The new "Affordable Rent" tenure put forward in CSR: Possible impact across the Cambridge housing sub-region

Introduction

This paper looks at the proposed measure in the Comprehensive Spending Review October 2010 around the flexibility of new "Affordable Rent", and some of the possible effects on the Cambridge housing sub-region. In his letter of 20 October 2010, Grant Shapps states:

"So in future, housing associations will have another option to offer households who need support for a fixed period. We are calling it ***Affordable Rent****. This new tenure will allow greater flexibility, focus state support on those in greatest need for as long as they need it and secure greater value for money for taxpayers. I will be setting out further details on these reforms shortly."*

In the CSR (p48) the following statement is made:

"Social housing will be reformed to provide a more tailored response to individual need at lower cost (see Box 2.2). Investment alongside this reform will deliver up to 150,000 new affordable homes by 2014-15. Meanwhile, investment via the Decent Homes programme will continue to improve the existing social housing stock."

Box 2.2: Affordable Housing Reform

The Government believes social housing is an important element in fostering community cohesion and supporting households in housing need. The number of social rented properties fell between 1997 and 2009. The result has been rising housing waiting lists combined with growing numbers of workless households trapped in dependency on subsidised housing. In the 1970s, 11 per cent of households in social housing had no earner; by 2003-04, this had risen to 69 per cent.

The Government wants to make social housing more responsive, flexible and fair so that more people can access social housing in ways that better reflect their needs. In future, social housing will more effectively reflect individual needs and changing circumstances. Social landlords will be able to offer a growing proportion of new social tenants new intermediate rental contracts that are more flexible, at rent levels between current market and social rents. The terms of existing social tenancies and their rent levels remain unchanged. This is fair to households and reduces costs for taxpayers.

Taken together with continuing, but more modest, capital investment in social housing, this will allow the Government to deliver up to 150,000 new affordable homes over the Spending Review period.

Specifically, this paper examines the effects of the proposed linking of new "Affordable Rent" levels to "80% of the market rent". Although reported in the CSR announcement of 20 Oct, specific reference in CSR documents remain elusive.

This note looks at:

- the current situation, providing information on the number of social lettings per year and the sizes of homes let in each district.
- current levels of private rents in each district. Private rental costs in the sub-region are generally quite high compared to some other areas.

How many tenancies or residents might be affected?

Tables 1 to 3 show the number of new lets made per year excluding transfers.

There is some debate at the moment as to whether "Affordable Rent" will apply to transferring tenants, exchanges, moves form one social landlord to another. Or is it simply new lettings to new tenants?

Across the sub-region there were 3,208 new social housing lets in 2008/9. In this paper we are counting all local authority and RSL lets together. The number of new lets naturally fluctuates from year to year.

Table 1: New lets (all social rented housing)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average
Cambridge	776	892	765	916	353	568	754	718
East Cambridgeshire	303	320	383	341	409	522	291	367
Fenland	527	461	419	523	595	533	360	488
Huntingdonshire	657	585	544	630	538	449	480	555
South Cambridgeshire	417	398	472	420	372	534	543	451
Forest Heath	228	199	69	266	242	427	392	260
St Edmundsbury	409	422	303	432	445	492	388	413
Sub-Region	3,317	3,277	2,955	3,528	2,954	3,525	3,208	3,252

HSSA

Data is also available on the lets by property size. This is taken from CORE, which does not include every single let in each district. However it does include enough data to give the proportion of different sizes of homes let. Table 2 uses three years worth of data, based on general needs lettings (so excludes sheltered housing).

Table 2: New lets by number of bedrooms (%)

	1 bed	2 beds	3 beds	4 beds	5 beds	6 beds
Cambridge	47%	34%	18%	1%	0%	0%
East Cambridgeshire	28%	48%	22%	2%	0%	0%
Fenland	31%	47%	21%	2%	0%	0%
Forest Heath	33%	44%	20%	3%	0%	0%
Huntingdonshire	26%	45%	26%	3%	0%	0.1%
South Cambridgeshire	26%	48%	22%	3%	0.8%	0.1%
St Edmundsbury	32%	41%	25%	2%	0.1%	0%
Sur-Region	32%	44%	22%	2%	0%	0%

CORE 2008-2010

Generally the majority of lettings are to smaller homes i.e. one and two bedroom stock. This is partly because of the types of households in need, but also largely because of the sizes of the homes available.

So, excluding transfers, an average of **3,250** new lettings are made per year across the sub-region.

Market rent levels

The CSR proposes to set social rents at “80% of the market rent”. How this market rent is to be decided is not clear. The documents do not specify if this is an average or lower quartile rent. The only centrally held data on local rent levels is Broad Rental Market Area data held by the Valuation Office. BRMAs are not consistent with local authority boundaries. Neither do they represent genuine market areas. A more detailed table on proposed changes to LHAs is also available (add web link).

