

MAYOR AND CABINET		
Report Title	Housing Reform	
Key Decision	Yes	Item No. 6
Ward	All wards	
Contributors	Executive Director for Customer Services	
Class	Part 1	20 April 2010

1 Purpose

- 1.1 To consider the implications of the housing and welfare reform changes and approve a Lewisham set of principles to share with housing providers.

2 Policy Context

- 2.1 The Council sets out its vision, principles and strategic priorities in Shaping Our Future – Lewisham’s Sustainable Community Strategy 2008-2020. Outlined below are the six priorities of Shaping Our Future:

- Ambitious and achieving – where people are inspired and supported to fulfil their potential
- Safer – where people feel safe and live free from crime, antisocial behaviour and abuse
- Empowered and responsible – where people are actively involved in their local area and contribute to supportive communities
- Clean, green and liveable – where people live in high quality housing and can care for and enjoy their environment
- Healthy, active and enjoyable – where people can actively participate in maintaining and improving their health and well-being
- Dynamic and prosperous – where people are part of vibrant communities and town centres, well connected to London and beyond.

- 2.2 The issues outlined in this report will cut across all of these priorities, especially “Clean, green and liveable”. While Lewisham and its housing providers will strive to deliver the targets within this priority, the impacts of the new legislation is not yet fully known and may affect delivery of targets such as:

- Deliver 11,000 more homes by 2020 of which up to 50% will be affordable housing. This will help to reduce homelessness and the number of households in temporary accommodation as well as provide real opportunities for people on low and modest incomes to afford a home.

3 Recommendations

The Mayor is recommended:

- 3.1 To note the comments of the Housing Select Committee following their meeting on 30 March 2011.
- 3.2 To approve the Lewisham principles to share with housing providers as set out in section 7 of the report and summarised in paragraph 7.8
- 3.3 To note that a strategic policy on tenancies with local housing providers which considers the impact on both Lewisham's current and future tenants will be brought back to Mayor and Cabinet.

4 Background

HCA Framework

- 4.1 The HCA launched their Framework document "**Local decisions; a fairer future for social housing**" in February 2011 which set out their priorities for the future for social housing. The deadline for providers to submit proposals is 3 May 2011 and the HCA intends that initial contracts will be signed in July 2011. The GLA will be involved in assessing London contracts as part of the London Board.
- 4.2 HCA want to see the best possible value for money achieved in the bids for funding with the maximum rents charged. It is expected that providers charge rents of up to 80% of market rents to maximise financial capacity.
- 4.3 There must be specific circumstances for the HCA to agree to set rents at less than 80% of market rents. The HCA would wish to explore with providers the rationale for considering rents at less than 80% of market rents.
- 4.4 Social rent provision will only be supported in limited circumstances. For example, social rent could be considered in regeneration schemes where decanting existing social tenants into new homes is necessary.
- 4.5 In all cases providers, supported by the relevant local authorities, will have to make a strong case to demonstrate why Affordable Rent would not be a

viable alternative. All such cases will be considered on their individual merits.

- 4.6 It will be for providers to decide what proportion of their re-lets they propose to convert to Affordable Rent to fund new supply. Financial pressure is to convert a minimum of 50% of relets.
- 4.7 Providers will have flexibility on the type of tenancy to be offered for Affordable Rent, and they will retain the option to offer lifetime tenancies should they wish to do so.
- 4.8 The HCA 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, providing detailed scheme information for the first year and giving indicative proposals for the later years of their programme.
- 4.9 Requests for HCA funding should be for the minimum necessary to make development viable. Providers will be expected to supplement HCA funding with other sources of revenue, including use of the new Affordable Rent product, outright sale and disposals and surpluses

5 Affordable Rents and Fit with HB/Universal Credit

- 5.1 The table below demonstrates the impact of rent increases at levels of 80%, 60% and 50% of market rent.

Bed size	LHA based on 30 th percentile (VOA figures)		Median market rents (SELHP^ data)	80% median market rents (based on SELHP)	60% median market rents (based on SELHP)	50% median market rents (based on SELHP)	Average Council rents (inc service charges)	Average HA target rents (inc service charges)
	Inner SE London BRMA*	Outer SE London BRMA						
One bed s/c	173	146	186	149	112	93	73	86
Two bed	209	173	254	203	152	127	83	97
Three bed	265	207	296	237	178	148	94	107
Four bed	345	265	462	370	277	231	102	121

* BRMA = Broad Rental Market Area

^ SELHP = South East London Housing Partnership

NB: Highlighted cells represent rent levels that will exceed Local Housing Allowance levels for the Outer SE London BRMA based on 30th percentile (approximately 90% of LBLs stock is within the Inner London BRMA).

