

**Report for:** Cabinet, 12<sup>th</sup> July 2016

**Item number:** 12

**Title:** New Council Homes (Phase 1 Infill Programme) – Affordable Rent

**Report authorised by :** Lyn Garner, Director of Regeneration, Planning and Development

**Lead Officer:** Mustafa Ibrahim  
Head of Housing Commissioning, Investment & Sites

**Ward(s) affected:** Alexandra; Muswell Hill; Stroud Green; Tottenham Hale; White Hart Lane

**Report for Key/  
Non Key Decision:** Key

## **1. Describe the issue under consideration**

- 1.1 This report seeks approval to change the planned rent levels for the new rented council homes included within the first phase of the council's new build programme. The report also asks Members to note planned changes to the unit mix and tenure type.
- 1.2 The proposals in this report are limited to Phase 1 of the council programme and are necessary so that rent levels can be determined and advertised before the first batch of homes are completed in September 2016. Ongoing policy will be determined by a new Intermediate homes policy that will be brought forward for approval later in 2016/17.

## **2. Cabinet Member Introduction**

- 2.1 Haringey is taking a leading role to address housing need within the borough via a number of initiatives including establishing the Housing Zones in Tottenham, Wood Green regeneration and the Haringey Development Vehicle. An important contribution is the Council's own development of mixed-tenure affordable homes and the New Build Programme (Phase 1) will deliver our first new council homes in over 25 years on small under-utilised plots of council-owned land.
- 2.2 The reduction in central government grant available for the delivery of affordable homes means that much-needed new affordable rented homes often cannot be built without cross subsidy from outright market sale homes in order to achieve financial viability. This was anticipated when the programme was formulated but subsequent changes explained in the report mean that the anticipated cross-subsidy is no longer available. Given funding reductions and

pressures on budgets, it is critical that the Council's development programme is financially viable and pays for itself as far as possible.

- 2.3 It is also the case that the housing world has moved on since the programme was first conceived and developing new homes for letting at target rent levels has become increasingly difficult. Rent levels have been re-assessed and the proposed rents are in line with the guidance contained in our draft Housing Strategy. These rent levels are within the Local Housing Allowance (LHA) and therefore available to applicants in receipt of housing benefit.
- 2.4 Increasing the rent levels but keeping them within LHA means we can avoid outright sale and maximise the number of affordable new homes. The programme is delivering a very high percentage of affordable homes (31 of 32 units) and achieves a welcome high proportion of much-needed large family homes (67% of the rented dwellings) for our residents. I support this approach to maximising affordable units while contributing to the reduction of the financial deficit, by setting rents within LHA that will not undermine the availability of these homes to those in housing need but on lower incomes.

### **3. Recommendations**

It is recommended that Cabinet:

- 3.1. Approves the setting of rent levels for the council's Phase 1 new homes in accordance with the affordable rents guidance set out in the draft Housing Strategy, as set out in paragraphs 6.13 - 6.14.
- 3.2. Notes the revised unit type and tenure mix as described in paragraph 6.11 and detailed in table 3 in appendix B.

### **4. Reasons for decision**

- 4.1. The council's Phase 1 new homes are anticipated to be available in phases between September 2016 and March 2017. The council needs to set rent levels on the properties for rent prior to their completion and availability in order to advertise the properties to prospective bidders.
- 4.2. Changes affecting the programme since it was originally approved mean that it will not pay back over thirty years as planned. Approval of the proposals will contribute to improving the financial viability of this phase of the council's new build housing programme.

### **5. Alternative options considered**

- 5.1. The option of proceeding without any changes to the planned tenure mix, unit sizes and rent levels was considered. This is not favoured because it would not increase the number of units, or improve the bedroom size mix, or make any contribution to reducing the current financial deficit on the programme.
- 5.2. Outright market sale of some units was considered. This option would reduce the supply of much-needed affordable homes and in addition to this, the Council

has already drawn down monies from the GLA through the grant funding agreement with a commitment to deliver these affordable dwellings. Changing to outright sale is thus not considered a viable approach.

