



Basildon Council

Affordable Rent Study

OCTOBER 2015

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1 EXECUTIVE SUMMARY

This report explores the potential for introduction of Affordable Rent for Council properties in Basildon. In particular it considers need, development capacity, and affordability for potential tenants.

It presents a balanced view that will enable councillors and officers to take an informed approach to developing an Affordable Rent policy for the borough.

Need: Basildon Council operates in an area of housing market pressure. There is a need for new homes of all tenures, but in particular there is a need to cater for people who cannot easily afford to buy or rent on the open market.

Links to private rental: In terms of setting Affordable Rents, the local private rented market would give the Council a strong base for charging market-linked rents, with little exposure to risk of falling prices or loss of demand due to oversupply in the wider market. Prices from 60%-80% of market rent all give the Council an uplift on income compared to social rent levels.

Variations in market prices around the borough might affect where the Council wished to site its own market-linked rental properties, both in terms of financial performance for the Council and affordability for the tenants.

Constraints on rent levels: There are some factors that may exert downward pressure on the levels of Affordable Rent the Council may choose to set. In general these relate to income risks facing the Council and affordability for potential tenants.

As rents move upwards from social towards market rent levels, they begin to interact with the Local Housing Allowance and the Benefit Cap. We would caution against the Council exposing itself to these interactions to help to protect the Council's income as well as the sustainability of the tenancy.

Employed applicants for social housing tend to have incomes in the lowest 25% for the borough. We would suggest that rents charged ought to support these households to remain in work and gain from their earned income.

Intended occupants: The findings on affordability raise questions about who Affordable Rent properties might be intended for. They are usually let to people on the housing register, but affordability findings indicate that they may be better suited to households that are generally excluded from social housing on income grounds and from effective participation in the wider market on affordability grounds. It is worth noting that some households earning the borough median income would still need welfare support to cover a market rent.

Options for use of Affordable Rent: The contextual points above lead to two options for use of Affordable Rent.

Firstly, 70% market rents charged on 1 and 2 bed homes and let to people currently eligible for the housing register. This could reduce income risk to the Council (if rent arrears occur due to welfare restrictions or pressure on household budgets), address the disconnect between the two principal rental provisions, and improve the supply of affordable homes for tenants (whether employed or benefit dependent).

Secondly, 70% market rents charged on 1 and 2 bed homes and let to people earning median incomes, accompanied by 60% market rents charged on 1 and 2 bed homes and let to people on benefits or earning lower quartile incomes. This might create a useful intermediate market to alleviate current affordability problems for working households

seeking homes in the private market, create an affordability safety net and incentive to increase earnings for working households on the lowest incomes, and maintain availability of housing for traditional social tenants. It should also reduce income risk to the Council.

Development capacity: These two options do bring additional development capacity but are unlikely to resolve issues of financial viability for new developments on their own. Some form of additional subsidy will be required.

If the Council was able to convert existing vacant stock to Affordable Rents, it could gain additional financial capacity to support development of the types of homes that would cater best for local need. Factors relating to statutory duties, reputation, and stock profile may encourage the Council to restrict the number of properties available for conversion to between 1.2-2.4% of total stock annually (138-264 properties). Conversions at this level would make the Council by far the biggest provider of Affordable Rent in the borough, and would double the number of Affordable Rent properties already in the borough within a year. Conversions do create additional issues for lettings teams that would need to be carefully managed. On balance it may be beneficial for the Council to seek consent to convert existing stock, or to find an equivalent alternative source of finance.

Conclusions: Overall, letting homes at Affordable Rents would enhance the Council's capacity to pursue its housing supply objectives. This is not a simple solution to the need for development capacity, however, and any resulting policy must be clear on its social objectives (e.g. meeting local housing needs, supporting employment, encouraging particular behaviours) and its ability to protect the Council's income and reputation.

2 INTRODUCTION

1.1 Ark was commissioned to help Basildon Council consider the possibility of charging Affordable Rents for its own housing stock to support its planned development activity. This report sets out the findings from our research and analysis.

1.2 The brief was to:

- Produce recommendations for potential introduction of Affordable Rent, including whether it should be introduced, and if so at what level of rent
- Consider the impact on the local housing market and the ability of priority groups to pay Affordable Rent.

1.3 To address the brief we have analysed the local private rented market and the Council's data on its own tenants and stock; modelled household incomes and development viability; and considered current practices of the Council and housing associations with stock in the borough. We have also held discussions with officials across the Council to test and refine emerging findings. The resulting document provides a narrative, alongside numerical and contextual information, on the scope for, and potential impact of, Affordable Rents charged on Council-owned properties. It also highlights policy issues and tensions that might arise relating to the use and pricing of Affordable Rents.

1.4 Immediately after this introduction is:

An overview of the **methodology** used in our research and analysis, followed by

A description of Basildon's **operating context** that covers national policy, local housing need, Council housing provision and local priorities.

1.5 In the main body of the report:

Section 1 explores possible Affordable Rent levels for Basildon by looking at prices in the private rental market, hypothetical potential for conversion of existing social rents to Affordable Rents, and the uplift on current social rents that could be available.

Section 2 considers potential demand for Affordable Rent properties, by looking at the current housing register and the operation of the private rental market.

Section 3 identifies possible constraints on use of Affordable Rent, including the profile of demand for sub-market housing, affordability to potential tenants, and practices of other local housing providers.

Section 4 comments on possible contribution to development viability, taking account of the Council's aspirations, current freedom to act, and the constraints set out in section 3.

1.6 At the end of the report are:

Conclusions and recommendations based on Sections 1-4 above.

Appendices that present detailed profiles of income and affordability for hypothetical tenants, an overview of the changing impact of the benefit cap on the capacity of non-working households to pay rent, and more detail on the profile of current Council stock and rents charged.

1.7 The report presents a balanced view that will enable councillors and officers to take an informed approach to developing an Affordable Rent policy for the borough. Councillors

may find it useful to consider this report alongside the forthcoming findings from the Housing Needs Survey and refreshed Strategic Housing Market Assessment.

1. METHODOLOGY

- 3.1 The research to inform this report was conducted between June and August 2015. The qualitative and quantitative research activities undertaken are described below.
- 3.2 Operating context
- Desktop review of current national policy positions for housing and welfare
 - Discussion with Council officers on current housing policies and priorities
- 3.3 Private rental market:
- Collection and analysis of prices, property types and locations for private rental properties available in Basildon between June and August
 - Review of ONS data on recent market prices in Basildon for 2014-15
 - Discussions with local letting agents and staff at the Community Resource Centre to confirm the accuracy of the data and to understand the operation of different sections of the private rental market
- 3.4 Council housing:
- Analysis of snapshot data on Council-owned housing stock for July 2015 to identify property types, sizes, locations and rents charged
 - Analysis of lettings data for April 2014 to March 2015 to identify turnover of Council-owned housing stock plus status and composition of households allocated a Council tenancy
 - Analysis of snapshot housing register data as at July 2015 to identify status, composition and incomes of households that have expressed a desire for Council housing
 - Analysis of snapshot Housing Benefit data as at July 2015 to identify composition and incomes of current Council tenants in receipt of help with housing and council tax costs
- 3.5 Housing association properties:
- Analysis of the Homes and Communities Agency's Statistical Data Return for 2013-14 to identify the number, type and price and landlord of Affordable Rent properties in Basildon as at March 2014
 - Telephone conversations with Swan, Circle and Family Mosaic to get an overview of their practices for charging and letting Affordable Rents in the Basildon borough.
- 3.6 Affordability and incomes
- Review of ASHE data on earnings in Basildon for 2014-15
 - Review of CACI Paycheck data on household incomes for Basildon for 2014-15, including incomes in the areas with the highest concentration of social housing
 - Modelling the profile of household incomes for 8 archetypal households, comparing the impact of different rent levels (for composition and incomes most likely to be current or future Council tenants), using the online tool 'entitledto'
 - Manual calculation of the benefits income available for non-working households to spend on rent as the welfare system is reformed from 2015-17
- 3.7 Development viability
- Discussion with Council officials about Sempra Homes and HRA development ambitions and assumptions
 - Desktop review of Sempra Homes and HRA development financial modelling

- Modelling development viability (based on Net Present Value) for varying levels of rent for new and existing Council homes, using a bespoke viability tool created by Ark
- 3.8 Synthesis of information and generation of ideas
- Undertaken by the Ark team, drawing on their extensive experience of housing strategy, delivery, development, planning and public policy
- 3.9 Validation and review of findings and ideas
- Two roundtable progress meetings with Council staff from housing strategy, homelessness, lettings, performance and development

This is an appropriate methodology to inform the report given the project brief, timescales, and Council-held data available. Use of this methodology has provided a fairly comprehensive picture and analysis of the issues relating to the possible introduction of Affordable Rent in Basildon Council's housing portfolio.

