

## Briefing Paper

### Affordable Housing Programme Framework 2011-15

March 2010

#### Introduction

The Department for Communities and Local Government and the Homes and Communities Agency have published their framework for the 'Affordable Homes Programme' which will run for the next four years.

The programme sets out how the development of new affordable housing will be funded and how the new affordable rent product will work in practice.

In the foreword to the framework, Grant Shapps MP, Minister for Housing stated that:

*"Housing supply has simply not kept pace with demand. Too many families can't afford the housing they need. Many are locked out of the housing market by unaffordable prices and unobtainable mortgages.*

*"This government will increase the number of homes to buy and rent. This means scrapping ineffective top-down targets and unnecessary regulation, and streamlining the planning system. Instead, the New Homes Bonus will provide a powerful local incentive. Communities will in future see the worth of welcoming new homes.*

*"There is a particular need for more affordable housing. There are now an estimated 4.5million people on waiting lists, many of whom have no realistic chance of being allocated a home. At the same time the system for providing new social housing has been under strain, with the current levels of grant unsustainable in the current economic climate.*

*"We will continue to invest in affordable housing – providing some £6.5billion over the next four years, including £4.5billion for new affordable homes. And the New Homes Bonus will provide enhanced incentives for affordable homes.*

*"But that money must go further. So, we are introducing new flexibilities for providers on using existing assets, and a new offer on rents. The objective of these flexibilities, including the new affordable rent product is to enable providers to deliver up to 150,000 new affordable homes. I have an aspiration to deliver even more."*

#### Timetable

- Deadline for submission of proposals to the Homes & Communities Agency – 3rd May 2011

- Assessment/negotiation of offers May and June 2011
- Initial contracts signed July 2011
- Local authority Housing Revenue Account settlement finalised – earliest likely start date for local authority developments April 2011

### **How will Affordable Rent Work in Practice?**

Affordable Rent can be set at up to 80% of the gross market rent, including service charges. Tenants in Affordable Rent properties will be eligible for housing benefit, rather than Local Housing Allowance

Providers will retain the option to offer lifetime tenancies under Affordable Rent, should they wish to do so

At the end of an Affordable Rent tenancy, providers and their tenant may choose to convert it to shared ownership

It will be for providers to decide what proportion of their re-lets they propose to convert to Affordable Rent to fund new supply

Providers using Affordable Rent will be encouraged to reinvest in new supply within the same wider housing market area. However, funding will not be ring-fenced to particular areas.

### **How will Housing and Communities Agency Funding be allocated?**

There is £2.2bn of uncommitted funding for the development of new affordable housing for the period 2011-15

The Homes & Communities Agency will no longer allocate funding on a scheme by scheme basis. Instead providers will be invited to set out proposals for a four year development programme, giving indicative proposals for the later years of their programme

Requests for Homes & Communities Agency funding should be for the minimum necessary to make development viable.

Providers will be expected to supplement Homes & Communities Agency funding with other sources of revenue, including use of the new Affordable Rent product

When deciding which programmes to support the Homes & Communities Agency will have a strong focus on value for money and will look for evidence that proposals will meet identified local needs

The Homes & Communities Agency anticipates that most new developments should be intended for Affordable Rent, or a mixture of Affordable Rent and shared ownership

## **Framework Details and Challenges Ahead**

One of these is Affordable rent as a product;

Providers that enter into a contract with the Homes & Communities Agency 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 will also be available to local authorities that enter into a contract with the Homes & Communities Agency Homes built under these provisions will be exempt from rent rebate subsidy limitation.

The Tenant Services Authority does not intend to prescribe the type of tenancy that providers should use when homes are let at Affordable Rent. Providers will be free to use either a fixed term or a secure/assured tenancy. Fixed term tenancies must be for a minimum of two years

Local authorities will be required to publish tenancy strategies for their area that registered providers must have regard to. However, ultimately it will be for individual providers to decide what types and length of tenancy to offer

When ending an Affordable Rent tenancy, providers will be required to offer reasonable advice and assistance to the tenant to find alternative suitable accommodation. They will also be allowed to choose to convert the tenancy to shared ownership if their tenant requests this

Allocations and nominations processes for Affordable Rent homes are expected to mirror the existing frameworks for social rented housing

However, 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. There are likely to be challenges for providers and strategic local authorities.