## **6. Background information**

### Original Programme

- 6.1 Phase 1 of the council's new build programme was approved by Cabinet in November 2013, as part of the Housing Investment & Estate Renewal Strategy. The programme was established to deliver the first new build council homes in Haringey in over 25 years, as part of longer term and wider plans to provide much needed housing supply across the borough.
- 6.2 The new housing, to be built on small under-utilised plots of council-owned land, is to provide a mix of tenures, including affordable homes for rent, low cost home ownership and outright sale homes. Funding is through a combination of Housing Revenue Account funding, grant funding from the GLA, and cross-subsidy from the schemes within the programme itself.
- 6.3 The business case for Phase 1 was based on a programme across eleven Council-owned sites to deliver up to 103 new homes with 31% private units and 69% affordable with a split of target rent and low cost home ownership units. A summary of the unit type and tenure mix is set out in tables 1 and 2, in appendix A.
- 6.4 The financial modelling for the business case was at target rent levels. This was viable within the usual 30-year planning period only because of the significant cross-subsidy provided by the outright market sale of some the units at Templeton Road, the Hillcrest estate and Cranwood House.

### Changes affecting the Programme

- 6.5 A number of changes since then have affected the original programme's viability, including:
  - (a) In November 2015, Cabinet decided that Cranwood House should be included within the Category 1 sites list intended to be transferred into the Haringey Development Vehicle.
  - (b) The Hillcrest estate is included within the Local Plan Site Allocations DPD and no decision will be taken with regard to any potential development on the estate until the Local Plan has been adopted.
  - (c) Templeton Road N17 is currently being progressed to a planning submission this year for affordable shared ownership rather than outright sale given the likely high demand for this tenure in this location and the potential benefits of freeing-up affordable housing elsewhere by marketing to existing Council tenants or to leaseholders on regeneration estates in the Tottenham Housing Zone.

- 6.6 The impact of the removal of sites that contained a significant number of outright sale units is that the remaining eight sites do not pay back within a 30 year period, based on the tenure split and target rent levels included within the original business case. Indeed the position has worsened as a result of the government’s compulsory 1% rent cut. Unless changes are made, the current deficit of some £24m over 30 years will not be addressed.

Haringey’s Draft Housing Strategy

- 6.7 A further development is that, following two rounds of consultation, the council is moving to adoption of the new Haringey Housing Strategy, which acknowledges the changed and changing housing landscape. In particular it is increasingly the case that development of new homes is unlikely to be financially viable at target rent levels and the draft strategy provides guidance on setting affordable rents for new rented homes as a percentage of market rents, as follows:.

Draft Housing Strategy – Guidance on Maximum Rent Levels	
Unit Size	% of local market rent (up to)
1 bed	80%
2 bed	65%
3 bed	55%
4 bed+	45%

- 6.8 The published draft strategy states that providers should aim for average rents to be no more than 65% of local market rents. This is intended to ensure that rents remain below LHA levels and are affordable for residents who are claiming housing benefit.
- 6.9 It should be noted that this is a guide that defines *maximum* preferred levels, based on developments where usually 40% of the new homes are affordable, in line with the council’s new Local Plan. In practice the unit sizes and tenure mix differs from one development to another and therefore guidance is provided rather than prescription as there may, for example, be developments achieving a higher proportion of affordable homes. In addition more work has been done on how affordability should be defined. This, and clarified guidance to developers, will be reflected the final version of the Housing Strategy.

Variations to the Programme

- 6.10 Given the scale of change since the original programme was initiated, it is timely to review it with a view to:
- Maximise the number of affordable homes achieved, whether for rent or low cost home ownership (LCHO);
  - Increase the number of family size homes achieved;
  - Improve the financial viability of the programme, without resorting to outright market sale of new homes.

6.11 A number of changes have been made to unit types and tenures that achieve this, as follows:

- (a) Increasing the size of LCHO dwellings at Whitbread Close from 1 to 2 beds;
- (b) Revising the design at Fenton Road to accommodate 2 additional LCHO units; and,
- (c) Changing the tenure of 2 flats at Anderton Court from rent to LCHO.

The revised unit type and tenure mix is set out in tables 3 and 4 in appendix B.

6.12 These changes reduce the 30 year deficit by about £5m, to about £19m. To further reduce the deficit, rent levels need to be above the target rent levels modelled in the original programme.