2. CONTEXT

A) HOUSING NEED AND BASILDON COUNCIL'S RESPONSE TO DATE

Basildon Council operates in an area of housing market pressure. There is a need for new homes of all tenures, but in particular there is a need to cater for people who cannot easily afford to buy or rent on the open market. It is not expected that the private market or housing associations will cater for the level of housing need in the area, so additional input is required.

Having considered its own capacity to contribute to new housing supply, in 2014 the Council established development programmes for its Housing Revenue Account and Sempra Homes – a Council-owned company. HRA development uses receipts from Right to Buy sales to replace homes sold, but is currently paused due to national policy announcements set out below. Sempra Homes is currently growing stock for market and intermediate rent, which is gained through s106 agreements and let through a private agent. Intermediate rents are set at 80% of market prices, as determined by the in-house valuer¹.

The Council is aware that more could be done to enhance its development capacity. Charging Affordable Rent for properties that would otherwise have been let at social rent is one way to increase capacity, but its use to maximise the Council's own contribution to housing supply needs to be balanced with other housing and social policy objectives.

Basildon Council has commissioned several pieces of work, including this one, that will ensure its understanding of need and delivery capacity are up to date and comprehensive. This understanding can inform reviews of the Housing Strategy, Allocation Policy and Landlord Policy. It can also inform rent setting for new HRA properties and within Sempra Homes.

B) CHARGING AFFORDABLE RENTS

New properties

Local authorities are allowed to charge Affordable Rent for new properties as long as they have written permission from the Homes and Communities Agency. This is a formality, and there appear to be no grounds for the HCA to withhold this permission.

Affordable Rents must be:

- No higher than 80% of local market rents
- Inclusive of service charges
- Calculated using a RICS approved valuation method e.g. comparison to similar market rented properties let recently in the locality
- Let in accordance with the landlord's letting policy.

The landlord can determine what percentage of market rent will be charged, and properties of different sizes (i.e. number of bedrooms) can be let at different percentages of local market rents.

Affordable Rents for current tenants can increase each year in accordance with the government-prescribed formula, and should be 'rebased' i.e. adjusted to regain their stated relationship with private rents every five years. Rents can also be rebased when a vacant property is re-let. This means that rents could go up or down, depending on the state of the local rental market. The current government formula for rent increases will be affected by the

¹ Note that the project team has not compared the rent levels presented later in this document with Sempra Homes' proposed rents

Welfare Reform and Work Bill which is currently passing through Parliament. The exact impact of this is unknown. It is expected that Affordable Rents will have to decrease by 1% each year from April 2016-20, although how rent setting will be affected is currently unclear.

Existing properties

Landlords that receive HCA grant to support development of new homes are allowed to convert existing properties let at social rents to Affordable Rents when they become vacant. The number of conversions and proportion of market rent to be charged forms part of the landlords' bid for funding, and is agreed with the HCA along with any funding awarded. Landlords that do not receive HCA grant are not able to convert existing stock to Affordable Rents. Basildon Council does not currently receive HCA grant but is interested to understand the capacity that conversions could bring, and any related issues, if it was allowed to do them. All figures in this report that relate to conversions, and the policy issues that relate to them, are therefore purely hypothetical.

C) NATIONAL HOUSING AND WELFARE POLICY

Significant changes to housing and welfare policy are in train since this research was commissioned, and it is anticipated that further changes will be announced before the end of 2015. The changes are material for Basildon's housing policies, and for use of Affordable Rent.

Policy change	Relevance to use of Affordable Rent
Social landlords to reduce rents by 1% each year from 2016-20	Reduces the revenue from existing stock available to support new development, as well as the income from new properties used to repay any debt
Councils to make payments to government in respect of high value properties likely to become vacant in the year – with a presumption that this stock will be sold. It is believed that regulations will define high value as any in the top third most expensive prices for the area. Receipts to be used to replace the sold property, compensate housing associations for Right to Buy sales, and support a brownfield land fund.	Reduces the revenue from existing stock to support new development, but does free up (some) capital to fund new development. Proposals for replacement council housing are unclear, but there are rumours that RTB receipts will have to be used to fund low cost home ownership rather than rented housing
Benefit Cap lowered from £26,000 to £20,000 per year from 2016	Reduces ability of unemployed working-age households to afford their rent after meeting other living costs – generally those with two or more children
Tax Credits reduced for all families from 2016, and limited to two children for new claimants from 2017	Impacts are complex due to interaction with Housing Benefit / housing element of Universal Credit. The key impact for Affordable Rent policy is that some in-work households will have reduced ability to afford their rent after meeting other living costs.
Local Housing Allowance / housing element	Ability of benefit dependent and low-earning

of Universal Credit for private tenants is frozen at 2015 rates until 2020	households to afford a private tenancy will be further reduced – potentially increasing homelessness and/or demand for council housing
Introduction of a National Living Wage (i.e. an increased minimum wage) for employees aged 25+ from April 2016	May improve the ability of single people to afford rents (increasing incomes of people currently working full time on the minimum wage by around £1200 per year), but will not fully compensate low-earning families for loss of tax credit income

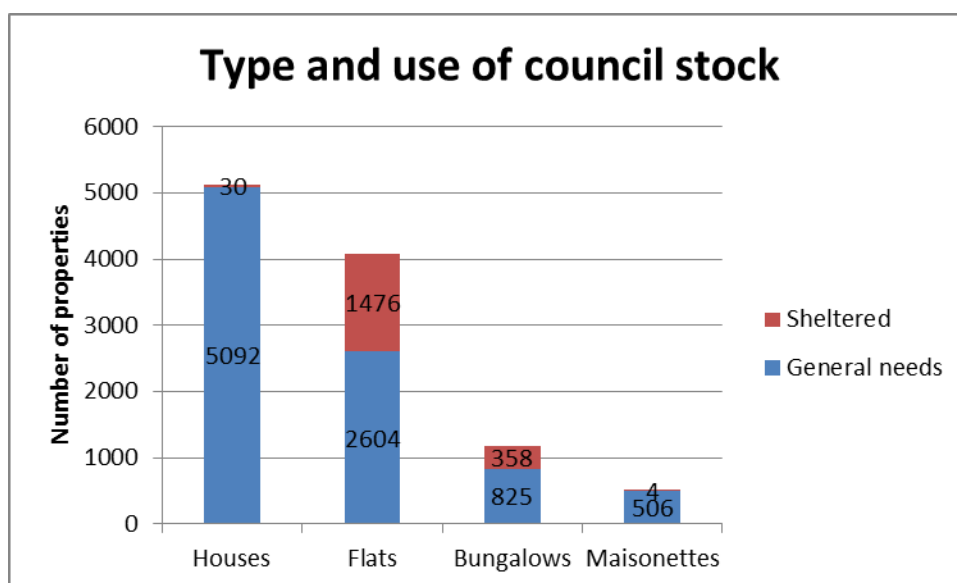
D) PROFILE OF BASILDON'S HOUSING STOCK AND RENTS

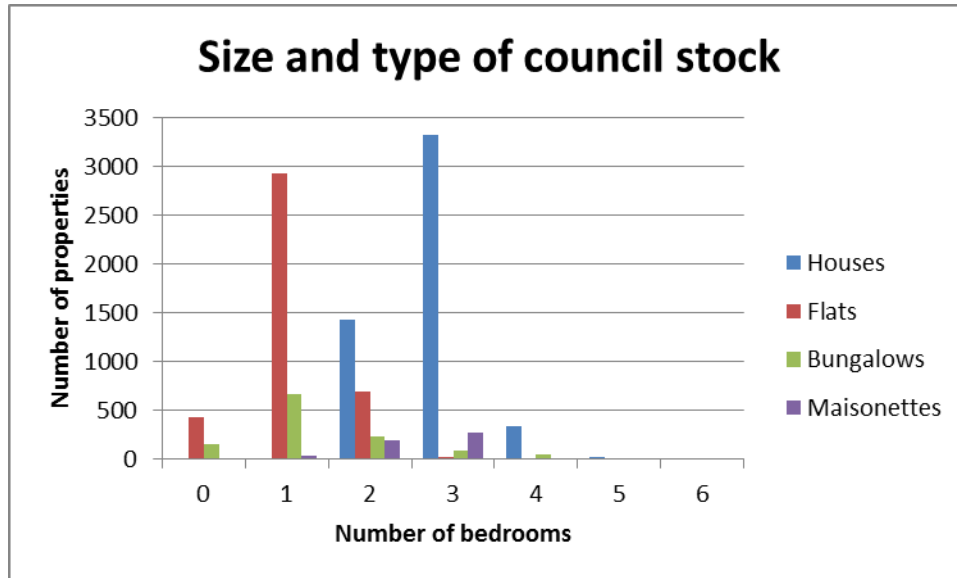
Information on Basildon's current rents and location of properties is one of the foundations for Affordable Rents. It enables illustration of the potential income uplift for different property sizes if Affordable Rent was charged for newly built homes or existing social rented properties.

Information on the size, type and intended occupancy of the current stock is relevant for two reasons. Firstly, when compared to the housing register it helps to illustrate the match (or mismatch) between demand and supply of different sized properties. Secondly it aids understanding of the potential to convert existing properties to Affordable Rent, where there may be preferences about the size and type of accommodation converted.

