HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number 05933, 7 May 2015

Affordable Rents (England)

By Wendy Wilson
Alex Bate

Inside:

Contents

Summary

This briefing provides an overview of the affordable rent scheme under which tenancies in England are offered at up to 80% of market rent levels within the local area. It includes a summary of responses on some key associated issues.

The 2010 Coalition Government announced an intention to introduce a new "intermediate rent" tenure as part of the October 2010 Spending Review. Under this model housing associations can offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is available for reinvestment in the development of new social housing.

Essentially, this model replaces capital grant supply subsidy for social housing with a revenue subsidy. The scheme was expected to contribute to the delivery of 150,000 new affordable homes over 2011-15. After a successful initial bidding process the Government increased this estimate to 170,000 new homes (of which it was expected that 80,000 would be affordable rent and affordable home ownership properties) utilising almost £1.8 billion in grant funding. It is expected that the programme will exceed planned output by around 8,000 homes. The increase in the supply of new homes at affordable rents has been accompanied by a significant reduction in the output of units at social rents.

The 2011-15 Affordable Homes Programme (AHP) has generated around 38 per cent of the annual output achieved by its predecessor, the National Affordable Housing Programme (NAHP), but with only 'about one-sixth of the annual public subsidy in grant.'

The emphasis on building at affordable rents remains central to the 2015-18 AHP announced in July 2013 (subsequently extended to 2020 as part of the *2014 Autumn Statement*). The initial bidding process for the programme did not result in the allocation of the expected level of funding; a continuous bidding process is now in place.

Local authorities have been able to build using this scheme since the introduction of self-financing in April 2012.

1. Affordable Rent model – an overview

The October 2010 Spending Review announced a reduction in the capital funding available up to 2014-15 for the development of new social housing to £4.5 billion (down from £8.4 billion over the period of the previous Spending Review). However, the Review also announced the Government's intention to introduce a new type of "intermediate rent" tenure which would generate additional income to be reinvested in the development of social housing:

> 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. 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.[1]

Additional information on the model was set out in the November 2010 consultation document, Local decisions - a fairer future for social housing.[2]

The Affordable Rent model did not require legislation. It was worked up alongside the *Localism Act 2011* – this Act contains provisions which enable social landlords to offer "flexible" tenancies with a minimum fixed-term of two years for new tenants of social housing.[3] Detail on the Affordable Rent model is contained in a Framework Document published by the Homes and Communities Agency (HCA) on 14 February 2011 (see next section). The then Housing Minister provided some additional information in a written statement on 9 December 2010:

> **Overview**
>
> Affordable Rent is designed to:
>
> - maximise the delivery of new social housing by making the best possible use of constrained public subsidy and the existing social housing stock
> - provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent
>
> Affordable Rent falls within the definition of social housing in section 68 of the Housing and Regeneration Act 2008 (and, in particular, the definition of low cost rental accommodation in section 69 of that Act). Affordable Rent properties will therefore be subject to regulation by the Tenant Services Authority - and its Homes and Communities Agency successor - where they are provided by a Registered Provider.

1 Treasury, Spending Review 2010, October 2010, p8
2 DCLG, Local decisions - a fairer future for social housing, 2010, see paras 2.4-2.8 & annex
3 For additional information see Library Research paper 11/03.

Affordable Rent will offer housing associations the flexibility to convert vacant social rent properties to Affordable Rent at re-let, at a rent level of up to 80 per cent of market rent. Housing associations will be able to convert vacant properties to Affordable Rent where they have reached an investment agreement with the Home and Communities Agency about how additional rental income will be reinvested in the supply of new affordable housing.

The Homes and Communities Agency has a capital budget of almost £4.5bn over the Spending Review period to fund affordable housing supply, of which around £2bn will support the delivery of new Affordable Rent homes (the total also includes £2.3bn to meet existing commitments). While grant funding will primarily target Affordable Rent, there may be some scope for delivery of Low Cost Home Ownership as part of the agreements, where this is appropriate for local circumstances and helps to promote the overall supply of affordable homes. Ministers intend to make the payment of grant funding conditional on transparency.

Agreements could also involve approval in principle for future asset management plans that include social housing disposals, subject to the need for statutory consent and consultation with the relevant local authorities. The Tenant Services Authority will need to be engaged in the process to ensure that providers can continue to meet its regulatory standards, including on viability.

Allocation

We envisage that Affordable Rent properties will be allocated in the same way that social rent properties are now. The existing regulatory obligation on associations to cooperate with local authorities' strategic housing function on the allocation of social rent properties will also apply to Affordable Rent. Similarly we envisage that existing lettings arrangements operated by local authorities and housing associations will continue to apply and that Affordable Rent properties will - where appropriate - be made available through choice-based lettings.

The statutory and regulatory framework for allocations provides scope for local flexibility. Local authorities and associations may wish to exercise this discretion in relation to Affordable Rent in order to meet local needs and priorities in the most effective way possible (for example, through the adoption of appropriate local lettings policies).

Rent

Affordable Rent properties will not be subject to the rent restructuring policy that applies to social rented housing. This policy was originally outlined by the previous government in March 2001 (in the *Guide to Social Rent Reforms*) and implemented by the then Housing Corporation (via the *Rent Influencing Regime Guidance* published by the Corporation in October 2001). The previous government's direction to the Tenant Services Authority issued in November 2009 required the regulator to set a standard on rent that reflected the same policy.

In particular, the direction required the Tenant Services Authority, when setting a standard on rents, to have regard to the Social Rent Guidance. The direction defined the term 'Social Rent Guidance' as the *Guide to Social Rent Reforms* published in March 2001 "*and any guidance issued by the Department, or its successors, in relation to that document*." This statement should be treated as guidance issued in relation to the March 2001 document. The direction also obliged the Tenant Services Authority to set a rent standard with a view to achieving, so far as possible, the target rent policy set out in the Rent Influencing Regime Guidance.

This statement clarifies that Affordable Rent properties are not covered by the Government's rent restructuring policy. Note that a property is only considered to be 'Affordable Rent' for these purposes where it is linked to an agreement with the Homes and Communities Agency on investment.

Housing associations will be able to let an Affordable Rent property (whether a converted void or new build) at *up to* 80 per cent of market rent for an equivalent property for that size and location. The association's calculation of the market rent would need to be based on a residential lettings estimate for a property of the appropriate size, condition and area. Valuations should be in accordance with a RICS recognised method.