A key challenge for providers using Affordable Rent will be to decide what length of tenancy to offer each household. Providers will have to develop a tenancy policy that sets out clear, robust criteria for determining the length of tenancies. Local authorities' tenancy strategies should help to inform these policies but local authorities will not be required to publish them until 12 months after the relevant section of the Localism Bill has come into force

A further challenge will be determining the circumstances in which a provider should end, rather than extend an Affordable Rent tenancy. In some cases the decision to allow providers and their tenant to convert the tenancy to shared ownership may help to overcome this. Chartered Institute of Housing is clear that these tenancies are going to end this should be a positive choice made with the tenant, to help them to gain access other forms of tenure, otherwise there is a risk that it will act as a disincentive for tenants to improve their circumstances

Local authorities will also need to decide whether to target Affordable Rent properties at particular groups, such as low income working families, through their allocations scheme. In doing so, they will need to balance the potentially conflicting demands of meeting their obligations to give reasonable preference to those in greatest need with addressing other, locally identified, priorities

For providers operating across many local authority areas there may be an additional challenge in having regard to a number of conflicting tenancy strategies across their stock

Providers will need to change the focus of their asset management strategies so they can make informed decisions about which existing homes to convert and understand the financial and social implications of this Setting rent levels for Affordable Rent

Affordable Rent can be set at up to 80% of the gross market rent, including service charges

The Homes & Communities Agency expect that providers will use the flexibility to charge rents of up to 80% of market rent. Where providers choose to charge lower rates the Homes & Communities Agency will need to understand how the proposal helps to meet particular housing needs while still delivering value for money for the taxpayer and generating the capacity required to deliver new supply. There is a presumption that grant will not be available unless all new homes and a proportion of re-lets are let at the 80% intermediate rents.

Affordable Rent cannot be lower than the rent calculated on the current target rent regime. This is likely to apply in some low value areas where market rents are so low that social rents already exceed 80% of market rents.

Tenants in Affordable Rent properties will be eligible for Housing Benefit, rather than Local Housing Allowance

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

## **Challenges for Providers and Strategic Local Authorities**

In many high cost areas, rent set at 80% of market rent will be unaffordable for many tenants. Providers will need to consider affordability based on local incomes when setting levels for Affordable Rent and, where necessary, make a case for setting rent at lower than 80% of market rate. Otherwise the result will be to force more tenants to rely on benefits.

However, Intermediate rent housing is likely to be sought by a different group of tenants than social housing. Traditionally, intermediate rent schemes have been developed for the benefit of key workers who are unable to afford market housing to buy or rent in high value areas. These tenants are unlikely to claim full benefit.

Family Mosaic Housing Association published a study of the effects of intermediate rents on housing benefits in London and the Southeast in February 2011. It considered the position of fifty tenants and concluded that their housing benefits would increase by 151% if intermediate rents were introduced. However, a spokesperson for Communities & Local Government was quoted in 'Inside Housing' as saying:

*"Many of the households that will benefit from these homes will have been living previously in the private rented sector paying 100% of market rents.*

This confirms the view that intermediate rents are intended for a different group of tenants to social tenants."

Pegging rents to market rents exposes housing providers to a new level of risk – where rental income could fall because local private rent levels fall. These risks will need to be addressed in business plans.

## **Access to Housing and Communities Agency Funding**

There is £2.2billion of uncommitted funding for the development of new affordable housing for the period 2011/15

In the 2008/11 programme, funding was divided in advance into regional budgets. This will not be the case for the 2011/15 programme but there will be a separate 'pot' for London.