6.13 It is proposed to set rents at levels consistent with the draft Housing Strategy guidance and capped at LHA levels. This rent calculation is detailed in table 5, appendix C and in summary means the following weekly rent levels:

<b>No. of Bedrooms</b>	<b>Target Rent 2016/17</b>	<b>Revised Rent (Draft Housing Strategy)</b>
1	£88.29	£213.50
2	£104.75	£228.00 – £302.33
3	£120.06	£206.25 – £302.46
4	£136.41	£311.54
5	£157.82	£342.69

6.14 It is important to note that the figures quoted above and in the appendix C are guides only. A local market rent valuation will be obtained in accordance with GLA guidelines and Royal Institute of Chartered Surveyors (RICS) standards in order to calculate the actual affordable rent level. If these valuations suggest rent levels above LHA, these will not be charged - the actual rent charged will be capped at LHA.

6.15 This option helps to improve the overall financial position and is consistent with the new housing strategy. The average rent across all unit sizes based on the proposed methodology is 56% of market rent. The proposed rents are at the guideline percentages for all unit sizes except 1-bed units, where 70% of market rent is proposed rather than 80%.

6.16 The proposed rent levels would reduce the 30 year deficit to about £6m. In order to remove the deficit completely and make the programme at least break-even, other measures are being identified. One approach is to use available s106 receipts, which would remove the deficit completely. An alternative would be to provide cross-subsidy from future programmes.

6.17 The proposed approach is consistent with the council's commitment to delivering housing units via the grant agreement with the GLA. The GLA capital funding guide states that in order to maximise their financial capacity the GLA expects providers to set rents at up to 80% of gross market rent. Providers can

demonstrate it is appropriate to set rents at less than 80% of gross local market rents whilst still meeting local needs and delivering value for money.

- 6.18 Affordability is a core consideration in the draft Housing Strategy. The council is aiming to adopt an approach to defining affordability based on housing costs being no more than an identified percentage of net household income. The draft strategy consulted on a proposal that this should be 45% but this is being reviewed for the final strategy in the light of consultation feedback and further work being done to assess affordability in the borough. The proposed rent levels for the new Phase 1 homes will enable access by working households from the Housing Register, including those who can access housing benefit up to LHA levels, but will not be affordable for households affected by the benefit cap.
- 6.19 The proposed approach set out in this report is an interim position and does not necessarily provide a council policy to be followed in future. These proposals are limited to Phase 1 of the council programme and are necessary so that rent levels can be determined and advertised before the first batch of homes are completed in September 2016. The ongoing policy will be determined by a new Intermediate Homes policy that will be brought forward for approval later in 2016/17, as a policy underpinning the new Housing Strategy, after it has been finalised and adopted by the council.

## **7. Contribution to strategic outcomes**

- 7.1. One of the Council's five priorities is to 'create homes and communities where people choose to live and are able to thrive'. As part of delivering this the Council aims to meet housing needs through mixed communities, which includes building the right balance of new homes in terms of their type, size, price and tenure, and making sure sufficient housing supply is available to work towards meeting the significant demand for homes in the borough.
- 7.2. The Phase 1 programme supports this by building the first new build council homes in over 25 years. This programme will provide 18 new rented homes – the majority of which are larger family dwellings. The Council also intends to provide 13 further affordable homes through low-cost home ownership (shared ownership), in the east of the borough where the majority of the borough's social housing stock is located.
- 7.3. The new-build homes are an important contribution towards meeting the Council's aims of maximising the number of affordable homes in the borough, achieving the Mayor's housing target and building balanced and mixed, sustainable communities across the local area.