The maximum annual rent increase on an Affordable Rent property will be RPI + 0.5 per cent. However associations will be required to rebase the rent on each occasion that a new tenancy agreement is issued (or renewed) for an Affordable Rent property. This requirement, which *overrides* the RPI + 0.5 per cent limit, is designed to ensure that the rent set at the beginning of each new tenancy is no higher than 80 per cent of the market rent.

Tenure

The Government has already published radical proposals to give greater flexibility to both local authority and housing association landlords over the types of tenure they can offer to social housing tenants1. In particular, the Government believes that it is no longer right to require that every social tenancy should be for life - regardless of the household's particular circumstances. The aim is to create a more flexible system so that scarce public resource can be focused on those who need it most.

The Affordable Rent model is the first step towards delivering these wider reforms. Housing associations will be able to offer Affordable Rent on fixed term tenancies, but they will also retain the option to offer lifetime tenancies should they wish to do so. We would expect associations to use this additional flexibility to ensure that help and support are focused on those who need it most when they need it most, and to build strong and cohesive communities. They will need to meet the existing regulatory requirement to publish clear and accessible policies which outline their approach to tenancy management.

The Government is currently consulting on its wider tenure reform proposals for social housing, including on the rights and protections that should be available to tenants as part of these changes. These proposals include a minimum fixed term of two years for all general needs social tenancies, the Right to Acquire for tenants with a fixed term tenancy of two years or more (subject to the existing conditions and exceptions) and changes to succession rights2. Some of the proposals will require primary legislation and we intend to deliver these through the Localism Bill. The final proposals, once implemented (either by legislation or regulation), will apply to fixed term tenancies that are subsequently issued for both Affordable Rent and traditional social rent.

> However we envisage that the first Affordable Rent properties will be let during 201112, before the wider tenure reform proposals are due to come on stream. We have therefore considered which of the proposed conditions should be attached to the Affordable Rent model from the start. It should be noted that the proposals that require primary legislation (e.g. on the Right to Acquire) cannot be brought forward in this way.
>
> We wish to apply the following (non-statutory) conditions to the Affordable Rent model:
>
> (a) a minimum fixed term of two years for Affordable Rent tenancies; and
>
> (b) where a landlord decides, in line with its published policy, not to reissue an Affordable Rent tenancy at the end of the fixed term, the landlord should provide advice and assistance to help the tenant find suitable alternative accommodation. Landlords and tenants may wish to consider a range of 'end of tenancy' options depending on the needs of the household concerned. This could include selling the property to the tenant via conversion to shared ownership (subject to consent).[4]

Following consultation, the Tenant Services Authority (TSA) issued a revised version of its National Tenancy Standard: Revision to the Tenancy Standard – Affordable Rent in April 2011. The key change was the removal of the requirement that landlords' policies "should set out how [they] will make sure that the home continues to be occupied by the tenant they let the home to." Without this change social landlords would not have been able to require tenants of affordable rent properties to leave once the term of their fixed-term tenancies had expired. Not all affordable rent tenants will have fixed-term tenancies. The Tenancy Standard makes it clear:

> Affordable Rent terms can only be used where a delivery agreement for new supply of social housing has been agreed under a new supply agreement entered into between a private registered provider and the HCA.[5]

In Laying the Foundations: A Housing Strategy for England (November 2011) the Government announced its intention to revitalise the Right to Buy for social housing tenants – the properties sold are being replaced with Affordable Rent units:

> 56. To help more people realise their aspiration of home ownership, and to increase investment in further affordable housing, the Government intends to raise Right to Buy discounts to make them attractive to tenants across England. We will replace every additional home sold under Right to Buy with a new home for Affordable Rent.

4 HC Deb 9 December 2010 c31-4WS
5 Revision to the Tenancy Standard – Affordable Rent, para 24

2. The Framework Document

As noted above, the Homes and Communities Agency (HCA) published the Framework Document[6] on 14 February 2011. The need for additional affordable housing is identified in this document but it also made the point that previous levels of grant funding for social housing were "unsustainable in the current economic climate." The Affordable Rent product is aimed at enabling providers to use their existing assets, together with the "new offer on rents" to provide up to 150,000 new affordable homes (later revised upwards to 170,000 units).

On publication of the Framework the Minister for Decentralisation also launched a consultation exercise on a technical revision to Annex B of Planning Policy Statement 3 "to make clear that affordable rent falls within the definition of affordable housing for planning purposes."[7]

How Affordable Rent works in practice

- Affordable Rent can be set at up to 80% of the gross market rent, including service charges. Tenants in Affordable Rent properties are eligible for housing benefit, rather than Local Housing Allowance.
- Providers retain the option to offer lifetime tenancies under Affordable Rent, should they wish to do so.
- At the end of an Affordable Rent tenancy, the provider and the tenant may choose to convert it to shared ownership.
- It is 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 are encouraged to reinvest in new supply within the same wider housing market area. However, funding is not ring-fenced to particular areas.

Allocation of HCA funding

- There was £2.2bn of uncommitted funding for the development of new affordable housing for the period 2011-2015 (from a total of £4.5bn).
- The HCA no longer allocates funding on a scheme by scheme basis. Instead providers are invited to set out proposals for a four year development programme, giving indicative proposals for the later years of their programme.
- Requests for HCA funding should be for the minimum necessary to make development viable. Providers are expected to supplement HCA funding with other sources of revenue, including use of the new Affordable Rent product.
- When deciding which programmes to support the HCA has a strong focus on value for money and will look for evidence that proposals will meet identified local needs.
- The HCA anticipated that most new developments should be intended for Affordable Rent or a mixture of Affordable Rent and shared ownership.

6 CLG & HCA, 2011-15 Affordable Homes Programme Framework, February 2011
7 HL Deb 14 February 2011 WS55

3. Outcome of the initial bidding process

The deadline for providers to submit proposals to the HCA was 3 May 2011.

On 14 July 2011 the Department for Communities and Local Government (DCLG) announced that there had been substantial demand from bidders seeking to take part in the programme:

> Ministers revealed that their original aspiration to deliver 150,000 new homes by 2015 will not only be met, but exceeded. Appetite for the Affordable Homes Programme has surpassed expectations, with 146 providers sharing almost £1.8 billion to build 80,000 homes under the programme - putting the Government on track to deliver up to 170,000 new homes by 2015, and safeguarding some 80,000 jobs in construction and related trades.
>
> [...]
>
> Demand from affordable housing providers to be involved in the programme has been huge, and today's announcement confirms every part of England will benefit. The new homes will be delivered in both rural and urban communities, and will include family homes.[8]

Information on the successful bidders can be found on the HCA website: List of successful providers for Affordable Homes Programme.