Tables 3 and 4 show the average and lower quartile market private rents by property size in each district as of January 2010, the time of the County’s last private rent review (not yet published). Across the whole housing sub-region, the average cost of a privately rented property is £727 per month. In Cambridge City, the most expensive district, it is almost £250 a month more. In Fenland – the cheapest area - it is around £200 a month less than the sub-regional average.

Table 3: Average market rent per calendar month

	1 bed	2 bed	3 bed	4 bed	All
Cambridge City	£748	£894	£1,081	£1,370	£974
East Cambridgeshire	£478	£600	£684	£985	£665
Fenland	£402	£494	£615	£794	£529
Huntingdonshire	£450	£573	£680	£981	£629
South Cambridgeshire	£589	£695	£815	£1,192	£855
Forest Heath	£452	£665	£833	£1,097	£797
St Edmundsbury	£503	£597	£782	£917	£695
Sub-Region	£521	£634	£778	£1,067	£727

CCCRG, Jan 2010

Table 4: Lower quartile market rent per calendar month

	1 bed	2 bed	3 bed	4 bed	All
Cambridge City	£668	£753	£895	£1,250	£750
East Cambridgeshire	£395	£550	£629	£850	£550
Fenland	£368	£465	£575	£656	£449
Huntingdonshire	£425	£510	£600	£798	£495
South Cambridgeshire	£550	£653	£750	£950	£695
Forest Heath	£396	£525	£650	£850	£550
St Edmundsbury	£456	£550	£650	£718	£550
Sub-Region	£425	£525	£639	£850	£550

CCCRG, Jan 2010

Social rent levels 2008/9

There is currently a large gap between the cost of renting in the private sector and social rents. For social rent levels, there is £48 a month difference between the cheapest and most expensive area (see Table 5 below).

Table 5: Average social rents per calendar month

	1 bed	2 bed	3 bed	4 bed	All
Cambridge City	£273	£329	£382	£430	£326
East Cambridgeshire	£282	£330	£365	£403	£338
Fenland	£260	£288	£310	£339	£290
Huntingdonshire	£269	£314	£346	£388	£321
South Cambridgeshire	£284	£332	£360	£410	£313
Forest Heath	£263	£308	£342	£381	£310
St Edmundsbury	£253	£300	£331	£362	£304

Dataspring, 2008/9

Table 6 shows the difference between social rents and 80% of market rents (both lower quartile and average) in pounds. Table 7 shows this as a % difference.

Table 6: Difference between social rent and 80% of lower quartile (£ difference)

	Social rent and 80% of lower quartile market rent					Social rent and 80% of average market rent				
	1 bed	2 bed	3 bed	4 bed	All	1 bed	2 bed	3 bed	4 bed	All
Cambridge City	£262	£273	£334	£570	£274	£326	£386	£483	£666	£453
East Cambridgeshire	£34	£110	£138	£277	£102	£100	£150	£182	£385	£194
Fenland	£34	£84	£150	£186	£69	£61	£107	£182	£297	£133
Huntingdonshire	£71	£94	£134	£250	£75	£91	£144	£198	£397	£182
South Cambridgeshire	£156	£190	£240	£350	£243	£187	£224	£292	£544	£371
Forest Heath	£54	£112	£178	£299	£130	£99	£224	£324	£497	£328
St Edmundsbury	£111	£140	£189	£213	£136	£149	£178	£294	£372	£252

Table 7: Difference between social rent and 80% of lower quartile (% difference)

	Social rent and 80% of lower quartile market rent					Social rent and 80% of average market rent				
	1 bed	2 bed	3 bed	4 bed	All	1 bed	2 bed	3 bed	4 bed	All
Cambridge City	96%	83%	88%	133%	84%	119%	117%	126%	155%	139%
East Cambridgeshire	12%	33%	38%	69%	30%	35%	45%	50%	96%	57%
Fenland	13%	29%	48%	55%	24%	24%	37%	58%	88%	46%
Huntingdonshire	26%	30%	39%	64%	23%	34%	46%	57%	102%	57%
South Cambridgeshire	55%	57%	67%	85%	78%	66%	67%	81%	133%	119%
Forest Heath	20%	37%	52%	79%	42%	37%	73%	95%	131%	106%
St Edmundsbury	44%	47%	57%	59%	45%	59%	59%	89%	103%	83%