Stock numbers and bedspaces

Basildon has around 10,900 properties, of which 17% are designated sheltered housing. Nearly half of the stock is houses, and 70% of these are 3 bedroom or larger. 37% of the stock is flats, with one third of this designated as sheltered stock. Most of this one third is one bed accommodation. 10% of the stock is bungalows, with two thirds designated as general needs but nevertheless well suited to the needs of older or less physically able residents.





For completeness the Council stock is broken down by number of bedrooms and their use, below.

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed
All	577	3633	2551	3716	397	23	2
GN	502	2008	2418	3678	392	23	2
Sheltered	75	1625	133	38	5	0	0

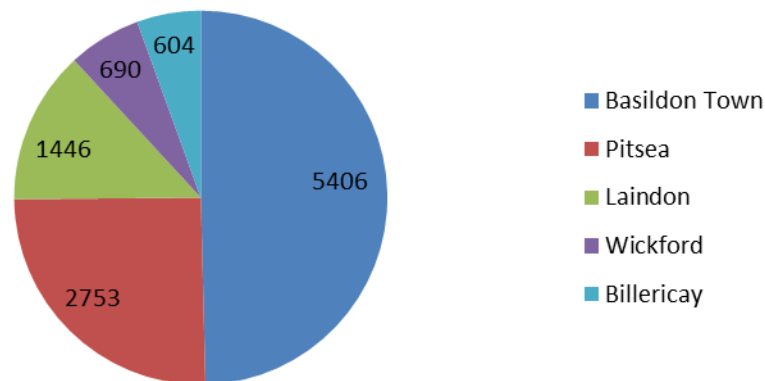
More detailed information on stock numbers and property sizes is presented in Appendix 1.

Stock locations

The stock is spread around the borough's wards, with particularly high concentrations (more than 10%) in Pitsea North West, Fryerns, Laindon Park, Lee Chapel North and Pitsea North East. Wards in Crouch, Wickford and Billericay have the lowest concentrations of stock. A full breakdown of location by ward and stock type is in Appendix 2.

Later in this report we refer to five geographies within the borough: Basildon Town, Billericay, Laindon, Wickford and Pitsea. When the wards above are aligned with these geographies, the concentration is starker, with 50% of the Council's existing stock in Basildon Town and 25% in Pitsea.

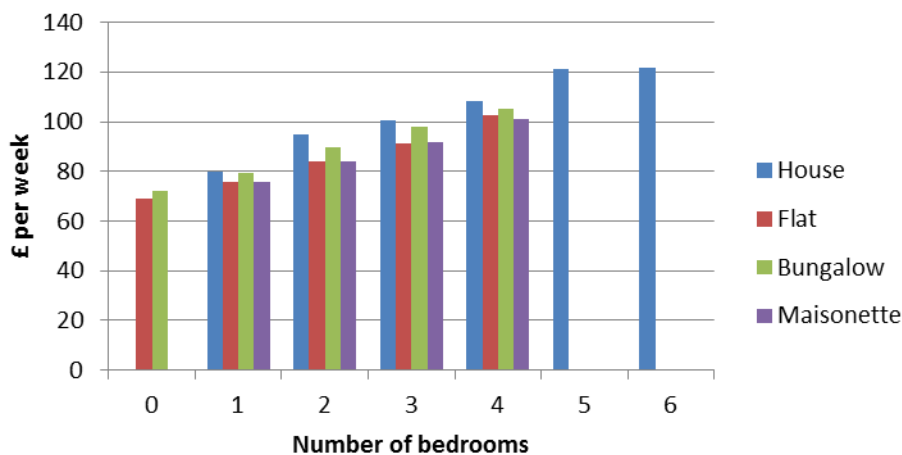
Broad concentrations of council stock



Rents

The spread of rents is quite narrow, from an average £69 per week for a bedsit flat to £121 per week for a 6 bed house. A 4 bed house is 1.4 times more expensive than a 1 bed flat, compared to a multiple of 2.2 seen in the private rented sector.

Council rents by property size and type



The differential between flats and houses of similar size is small. Service charges are low, with averages for flats between £3 and £4 per week, though this is pulled upwards by warden and support costs for older people.

More detailed information on rents and service charges is presented in Appendix 3.

The contextual information summarised in this section, and the additional detail presented in the appendices, inform the modelling, analysis and commentary that comprise the rest of this report.

SECTION 1: NOTIONAL AFFORDABLE RENT LEVELS FOR BASILDON

A) CURRENT PRIVATE RENTS

Why current private rents are relevant

Current private rents, alongside homes for sale, set the relative affordability of local rented housing across the borough, given that access to social rented homes is constrained by a variety of rules which limit access to more long standing residents, those below an income threshold and, in particular, those with significant housing needs including homeless households.

They set the price points at which different home sizes and types, different locations and different quality of homes may be accessed, and access is almost solely determined by household income. As the private rented market is an open market it attracts residents and non-residents alike and the combination of accessibility to central London from many parts of the borough and the number and quality of the houses across the borough attracts professionals and others with the means to pay local private rents.

Current private rents also determine the price gap - and the pattern of this gap - with the social rented sector and determine the affordability gap for (mostly) local low wage earners or those not active in the labour market.

They reflect a fairly inelastic private rented sector in that the demand for rented homes does not easily or quickly lead to much higher supply, and leaves prices relatively high and generally unaffordable to local low income households. The majority of households in private rented accommodation are excluded from housing register, and will only be admitted if their accommodation is unsuitable e.g. overcrowded.

They are also the historic basis for Local Housing Allowance rates, which itself sets the ceilings for help with housing costs available to all households with relatively low incomes choosing to rent in the private sector or having to look to rent in the private sector as a result of their ineligibility for social rented homes.

Finally, current private rents are used to benchmark and set the level of the new (since 2011) Affordable Rents that are being charged for sub-market rented housing by many housing associations and local councils across the country.

Current private rents

Current (summer 2015) private rents have been analysed by location, size and quality across the borough. Data for weekly market rents for the whole borough is presented below, and the full neighbourhood data is in Appendix 4. The data gathered shows a range of prices across the borough of plus or minus 20% from the median borough wide averages. Billericay and Basildon Town are the more expensive areas, with Pitsea the cheapest.

Whole borough

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	24	116	102	115	121
1 bed flat	39	166	150	162	187
2 bed flat	56	208	181	202	222
2 bed house	40	222	207	208	231
3 bed flat	4	201	-	-	-
3 bed house	80	265	225	254	289
4+ bed flat	1	208	-	-	-
4+ bed house	44	356	306	346	404

Local Housing Allowance rates (South West Essex BRMA)

LHA rates applying to the borough were historically set based on actual rents charged across the south west Essex sub-region (now uprated in line with national policy direction). Until 2014 they should have given access to the cheapest 30% of the private rental market. Current LHA rates are presented alongside borough wide market rents below to show the help with housing costs that could be provided to lower income households, compared to median actual rents. The final column shows that scale of the shortfall that any household receiving full benefit would have to pay from other sources if they were paying the median market rent.

	LHA rates	Median borough private rents	Shortfall
Shared Accommodation	£63.50	£115	45%
1 bedroom	£128.19	£162	20%
2 bedrooms	£161.26	£205	21%
3 bedrooms	£188.33	£254	26%
4 bedrooms	£266.65	£346	23%

Trends in rent levels

Private market rents across the borough have been rising strongly over the last 2 or 3 years and are pulling away from the LHA positions. Discussions with local property agents confirm the robustness of the private rental market - advertised rentals are frequently achieved and most properties are let in reasonable timeframes.

Agents suggest that rents recently have plateaued but acknowledge that the quality of the market and the general accessibility to central London of much of the borough will likely sustain an upward pressure on rent levels. The borough remains an attractive location for professionals as central London commuters or for those working more locally. There is little evidence of any significant weaknesses in the market and agents expect that additions to the private rented stock will continue to be in demand and let in reasonable timeframes.

Issues and observations

The overall tenure trend from 2001 shows the private rented sector as the growth sector, with owner occupation and social rented levels broadly level in absolute terms. There are significant tenure changes within the existing stock: Council owned social rented homes are declining, housing association social rented stock are rising to largely compensate for reductions in the Council stock, and new homes are being built for the owner occupation market but corresponding switches into private rented provision are keeping owner occupation levels stable.

As noted earlier, the increase in the number of private rented homes has not led to any easing of rental prices or to rapid increases in the number of rented homes. We also note that the spread of average prices stretches quite sharply upwards in relation to 3 and 4 bedroom houses and appears to have become somewhat detached from the LHA levels. Conversely, the 1 and 2 bed homes have a narrower spread so the borough median rates are a good representative of benchmark affordable rents and, at the 80% level, are more closely aligned to the LHA levels.