## **8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)**

### **Chief Financial Officer Comments**

- 8.1 The full cost of the Phase 1 new build programme is £10.741m and the financing for this scheme is as follows:

	£
<b>Capital spend</b>	10,741,070
<b>Financing</b>	
HRA Capital	8,555,570
Market Sales	1,050,500
GLA Grant	735,000
S.106 Monies	400,000
	<b>10,741,070</b>

- 8.2 In terms of HRA resources to fund the £8.6m a decision has been made to ring-fence general HRA reserves and surpluses to investment in existing stock with the proposal that any new build is funded by borrowing. The £8,6m is part of the original £28m approved by Cabinet in February 2015.
- 8.3 The scheme is being funded by a GLA grant of £15,000 per unit for the Shared Ownership units and £30,000 per unit for Affordable Housing units. Affordable rents in this case are defined as rents at up to 80% of market rents. This grant condition would therefore be met by the current proposals for rents.
- 8.4 These dwellings will be held within the Housing Revenue Account and it is possible to charge higher rents than traditional social or target rents, although charging higher rents can have an impact on the amount of housing benefit reclaimable. The inclusion of these new affordable rent units has been modelled and it has been confirmed that charging higher rents for this programme will not breach the Rent Limitation rule in terms of the authority's entitlement to Housing Benefit subsidy. However, any further schemes will need to be similarly modelled.
- 8.5 It should be noted that new build programmes will not be subject to the new 1% rent reduction.
- 8.6 An investment appraisal of the scheme was carried out to assess the 'payback' position after 30 years. The original modelling carried out by Savills based on 103 units showed a break-even position at year 30. Based on the new scheme of 31 units and the proposals within this report the revised modelling (using the Savills original format) indicates a net deficit position of £6m at year 30. Modelling beyond this has not yet been carried out but the pay back period is likely to be in excess of 50 years.
- 8.7 The movement from a break even position to a deficit position is due to two factors. Firstly there has been a significant increase in construction costs during the period from planning stage to the tender stage. Secondly some of the sites that are no longer part of this new build project were those that had been generating significant surpluses and cross subsidising the project. The assumptions used in the modelling for the current proposals are set out below.
- 18 units of social housing at affordable rent levels
  - 13 units on a shared ownership basis

- Year 1 rents set at an average of 56% of market rents for four years with an inflationary increase at CPI+1% from year five onwards (average weekly 'affordable rents' generated were £260 per unit per week)
- Management and maintenance costs at £1000 per unit per annum with cost inflation applied at 3% per annum
- Financing costs were assumed to be at 5.41%, being the prevailing consolidated rate of interest.
- For the shared ownership units, initial valuations (subject to RICS valuation) as follows:

2Bed	£331,700
3Bed	£400,000

- An initial equity sale of 35% on completion followed by steady disposals each year until 70% equity is achieved by year 30.
- Rent is charged at 2.75% on unsold equity at the end of each year.
- House price inflation of 2.5% per annum applied.

### **Assistant Director of Corporate Governance/Legal Comments**

- 8.8 The Assistant Director of Corporate Governance comments as follows. The Localism Act 2011 introduced self financing for Council housing and abolished the national subsidy system. The new funding regime gives the Council more autonomy to set Council rents.
- 8.9 Section 24 of the Housing Act 1985 gives the Council the authority to set rents by making such reasonable charges as it determines for the tenancy or occupation of its houses. The Council is obliged from time to time to review rents and make such changes either of rents generally or of particular rents as circumstances may require.
- 8.10 The Welfare Reform and Work Act 2016 requires social landlords to reduce the rents payable by individual tenants by 1% each year between 2016 and 2019. This requirement will apply to properties let at affordable rents.

### **Equalities**

- 8.11 The Council has a public sector equality duty under the Equalities Act (2010) to have due regard to:
- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
  - advance equality of opportunity between people who share those protected characteristics and people who do not;
  - foster good relations between people who share those characteristics and people who do not.



8.12 The Housing Investment & Estate Renewal Strategy, adopted by Cabinet in November 2013, gave approval to the Phase 1 new build programme. The strategy aims to support equality, fairness and inclusion as follows:

(a) So that social housing activity in Haringey meets identified needs, the Council will:

- collect and analyse socio-economic data to understand need and demand;
- test design solutions and housing development against the requirements of both young and old people;
- involve tenants and leaseholders in investment decisions on both existing and new stock.

(b) In order to improve accessibility, the Council will:

- build all new housing to high standards of accessibility, and review the accessibility of existing stock as part of stock condition surveys;
- explore the viability of improving accessibility in existing stock, as part of the capital investment programme;
- aim to better meet the housing needs of younger people, and particularly those who are adversely affected by changes flowing from the Welfare Benefits Reform programme;
- help to meet the needs of people who are unable to achieve their aspirations for owner occupation.