The Housing Strategy (England) document, Laying the Foundations, provided information on the geographical spread of the allocations:

> The Homes and Communities Agency (HCA) has ensured that the programme has a good geographical spread, reflecting local priorities. This includes a provisional allocation of 9 per cent of all allocations outside London for rural communities of fewer than 3,000 people. We have also held back some funding to give community groups an opportunity to deliver affordable housing in their areas. The HCA is providing guidance to community groups on how to access these funds.[9]

In October 2012 the HCA reported that the final contract had been signed for the Affordable Homes Programme: "Colchester Borough Council brings the total to almost £1.732bn across 143 providers, which will deliver up to 80,000 new affordable homes by 2015."

8 DCLG Press Release, 14 July 2011

9 Laying the Foundations: A Housing Strategy for England, November 2011

4. Affordable rent without HCA funding

In July 2011 the TSA and HCA published joint guidance for local authorities and housing associations seeking to develop affordable rent housing without HCA grant funding or through section 106 agreements under the *Town and Country Planning Act 1990:* Delivering Affordable Rent without HCA grant.

Social landlords in this position are required to enter into a Short Form Agreement. Additional information can be found in the guidance document.

5. Affordable rent and the Housing Guarantees Programme

As part of the Housing Stimulus Package announced on 6 September 2012 the Government announced that new legislation (*The Infrastructure (Financial Assistance) Act 2012*) would enable the Government to underwrite up to £10bn of debt for housing associations and private sector developers. Underwriting housing association bonds is aimed at reducing the cost of finance for developing landlords. The affordable housing guarantee is designed to support the development of 15,000 homes on top of existing affordable housing commitments. The rules under which these schemes operate were published in February 2013: DCLG: Housing guarantee scheme rules - Affordable housing. The rules describe which projects are eligible and include affordable rent schemes:

> 1.1: The guarantee will only support projects that will deliver additional new-build affordable homes on schemes not included in existing affordable housing programmes.
>
> 1.2: Prospective borrowers may also, where applicable, apply for social housing assistance (or equivalent in the Devolved Administrations). Eligibility for the housing guarantee will be assessed on the merits of each application irrespective of whether any parallel grant application is successful. Where grant or other subsidy is provided for any nominated scheme, then the guarantee will only be available for the net debt required to finance the development.
>
> 1.3: Affordable homes products that will be eligible are **Affordable Rent** and affordable home ownership in England, plus equivalent in the Devolved Administrations.
>
> 1.4: Minimum size of project: Total debt requirement to be not less than £5m. However, the "project" can comprise of more than one development site, which cumulatively meet the minimum debt requirement.
>
> 1.5: Units must be used for **Affordable Rent** or affordable home ownership housing (or equivalent in the Devolved Administrations) for the period of the guarantee.
>
> 1.6: Guaranteed debt will be available for drawdown in one amount on completion of loan and security documentation. Borrowers must undertake to have commenced construction of the underlying affordable projects within 12 months of drawdown.
>
> 1.7: Properties will need to be located in the United Kingdom.
>
> 1.8: Borrowers will need to be Registered Providers (or equivalent in the Devolved Administrations) and classified to the private sector.

As well as the Guarantee for the Affordable Homes element, the Government confirmed that it would make £225m of funding available for new affordable housing, for use where needed alongside the Affordable Homes Guarantee. The HCA published details of how

Registered Providers could bid for a share of the £225m and how this might work, whether grant funding and/or agreement to convert existing stock to deliver additional affordable homes is sought. See the Affordable Homes Guarantees Programme Framework.

Housing providers expressed doubt over their ability to produce the additional 15,000 homes given the narrow window allowed for development.[10]

[10] *Inside Housing,* "Landlords question debt guarantee," 22 February 2013

6. Comment

An Impact Assessment for Affordable Rent and a Full Equality Impact Assessment for Affordable Rent Policy were published in June 2011.

6.1 Impact on the supply of affordable housing 2011-15

Prospects for increasing supply

The Impact Assessment for Affordable Rent identified potential for the development of additional housing units:

> Options 2 and 3 (the preferred option) – the variants of the Affordable Rent model – are estimated to provide significantly larger numbers of new affordable housing units (estimated at 48,000 and 56,000 in the respective central scenarios), though with a greater range across scenarios, than continuation of the National Affordable Housing Programme (estimated at 27,000 new units in the central scenario).

Housing associations had certainly called for additional flexibilities in relation to rent setting and use of their assets in order to boost the supply of affordable housing. Work carried out by the Chartered Institute of Housing (CIH) in association with Savills (2011) concluded:

> ...that there is a real possibility for significant change in the way that associations manage their assets which potentially could lead to a more dynamic system of developing and managing homes.[11]

However, some notes of caution were sounded around the financial risks involved in such a strategy - restricting the use of "flexibilities" to "one new type of tenure linked to the grant programme to maximise development of rented homes" was deemed to be "counterproductive."[12]

Some submissions to the Public Bill Committee on the *Localism Bill* doubted whether the Affordable Rent model would deliver a significant number of new homes:

> It is not clear that extra income generated from Affordable Rent will deliver the number of new houses suggested by the government. An alternative estimate of the number of houses likely to be built through revenue raised from Affordable Rent has been produced by Chartered Institute of Housing (CIH). They suggest that only 15,000 homes will be built annually through the scheme. This produces a total of 60,000 over the spending review period, as opposed to the government's prediction of 150,000.
>
> Analysis of the proposals by L&Q suggests that whilst the target of 150,000 homes is possible, it is "daunting" and will require wider changes in the funding of social housing. They suggest that if the target is not achieved it will "run the risk of increased poverty, of immobile communities isolated by income, alienated from the mainstream of society".