The private rental market is predominantly houses (some 60%) and of a high quality and is heavily skewed towards earning households. Our analysis of affordability shows that households with children, earning the estimated median borough household income of £32k per year would require benefit payments to supplement their earnings even if the rent charged was set at the 'standard' affordable benchmark of 80% of private median rents. No household would be able to access the open private market at market prices without undue financial pressure even though they might be in receipt of the median earnings of £32k pa.

The market is of course susceptible to wider external fiscal and economic factors but in recent years – and currently – it is a robust and stable market catering for effective demand and not needing to adjust or lower prices to attract new tenants. Observations from local agents confirm the trend towards a market only catering for earning households, with the last agent managing lettings for applicants in receipt of benefits no longer doing so.

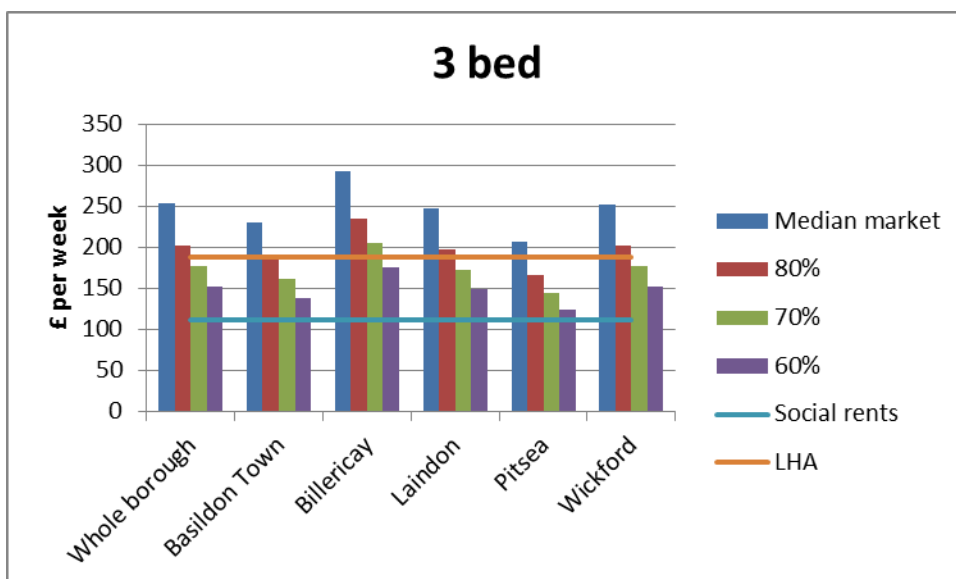
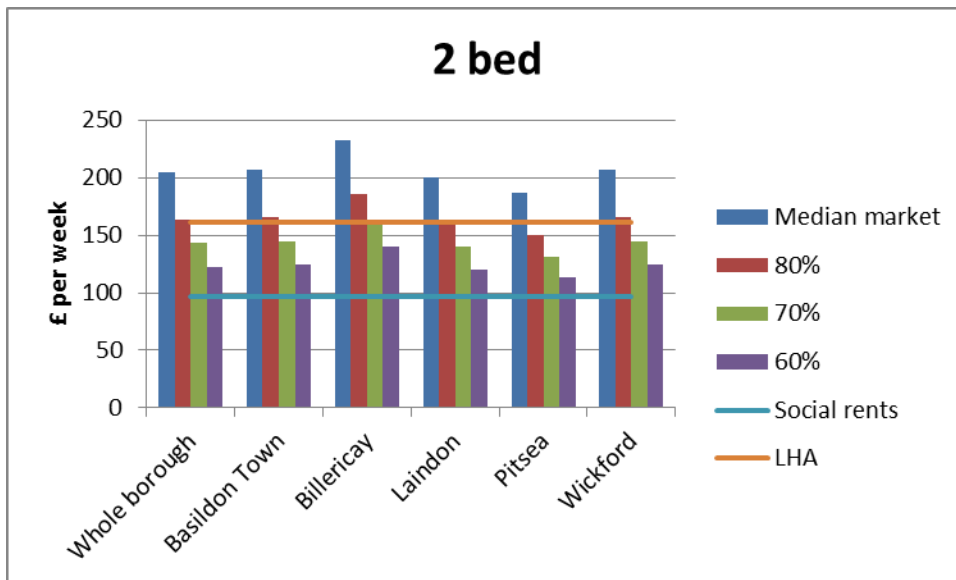
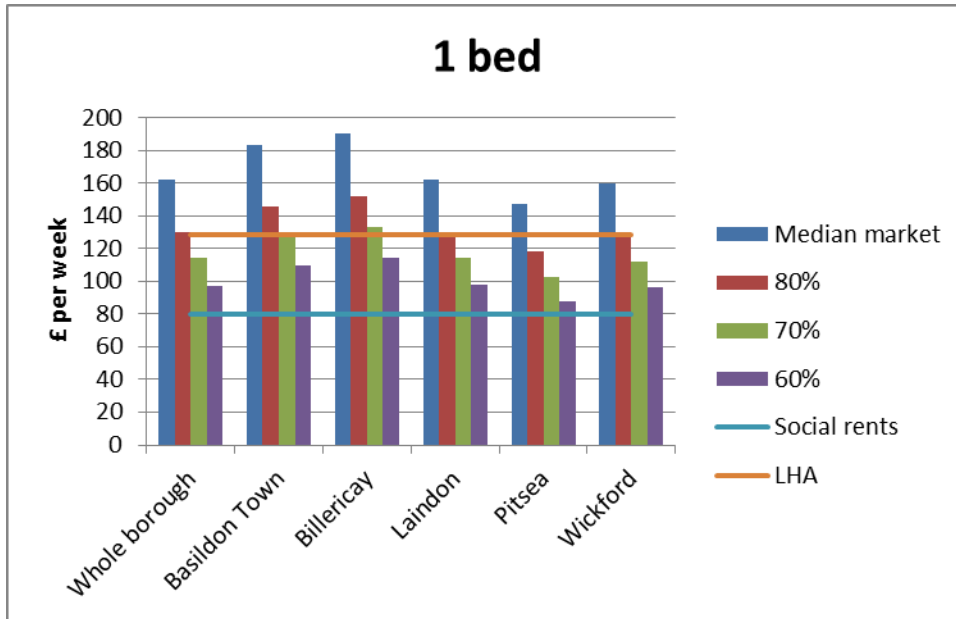
There is therefore clear evidence of a need for sub-market rental provision to help moderate to low income households.

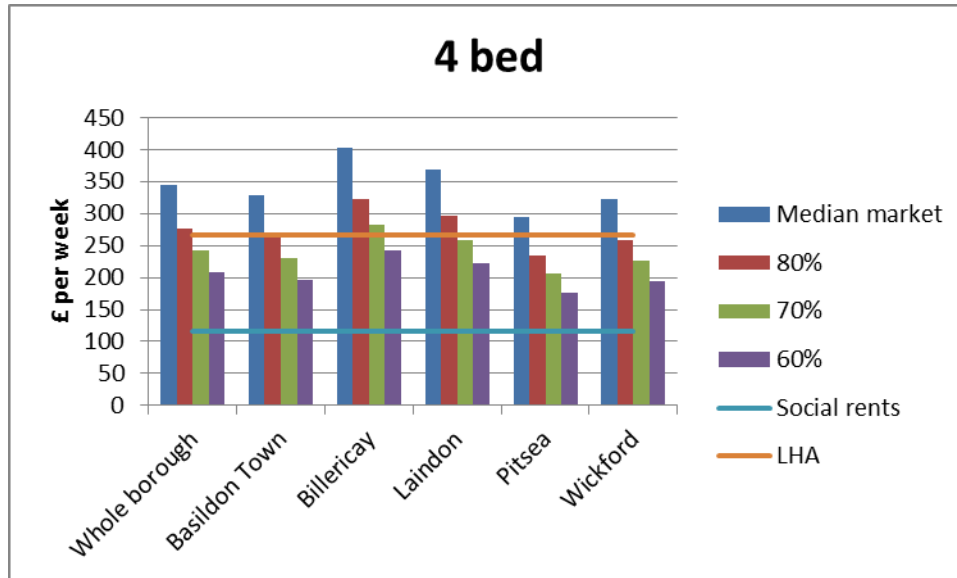
The parameters of this need are explored later in the report. In terms of setting Affordable Rents, the local private rented market would give the Council a strong base for charging market-linked rents, with little exposure to risk of falling prices or loss of demand due to oversupply in the wider market.

B) POTENTIAL AFFORDABLE RENTS

The graphs below illustrate different Affordable Rent levels that could be charged in each part of Basildon borough, for 1, 2, 3 and 4 bed properties. They are based on the recent market rent data presented above for each district and the whole borough, and show current median market rents (summer 2015) alongside Affordable Rents at 60%, 70% and 80% of market rents. Social rents and LHA rates are shown as a line on each graph for comparison.

This visual presentation draws attention to the variation in rents between the districts, as well as the mismatch of LHA with 100% and 80% (and occasionally 70%) market rents. It also highlights the uplift in rental income that would be gained in all districts by charging even 60% of market rents rather than social rents.