5.2 The percentage by which the “affordable rents” would exceed current HA target rents (including service charges) are outlined below:

	80% rents	60% rents	50% rents
1 bed	73%	30%	8%
2 bed	109%	57%	31%
3 bed	121%	66%	38%
4 bed	206%	129%	91%

5.3 The increase in weekly rent from current target rents to 80% market rents ranges from £63 per week (pw) for a 1 bed property to £249pw for a 4 bed property. At 50% market rents the increase ranges from £7pw for a 1 bed property to £110pw for a 4 bed property.


5.4 Rents at 80% of market value for all bed sizes will exceed the estimated outer London LHA levels being introduced in April 2011 and the estimated inner London LHA levels for 4 beds.

5.5 The universal credit of £500pw for families and £350 pw for single people and couples will not be sufficient to cover 80% market rents on any size property and will not be sufficient to cover the costs of any 60% or 50% market rents on properties above 2 beds.

5.6 Income levels are generally very low in Lewisham and form part of our affordability calculations. The Housing Market Assessment (2007) indicated that while 23% of the households in Lewisham had a salary of over £40,000, 42% of households had a salary of £15,000 or less (excluding housing benefit).

5.7 The table below indicates the gross annual income required to afford rents, assuming 25% of that gross income is spent on rent and is based on an annual income of £25,000.

Gross Annual Income required to afford rents	Bedrooms				
	Bedsit	1 Bed	2 Bed	3 Bed	4 Bed
80% Market or LHA	£18,720	£35,520	£43,285	£46,165	£83,770
60% Market or LHA	£18,720	£26,640	£32,464	£34,624	£83,770
50% Market or LHA	£18,000	£22,200	£27,053	£28,853	£83,770

 = above £25000

'Real life' impact of affordable rent

Example 1 - Person X

Two parents, 3 children – 3 bed need. Offered a 3 bed home in Downham (outer London BRMA).

From April 2011 onwards

If housed in council home weekly rent is: **£94**

If housed in RSL home minimum weekly rent is approx: **£107** (target rent)

If housed in RSL home weekly rent could be: **£237** (80% median market rent)

Potential difference **£143 per week**.

Example 2 – Person Y

Two parents, 1 child – 2 bed need. Offered a 2 bed home in New Cross (inner London BRMA)

From April 2011 onwards

If housed in council home weekly rent is: **£83**

If housed in RSL home minimum weekly rent is approx: **£97** (target rent)

If housed in RSL home weekly rent could be: **£203** (80% median market rent)

Potential difference **£120 per week**.

6 Registered housing providers in the borough

6.1 The Council's registered housing provider development partners currently number 16 associations. However, there are only 13 active associations, their current levels of activity are as follows:

Registered housing providers	Units currently in management	Units in development programme for 2011/12 onwards
Family Mosaic	842	1,281**
London & Quadrant	7660	1,027***
Hyde	2629	306
Affinity Sutton	687	156*
Hexagon	1104	139
Amicus Horizon	788	109
Viridian	197	60
LHA-Asra	74	49
Gallions	0	43

Registered housing providers	Units currently in management	Units in development programme for 2011/12 onwards
Notting Hill Housing	269	33
Wandle	244	32
Metropolitan	161	23
Moat	10	12

* two schemes totalling 115 units waiting for bid confirmation.

** includes Heathside and Lethbridge all phases.

*** includes Excalibur all phases

6.2 From the information on stock levels in the borough and current development activity it is clear that there are only **six** registered housing providers whose continuing development programmes under the new affordable rent regime are likely to significantly impact on the number of re-lets the Council receives nominations to. (The others have low levels of stock in the borough so there will be relatively few re-lets).

6.3 These are Affinity Sutton, Amicus Horizon, Family Mosaic, Hexagon, Hyde and London and Quadrant. They have not reached a final conclusion on their approach to the affordable rent regime as yet, however they have so far indicated the following:

Registered housing providers	Affordable Rent level (% of market rent)	Fixed term tenancy length	% re-lets to be converted	Approach to disposals
Affinity Sutton	65% maximum	2 years	100%	No increase
Amicus Horizon	Up to 80% but 3 bed plus units at or near target rents	5 years minimum	100%	No information as yet
Family Mosaic	50-60% on average.	5 years minimum	Aim to keep at target rents	May increase
Hexagon	Modelling 3 options.	Longer than 2 years	50% across all stock over 4 years	Currently 4 p.a. – will increase to 11 p.a. over the next 4 years
Hyde	Up to 80%	5 years minimum likely	800 relets per annum	Will not cross subsidise affordable rent.
L&Q	Blended approach including 80% on some smaller units but 60% on average	Not sure but considering 2 years	100%	No increase in current pattern

7 The Council's proposed principles

7.1 The Council will continue to work on developing its position with key stakeholders to ensure the most vulnerable members of our community are protected. The Council will ensure that, on each individual new build and regeneration scheme, the housing providers negotiate with the Council so there will be scheme by scheme agreements and an agreed position on relets. Officers will be working on developing a Strategic Tenancy Policy over the next few months for implementation from April 2012.