---

11 CIH & Savills, *Appreciating assets*, January 2011
12 ibid

> The government will also need to ensure that these changes do not result in housing associations being less able to borrow and therefore develop. Affordable Rent could lead to housing associations having lower credit ratings and, therefore, higher borrowing costs.
>
> In addition, there are important regional and local variations that require further attention. Spatial variation in rental markets mean that it is estimated that 60 per cent of these new affordable properties will be built in London and the South East, compared with less than 2 per cent in the North East.
>
> In areas where private rents are low, social housing currently offers close to or greater than 80% of market rents: for these places, there will be little or no decrease in subsidy. Equally, in areas of low private rents, any percentage increase in rent is going to amount to a very small cash increase for social landlords. These factors mean that there will be very little additional money available with which to build new homes in some parts of the country.
>
> Conversely, in areas such as London with high private rental costs, although increasing rents to a higher percentage of market rates will create a significantly increased income stream, the cost to tenants may be far from affordable. This is likely to mean that more people will need support with housing costs, increasing the burden on the Housing Benefit bill.
>
> The worst case scenario is that households on Affordable Rent struggle to meet their housing costs, Housing Benefit expenditure increases significantly, but the projected increase in new affordable homes is not delivered.[13]

Richard Capie, deputy chief executive of the CIH, provided the following response to a question on whether the Affordable Rent model would increase the supply of housing:

> ***Richard Capie:*** We need to see this in the light of the obvious fact that the comprehensive spending review settlement for housing full stop represents a significant cut. The affordable rent model itself is seen as pretty problematic. There is an idea of having rent flexibility for a narrow range of the portfolio, but the modelling that we have carried out in relation to disposals and actually using affordable rent shows that its impact would be fairly negligible. In particular, there is concern about the interrelationship with some of the welfare reforms being put forward, especially universal credit and the limits on housing benefit. If we are looking at the revenue subsidy taking the strain to support new supply, there will be limitations, certainly from a private funding model. Some associations might be able to exploit this in some markets, but there will be real limitations. It is not a long-term, sustainable model. Having said that, there is an appetite to look at rent flexibility, but we are just not convinced that this is the right option.[14]

Hometrack carried out research for *Social Housing* magazine (reported in June 2011) which identified that landlords' ability to deliver new homes through increased rents on existing properties (when re-let) "varies greatly around the country":

---

13 British Social Housing Foundation memo submitted to the Public Bill Committee on the Localism Bill, January 2010

14 PBC 25 January 2011 c64

> Although there is a clear regional pattern in the data, with the midlands and the north looking much less suited to affordable rent than many areas in the south of England, there are also local variations in the results due to high market rent levels in some localised areas.[15]

In July 2011 the Housing and Planning Committee of the London Assembly published Implications of the affordable rent model in London in which it predicted that the number of affordable units delivered in the Capital could be halved:

> The G15 estimate is that an average figure for the number of units to be delivered under the new arrangements is that "output will be half compared to what we have been delivering over the last few years". In the last three years new affordable build, predominantly from housing associations, has averaged around 12,000 units (rent and intermediate) a year. Halving the contribution from housing associations would create a significant challenge to meeting the 50,000 new homes target for the next four years being projected by the GLA.[16]

The CIH raised concerns over the development of an investment system which uses rents charged to the least well off in society to fund new development. In particular, CIH has concerns that:

- Providers will not be able to develop sufficient supported housing.
- Providers will not be able to develop enough larger homes, especially in London where the £26,000 per year benefit cap hits hardest and larger homes are a priority.

> There seems to be an assumption in the framework that Affordable Rent will be charged at 80% of market rents unless the provider is able to make a clear case for charging a lower rate. In many areas 80% of market rent will be unaffordable to many tenants. Providers should consider the ability of tenants to pay, otherwise there is a risk that tenants will be forced to claim benefits to make up the difference.[17]

The number of new affordable rent units delivered

Against the initial projection to deliver 80,000 homes for rent or sale under the 2011-15 Affordable Homes Programme, on the basis of offers made by providers,[18] the programme was expected to exceed planned output by around 8,000 homes (this includes that part of the programme run by the GLA in London).[19] Some risks around hitting targets for completions at year end remained.

The *UK Housing Review 2015* compares output under the four-year AHP with its forerunner, the National Affordable Housing Programme (NAHP) and notes that it will generate just 38 per cent of the annual output achieved by the NAHP but with only 'about one-sixth of the annual public subsidy in grant':

---

15 Social Housing, "Affordable rent modelling: How does it work, for whom and where?, June 2011

16 London Assembly, Implications of the affordable rent model in London, July 2011, para 4.16

17 CIH Briefing on Affordable Homes Programme Framework, February 2011

18 Note that the projection may involve a degree of over-programming.

19 S Wilcox, J Perry and P Williams, *UK Housing Review 2015*, p64

> The average AHP grant per unit is little more than one third of that under the NAHP, at just under £19,000.21
>
> The increase in the supply of new homes at affordable rents has been accompanied by a significant reduction in the output of units at social rents. In the first half of 2014-15 social rent starts and completions stood at 805 and 1,389 respectively.[20]

6.2 Conversions to affordable rent

In addition to focusing the AHP on the development of new properties at affordable rent levels, there is also an expectation that a proportion of relets of existing dwellings will be let at higher rents in order to underpin AHP output. The *UK Housing Review 2015* comments on the extent to which this is happening:

> HCA estimates suggest that (excluding London) existing homes being relet on AR terms will total around 72,000 over four years to April 2015. Based on current relet volumes, this would amount to around one-sixth of homes relet during the period. In 2013/14 there were 27,331 conversions, which means that two-thirds of the growth in AR came by converting relet stock. As a result of conversions and new build, the number of general needs units being let on an AR basis has doubled over the year (to 76,643). As a consequence, the number of new AR lettings rose to 36,000, or 21 per cent of total housing association new general needs lettings, up from 18 per cent the year before.[21]

6.3 Affordability & interaction with Housing Benefit

Based on September 2014 data, gross affordable rents[22] outside of London are close to or at the 80% level in each region. In London, the average affordable rent is around 65% of market rents.[23]

The CIH's *2015 UK Housing Review* analysed some of the CORE data and considered whether affordable rent lettings are being made to tenants who are more likely to be able to afford the higher rents:

> In 2013/14 some 41 percent of new AR general needs lettings went to tenants in full or part-time work, compared with 34 percent in general needs properties let by HAs at social rents. The gap between the economic status of tenants in the two types of lettings has grown slightly – it is now seven percent whereas a year earlier it was only two percent. However the overall proportion of tenants in new lettings who were eligible for housing benefit (76 percent) is the same for AR as it is for HA general needs lettings…
>
> Overall therefore, there is no evidence that AR lettings are going to tenants who can afford to pay higher rents without needing HB, because while more such tenants are in work their incomes appear to still qualify them for some benefit support.[24]

---

20 S Wilcox, J Perry and P Williams, *UK Housing Review 2015*, p64
21 Ibid, p86
22 Includes service charges.
23 DCLG, [Table 1012: affordable housing starts and completions funded by the HCA and the GLA] [accessed on 7 May 2015]
24 S Wilcox, J Perry and P Williams, *UK Housing Review 2015*, p66