The tables below use the same recent market rent data but instead present the Affordable Rents that could be charged for all property sizes in each district. They show Affordable Rents at 60%, 70% and 80% of current (summer 2015) market rents. Social rents are shown next to each example for comparison.

This presentation draws attention to the actual figures, rather than the relationships between them.

Boxes shaded light orange show where Affordable Rents would be higher than, or within £10 of Local Housing Allowance rates. The £10 margin is included because with rents rising steadily and benefits frozen, Affordable Rents set or re-based in the next three years could easily be higher than LHA rates.

Boxes shaded dark orange indicate where non-working households in smaller properties could also be caught by the benefit cap. All fully occupied three and four bed properties (including social rent) would see non-working households hit by the benefit cap – this is not marked on the tables so that they remain clear.

We comment on these benefits issues later in the report, but in summary we would either caution against setting rents at or above levels shown in shaded boxes, or against offering accommodation at rents at or above those levels to households likely to be affected by the benefit restrictions. This would help to protect the Council's income as well as the sustainability of the tenancy.

Whole borough

	80%	70%	60%	Social rents
1 bed	130	114	97	80
2 bed	164	144	123	97
3 bed	203	178	152	112
4 bed	276	242	208	115

Basildon town

	80%	70%	60%	Social rents
1 bed	146	128	110	80
2 bed	166	145	125	97
3 bed	185	162	139	112
4 bed	263	230	197	115

Laindon

	80%	70%	60%	Social rents
1 bed	130	114	98	80
2 bed	160	140	120	97
3 bed	198	173	149	112
4 bed	296	259	222	115

Pitsea

	80%	70%	60%	Social rents
1 bed	118	103	88	80
2 bed	150	131	113	97
3 bed	166	145	124	112
4 bed	235	206	176	115

Wickford

	80%	70%	60%	Social rents
1 bed	128	112	96	80
2 bed	166	145	125	97
3 bed	202	177	152	112
4 bed	258	226	194	115

Billericay

	80%	70%	60%	Social rents
1 bed	152	133	114	80
2 bed	186	163	140	97
3 bed	235	206	176	112
4 bed	323	283	242	115

Issues and observations

There is a good spread of rent levels across the different neighbourhoods, which reflects location and quality. On the whole, Billericay is relatively more expensive and Pitsea less so. This might affect where the Council wished to site its own market-linked rental properties, both in terms of financial performance for the Council and affordability for the tenants. Setting Affordable Rent should reflect location aspects so there may be some flexibility to pursue Affordable Rent outside the more expensive locations. This variation should also be taken into account in any business planning undertaken in preparation for provision of Affordable Rent homes, to ensure that rents charged are realistic in their local setting.

For the purposes of setting a suitable benchmark that would smooth some of these variations we suggest adopting the borough wide median averages as the best indicator of rental prices for an overall approach, with the proviso that supply in cheaper areas should be possible from time to time.

NOTIONAL POTENTIAL FOR CONVERSIONS OF SOCIAL RENTS TO AFFORDABLE RENTS

Turnover & lettings profile - capacity for conversions

If the Council was in receipt of grant funding from the HCA it would be able to convert some of its social rented homes to Affordable Rent when they become vacant and are re-let. These conversions would give additional financial capacity to support a development programme. It would also change the profile of the available social rented stock, however.

The turnover of Council properties in the last financial year gives an indication of the potential for conversions. Analysis of the figures also draws attention to matters the Council may wish to consider if it was preparing a conversions policy. This is a hypothetical exercise as the Council is not currently permitted to convert its properties.

Basildon Council let 423 homes in 2014-15, which is 3.8% stock turnover. The bulk of lettings were to one bed flats, with the majority of the rest to two and three bed houses.

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed
Flat	24	204	19			
House			44	63	12	3
Bungalow	6	27	13	1	1	
Maisonette			3	3		

Many of the lettings are to existing social tenants and/or to sheltered housing. This may have a bearing on any policy the Council wishes to pursue.

38% of all lettings (159) were into sheltered housing, and 30% (126) were transfers of existing social tenants to general needs properties. Internal transfers make up the bulk of lettings to family homes (2, 3 and 4 beds), with lettings to external applicants predominantly being bedsits and 1 bed flats.

	Total	General needs	Sheltered
Housing register	180	91	89
Transfers	195	126	69
Homeless assistance *	48	47	1
Total	423	264	159

* An additional 67 households were offered a secure tenancy on a property they were already occupying on a temporary basis

Housing register

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed
House			12	12		
Flat	20	112	6			
Bungalow	2	13	3			
Maisonette						

Internal transfer (LA or HA tenant)

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed
House			27	38	10	2
Flat	2	79	10			
Bungalow	2	12	9	1	1	
Maisonette			2			

Homelessness assistance

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed
House			5	14	2	1
Flat	2	13	3			
Bungalow		3	1			
Maisonette			1	3		

Lettings to new (i.e. not transferring) tenants 2014-15

	General needs	Sheltered
Studio	24	2
1 bed	53	87
2 bed	30	1
3 bed	28	-
4 bed	2	-
5 bed	1	-
Total	138	90

Issues and observations

Basildon does have a healthy turnover of properties that could be used to generate additional revenue for new development through conversions. Just over half of these are smaller homes that would not be occupied by families.

Consideration should be given to how any conversions policy would interface with other Council policies or priorities. Several practical and political implications can be identified.

Moving existing tenants from social to affordable rent if they transfer to a different Council property could discourage people from downsizing, because they could find themselves paying more rent than on their previous home despite having moved to a smaller property. This could impact on the Council's ability to encourage people to downsize to free up larger homes.

It could also be met with some resistance from tenants who might consider a change of rental terms unfair, especially if they are 'good' longstanding tenants.

Charging Affordable Rents for sheltered housing could make it more difficult to let these properties if potential tenants consider the rents are not good value. Some sheltered properties are already hard to let and higher rents may compound this.

Similarly this could be met with resistance from tenants groups or older people's groups who may have concerns about households who necessarily live on fixed incomes facing higher accommodation costs.

If the Council wanted to exclude these groups from conversions, the potential for conversions in the first year would be reduced to 264 (general needs only); 228 (new tenants only); or 138 (general needs and new tenants only).

This information gives a picture for a hypothetical year one of conversions. More detailed analysis would be needed to understand possible future conversion potential. This is because property churn will not be evenly spread across the stock – some properties will come up for letting quite regularly but these can only be converted once. Modelling that carries forward year one conversions (based on 2014-15 turnover) for each subsequent year would probably overstate the potential.

The impacts on affordability for tenants that move into converted homes is a separate issue considered later in this report.

C) POTENTIAL UPLIFT ON CURRENT COUNCIL RENTS

The tables below show examples of the weekly uplift in rental income that would be achieved (i.e. the increase compared to current social rents) if Affordable Rents were charged at 60%, 70% or 80% of market rents. Illustrations are given for the whole borough alongside each of the five districts for comparison.

Whole borough			
	80%	70%	60%
1 bed	50	34	17
2 bed	67	47	26
3 bed	91	66	40
4 bed	161	127	93

Basildon town			
	80%	70%	60%
1 bed	66	48	30
2 bed	69	48	28
3 bed	73	50	27
4 bed	148	115	82

Laindon			
	80%	70%	60%
1 bed	50	34	18
2 bed	63	43	23
3 bed	86	62	37
4 bed	181	144	107

Pitsea			
	80%	70%	60%
1 bed	38	23	8
2 bed	53	34	16
3 bed	54	33	12
4 bed	120	91	61

Wickford			
	80%	70%	60%
1 bed	48	32	16
2 bed	69	48	28
3 bed	90	65	40
4 bed	143	111	79

Billericay			
	80%	70%	60%
1 bed	72	53	34
2 bed	89	66	43
3 bed	123	94	64
4 bed	208	168	127

A key determinant of establishing suitable benchmark rents is their relationship to social rent levels and thus the question of addressing the disconnection between the two principal rental

markets. We can see from the analysis that 60% affordable rent levels in Pitsea for 1 and 2 bed homes are fairly close to prevailing social rents (£88 and £113 pw as 'affordable rents' compared to £80 and £97 social rents respectively) and, at a 40% discount on the average rent, are a good way off the market. We have taken the view that the challenge here is to explore in the first instance affordable rent benchmarks which represent a significant difference from the social rent regime and then explore their relationship with actual and hypothesized earnings.

On this basis we suggest that the borough wide median rentals are a sound benchmark for – at least – the 1 and 2 bed homes affordable rented market. The ensuing questions are around understanding the gap with social rents and the gap to actual market rents and assessing different % levels with actual and potential earnings of households seeking new homes in the borough.

Given the scale of the existing gap between social rents and the actual market, there are significant differences at 60%, 70% and 80% levels of the market. Even at 60% of market rates, the net increase in weekly rent payments over social rent levels is £17pw for a 1 bed home and £28pw for a two bed home. At 80% the net increase is £50pw and £69pw respectively. At 80% of the average rent, this still leaves the rents £32pw below the borough median private rent for 1 bed homes and £40pw below the borough median private rent for 2 bed homes (£164pw and £203pw respectively).

