.00pw £1300.00pm

<sup>2</sup> LHA is set at the 30<sup>th</sup> percentile of available rented properties (the three out of every 10 homes with lowest rents).

## **Weekly rents/percentage of income spent on rent 2013-14**

The 2013 housing needs survey<sup>3</sup> indicated that, across the borough as a whole, 56 per cent of those renting reported that their housing costs exceeded 40 per cent of income.

There is no set maximum percentage of income that households are expected to spend on their rent, and clearly the higher the income the greater percentage the household can afford to spend. The housing sector uses 33 per cent as a reasonable figure for those on low incomes living in social housing to spend on rent. The Mayor of London suggested a figure of 40 per cent as the maximum. The draft Strategic Housing Market Assessment tested a range of between 30 and 40 per cent.

## **Percentage of income spent on rent**

We researched the amount of income certain households would have to spend on rent in the borough. The following assumptions were made:

### **Rent levels**

Actual Affordable Rents are based on RICS valuations of the individual properties as they become available for letting. Now that the Affordable Rent regime has been in place for three years, we and others have been able to collect data on the actual Affordable Rents charged, which gives us a better idea of future rent levels. Our previous guidance was based on less accurate estimates because at that point no Affordable Rented properties had actually been let.

An indicative rent was arrived at by considering the following factors.

- Data collected by our Homes 4 U team who assist households to access the private rented sector.
- Homes and Communities Agency statistics on actual ARs charged.
- Figures of actual ARs charged on properties that our rehousing and allocations staff has dealt with.
- A snapshot of advertised rents from Rightmove.co.uk.
- The lowest available market rent for a property in the borough.
- The range of rents identified in the Strategic Housing Market Assessment.
- Uprating of figures from previous years by the standard housing association rent increase of CPI plus 1%.

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<sup>3</sup> <http://www.guildford.gov.uk/CHttpHandler.ashx?id=15205&p=0>

- CPI was taken as the rate at the end of August 2014, which was 1.5%.

We believe that the most representative figure is the median rent from the Rightmove snapshot, which falls in the lower end of the range of rents identified in the SHMA, as the majority of available properties are let at this rent, and this is the type of property which applicants to the housing register are most likely to occupy.

### **Type of household**

Affordability was assessed for a typical household: a couple (both aged over 35) with two children, and only one of the couple in work. It was assumed that the household would not be affected by the removal of spare room subsidy (aka the bedroom tax).

### **Income from employment**

Various salary levels were considered, to cover the span of low to medium income on our housing register. We also looked at the situation of a single person on the median resident income as identified in the SHMA (£32,000).

### **Benefits, including LHA, child benefit, working tax credit**

We used a benefits calculator to assess what benefits families would be entitled to, including whether they would be subject to the benefit cap.

Details of rents, benefits and income levels will be updated regularly, and are available on request.

### **Percentage of income spent on rent**

The table below summarises how families on a low to medium income are affected by rents which are set at 70 per cent of a market rent, 80 per cent of market rent and at the rate of Local Housing Allowance.

USING UPDATED RENTS AND BENEFIT RATES AS AT APRIL 2014								
Percentage of income (including benefits) spent on rent								
Household	Size of property	Annual earnings from employment	GFD 70%	GFD 80%	GFD LHA	ASH 70%	ASH 80%	ASH LHA
Single person over 35 on median resident income	1 bed flat	£32k (from SHMA)	33%	38%	36%	26%	29%	30%
Couple with two children	2 bed house	£ 16,000	38%	43%	37%	30%	33%	33%
Couple with two children	2 bed house	£ 26,000	37%	42%	36%	29%	32%	32%
Couple with two children	2 bed house	£ 40,000	34%	39%	33%	25%	29%	29%
Couple with two children	3 bed house	£ 16,000	42%	47%	42%	37%	42%	37%
Couple with two children	3 bed house	£ 26,000	41%	46%	41%	36%	41%	35%
Couple with two children	3 bed house	£ 40,000	38%	43%	38%	33%	38%	33%

Given income levels in Guildford, we do not consider that rents in excess of 40 per cent net income are acceptable or affordable for tenants in social housing, and ideally, the proportion should not exceed 35 per cent of net income.

### Impact of rent increases

Rents on affordable homes increase at a capped rate, set by Government, which is currently CPI plus 1 per cent.

Housing benefit, or in future Universal Credit, may not increase at the same rate as rents. In addition wage rises may be limited therefore there is an ongoing risk that rents originally set at LHA rate may not remain affordable in the longer term.

### Recommended rent levels in the Borough

Based on our research and recent review of rents and affordability as set out in this guidance, we propose that Affordable Rents be set at no higher than the maximum Local Housing Allowance (LHA).

We will review the guidance on an annual basis to ensure that it accurately reflects the local housing market and income levels of applicants for affordable housing.