A key aim of the 2010 Coalition Government, as evidenced by measures announced in the June 2010 Budget and the October 2010 Spending Review,[25] was the reduction of expenditure on Housing Benefit. Given that a majority of tenants in social housing are in receipt of full or partial Housing Benefit, there was (and is) concern that charging up to 80% of market rents will increase the poverty trap faced by these tenants and place upward pressure on the Housing Benefit bill. The Building and Social Housing Research Foundation's written evidence to the Public Bill Committee considering the *Localism Bill* raised the following concerns:

> Households who will gain access to the Affordable Rent tenure are likely to be those that might previously have been able to access social housing. Therefore it is reasonable to expect that a significant proportion of them will be in receipt of Housing Benefit. For these households, the amount of Housing Benefit needed to cover housing costs is likely to be higher than those in a traditional social tenancy, therefore placing a greater burden on Housing Benefit expenditure.
>
> In order to analyse the potential impact of Affordable Rent on Housing Benefit expenditure, BSHF made requests to DCLG, DWP and HMT for modelling they had undertaken on the impact of Affordable Rent on Housing Benefit expenditure. The departments declined to provide this information as the policy was still under development.
>
> In the absence of the government's modelling it is difficult to assess the likely impact of Affordable Rent on Housing Benefit expenditure. BSHF has only been able to perform basic modelling to estimate the impact; this has necessarily made significant assumptions and consequently should only be taken as a very broad guide of the scale of the impact. The modelling suggests that the introduction of Affordable Rent could add cumulatively £390 million to Housing Benefit expenditure each year. By the end of the Spending Review period that would amount to an increase of Housing Benefit expenditure of £1.56 billion per year. If £1.56 billion was spent on building affordable housing it could provide over 25,000 new social rented homes. The government needs to ensure that Affordable Rent does not simply transfer capital spending on housing to welfare budgets.[26]

The Impact Assessment for Affordable Rent contained an assessment of the potential impact on Housing Benefit expenditure:

> There is a trade-off between capital and revenue expenditure, with the Affordable Rent options bringing greater costs to government through increases in Housing Benefit expenditure but this is set against a lower capital payment per new unit. The housing benefit cost of the preferred option (Option 3 central scenario) is £553m over a 30-year appraisal period.
>
> **The analysis suggests that, given a fixed capital budget and within the constraints on government expenditure over the next Spending Review period, Option 3 delivers the greatest net economic benefits, maximises the delivery of new social housing, provides the most diverse range of products for those accessing social housing and would deliver the largest reduction in housing need. On this basis,**

25 See Library note SN05638

26 BSHF Memorandum to the *Localism Bill* PBC, January 2011

> **despite higher estimated costs to government in the long term, it is the preferred option.**

The National Audit Office's July 2012 report Financial viability of the social housing sector: introducing the affordable homes programme, in addition to highlighting the programme's success in minimising grant expenditure per unit, estimated that the affordable rent model would increase taxpayer liabilities through inflated Housing Benefit expenditure:

> The Department has so far achieved its policy objective to maximise the number of homes delivered within the available grant funding. On average, the grant awarded per home is a third of previous programmes. The final grant per home was approximately £20,000 compared with £60,000 under the previous National Affordable Housing Programme. The lower grant has been achieved partly through the higher rents providers expect to charge. **The Department estimates that over 30 years these will result in increased housing benefit costs with a net present value of £1.4 billion, or approximately £17,500 per home.**[27]

The then Housing Minister, Grant Shapps, rejected the idea that charging up to 80% of market rents would impact on Housing Benefit expenditure when giving evidence to the Communities and Local Government Select Committee in December 2010:

> **Q83 Stephen Gilbert:** On that specific issue, what impact assessment have you made on the way in which the housing benefit bill might rise because we are putting in place this extra, up to 80% of market rent?
>
> ***Grant Shapps:*** Interestingly, the answer is that it will have relatively little impact on housing benefit, because quite often you are taking people who are in the private rented sector, who are receiving benefit at 100% of the rent level, and putting them into a less expensive house. So the difference is marginal on all the modelling.
>
> **Q84 Chair:** The calculations have been done.
>
> ***Grant Shapps:*** Yes.[28]

The Public Accounts Committee's (PAC) report on the financial viability of the social housing sector and the Affordable Homes Programme was critical of the potential impact of higher rent levels on tenants:

> The Department has not done enough to understand the full impact of higher rent levels on tenants. Housing providers can charge higher rents than before (on average 65% of market rents in London and up to 80% elsewhere). This will affect tenants' ability to afford the new housing and may exclude some of the poorest from accessing this new housing. Where higher rents are paid through increased housing benefit, tenants may find themselves caught in an even stronger benefit trap where it has become even harder to find sufficiently well paid employment to make working worthwhile, countering the Government's objective of ensuring that the benefit system makes work pay. However, the Department does not hold information on the rent

27 HC 465 Session 2012-13 p6

28 Uncorrected oral evidence to the Communities and Local Government Select Committee on the 2010 Spending Review, 21 December 2010

> levels being charged for individual properties and it has not considered the impact on tenants or prospective tenants of these rent levels or the interaction with wider Housing Benefit reforms. The Department should consult tenants and providers to understand the impact of the higher rent levels on tenants, and commission research into the financial and other characteristics of those tenants living in 'affordable rent' homes and build the results into future programmes.[29]

The Council of Mortgage Lenders (CML) has expressed concerns over the reform of Housing Benefit for social sector tenants and the implications these reforms could have on this key revenue stream. It is envisaged that the Universal Credit, currently being phased in, will be paid to claimants. The impact of this on social landlords is considered in the White Paper:

> There are advantages in paying the housing component to individuals, rather than the current system of payments direct to landlords. This would encourage people to manage their own budget in the same way as other households. However, we also recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position. Options for achieving this could include some ongoing use of direct payments to landlords, use of direct debits, and a protection mechanism which safeguards landlords' income. We will work closely with the devolved administrations, providers and lenders in developing the new system.
>
> There are many policy and operational issues to work through in respect of housing. The Government will work closely with Local Authorities and the housing sector as plans develop.[30]

During the Commons Committee Stages of the *Localism Bill*, Siobhain McDonagh urged Members to read Family Mosaic's report *Mirror, Signal, Manoeuvre*, which examined how 50 new tenants in London and the south east would be affected if they were re-let homes at affordable rent levels. The research reportedly found that the Housing Benefit bill for these tenants would increase by around 151% per year.[31] She said:

> Every member of the Committee should read the report, "Mirror, Signal, Manoeuvre", by Family Mosaic housing association. It is incredibly well written. One does not have to understand the detail of housing finance to get the picture. It is one of London's biggest housing providers and provides housing in inner and outer London and Essex. Its conclusion is that the increase in rents to 80% of market value may force them to offload their tenants who will not be able to afford the rents.[32]

A key concern of Ms McDonagh was the potential work disincentive effect of housing people who are reliant on Housing Benefit in properties with rents of up to 80% of market levels.