It follows that the 70% benchmark represents most closely the midpoint between social rent levels and average market rents. Conveniently this level also avoids collision with LHA rates for properties in all areas of the borough. At this benchmark the increase from social rents for a one bed home is £34pw and for 2 bed homes is £47pw. The 70% benchmark rents are respectively £50pw and £59pw below the borough average market rents.

Whilst the 70% benchmark best represents the midpoint between the two existing rental markets and thus offers the best prospect of some continuity across both, the actual implied rents need to be tested against suitable affordability criteria for local households aspiring to live in the borough and perhaps especially in relation to those local households in housing need for whom the borough wishes to make suitable provision.

Illustrating different approaches to conversions – property sizes plus number of conversions

Using 70% of the borough median as a basis, for the reasons explained above, we can use 2014-15 stock turnover figures to illustrate the hypothetical additional year one rental income generated from conversions of existing social rents to affordable rents.

	Additional annual income from 1 property	Additional annual income if 10% relets converted	Additional annual income if 50% relets converted
1 bed	£1768	£8840	£45,968
2 bed	£2444	£7332	£36,660
3 bed	£3432	£10,296	£48,048

The financial benefit to the Council is sizeable, and contribution to development potential is explored below.

In practice it would only be possible to convert 50% of 2 bed relets if transferring tenants were charged Affordable rather than Social Rent – because more than 50% of 2 bed properties are let to transferring tenants currently.

In the meantime it is worth considering the impact on affordability. The second column in the table above (additional annual income from 1 property) shows how much more rent a household would pay each year compared to a social rent. Following sections of the report address this in more detail but at this point it is worth noting that our analysis shows that at the 80% benchmark even households earning the median borough income of £32k pa become eligible for means tested benefits if they have more than one child. Only single people, childless couples and families with one child who earn the median income are deemed not to need means tested benefits.

Given that most households on the Housing Register earn significantly less than £32k per year then a key determining factor will be the types of households which the Council wishes to assist with its housing and other resources. Subject to the findings of the concurrent Housing Needs study, the Council may have options to make provision for modest and lower earning households through new affordable rented homes whilst maintaining much of its social rented provision.

SECTION 2: POTENTIAL DEMAND FOR COUNCIL AFFORDABLE RENT PROPERTIES

Why potential demand is relevant

In order that it can meet its financial and strategic commitments, the Council will want to ensure it can let its properties and that it is catering for a defined housing need in the area. Understanding potential demand for Affordable Rent properties is therefore important.

Affordable Rent is mostly used to accommodate the same client group who would otherwise move into social housing. After several years of operation some housing associations (who let Affordable Rent properties) and councils (who oversee allocations to the properties) have begun to raise concerns about both affordability and 'letability' of Affordable Rent when it is aimed at the same people who would otherwise live in social housing. Landlords that are currently considering the use of Affordable Rent have the opportunity to take account of these concerns.

Affordable Rent was not designed to be an 'intermediate tenure' i.e. catering for a client group who can afford/would benefit from accommodation priced between social and private rents. However the only requirement on local authorities is that Affordable Rent properties are let in line with their lettings and allocations policy, so potentially it could be used as an intermediate tenure if that was desirable.

Operation of the private rental market – trends and access

The pattern and type of private rented homes on the market results in an uneven distribution of rent levels. The analysis of the range of rental prices for a given size of home shows that rental prices are skewed towards the middle and higher end of prices. Whilst identifying the median (middle) and lower quartile (lower 25%) accurately sets benchmarks for the range of affordability, it does not expose the very low numbers of private rented homes which have rents significantly below the lower quartile figure or their distribution. For example, the borough distribution of private rental prices for 2 bedroom houses shows that nearly all of the homes below the median price (£208 per week) are actually within 5% of the median rent level. Only one property which came onto the market during our analysis had a rent level lower than 8% below the median rent.

This skewing across the distribution of rental prices has a number of effects and consequences. First, low earning households have no effective access to the wider private rental market. Secondly, the scarcity of private rental homes at the lower end of rental prices, the lowest 10th percentile, means that there is no effective supply of rented homes for low earning households including all those earning below the median wage level. Thirdly, the rental price gap between the vast majority of private rented supply and the social rented sector represents two disconnected supply markets.

There is a smaller private rental market not operated by professional agents which caters for households in receipt of benefits. This market is supported by the Basildon Community Resource Centre which provides an effective service for local landlords willing to let to tenants in receipt of benefits thus accepting rents within the LHA levels. Our analysis confirms that these rental prices are pitched at the lowest 10th percentile of market rents and are almost exactly all at 80% of median market rents. Basildon CRC estimates its market turnover to be c.65 lettings per year which represents around 10% of the private rental market. In addition the Council recently launched the 'Property Solutions' initiative to encourage landlords to let to households in receipt of benefits, which in its early days has contributed one new letting per month.

The polarisation of rental prices and markets results is a very inefficient process of 'allocating' households to homes in the borough and suggests a need to explore ways of strengthening an 'intermediate' market.

Housing register profile – household composition

The housing register gives a reasonable indication of the profile of households who need sub-market rental accommodation in the area. It should be noted however that many households living in the private rented sector that may benefit from cheaper rent due to their incomes are currently excluded from joining the housing register. The Housing Needs Study may provide more information on this group.

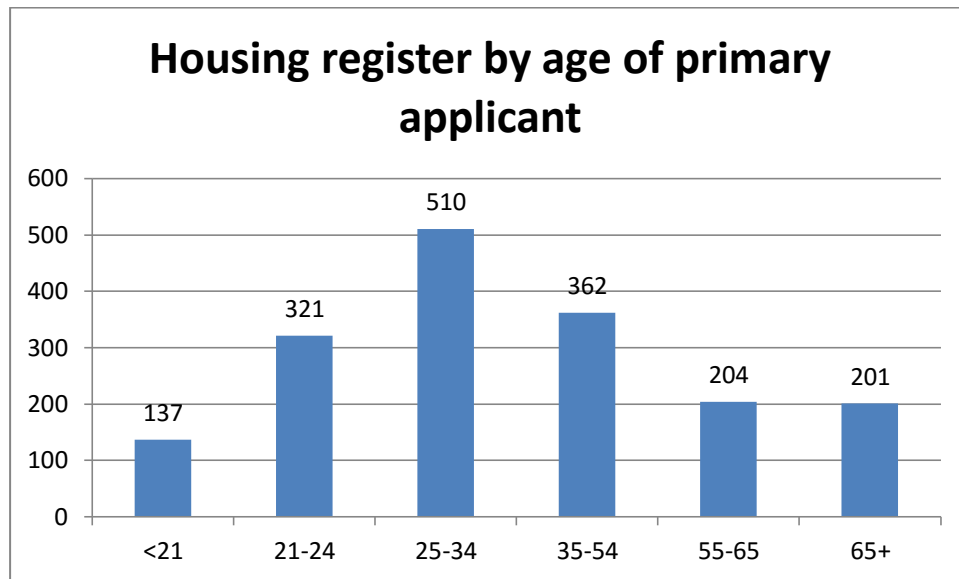
Basildon Council has recently revised criteria for access to its housing register, and households on the list were required to re-apply as part of this revision. At the time this study was undertaken, a large number of applications received due to this requirement were still to be determined. Data from these applications have been included in the figures presented here because, regardless of whether they are accepted onto the housing register, they give profile information about people expressing a desire to live in social/affordable housing.

1735 households were on the Council's housing register in July 2015, of which 612 were known to be general applicants, 404 were existing tenants wishing to transfer (330 council; 74 housing association), and 302 were homeless.

The register is split almost equally between 'families' (requiring two or more bedrooms) and households without children (requiring one bedroom). Three quarters of families on the housing register require two bedrooms. It should not be assumed that all applicant families have dependent children – some will have adult children and others could comprise relatives who are not a family unit. Families that can be accommodated in this way can reduce the demand for accommodation because, for example, adult children are not seeking to live as an independent household.

Bedrooms allowed	Single	Couple	Total	Employed member
1	753	125	878	345 (39%)
2	523	122	645	142 (22%)
3	131	29	160	35 (22%)
4	25	11	36	8 (22%)
5	12	2	14	5 (36%)

88% of potential future tenants are of working age (17-64). 23% are in or approaching retirement (55+).



Household incomes give an indication of people's circumstances, which can be useful for assessing potential fit with other Council policies as well as their ability to pay different levels of rent.

There are 535 households on the housing register where at least one person on the application is employed – this is 31% of households (and 35% of working age households). There are 1200 households where no-one included in the application is employed – 69% of all applicants. 1010 of these are of working age, which is 66% of working age applicants.

The incomes of housing register applicants are considered in more detail in section 3 below.