7.2 The main impacts on local residents will be seen through the transfer of relets from long term tenancies and social rents to fixed term tenancies and affordable rents, as well as new supply. In 2009/2010 there were 1647 new lettings; 177 were newbuild and 1470 were relets. Of these 923 homes were relet via registered providers (the others were Lewisham Homes or RB3) Current projections show that housing providers are looking at converting around 50% of relets to this new rent and tenure model, which would produce an in year impact of 462 relets potentially being let at 80% of market rents. However only the developing providers can increase their rents at this time and we do not have a breakdown of relets by provider. The Council will work to improve the reporting and monitoring of lettings across all housing providers.

7.3 Tenure

Lewisham is adopting a cautious approach on tenure and is reluctant to pull back from security of tenure until all the effects of the welfare benefit proposals and changes are better known. If there is no option the Council will consider a minimum 5 year tenancy offer and the following tenure options

7.3.1 Lifetime tenancies for specific groups:

- All older people (aged 65+);
- Residents with serious permanent physical or mental vulnerabilities;

and flexible tenancies for:

- families occupying large family homes that are a premium within the locality (with review when youngest child 18);
- households occupying properties that have benefitted from major adaptations;
- those with health problems regarded as temporary;

- those who face a temporary crisis from which there is a good prospect of recovery.

7.4 Affordable Rents

- 7.4.1 Lewisham will support new developments if they deliver new affordable homes at rent levels that tenants and housing applicants can afford. The benchmark that the Council is looking to set is housing costs to be met within 30% of net disposable income, especially for claimants in receipt of the new universal credit.
- 7.4.2 Properties where rents are set at between 60% - 80% of market rents may be considered better for working households. However analysis undertaken by Hometrack and published in Inside Housing suggests that in London a household income of £44,500 pa would be required to cover the higher rents.
- 7.4.3 The Council will work with providers on a scheme by scheme basis to minimise 80% rents and ideally set a range of rents up to 60% but no higher unless agreed as an exception. The Council will not support schemes where all rents are at 80% of market rents.
- 7.4.4 The Council supports parity of rent levels at a lower rate across a wider tenant group to minimise the high end impacts.
- 7.4.5 Planning powers will be utilised through Section 106 to ensure that the wording of planning permissions and section 106 legal agreements refer to social or target rents as well as the new affordable rent models.

7.5 Disposals

- 7.5.1 The Council will manage the potential increase in disposals, especially of existing stock. Where disposals are necessary to support the provision of new supply every effort will be made to ensure family units are retained.

8 Strategic Policy on Tenancies

- 8.1 From April 2012 local authorities will be required to publish a strategic policy on tenancies. The document will set out the broad objectives of a local authority to be taken into account by social housing providers. It will cover all aspects relating to tenancies.
- 8.2 Work will commence on the policy from April 2011. There will be extensive consultation with all key stakeholders, including Members and residents. A draft document will be available in the autumn for implementation from

April 2012. Until that time provisional guidance will be issued to all housing providers, which they will need to consider in the development of their HCA contracts on new supply and their own Strategic Tenancy Policy.

8.3 The policy will be subject to periodic review.

8.4 It is anticipated that the Policy will be brought to Mayor and Cabinet in December 2011 for implementation in April 2012.

9 Allocations Policy

9.1 In tandem with the development of the Strategic Tenancy Policy, and in the light of the various changes from Government that are impacting on housing, the current Allocations Policy agreed by Mayor and Cabinet in February 2010, will be revised.

9.2 Work on this review will start from April 2011, with a draft in the autumn, for implementation from April 2012.

10 South East London Housing Partnership (SELHP) approach

10.1 The SELHP approach can be found at **Appendix 1** of this report and outlines an agreed position to be shared with providers across the sub region. It is intended to complement the individual borough views.

