CAB2701 (HSG)
FOR DECISION
WARD(S): ALL

CABINET (HOUSING) COMMITTEE

30 JUNE 2015

NEW BUILD RENTS INFORMAL POLICY GROUP REVIEW

REPORT OF ASSISTANT DIRECTOR (CHIEF HOUSING OFFICER)

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

An Informal Policy Group (IPG) was set up by the Cabinet (Housing) Committee in 2014 to review the policy on rents to be charged at the Council's new build schemes.

The IPG met 3 times between October 2014 and June 2015 and this report sets out the results of those discussions and recommends a new rent policy to be applied to future new build developments.

The group has concluded that setting rents at 70% of market rents is a reasonable way forward, although it is important to note that this was not unanimous. Some considered that rents should be linked more directly to affordability, although this would only be possible by significantly reducing the numbers of new homes developed compared to the current programme.

The report has not been included in the Forward Plan for June. However, in light of the fact that the Informal Policy Review Group have now concluded discussions, it is considered appropriate to bring forward recommendations on this matter. Under the Council's Access to Information Procedure Rules (Rule 15.1 General Exception), the Chairman of the Overview and Scrutiny Committee has been informed.

RECOMMENDATIONS:

That Cabinet (Housing) Committee:

1 Amends the rent policy for new build schemes so that rents for future dwellings are assessed at 70% of the market rent for that area and type of property, subject to the rent not exceeding the local housing allowance or universal credit cap for the area.

2 Recognise that viability assessments would need to be viewed over a 35 year period for most schemes to produce a positive net present value.

3 Agrees to review the rent policy on a regular basis to ensure that the future new build programme can be achieved whilst maintaining the viability of the HRA and not exceeding the debt cap.

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REPORT OF ASSISTANT DIRECTOR (CHIEF HOUSING OFFICER)

DETAIL:

1 Introduction

1.1 The Rents Informal Policy Group met in October 2014, April and June 2015 to review the policy for setting rents at new build developments.

1.2 The IPG terms of reference were set out as "*To review how rents are set for new build Council homes and to consider the impact of any recommendations on the HRA Business Plan".*

1.3 This report sets out the findings of the IPG and requests Members approval of a policy for rents at future new build schemes.

1.4 The existing rent policy, initially agreed in 2012/13, is to assess each project individually. A rent is set that makes the project marginally viable up to the maximum allowed under the affordable rent guidance i.e. 80% of market rent values or at Local Housing Allowance levels, if lower. The viability assessment looks at:

- The net present value (NPV) of a scheme over a 30 year period and requires the NPV to be positive;
- The payback period for the scheme has to be 30 years or less; and
- The total cost of the scheme, including land values and rent loss allowances, has to be less than 100% of the market value of the properties being developed.

2 Scope of the Review and Information Presented

2.1 The initial meeting in October 2014 considered how the rents under the existing policy compared to a full 80% market rent, social rents and a "fixed" rent based on the weighted average rent for early schemes. As part of this, NPVs and payback periods at completed and in progress schemes were calculated and the results presented to Members.

2.2 The second meeting in April 2015 considered further options, including taking out land costs, and applying these options to the HRA Business Plan to identify rent policies that would keep the plan viable and avoid the Council breaching the Government set debt cap. The HRA Business Plan assumptions used for these tests were as agreed by Cabinet (Housing) Committee as part of the Business Planning and Budgeting process. Officers also presented information that showed the potential rents if payback periods were adjusted to 35 or 40 years.

2.3 In broad terms, this analysis informed Members that applying social rents or social rents + 5% to future new build schemes would leave the Business Plan not fully funded and at worst exceeding the debt cap as early as 2019/20. However, less expensive rent options than the current policy were still available without the Council exceeding the debt cap.

2.4 The last meeting in June 2015 concentrated on a smaller number of in progress schemes where the likely costs are more accurately known. More details were given on the rents for different types of property under various rent options, including payback over 35 years, and the scheme NPV was highlighted against each rent option.

2.5 Relevant to the discussion was whether Members felt each scheme has to be viable on its own merits. Alternatively, would Members consider cross subsidy between schemes if it helped keep rents at some developments more affordable. This would allow a flat percentage rent to be charged across a range of new build projects regardless of the viability of any one scheme, provided there was an appropriate mix of schemes to support such an approach.

2.6 Discussions also addressed the sensitivity to borrowing assumptions and debt profile, business plan periods and also how rents could be more directly linked to affordability. Officers were not able to identify ways to amend the programme significantly through assuming different borrowing assumptions, particularly in the short term where options are limited by the debt cap. Work on identifying how affordability could be reflected in rent setting is being undertaken by a number of providers but it is currently limited to linking to the social rent formula or local housing allowance.