(c) To promote inclusion, the Council will:

- invest in estates to improve “kerb appeal” and overcome any stigma attached to those locations;
- seek to deliver mixed and balanced communities, in existing stock, in estate renewal and in new build activities. This will include promoting housing ladder type products such as discounted market rent, rent-to-buy, shared ownership and shared equity.

(d) In order to tackle socio-economic exclusion, the Council will:

- deliver new development in locations with good access to transport and services, and provide high standards of management and maintenance service;
- develop a spectrum of cost levels (both for rent and sale) to meet a wider range of housing needs and demands;
- improve the energy efficiency of existing and new stock, to mitigate fuel poverty.

8.13 The aims of the Housing Investment and Estate Renewal Strategy outlined above have informed this report’s recommended changes to the planned rent levels and the unit mix/tenure type for Phase 1 of the new build programme. The Council’s priority has been to retain as many of the new units as possible at affordable levels, with a mixture of rent or low cost home ownership, maximising accessibility for priority groups.

8.14 As the new builds are made available, the Council will monitor and evaluate the profile of the tenancy mix, including protected characteristics. This will help

inform housing investment, allocations and affordability policy and the delivery of housing programmes going forward.

- 8.15 The availability and allocation of new homes for rent or low cost home ownership is subject to current policies (e.g. the Council's Allocations Policy) or developing policies (e.g. the Council's Housing Strategy and Intermediate Homes). All such policies have been or will be subject to an Equalities Impact Assessment and targeted action to ensure fair access and promote inclusion.
- 8.16 An Equalities Impact Assessment has been prepared for this proposal and this demonstrates that there are both positive and negative impacts on households with protected characteristics. The negative impacts relate to the level of rents which are higher than originally planned, and likely to have a negative impact on low income households which disproportionately include some households with protected characteristics, such as single person households, who are more likely to be headed by women, and households including a person with a disability. However, the Equalities Impact Assessment acknowledges that unless rents are charged at affordable rent levels, rather than the originally proposed target rent levels, such schemes would not be financially viable, and would not be able to proceed. On balance therefore, the recommendations within this report will have a greater positive impact overall on households with protected characteristics in the borough, than a negative one.

## **11 Use of Appendices**

Appendix A – Original Programme: unit type and tenure mix  
Appendix B– Proposed Programme: unit type and tenure mix  
Appendix C - Proposed rent calculation

## **12 Local Government (Access to Information) Act 1985**

Background papers:

- (a) Haringey Draft Housing Strategy 2015-20
- (b) Haringey Development Vehicle, Cabinet report November 2015
- (c) The Housing Investment & Estate Renewal Strategy, November 2013

## Appendix A

Table 1 – Original Programme: unit size and tenure mix

Original - Unit Type & Tenure Mix											
Site	Unit Size (Beds)						Tenure				
	1	2	3	4	5	Total	ORS	LCHO	Target	Aff	Total
Fenton Road	2	1	2	0	0	5	0	5	0	0	5
10-12 Muswell Hill Place	0	0	0	2	0	2	0	0	2	0	2
82 Muswell Hill Place	0	0	0	1	0	1	1	0	0	0	1
Anderton Court	0	2	2	1	0	5	0	0	5	0	5
Barnes Court	0	0	4	0	0	4	0	0	4	0	4
Whitbread Close	4	0	0	0	0	4	0	4	0	0	4
Connaught Lodge	1	5	2	0	0	8	0	0	8	0	8
Ednam House	0	0	0	0	2	2	0	0	2	0	2
Templeton Road	6	4	0	0	0	10	10	0	0	0	10
Cranwood	5	17	11	4	0	37	10	0	27	0	37
Hillcrest	4	11	10	0	0	25	11	0	14	0	25
<b>11</b>	<b>22</b>	<b>40</b>	<b>31</b>	<b>8</b>	<b>2</b>	<b>103</b>	<b>32</b>	<b>9</b>	<b>62</b>	<b>0</b>	<b>103</b>

Table 2 – Original Programme: tenure mix %

Original - Tenure Mix		
Tenure Mix	%	
Private	31%	31%
LCHO	9%	69%
Target Rent	60%	
Affordable Rent	0%	