Various organisations have commissioned and published research into the impact of affordable rent levels on tenants in the social sector. In

29 HC 338 Session 2012-13
30 Universal Credit: Welfare that Works, p20
31 *Inside Housing*, "Rocketing rents to send benefit bill sky high," 25 February 2011
32 PBC 3 March 2011 cc794-806

preparation for setting affordable social rents the housing association, Affinity Sutton, commissioned the Cambridge Centre for Housing and Planning Research (CCHPR) to design a model to estimate the affordability of market-pegged social rents for potential tenants. CCHPR published its findings in July 2011; Market pegged social rents and local income distributions. This report indicated that families with three or more children facing an affordable rent of up to 80% of market levels would breach the household benefit cap of £26,000 per year in four out of the five local authority areas studied.[33]

The East Thames housing group undertook a detailed analysis of how the changes to the funding for social housing would impact the areas it operates in and published a series of brief reports examining the impacts of the changes at borough level for each locality. East Thames concluded:

> In Newham, changing rent from the existing social rent to the new affordable model could increase a household's weekly rent by between £44 for a one bed property and up to £233 more for a three bed property. Our existing residents won't be affected by this change, affordable rent will only be applied to a percentage of our re-lets and some of our new properties. However, before implementing the new model, it's important that we understand what impact increased rents would have on potential residents in the areas where we operate.
>
> For this reason we carried out research and modelling for each borough we work in to find out what an average family living in east London could afford. Newham salaries, for instance, are among the lowest in London, while rents are third highest in east London, after Tower Hamlets and Hackney. Our research tells us that 44% of Newham households would be unable to reasonably afford a two bed property at 80% of market rent, while 65% would be unable to afford a three bed property at that level.
>
> This research will inform how and where we implement affordable rents and we are currently working with housing teams in each local authority to agree our plans. However, we do know that in order to keep family sized housing within reach of the average family, the affordable rent model will be applied predominantly to one and two bedroom re-let properties, rather than larger homes.
>
> Read the outcomes of our research here:
>
> Impact of the affordable rent model - Newham (438KB PDF)
>
> Impact of the affordable rent model - Havering (438KB PDF)
>
> Impact of the affordable rent model - Tower Hamlets (438KB PDF)
>
> Impact of the affordable rent model - Redbridge (438KB PDF)
>
> Impact of the affordable rent model - Barking and Dagenham (438KB PDF)
>
> Impact of the affordable rent model - Waltham Forest (438KB PDF)36[34]

[33] Covering Hove, East Sussex, Bromley, Hertsmere, Hertfordshire and Mid Sussex – only Plymouth was deemed affordable for a larger family dependent on benefits.

[34] East Thames website [accessed 7 May 2015]

In September 2014, Sovereign Housing Association announced that it would no longer convert empty properties to affordable rents on the grounds that tenants could be pushed into "benefit dependency".[35]

6.4 National Audit Office and Public Accounts Committee findings

In July 2012 the National Audit Office (NAO) published Financial viability of the social housing sector: introducing the affordable homes programme[36] in which it concluded that the launch of the programme had been a success but key risks remained:

> The report found the launch of the Programme by the Department for Communities and Local Government and the Homes and Communities Agency to be a success, with providers committing themselves to building some 80,000 homes for the £1.8 billion of government investment, compared to the initial target of 56,000.
>
> However, key risks remain. Nearly a fifth of contracts with housing providers remain to be signed; more than half of the planned homes are not currently due to be delivered until the final year of the Programme; and some providers are concerned that they may not be able to charge rents at the levels they originally agreed with the Programme.
>
> [...]
>
> The new model means the Department pays less grant per home than under previous schemes (£20,000 compared with £60,000 under the previous National Affordable Housing Programme), while housing providers borrow more and can charge higher rents. The new scheme represents a reduction of 60 per cent in average annual spending on affordable homes over the four years of the Programme from 2011-12 to 2014-15, when compared to the three years up to March 2011.
>
> The Programme will increase providers' financial exposure, with the sector facing challenges in securing bank financing for capital investment and over the cost of supporting both future and existing debt.

Following publication of this NAO report, the Public Accounts Committee (PAC) took evidence from DCLG and the HCA on the financial viability of the social housing sector and the Affordable Homes Programme. The Committee's report was published in September 2012[37] - in it the PAC expressed concern over the programme's value for money and questioned whether funding was focused on areas with the highest level of housing need, in addition to drawing attention to the risk of slippage:

> **The allocation of funds under the Programme did not fully focus on the areas of greatest need**. The Agency allocated funds across regions, and the level of grant per home was the main factor behind its decisions on which housing providers' bids

35 *Inside Housing*, 'Sovereign scraps conversions to affordable rent', 26 September 2014
36 HC 465 Session 2012-13
37 HC 338 Session 2012-13

> were successful. It was not clear to us whether and how funds were targeted at specific areas of greatest housing need. We are also concerned that people in the greatest need may not benefit—higher rent levels may mean that new social housing ends up with the 'richest of the poor' and we are aware of areas where larger properties in London have gone to couples instead of families. The Department and the Agency should ensure that decisions to allocate resources in future social housing programmes prioritise areas of greatest need and target families in greatest need.
>
> **It is unclear whether the shift of public resources from capital grants to increased housing benefits will provide better value for the taxpayer.** The Programme will be delivered with an average government grant per home of around £20,000, compared to £60,000 under previous housing programmes. In part this will be funded by a one off use of capital surpluses held by housing associations. In part it will be funded by providers charging higher rents to tenants, two thirds of whom are supported by housing benefit, with a consequential increase in the housing benefit bill of an estimated £1.4 billion. To inform decisions on future housing programmes, the Department should review whether and how the current mix of revenue and capital funding provides best value for money for the taxpayer and tenants over time and take the results into account in future programmes.
>
> **The Programme has a risky delivery profile with little room for slippage**. Half of the new homes expected to be built are planned for the final year of the Programme, and half do not yet have confirmed sites or planning permission. If providers fail to make agreed progress, the Agency will need to reallocate funding to others. The Agency should monitor providers' progress closely, and, in particular, when funds are re-allocated, ensure that replacement schemes still meet the specific housing needs previously identified.[38]