Annual lettings compared to housing register

Comparison of last year's lettings to this year's demand shows that the level of annual vacancies is still well below numbers on the housing register when property sizes are matched to household sizes. Current tenants who wish to transfer are the most likely to be accommodated, with general applicants next and homeless applicants last (although additional homeless households are accommodated through an offer of a permanent tenancy for the temporary accommodation they already occupy). Access to more properties would therefore help the Council house people from the housing register more quickly.

Issues and observations

There is very high demand for one and two bedroom Council properties, which would cater for the needs of single people, couples, and smaller families. The private market does not cater well for these households, and shows no signs of doing so in the near future.

Current annual lettings to Council and housing association properties cannot cater for this level of demand, and so additional supply would be of value to these households because they could get housed more quickly in suitable accommodation. It could also be of value to the Council if it wished to make better use of its stock (by catering for people wishing to transfer) and to reduce expenditure securing accommodation for homeless households.

Households wishing to transfer make up a high proportion of demand as well as lettings but, as discussed in section one, an offer of Affordable Rent may not be considered appropriate for this group. If the Council needs new homes to be let at Affordable Rents, then transferring tenants may be effectively excluded (by policy or by self-selection) from these properties.

One third of applicants have an earned income, and many of these want one bedroom accommodation. Earned incomes are generally low, at lower quartile or below. It will be important to understand the impact of Affordable Rents on affordability for these households, so that the Council can take account of effects on demand and rental income from this group, along with their quality of life. Members of this group aged over 25 are likely to benefit from the new National Living Wage which should increase full time earned incomes by £1200 a year (around £25 per week), and this should slightly improve rental affordability for this group.

The government's proposed mandatory 'pay to stay' scheme could reduce demand from higher income tenants for social/affordable rent housing, as they face having to pay a market rent for that property. Conversely, these households may still seek social/affordable rent housing to gain security of tenure and the Right to Buy. 89 households on the housing register are recorded as having an income above £30,000 (the new 'pay to stay' threshold outside London), and 15 of these have an income above £40,000 (the Greater London 'pay to stay' threshold). These figures should be indicative only, because the operation of pay to stay will not be known until later in the year. The policy is likely to take account of only the incomes of the lead tenant and partner, so these figures could be overstated.

Two thirds of applicants have no earned income, and many of these want one or two bedroom accommodation. Whilst housing benefit/universal credit will cover social or Affordable Rent for many of these households, it will be important to understand whether the Council's income would be at risk from known or future welfare reforms, or whether a higher rent could pose a barrier to the tenant entering work.

The benefit cap will have a bearing on how much rent unemployed working age people can afford to pay – and therefore on the Council's ability to house people on its housing register. There are 4 households on the housing register whose stated income would draw them into the current benefit cap of £26,000. 12 households would fall under the new cap of £20,000 which is due to apply from April 2016. These figures could be overstated if they include incomes other than for the lead tenant and their partner. However it is more likely that these figures are understated – where applicants who are not currently paying rent claim housing benefit their incomes will increase once a tenancy is allocated and may breach the cap.

SECTION 3: POTENTIAL CONSTRAINTS ON AFFORDABLE RENT LEVELS AND NUMBERS

In terms of regulation and legislation, the Council would have a reasonable degree of flexibility in setting Affordable Rents and deciding how many Affordable Rent properties it wishes to provide.

It can charge Affordable Rents for self-funded new build if it wishes. Rents should be set using a RICS approved method (i.e. comparison to local private rents), and increased in line with rent policy (likely to be updated in the forthcoming Housing Act). Any service charges cannot take the total amount payable by the tenant above 80% of market rents. There is a widespread expectation that Affordable Rents will not go above Local Housing Allowance rates. There is no requirement to use the same percentage of market rents for different sized properties.

It can convert existing social homes to Affordable Rents only if it is allocated grant from the Homes and Communities Agency. Conversion numbers and rent levels would be a formal part of the funding agreement agreed between the Council and the HCA, and would be agreed based on 'efficiency' of the bid and overall contribution to viability.

If the Council did decide to use Affordable Rents it may want to consider some self-imposed constraints on rent levels, property numbers and allocations. Self-imposed constraints could help to avoid difficulties around lettings, income collection and reputation. They can also help to make rent policy and housing provision dovetail with wider strategic objectives.

A) PROFILE OF DEMAND

As set out in sections one and two, there is a high demand for Council property from existing tenants who wish to move, and from people above retirement age. It may be undesirable to charge higher rents to these groups, although the ability to house more people using the additional income may counterbalance this perspective.

These groups have relatively low incomes, and the gap between social and intermediate rents is quite high. This is very noticeable for properties with three and four bedrooms, for which affordable rents may be impractical unless set at a much lower proportion of market rents. Demand for properties of these sizes is comparatively small, and although supply is also lower it could still mean that it is more difficult to let them if higher rents are charged – because the higher rents could be a deterrent.

B) HOUSING ASSOCIATION AFFORDABLE RENTS IN BASILDON

Why housing association affordable rents are relevant

The Council provides the majority of social housing in the Basildon district, but housing associations with sizeable stock holdings are already charging Affordable Rent for new and existing homes. The Council may want to take account of existing housing association practices when determining its own policies on Affordable Rent. Housing association stock is often mixed in amongst Council properties, and applicants may not differentiate between landlords when applying for homes through the choice based lettings system. Council and housing association staff report that seeing different rents advertised for similar properties influences applicant behaviour, and that it now takes longer to let vacant Affordable Rent homes than comparable social rent properties.

Current practices

The major associations – Swan and Circle – develop new homes at affordable rent and have converted existing homes to support this. Circle confirmed that it does not use Affordable Rent for sheltered or supported housing. Family Mosaic does not charge Affordable Rents in the borough.

Both Swan and Circle charge 80% of market rent for all properties, but Circle is currently reviewing whether this is appropriate for 3 bedroom properties. Both organisations do not allocate differently for Affordable and Social Rent, and they give all existing transferring tenants social rent. Swan still gives lifetime tenancies for Affordable Rents. Swan has reached its quota of conversions, and properties already converted are one and two bedrooms.

Stock numbers and rent levels

In March 2015 housing associations provided 5176 general needs social housing units in Basildon and 128 Affordable Rent. This is a slight increase on March 2014, when housing associations provided 4944 general needs social housing units and 99 Affordable Rent. 50% of the Affordable Rented homes are 2 bed, 29% are 1 bed, 20% 3 bed, and 1% bedsit. There were no properties let at sheltered/supported Affordable Rents.

Rents are around 60% of current market rents. Associations' policies are to charge 80%, and it is likely that the difference can be explained by market rent increases since these rents were set and properties being in areas with lower than average market rents.

2014 figures

The Affordable Rents are noticeably higher than average social rents, and bring extra income of £14 per week for one bed and £27 per week for a two bed.

	Total number	Median rent	Median service charge	Spread of service charge	Spread of rents	% of current (borough wide) market rents	Increase on social rents
Bedsit	1	84.00	-	-	84.00	60%	12.87 (71.13)
1 bed	29	93.06	3.31	3.31-11.77	93.06-95.62	57%	14.02 (79.04)
2 bed	50	124.86	6.09	0.13-6.19	118.42-143.57	59%	27.41 (97.45)
3 bed	19	138.10	1.08	0-1.08	125.45-138.10	54%	30.11 (107.99)

2015 figures

The relationship between Affordable Rents and average social rents has changed, and they now bring extra income of £19 per week for one bed (higher) and £23 for two bed (lower).

	Total number	Median rent	Median service charge	Spread of service charge	Spread of rents	% of current (borough wide) market rents	Increase on social rents
Bedsit	1	91.20	-	-	84.00	60%	16.36 (74.84)
1 bed	37	101.73	5.75	3.98-7.91	85.47-104.02	63%	19.65 (82.08)
2 bed	65	119.22	4.19	0.14-7.99	99.18-150.54	58%	23.49 (95.73)
3 bed	25	140.54	1.20	0-1.20	130.09-160.82	55%	33.21 (107.33)

There is quite a large spread of rents for the 2 bed properties in particular, and rents at the upper end do anecdotally strike Council staff and potential applicants as high.

Lessons learned

Housing association and Council staff have commented that Affordable Rents are noticeably higher than social rents, and that this is quite stark when viewed on the choice based lettings system. For example, a 3 bed property in Vange was recently advertised at around £150 Affordable Rent for new tenant, but the same property would be let for around £107 social rent to a transferring tenant.

Staff also observe that letting times are longer for Affordable Rents especially where similar properties are available nearby at social rents – tenants appear to be aware of, and influenced by, the difference in rents.

There is growing concern that Affordable Rent at 80% of market rents is problematic for three bed properties. Reducing the percentage of market rent charged could make the properties more affordable for earning and benefit dependant households, whilst still bringing in extra income for the landlord. However it could remove the price differential between two and three bed homes.

Housing associations commented that some councils prescribe/direct the amount of Affordable Rent they can charge, by setting maximum amounts or maximum percentages of market rents.