11 Family Mosaic Research

11.1 Family Mosaic, one of Lewisham's major housing providers, has produced a research paper entitled Mirror, Signal, Manoeuvre. Looking back at their last 50 lets, they applied the new Affordable Rent model to see if the tenants would have been able to afford the properties at the new levels. The tenants were spread across inner London, outer London and Essex and included properties in Lewisham. The full paper can be found at: http://www.familymosaic.co.uk/documents/FM_MSM_final_interactive_2up.pdf

11.2 The key findings of the report are:

- **setting rents at 80% of market rent** would increase our residents requirement for housing benefit by 151%;
- **even at 60% of market rent**, there would be significant increases in rent levels, leaving a large proportion of tenants unable to retain enough income to pay their rent and live according to government standards of affordability;
- **the impact on our tenants will vary** by location, with those living in inner London the hardest hit: for most of those in Essex, social rents are already at 60-80% market rates;

- for those tenants receiving benefits, **the proposed new affordable housing model creates, or worsens, the poverty trap**, acting as an additional disincentive to gain employment.

12. Financial implications

- 12.1 There are no financial implications of agreeing the recommendations in this report beyond officer time in developing the policy and the framework. Full consideration will be given to the implications on the Council as the policy and framework are developed and this will be reported back to Mayor and Cabinet when being presented for final sign off.

13. Legal implications

- 13.1 Generally, the Localism Bill 2010 within parts 6 and 7 contain the most pertinent and current statutory implications within this context.
- 13.2 Clauses 121 – 123 of the Bill amends the Housing Act 1996 concerning Housing Allocation Schemes and is therefore of particular relevance to paragraph 9 of this Report. Basically, whilst the rules on eligibility will continue to be set centrally, the proposals will allow local authorities to set waiting list policies that are appropriate to their local area.
- 13.3 **Of particular relevance to paragraph 7 of this Report**, Clauses 124 - 125 of the Bill amends the Housing Act 1996. The Bill will give local authorities the flexibility to bring the homelessness duty to an end with an offer of suitable accommodation in the private rented sector without requiring the household's agreement. There will be safeguards: as now, an offer of private sector housing will only bring the duty to an end if the accommodation is suitable for the whole household. The private sector tenancy would need to be for a minimum fixed term of 12 months, and the duty would recur if, within 2 years, the applicant becomes homeless again through no fault of his or her own (and continues to be eligible for assistance).
- 13.4 Clauses 130 - 131 will amend the Housing Act 1985. This will enable local authority landlords to grant tenancies for a fixed length (the minimum length being two years) to be known as 'flexible tenancies' intended to give more freedom to local authority landlords
- 13.5 By clauses 132 - 139 and Schedule 14 of the Bill, lifetime tenancies and succession rights of existing council and housing association tenants will not be affected. New tenants will be guaranteed one succession to a spouse or partner, with landlords free to grant further succession rights. The flexible tenancy will be protected for two years, with 6 months notice to be given of the landlord's intentions at the end of the protection. The Tenancy Standard will be reviewed to fit the new approach. The regime in

relation to introductory tenancies and family intervention tenancies may need some modification to fit with new flexible tenancies.

13.6 Clauses 126 – 129 of the Bill which is particularly relevant to paragraph 8 of this Report, creates the requirement for tenancy strategies to be produced which are designed to set out the objectives of the housing authority and to guide lettings policies of all social landlords who will be consulted on its preparation.

13.7 Clauses 140 -147 and Schedule 15, will replace the current annual centralised system for subsidising council housing and replace it with a locally run system. 14.8 The European Convention on Human Rights states in Article 8 that “everyone has the right to respect for his private and family life, his home and correspondence”. The Human Rights Act 1998 (HRA) incorporates the Convention. Whilst it does not, however, necessarily mean that everyone has an immediate right to a home, (because Article 8 is a “qualified” right and therefore is capable in certain circumstances of being lawfully and legitimately interfered with), the provision by an Authority of a relevant proactive Homelessness Strategy, an Allocations Policy and other related provisions which are compliant with statutory provisions deemed compatible with the HRA does assist to reinforce the Article 8 principles.

14. Crime and disorder implications

14.1 There are no specific crime and disorder implications for this report.

15. Equalities implications

15.1 The changes outlined in this report will impact negatively on many households. It will be the Councils responsibility to ensure that no particular group is specifically affected by the changes to tenancy and rents in Lewisham.

16. Environmental implications

16.1 There are no specific environmental implications for this report.

17. Conclusion

17.1 The details contained in this report outline issues of affordability of social housing from 2011 onwards. There will be a major impact on those in housing need in the borough which Lewisham, through some of the

proposals covered, can try to mitigate using influence with housing providers. Any proposals will be subject to review as the Government policies continue to develop.