## Appendix B

Table 3 – Proposed Programme: unit type and tenure mix

Proposed - Unit Type & Tenure Mix												
Site	Unit Size (Beds)						Tenure					Change Commentary
	1	2	3	4	5	Total	ORS	LCHO	Target	Aff	Total	
Fenton Road	0	6	1	0	0	7	0	7	0	0	7	Two additional LCHO units provided and unit mix adjusted
10-12 Muswell Hill Place	0	0	0	2	0	2	0	0	0	2	2	No change
82 Muswell Hill Place	0	0	0	1	0	1	1	0	0	0	1	No change
Anderton Court	0	2	2	1	0	5	0	2	0	3	5	Two flats have changed tenure from rental to LCHO
Barnes Court	0	0	4	0	0	4	0	0	0	4	4	No change
Whitbread Close	0	4	0	0	0	4	0	4	0	0	4	One beds increased to two beds
Connaught Lodge	1	5	1	0	0	7	0	0	0	7	7	No change
Ednam House	0	0	0	0	2	2	0	0	0	2	2	No change
Templeton Road												Omitted from programme
Cranwood												Omitted from programme
Hillcrest												Omitted from programme
<b>8</b>	<b>1</b>	<b>17</b>	<b>8</b>	<b>4</b>	<b>2</b>	<b>32</b>	<b>1</b>	<b>13</b>	<b>0</b>	<b>18</b>	<b>32</b>	

Note: All properties are proposed to move from target to affordable rent.

Table 4 – Proposed Programme: tenure mix %

Revised - Tenure Mix		
Tenure Mix	%	
Private	3%	3%
LCHO	41%	97%
Target Rent	0%	
Affordable Rent	56%	

The proposed programme provides 97% affordable units, compared with 69% in the original programme.

## Appendix C

Table 5 Proposed rent calculation - Draft Housing Strategy Guidance Rent Levels (inclusive of service charge)

*Note: Rent levels are illustrative only – actual market rents will reflect RICS rent valuation of individual properties.*

Property Details					Rent Levels				
Unit Schedule					Local Market Rent (MR)		Proposed Affordable Rent levels		
Site	Unit No.	LHA Area	Unit Type	No. of Beds	Monthly Market Rent	Weekly Market Rent	LHA Cap	Housing Strategy Rent Levels	% MR
10-12 Mus. Hill Pl.	1	Outer	House	4	3,000	692	388.65	311.54	45%
10-12 Mus. Hill Pl.	2	Outer	House	4	3,000	692	388.65	311.54	45%
Anderton Ct	3	Outer	House	3	2,200	508	315.12	279.23	55%
Anderton Ct.	4	Outer	House	3	2,200	508	315.12	279.23	55%
Anderton Ct.	5	Outer	House	4	3,000	692	388.65	311.54	45%
Barnes Ct.	1	Outer	House	3	1,625	375	315.12	206.25	55%
Barnes Ct.	2	Outer	House	3	1,625	375	315.12	206.25	55%
Barnes Ct.	3	Outer	House	3	1,625	375	315.12	206.25	55%
Barnes Ct.	4	Outer	House	3	1,625	375	315.12	206.25	55%
Connaught Ldg.	1	Inner	Flat	2	1,520	351	302.33	228.00	65%
Connaught Ldg.	2	Inner	Flat	2	1,600	369	302.33	240.00	65%
Connaught Ldg.	3	Inner	Flat	2	1,600	369	302.33	240.00	65%
Connaught Ldg.	4	Inner	Flat	3	2,383	550	354.46	302.46	55%
Connaught Ldg.	5	Inner	Flat	2	1,520	351	302.33	228.00	65%
Connaught Ldg.	6	Inner	Flat	2	1,600	369	302.33	240.00	65%
Connaught Ldg.	7	Inner	Flat	1	1,320	305	213.50	243.69	70%
Ednam Hse.	1	Inner	House	5	3,300	762	417.02	342.69	45%
Ednam Hse.	2	Inner	House	5	3,300	762	417.02	342.69	45%
<b>18</b>							<b>Ave.</b>	<b>260.86</b>	<b>56%</b>