Further to point 3 raised by the PAC, research by John Healey MP for the *Lyons Housing Review* showed that the higher capital grant for social rent (as opposed to affordable rent) is paid back on average over 27 years due to savings in benefits. This is in comparison to the more than 30 years it takes to repay the lower capital grant for affordable rent properties due to higher welfare costs.[39]

---

38 Ibid, pp5-6
39 Lyons Housing Review, Mobilising across the nation to build the homes our children need, October 2014, p154

7. Beyond 2015

7.1 Comment following 2011-15 programme

In September 2011 *Inside Housing* reported that the then Housing Minister had raised with representatives of the 50 largest social landlords the possibility of the affordable rent model continuing beyond 2015.[40]

Hal Pawson and Steve Wilcox questioned the regime's financial sustainability in their June 2011 UK Housing Review Briefing Paper:

> Continued house building means providers taking on more debt. Even in the short term, there are risks that this will compromise the terms of loan covenants on maximum gearing ratios. In the medium term, racking up extra debt year-on-year is likely to result in increased borrowing costs and use up borrowing capacity. Within a few years, associations may be forced to scale back development programmes even further. There must also be some doubt whether the DWP and Treasury will tolerate the growing housing benefit costs of the new regime.
>
> Other assumptions built into the funding regime and presenting challenges for providers include the expectation that affordable homes developed under s106 'planning gain' will no longer need any grant – historically, only 10-20 per cent have been provided without grant. All in all, medium-term prospects for affordable house building in England look decidedly problematic.[41]

Social landlords also expressed doubts over the future viability of the model:

> Having signed up to the first round, several landlords have told *Inside Housing* over the past few months that a second round of affordable rents would leave them out for the count. This is because, having taken on more debt, they risk breaching conditions in loan agreements which measure debt to equity, and an increased exposure to funding from revenue (as opposed to capital) grant creates risk. Under this model, landlords are more reliant on uncertain income in the form of housing benefit and sales, which are subject to political or market change.[42]

In Where next? Housing after 2015 (September 2011) PricewaterhouseCoopers and London & Quadrant housing association argued for a new, sustainable housing investment model to be introduced by 2015 to "ensure a strong pipeline of affordable homes can continue to be viably developed." The press release issued with the report said:

> The report, '*Where next? Housing after 2015'*, suggests that even with substantial business efficiencies allowed for, housing associations will need to borrow around £15 billion by 2015 to build 150,000 homes and meet stock reinvestment and refinancing commitments. It says the sector's capacity to continue developing will diminish swiftly and it would be very difficult for

40 *Inside Housing,* "Shapps: 'We want to repeat affordable homes model', 9 September 2011
41 UK Housing Review Briefing Paper, June 2011, page 11
42 *Inside Housing,* "Round two", 16 September 2011

> housing associations to manage a further large affordable housing programme under the same rules.
>
> The report calls for a model to be introduced which recognises and tackles the growing housing crisis facing people trying to access good homes in both the market rented sector (MRS) and the affordable housing sector.
>
> The key features of the proposed new investment model would include:

- A new form of rented housing, extending the reach of the Government's new flexible tenancy so it can straddle the affordable and market rented sectors and offers longer-term renting options for people who are likely to need to stay living in the MRS for several years.
- New financial incentives to encourage much greater institutional investment into the market rented sector to achieve delivery of new homes at scale, including delivering improved affordable options within the MRS, in partnership with housing associations.
- Additional freedoms and flexibilities for housing associations to allow them to take on further measured risks and create extra financial capacity to deliver more new rented housing in both the traditional affordable sector and the MRS. The potential £20 billion plus capacity created would be captured and accounted for transparently through a new 'social equity fund', held on housing association balance sheets.
- Stronger, more effective collaboration between local authorities, housing associations and private investors to limit the expected debt burdens of the current Affordable Rent model and take maximum advantage of the potential for new homes created by the reform of the Housing Revenue Account and other new flexibilities for local authorities.
- Re-design of the regulatory environment for housing providers to open the door to new private sector investment and involvement, while maintaining assurance for government and consumers over viability, governance and housing quality standards.[43]

The NAO's July 2012 report Financial viability of the social housing sector: introducing the affordable homes programme left the possible continuation of the affordable rent scheme as an open question but highlighted a number of factors for the Department to consider when reaching a decision:

> A key risk to repeating the same model is providers' ability to access private sector finance. The regulator's quarterly survey of Registered Providers shows that, as of December 2011, borrowing in the form of debt drawdowns and new financing are the lowest reported since January 2009 and providers are increasingly exploring other potential sources of funding. A survey by Baker Tilly in 2012 reported that some 63 per cent of Registered Providers who responded are now considering alternative funding sources, the most popular being corporate bonds. Previously Providers have relied more on bank loans.
>
> The majority of Registered Providers have good credit ratings and as such are able to access lower-cost financing on the bonds

[43] PwC/L&Q Press Release, New housing Investment model needed from 2015, September 2011

> market. Our analysis shows that Registered Providers have increased interest in using bonds. Five of the ten biggest Registered Providers have issued bonds between August 2010 and April 2012. Some Providers can access finance at a lower cost on the bonds market than from traditional sources of funding. The regulator's monitoring of the larger Registered Providers shows the price of debt at rates between 5.42 and 6.35 per cent in 2010, but recent bond issues have been at 5.36 per cent (Amicus Horizon), 5.22 per cent (Circle) and below 5 per cent for The Housing Finance Corporation Ltd.
>
> Most Registered Providers have benefited from lower interest rates in recent years, so while total debt increased by 12 per cent between 2008-09 and 2010-11 to £45 billion, interest costs only rose by 3 per cent to £1.9 billion. However, some have had to provide additional security to banks because they have attempted to improve their competitiveness by using financial derivatives to fix their interest rates, mostly in the form of interest rate swaps. Forty-six Registered Providers have reported to the regulator that they are using such derivative instruments to fix the rates they are paying on debt with a total nominal value of £9.3 billion. Falling interest rates have required some Providers to offer collateral, generally in the form of assets rather than cash, as security against their future fixed rate payments under these agreements. The regulator's December 2011 quarterly survey reported that Registered Providers were putting up collateral totalling £1.6 billion, in the form of cash and secured property, up from £0.5 billion in June 2011. If, before future settlement dates, floating interest rates move closer to contracted fixed rates, the need for this collateral will reduce
>
> Some Providers may be deterred from applying for funding if a similar model is used after 2015 because of the potential impact on their existing debt commitments. The model increases the level of debt because additional debt is taken on to fund housing schemes. Additional debt can impact on agreed loan covenants, which may increase the risk that covenants are breached. If Providers then have to renegotiate existing debt arrangements, this could increase the cost of borrowing as banks increase interest rates.
>
> The sector's response to the feasibility of repeating the model is mixed. Some housing providers and sector experts consider that the model is not repeatable; while others consider that there would be sufficient capacity to engage with a similar funding model beyond 2015. This supports feedback from our consultation with the sector. Some providers who have been successful in getting Programme funding this time have stated they have made more cautious delivery commitments to give them the capacity to apply next time. Those providers who have not applied for funding this time may well be in a better position to apply for funding next time. The Department will need to carry out a more thorough analysis of the financing of individual Registered Providers to address the issue and come to a conclusion.[44]