18. Background documents and originator

18.1 There are no background documents to this report.

18.2 For further information on this report please contact Louise Spires on 020 8314 6649 or via email at louise.spires@lewisham.gov.uk

SE London Boroughs' advice to Registered Partners about the provision of new affordable housing through the "Affordable Rent" model

We are still modelling the local implications of the HCA's framework, as well as awaiting clarification of the local authority role, and the following advice is therefore best regarded as interim and initial:

- The SE London Housing Partnership provides a 6 monthly Housing Market Bulletin and it is suggested that the rental data in this document be utilised as the basis for calculating "Affordable Rents". Based on data in the bulletin, the partnership has also modelled various levels of market rent and their relationship to Local Housing Allowance and local incomes. It is also strongly suggested that RPs tailor their proposals to best reflect the housing requirements described in the SE London Strategic Housing Market Assessment.
- In line with guidance, the Strategic Housing Market Assessment bases affordability on households spending 25% of their gross income on housing costs. We recognise that some households in London spend higher proportions of their income on their housing costs and that RPs may wish to model affordability accordingly – however Lewisham's position is that we would not want to model on more than 30% of gross income.
- Any RP programme in SE London needs to include an element of social rent at target rents. This is in order to:
 - Cater for decants
 - Cater for under occupiers
 - Cater for other priority households – e.g. those fleeing Domestic Violence, acquired injuries, other emergency transfers
 - Cater for the majority of working households (i.e. unable to afford market housing, even lower quartile, without relying on Housing Benefit and being caught in a 'benefit trap'). Please refer to Appendix A.
 - Provide 3 and 4 bedroomed homes

RPs should agree their proposals with individual boroughs as boroughs may still have particular requirements beyond these headings and RPs will need to understand them.

- RPs should normally avoid including any homes charged at rents above Local Housing Allowance (LHA) levels in their programmes. They should also avoid setting rents in a way where there could be a future risk that those rents will be higher than LHA level.

- RPs should not base programmes on rent levels that risk households being evicted and being referred to borough for assistance. In particular RPs therefore need to be aware of the implications of the proposed universal benefit caps.
- There are no immediate plans to amend borough planning policies and therefore existing affordable housing requirements and definitions are likely to still apply.
- It is assumed that nominations for “Affordable Rent” homes will be through borough Choice Based Lettings schemes.
- RPs are encouraged to adopt as innovative and flexible approach as possible. For example, they may wish to consider an approach based on the SE London Settled Homes Initiative whereby rents are charged at Local Housing Allowance level until such time as a target rent can be charged.
- We wish to maintain as much local RP development capacity as possible and encourage RPs to work in partnership, possibly in consortia.
- We have a preference that any surpluses generated from charging 80% market rents on re-lets will not be utilised beyond the sub region, and ideally would be used within the borough they were generated
- Boroughs do not wish to experience a reduction in the number of nominations they receive to social rented housing. Boroughs are willing to discuss with RPs any potential linkage between charging 80% market rents on re-lets and making better use of their stock, increasing ‘churn’ and increasing overall lettings activity e.g. by improving performance on unauthorised sub letting.
- It is assumed that housing associations without a HCA funded development programme would not charge other than target rents for re-lets.
- RPs should consult with boroughs about any proposals based on disposing of existing properties at an early opportunity. It should not be assumed that borough support for a programme of disposals will be forthcoming. We have a preference that any surpluses generated from disposals will not be utilised beyond the sub region, and ideally would be used within the borough they were generated
- RPs are reminded that all boroughs continue to have a particular requirement for larger family homes and for wheelchair accessible homes. Tackling overcrowding and homelessness remain key objectives and RPs are for example encouraged to bring forward programmes of extensions in response to the needs of overcrowded households.

SE London Boroughs' advice to Registered Partners about the provision of new affordable housing through the "Affordable Rent" model - Appendix A

According to the SE London Strategic Housing Market Assessment (SHMA) the median household income in the sub region is £22,000 – i.e. 50% of the households in the sub region earn less than £22,000.

If a household uses 30% of its gross income on housing costs (i.e. more than the 25% modelled in the Strategic Housing Market Assessment), then 50% of the population cannot afford to pay more than £126 per week towards their housing costs.

The data from the SHMA also indicates the median incomes of households requiring particular property sizes:

1 bedroom	£17,500
2 bedrooms	£27,500
3 bedrooms	£29,000
4 bedrooms	£29,000

Generally, target rents are affordable to households on these median incomes.

Analysis of CORE data about the household incomes of new RSL tenants in SE London indicate that about 30% of new tenants received no state benefits and on average earned between £24,883 (1 bedroom) and £31,227 (3 bedroom).