There are four parts of the programme that 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 four year period

Local authorities will be able to access Homes & Communities Agency funding. However, the Homes & Communities Agency anticipates that most proposals for development by local authorities are likely to be for starts after 1st April 2012. Any borrowing necessary to make the proposal will need to be within the borrowing cap applicable to the local authority under the self-financing settlement, which is expected to be in place by April 2012

The Homes & Communities Agency will no longer allocate funding on a scheme by scheme basis. Instead providers will be invited to set out proposals for a four year development programme, giving indicative proposals for the later years of their programme

The deadline for providers to submit proposals to the Homes & Communities Agency will be 3rd May 2011. The Homes & Communities Agency 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 one 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 for London will be approved by the Homes & Communities Agency London Board before they go to the Homes & Communities Agency national Board for final sign off

Proposals must meet the Homes & Communities Agency's Design and Quality Standards and Housing Quality Indicator information will still be collected in the normal way

Efficiency savings achieved through procurement will be monitored. Providers will be required to submit a procurement statement as part of their offers

The Homes & Communities Agency will operate framework contracts with providers on a flexible basis. This will include quarterly reviews of the contract and a full strategic annual review

Homes & Communities Agency funding will be on a 'payment by results' basis at completion Making proposals to the Homes & Communities Agency 'stack up'

Requests for Homes & Communities Agency funding should be for the minimum necessary to make development viable. Providers will be expected to supplement the funding from the Homes & Communities Agency.

### **Homes & Communities Agency funding with other sources of revenue**

Providers will be given considerable freedom to convert social rented properties to other models to create funding for more new homes. This may include converting social rented properties to Affordable Rent, shared ownership, disposals or a mixture of all of these.

**Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria. CA16 6QH.**  
Tel: 017683-52165 or 52347. Mobile: 07502-142658. Fax 017683-54005.  
Email: [Adrian.waite@awics.co.uk](mailto:Adrian.waite@awics.co.uk). Websites: [www.awics.co.uk](http://www.awics.co.uk) and [www.awics.eu](http://www.awics.eu) .

6

When deciding which programmes to support the Homes & Communities Agency will have a strong focus on value for money – negotiations will be conducted on an open book basis

The Tenant Services Authority will also assess proposals and give advice to the Homes & Communities Agency on whether the provider is currently in compliance with the Tenant Services Authority's standards, including the Governance & Viability Standard, and whether they are likely to continue to meet the standards

It will be for providers to decide what proportion of their re-lets they propose to convert to Affordable Rent to fund new supply

The Tenant Services Authority will consider the level of risk posed to a provider by the proportion of re-lets they propose to convert

Affordable Rent is expected to be the main element of new supply, though the Homes & Communities Agency will also consider proposals that include affordable home ownership as part of an overall mix

Funding for the development of social rented housing will only be considered in 'exceptional cases'

There is an assumption that new Affordable Rent properties that receive funding under the new programme will be permanently available for letting.

The Homes & Communities Agency expect that Section 106 schemes will be delivered at nil grant

### **Challenges for Providers and Strategic Local Authorities**

In deciding what proportion of re-lets to convert to Affordable Rent, providers will need to balance the need to minimise the funding required from the Homes & Communities Agency with the need to minimise risk.

While the Homes & Communities Agency will have a strong focus on value for money and will expect providers to supplement their funding with other sources of revenue, the framework also warns that the Tenant Services Authority is likely to consider that proposals that rely on the conversion of all, or a high proportion of, re-lets to involve a high degree of risk.

However, the framework allows providers considerable freedom to convert social rented properties to models other than Affordable Rent to make their proposal work, such as shared ownership or disposals.

Providers will need to make full use of the flexibilities given to them to develop proposals that generate the most capacity for development, without taking on a high degree of risk.

Providers will need a good understanding of the local market to ensure that their conversions and disposals will support development viability, maximise returns and not negatively affect operation of the market e.g. lowering market rental prices by creating an oversupply of properties.

The Homes & Communities Agency's expectation that new Affordable Rent properties will always be available for letting may restrict a provider's ability to manage their assets in the future, making sure proposals meet local need.