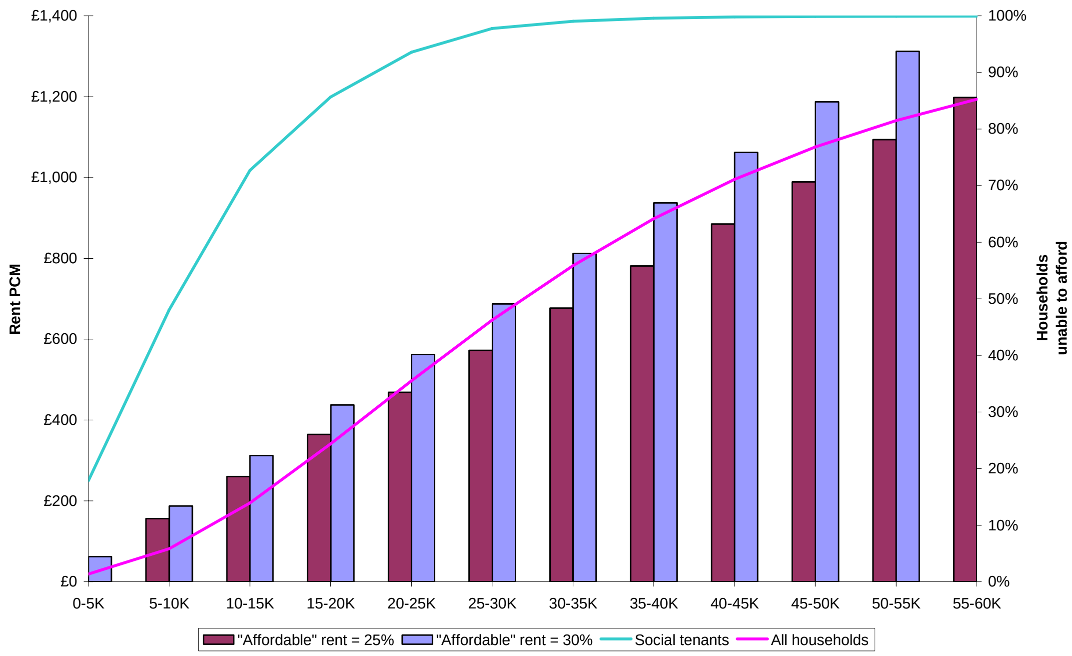
CCCRG and Dataspring

In Fenland and Huntingdonshire, the difference between social rents and lower quartile market rents is less than 25%. In Cambridge City it is 84% - almost double. Between social rents and average market rented, the costs is more than double in Cambridge City, South Cambridgeshire and Forest Heath.

Fig 1 below shows the proportion of households unable to afford different levels of rent. For example, a rent of £400/ month would require an income of between £15-20K to support it as affordable based on 25% to 30% of household income. Among "all households" this is unaffordable for around 25% of households. For social rented households, this would be unaffordable for about 80%.

This suggests that increasing social rents to 80% of market rents would make "affordable" housing unaffordable for a large proportion of existing users, leading to an increase in arrears and a need for additional financial support.

Fig 1: Affordable rents – social tenants and all households, Cambridge sub-region



CORE 2007/8-2009/10, CACI 2010

Discussion…

Comment from RSMTenon adds some food for thought:

- The terms of existing social tenancies and their subsequent rent levels will remain unchanged. However, the CSR confirmed that landlord will be able to offer new tenants flexible, intermediate contracts. This raises the question, why would a 'life tenant' move if the new tenancy is guaranteed for only a fixed period and at a higher rent?
- By limiting the numbers of social housing, market rents will increase. Registered Providers (RPs) can now charge up to 80% of market rents and this could result in increased rents and real affordability issues for new tenants.
- The ability for social housing providers to rent out their properties at 80% of market rent could potentially result in an increased Housing Benefit bill for the Government, albeit that there are various benefit caps in place.
- Subsequently, RPs could find increased pressures as they will need to provide money advice to residents seeking to understand the new rules. RPs will be required to ensure their staff are sufficiently trained in order to provide adequate financial advice to tenants, and must also be sure they

can provide sufficient information on the new Universal Credit system. It is also unclear as to whether these payments, including housing benefit, will be made directly to tenants which could also increase pressure on rent arrears levels.[1]

Some unintended consequences could include

- an increased HB bill nationally
- increased arrears amongst new Affordable Rent tenants
- increasing numbers of people on housing needs registers, waiting for homes they can afford to become available
- perverse effects on the ability to move home, if current tenants do not want to enter a new, less secure , or more expensive tenancy. This could affect moves into sheleterd housing as well as between "general" tenancies
- increased arrears for RP's which can affect their credit rating and therefore ability to secure funding to build new homes

…probably wise to wait for the further detail Mr Shapps promises but these are some initial thoughts to consider.

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[1] http://www.rsmtenon.com/~/media/Files/Spending%20Review/CSR%202010%20Housing.ashx