The report of the Communities and Local Government Select Committee's inquiry into Financing of new housing supply (May 2012) urged the Government to bring proposals forward before the end of 2012:

---

44 HC 465 Session 2012-13 pp33-34

> ... for delivery of affordable housing post 2015. These proposals should recognise the need for housing available at both "social" and "affordable" rents, each with a separate allocation system. They should aim for a rebalancing of subsidy arrangements away from housing benefit and back towards "bricks and mortar"; this would give rise to a number of immediate problems which the Government would need to address. Finally, the proposals should consider how housing associations can be encouraged to invest in new housing without stretching their capacity to the extent that they do under the Affordable Rent model.[45]

The future of the model was raised during a debate in the House on new housing supply (5 March 2013) during which the then Minister, Don Foster, said:

> We want a housing programme that works for the people of this country and for its economy. We have made real progress. Further progress is still to come and further announcements will be made later this month.[46]

7.2 2015-20 Affordable Homes Programme

Following an announcement by the Government in June 2013, the prospectus for the Affordable Homes Programme 2015-18 was published in January 2014. This invited bids for £1.7bn of capital grant funding for affordable housing (with a further £1.25bn of funding in an extension to the London AHP). In the Autumn Statement 2014 the Government extended the commitment on the same basis (a target of 55,000 homes per year) until 2019/20, with £955m additional grant funding in each of the additional two years. The extended programme was welcomed by some housing associations who said that a longer timetable allowed for larger-scale projects.[47] The average grant under the new AHP will fall to a planned £17,400 per unit.[48]

The June 2013 prospectus continued the emphasis on affordable rent introduced in the previous AHP:

> It is expected 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, we will generally expect providers to charge rents of up to 80% of market rents to maximise financial capacity.
>
> […]
>
> Social rent provision will only be supported in very limited circumstances. For example, social rent could be considered where decanting existing social tenants into new homes is necessary.[49]

The development of new homes at social rents will rely on non-grant funded schemes. There is an emphasis on further conversions of relets

---

45 HC 1652 Session 2010-12, para 60
46 HC Deb 5 March 2013 c930
47 *Inside Housing*, 'Landlords welcome £2bn extension of affordable homes scheme', 4 December 2014
48 S Wilcox, J Perry and P Williams, *UK Housing Review 2015*, p67
49 HCA, Affordable Homes Programme 2015-18: Prospectus, January 2014

to affordable rent and a requirement on providers to sell off vacant properties that would otherwise have been relet. Bids (outside of London) proposing to set rents at levels lower than 80% of market rents will only be considered "in very specific circumstances."

Implementation of the 2015-20 AHP has already started. The *2015 UK Housing Review* notes that the HCA had intended to allocate three-quarters of the £1.7bn in funding but the July 2014 announcement of bid showed only £0.9bn had been allocated (just over half).[50] A continuous bidding arrangement is now in place. The challenges of the new programme are referred to in the *2015 UK Housing Review*:

> The experience of both the GLA and HCA shows the difficulties inherent in the new programme, with its onerous conditions and low grant rates. It was to be expected that these would be even more discouraging in London and the results so far appear to show that this was the case. It remains to be seen whether the initial three-year AHP for England is fully deliverable, and especially whether the two-year extension to 2019/20 is viable given that funding will continue to be offered on similar terms.[51]

7.3 London – The Mayor's Housing Covenant

The details of the GLA's AHP were set out in The Mayor's Housing Covenant. Given the affordability issues of 80% of market rent for many people in London (see section 6.3), the Covenant adopted a different approach to rent levels:

> Around 40 per cent of the affordable homes delivered will be for flexible low cost home ownership, with 60 per cent of the homes for Affordable Rent. The Affordable Rent product will be split equally between Discounted rent, for households unaffected by the benefit cap, preferably targeted at working households, with rents up to 80 per cent of market rent; and Capped rent, with properties let at lower levels, to households in greatest need.[52]

Capped rents were to be set at no more than 50% of local market rents, with the intention to have a 65% of market rent average for homes built under the programme.

As with the national AHP, following a bidding process aimed at allocating the full funding for the three-year programme, in July 2014 the GLA announced that only one-third of the £1.25bn had been allocated. A continuous bidding process is now in place for the remaining funding.

Legal challenge by London Councils

In a pre-cursor document to the Covenant, the Mayor's affordable rent policy was set out in the Revised Early Minor Alterations (REMA) to the London plan. A report by the Planning Inspectorate on REMA proposed the deletion of two sections:

> Omit references preventing the Boroughs from imposing rent caps or criteria for the definition of affordable housing in their own

---

50 S Wilcox, J Perry and P Williams, *UK Housing Review 2015*, p67
51 Ibid, pp67-8
52 Mayor of London, Funding Prospectus: The Mayor's Housing Covenant 2015-18 programme, December 2013

> DPD documents; allow the Boroughs to be involved in approving affordable housing schemes not funded by the Mayor.[53]

This recommendation was rejected by the Mayor Boris Johnson, and the London Plan was passed as less than two-thirds of Assembly Members voted against it. Following this vote, 8 London boroughs announced that they would launch a legal challenge against the new rent plan, arguing it would make new properties unaffordable for local people.

The Mayor disputed this, and at Mayor's Question Time in September 2013 he argued that rent could be set at 40% for properties as long as the London average remained at 65%, which was the minimum amount required to fund new housing.[54]

In March 2014, the High Court ruled against the London boroughs, stating that the Mayor had acted within his power.[55]

---

53 The Planning Inspectorate, Report on the examination into the Revised Early Minor Alterations to the London Plan, 19 June 2013

54 *Inside Housing*, 'Councils notify Boris they intend to launch legal challenge over affordable rent plan', 20 September 2013

55 *Inside Housing*, 'Boroughs lose fight against Boris' affordable rent plan', 25 March 2014

BRIEFING PAPER
Number 05933, 7 May 2015