As well as value for money, the Homes & Communities Agency will be looking for evidence that proposals take account of the range of needs identified by local authorities. They will seek confirmation of local authority support for proposals.

Providers using Affordable Rent will be encouraged to reinvest in new supply within the same wider housing market area.

However, funding will not be ring-fenced to particular areas and the Homes & Communities Agency will not support individual local authorities attempting to apply such a ring-fence.

It may be difficult to determine what 80% market rent should be for supported housing, given the absence of comparable schemes charged at a market rate to use as the basis for any calculation. In many cases supported housing, targeted specifically at the most vulnerable in society, may not be affordable at 80% market rent. However, there is a view that as intermediate rent housing will be targeted at working groups there is not likely to be much supported housing being developed.

In high cost areas where there is a particular demand for larger houses, such as in London, meeting this demand is also likely to pose a particular challenge.

There is a danger that at 80% of the market rent, larger properties may remain unaffordable to many, particularly given the government's plans to cap benefits at £26,000 per year.

Housing providers will need a sophisticated understanding of how markets operate below local authority level, and of need patterns in their areas, to inform conversion and investment decisions about Affordable home ownership.

There is scope for providers to use the framework to increase their offer of affordable home ownership, both by including it in their proposals for new development and by offering it as a 'destination' for tenants leaving Affordable Rent.

The Homes & Communities Agency will consider funding affordable home ownership in the form of shared ownership or equity loans, both will be branded as HomeBuy outside London and First Steps in London.

Shared ownership is expected to form the main element of proposals to develop affordable home ownership.

The maximum equity loan that can be offered by providers will be 20% of the value of the property.

The Homes & Communities Agency 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 Homes & Communities Agency will also welcome proposals for two types of variant on shared ownership for vulnerable groups; Home Ownership for people with Long-term Disabilities and Older People's Shared Ownership.

### **The Difference between Intermediate and Social Rents**

The Homes & Communities Agency has published data on the difference between intermediate and social rents by region as shown below:

Region	Intermediate Rent £/week	Social Rent £/week	Difference £/week
London	£248	£102	£146
Southeast	£149	£91	£58
Southwest	£120	£77	£43
East	£118	£82	£36
Yorkshire & Humberside	£96	£67	£29
Northwest	£97	£69	£28
Northeast	£91	£66	£25
West Midlands	£97	£75	£22
East Midlands	£90	£73	£17

However, these regional figures mask significant differences within regions. For example, in Cumbria there are significant differences between Intermediate and Social rents in Eden and South Lakeland and no significant differences in Allerdale, Barrow or Copeland.

## Comments on the Proposals

In March 2011, Terry Fuller, the Executive Director for the East and Southeast at the Homes & Communities Agency wrote in 'Inside Housing' that:

*"Last week we invited providers to bid for £2.2billion of funding under the new affordable homes programme. With flexible tenancies, rents at up to 80% of market rates and a four year allocation replacing our current process of staggered bidding rounds, the new model is designed to give providers greater funding certainty and allow them to meet the needs of local communities more efficiently. It marks a significant change in the way affordable housing is provided.*

*"Naturally, some commentators have focused on the challenges, often around lending, gearing and future risks; and I acknowledge that those exist in the southeast as they do in other parts of the country.*

*"But challenges are inherent in any change. Housing pressures in the southeast, and London in particular, are well documented and we are very clear that with less money available there is an overwhelming requirement that we see the better use of existing assets combined with innovation.*

*"Ultimately, we are all seeking one aim – to deliver much needed affordable housing and to meet local ambitions – so it's imperative that there are robust, proactive and ongoing discussions between local authorities and providers.*

*"In short, together we have to re-imagine the way we deliver as the previous approach is no longer applicable. O achieve this requires strong, clear leadership and some bold moves coupled with a sound risk appraisal and management.*

*"And it is precisely this ability to manage their businesses more flexibly, reinvesting increased rental incomes in more new homes, which will be welcomed by many housing associations. So I am expecting a strong response from providers in the southeast."*