3 Outcomes from the IPG

3.1 The general consensus amongst the IPG was that the current policy is resulting in rents at up to 80% of market rent value which are considered to be unaffordable at some new build schemes. Also, the effect of assessing each scheme for individual viability has resulted in wide variations between rents in relatively close proximity.

3.2 Officers consider that there are (in general terms) three options when determining the rents that can be charged. Firstly, as now, the rent can be linked to the viability of the project. Secondly, affordability could be the main criterion with, for example, a set rent for each property type based on the number of bedrooms initially. Finally, the rent can be linked to local market conditions by using a fixed percentage of the area’s market rents for that type of property.

3.3 Members at the IPG were generally in favour of a fixed percentage rent and considered that, on the basis of information provided by officers, that 70% of market rents would offer a reasonable alternative to the current policy.

3.4 This option would result in cross subsidy between schemes but also leave some new build developments with substantial deficits when viability is considered individually. It is possible to consider payback over 35 years as well as shared ownership or market sales where necessary to help with viability.

3.5 As an additional control, members also agreed that it was important that no rents should exceed the local housing allowance or universal credit cap.

3.6 Members also felt that this is an issue that needs to be kept under regular review to ensure that the policy adopted is not to the detriment of the HRA Business Plan, particularly in relation to the debt cap. A regular review would also provide Members with an opportunity to hear evidence on how local rents are changing, success (or otherwise) with letting at new build schemes and an update on how a new policy, together with other possible Government changes, is impacting on the Business Plan.

3.7 It should be noted that one member of the group did not support the proposed recommendation and was keen to see more analysis around the option of keeping rents at a more affordable level. Some councils have maintained all new build rents in line with social rents, although for Winchester, such an approach would mean 45 fewer properties than planned over the next 7 years (see 4.3 below).

4 <u>Matters Considered After the June IPG Meeting</u>

4.1 At the June IPG meeting, Members asked officers to consider a couple of further issues for which information was not available at the meeting.

4.2 The first related to the effect on the new build programme if social rents (or social rents +5%) were charged in place of the current rent policy at future new build schemes. Officers have built this into the latest version of the HRA Business Plan in order to assess this change in rent policy.

4.3 Under the current Business Plan, 282 dwellings for rent are proposed to be developed between April 2015 and March 2022 (the year before the first fixed debt repayment is due to be made). If social rents +5% were to be charged at all of these developments (excepting extra care where we are in receipt of HCA grant), the programme would have to be reduced by at least 45 dwellings (16%). The effect of charging social rent only would be even more pronounced. However, even reducing the programme by more than 45 dwellings would leave the HRA vulnerable to exceeding the debt cap if funds were required at short notice for some unforeseen circumstance.

4.4 The second question related to the lowest rent that could be charged whilst still keeping the HRA Business Plan viable. Under this test, it was found that a rent of between 66% and 67% of market rent values would require earlier additional borrowing but not result in Winchester exceeding the debt cap before the first fixed debt is due to be paid in 2022/23. Again, reducing rents to this level would make the HRA vulnerable to any short term emergency.

5 Conclusions

5.1 Most Members are in favour of moving away from the current rent policy where schemes are considered for viability on an individual basis, to a policy of a set percentage rent. The favoured percentage is 70% but with officers to consider the possibilities of a longer payback term or using shared ownership/market sales to assist a scheme where necessary.

5.2 The rent policy is to be regularly reviewed to ensure it continues to match the requirements of the HRA Business Plan and does not result in Winchester exceeding the debt cap.

5.3 It should be noted that there is no clarity regarding the future of the Affordable Rent policy nationally. One report published recently has reviewed how linking rents to affordability and lower quartile incomes could result in significant savings and additional development when balanced with the housing benefit bill and national grant programmes. The debate on this issue is at an early stage and will no doubt influence future reviews of the Council's policy.

OTHER CONSIDERATIONS:

6 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

6.1 The Housing Portfolio Plan for 2015/16 details the intention to provide an average of 30 new homes per year over the next 10 years. The policy on rents at new build schemes directly affects the Council's ability to successfully meet this target.

7 RESOURCE IMPLICATIONS:

7.1 These are considered within the body of the report.

8 RISK MANAGEMENT ISSUES

8.1 There is a risk that opting for a rent policy that does not cover the full costs of a new development will result in the need for financial subsidy from other areas of the HRA. However, this risk can be managed to ensure that the overall impact is negligible.

9 TACT COMMENT

9.1 TACT has discussed this matter on a number of occasions and has always lobbied for rents to be less than 80% of market rents. It is accepted that new homes bring many benefits and it is important that any development programme covers its costs. The proposal for rents to be 70% of market rent rather than up to 80% is welcomed. It is important that affordability continues to be monitored.

BACKGROUND DOCUMENTS:

Reports to and minutes from the Rents Informal Policy Group meetings in October 2014, April 2015 and June 2015.

APPENDICES:

None.