The National Housing Federation has commented as follows:

*"The National Housing Federation welcomes a number of decisions made by the government in the framework. Among the concessions called for by the Federation which have been adopted are:*

- *Confirmation that the existing formula for annual rent increases in social rented housing of retail price index plus 0.5% will continue to apply until 2015.*
- *Greater flexibility around contracts, with no requirement for all the detail of contracts to be signed on 1<sup>st</sup> April this year. Contract arrangements for later years will be outlined in principle instead of there being a requirement fo fixed commitments*

- *Conformation that local authorities will play a key role in working with housing associations and the Homes & Communities Agency in agreeing investment plans, but will not be able to unilaterally veto them.*
- *Recognition that there is a continued role for low cost home ownership under the new investment regime.*
- *Flexibility to convert re-lets to shared ownership as well as near market rents*
- *Providers having flexibility to start setting tenancies, including the option to continue offering long term tenancies and life term tenancies.*
- *No hypothecation – money raised in a local authority area doesn't have to be spent in that local authority area*

*“However, we are disappointed that the details of the Framework do not give housing associations the real freedoms they need to maximise delivery under the new model. Government has failed to take on board our recommendations that would have helped to ensure that the model supports delivery of products to meet local housing need in both low value and high value housing markets.”*

The Local Government Association has commented as follows:

*“The Local Government Association 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 Local Government Association has been campaigning for. Whether in practice they will be able to put together a bid which has any hope of success depends on 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 the Homes & Communities Agency 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.”*

## Conclusions

Traditionally, intermediate rent housing has been developed for key workers who are unable to afford to buy or rent a home in high value areas; rather than for the groups that have traditionally rented social housing. It is likely that this will continue to be the case with the new intermediate housing predominantly being built in high value areas and rented to working households with relatively modest means.

Two distinct tenures will therefore develop for two different groups. Increased numbers of intermediate homes will be provided for working households with modest means while the stock of social housing will continue to decline because of right to buy sales and the re-letting of homes at intermediate rents.

The fact that intermediate rents and social rents are already similar in low value areas means that the new policy will not bring forward any additional homes in these low value areas.

In high value areas – especially London – there is a significant difference between social and intermediate rent and significant demand for intermediate rent homes. It is likely that the policy will have its most significant effects in London and other high value areas in bringing forward more intermediate homes but at the same time reducing the stock of social housing. There are fears that this could lead to people who need social housing having to move out of high value areas into low value areas. This would include a gradual exodus of social tenants from inner London.

The programme is said to be open to Local Authorities as well as Housing Associations. However, the government's self-financing proposals for local authorities include the introduction of a borrowing cap that would effectively prevent local authorities from undertaking any new borrowing and therefore prevent them from doing any new build. The headroom that the previous government intended to create for local authorities to fund new development by using a 7% discount rate in calculating opening debt with self financing will now not be created as the present government has decided to use a 6.5% discount rate.

There are those in the sector who consider that the provision of additional social homes should be a higher priority than the provision of additional intermediate homes. This is certainly the view of elected members in a number of authorities and the view of board members in a number of housing associations. They may wish to look at ways of developing social housing without grant. One way of doing this would be to develop to building regulation standards rather than to Homes & Communities Agency standards. A Housing Association Chief Executive recently told me that he regarded the Homes & Communities Agency standard as adding significantly to costs while providing nothing that would be valued by tenants. In contrast a civil servant at Communities & Local Government told me that developing at building regulation standards would be regarded by government as a backward step. It will be interesting to follow developments here!

Finally – will the policy deliver the 150,000 new homes that the government would like to see. Many in the sector have suggested that with the banks still unwilling to lend at favourable terms this will not be the case.

**Adrian Waite**  
**March 2011**

### **About 'AWICS'**

'AWICS' provides a full range of ethical management consultancy and training services, principally to those who are involved in social housing.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide training from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today! And we publish the popular free e-newsletter for public services – the 'Public Services News'.

We are big enough to make a difference – but are small enough to care!