Issues and observations

Affordable Rents are still fairly new in the borough and their relative novelty may make them stand out to staff and tenants alike. Tenants appear to be aware of the higher Affordable Rents and to adapt their bids for property accordingly. The Council may find it harder to let Affordable Rent properties, although demand for newly built homes does tend to be higher so it is possible that this effect could be seen more for conversions. Similarly, increasing the amount of Affordable Rent properties may alter this behaviour.

Although the different social landlords operating in Basildon are all separate entities, the housing they offer is broadly the same (tenure, price, client group etc.) and so when one landlord adopts different practices it tends to stand out. If Council rents differed significantly from housing association rents due to the adoption, or not, of Affordable Rent it could be quite noticeable. 80% of market rent now will be quite a bit higher than the 80% used to set housing association rents two years ago, and so it would be noticeable that Council rents set

on this basis now were higher. Similarly, divergence from now-established housing association policies of offering social rent to transferring tenants and not using Affordable Rent for sheltered housing may require more detailed consideration than if the Council had made the first move.

Officer level dialogue about use of Affordable Rents in the borough could lead to beneficial information sharing and a harmonisation of approaches, as has been seen in other areas.

C) AFFORDABILITY OF AFFORDABLE RENTS

Why incomes and affordability are relevant

There are two sides to the income and affordability question relating to affordable rent.

Firstly, the potential additional landlord income offered by Affordable Rent needs to be balanced against whether the intended tenants will be able to afford the rent, and how paying this level of rent will impact on their quality of life. Households' general wellbeing may suffer if they struggle to pay for sub-market accommodation, and the Council as a landlord is exposed to financial risks if properties stand void, turnover is high or arrears grow because tenants cannot afford the rent. The Council is also required to ensure accommodation used to discharge its homelessness duty is affordable, and its actions can be challenged on these grounds. The Council defines 'affordable' as being within the Local Housing Allowance for the purposes of its homelessness functions, but it is worth noting that concerns about affordability of Affordable Rent were being quite loudly voiced in the housing sector until very recently.

Secondly, as an area with a fairly high cost of living, there may be people who could manage to pay an intermediate rent but not a market rent, who would benefit from Affordable Rent. The Council may be able to deliver housing, economic and wellbeing objectives by catering for these people.

Definitions of affordability for different groups

For working age households without an earned income, affordable tends to mean that housing benefit covers the full rent. Job Seekers Allowance, Income Support, Employment Support Allowance, and Child Tax Credit (and their equivalent allowances within Universal Credit) were not designed to cover housing costs. Although many households do use this money to top up housing benefit, it may be fairest to start from an assumption that they will not need to do this.

For employed households and retired people with a private income (including those getting partial housing benefit), affordable tends to mean that there is a reasonable amount of money left over after rent is paid. Different definitions of affordability exist – housing costs at no more than 35% net income, 25% gross income, or the residual income method. We have used the net income method and also stated the residual income to give an understandable comparable metric alongside an illustrative amount.

Changes to welfare benefits announced in July 2015 will change what can be considered affordable for households (including working households) that claim benefits.

Currently, the Local Housing Allowance is the theoretical upper bound for the amount payable to benefit dependant households, and therefore amounts beyond this would be considered unaffordable. LHA does not actually cap Affordable Rents, but it is established practice to stay within this both to hedge against further welfare changes and to prevent Affordable Rents moving above the bottom end of the private market. We would not recommend setting Affordable Rents close to, or above, LHA rates because they could be

subject to challenge and they expose the Council (and potential tenants) to greater risk of further national policies designed to exert downward pressure on the welfare bill. This would curtail options to charge 80% market rent on 1 bed properties in some parts of the borough.

The revised benefit cap will affect affordability for working age households from 2016. The exact impact depends on household composition and size of property occupied. From 2017, people making a new claim will see additional new restrictions on payments for children, and this also affects the impact of the cap. Examples that illustrate the complexities are provided in Appendix 5. Broadly, non-working single parents with three or more children, and non-working couple households with two or more children will not get enough benefit to cover social rent when this change is implemented. Affordable Rents based on a proportion of local market rents would cause a wider range of non-working households to be hit by the cap.

Cuts to Child Tax Credit will affect affordability for working households from 2017, and these cuts will be only partially offset by the new National Living Wage. All claimants will see reductions, whether in employment or not. Families with three or more children who make new claims will face the biggest financial problems. Working households will have to find more money from earned income to cover the rent. Non-working households will still get their rent paid by housing benefit/universal credit but will have less for other living costs and so may struggle to sustain a tenancy.

The Council may have a duty under homelessness legislation to rehouse people if their home is deemed to be unaffordable. In general unaffordable means higher than the Local Housing Allowance, though there may be impetus to revise this definition in light of forthcoming downward pressure on benefits income.

Household incomes

An overview of local incomes enables understanding of affordability to be developed. Information on the borough as a whole is presented for comparison, then current tenant incomes and potential tenant (i.e. housing register applicant) incomes.

Basildon overall

CACI Paycheck data puts median household incomes for the Basildon borough at £32,671 per year, with the lower quartile income being £17,196.

The Annual Survey of Hours and Earnings for 2014 identifies median individual incomes as £23,814 per year, with the bottom twentieth percentile being £10,888. People in the 20th percentile work on average 22 hours per week.

CACI gives figures for total household incomes, and current housing register data is compared to this. ASHE gives figures for individual earnings, and current housing benefit claimant data is compared to this.

Current tenants

38% of tenants have enough earned income / private pension income to pay full social rent themselves without claiming housing benefit. The remaining 68% get help with housing costs - there are 6809 active housing benefit claims from Basildon tenants. 8% of Council stock is occupied by a working household that receives help with housing/council tax benefit costs. 28% of Council stock is occupied by someone over 65 who gets help with housing costs.

CACI Paycheck data for areas of Basildon with a high concentration of social housing (over 60%) put median household incomes at £20,800 and lower quartile incomes at £12,190. This is well below the median and lower quartile for the borough as a whole.

a. Current tenants claiming benefits

An overview of households getting help with housing costs is below:

	Single	Couple
Adults only	3576 (52%)	711 (10%)
With children	1103 (16%)	456 (6%)
With non-dependents	562 (8%)	162 (2%)
With children & non-dependents	162 (2%)	77 (1%)
Total	5403 (79%)	1406 (21%)

Households headed by a single adult are much more likely to get housing benefit than those headed by two adults.

The total number of homes claimed for, by property size, is:

Number of bedrooms	Total claimed for	Under occupied
1	2823	
2	1554	232
3	2090	498
4	225	72
5	12	2
6	2	1

Not of working age

There are 3018 claims where the household is of pensionable age. 1860 of these claimants are in receipt of guarantee pension credit i.e. they have a particularly low personal income. 28% of Council stock is occupied by someone over 65 who gets help with housing costs.

Working age, not employed

Of the 3791 working age households, 2586 are on 'passport benefits' i.e. they are entitled to have their full rent paid through housing benefit, subject to bedroom tax and non-dependent charges. 24% of Council stock is occupied by households who are solely dependent on benefits.

Single claimant	
	number of households
Claimant only	1096
Claimant + non-deps	234
Claimant + children	702
Claimant + children + non-deps	99
Couple claimants	
Claimants only	142
Claimants + non-deps	54
Claimants + children	212
Claimants + children + non-deps	47

Where claimants are not in work, the profile of children in the household is:

number of children	single claimant	couple claimant
1	363	82
2	231	73
3	143	56
4	46	34
5	15	6
6	2	2
7	-	6
8	1	1

7 households are currently subject to the benefit cap (3-6 children, rents of around £100 per week, 3 capped by amounts they would be unable to cover themselves).

Working age, employed

Households that are in employment and also claiming help with council tax and/or housing benefit costs are likely to be doing so because of either a) low incomes b) larger family size. There are very few claimant households with 4+ children who are in employment. There are also very few claims from households who have a double income – again claims that are made are due to income levels and household composition.

The breakdown of incomes below shows the variation in earned income by household composition – this likely reflects childcare requirements and, perhaps, age of claimant. Gross full time earnings for a minimum wage job would be £227.50, so it appears that the ‘average’ household that works and claims housing benefit is working part time, perhaps 3-4 days per week. Median hours worked by all households is 20, for households with no children it is 16 hours, households with children it is 17 hours, for households with children and non-dependents it is 19 hours, and for households with non-dependents but no children it is 21 hours.

Of the 1205 working age households not on passport benefits, 873 report having employment (employed or self employed). We have looked at employed incomes only, as self-employment is an irregular (if growing) source of income. We have also looked at all earned incomes regardless of age of claimant.

It appears that 638 of the 804 employed households are getting help with housing costs, the rest receive help with council tax only.

Single claimant		
	number of households	median earned income (gross)
Claimant only	120	£111pw
Claimant + non-deps	67	£180pw
Claimant + children	328	£147
Claimant + children + non-deps	50	£127
Couple claimants – sole earner		
Claimants only	25	£132.pw
Claimants + non-deps	15	£122pw
Claimants + children	178	£184
Claimants + children + non-deps	21	£166

These households are all in the bottom 10th percentile of earnings for Basildon, compared to ASHE figures.

Where claimants are in work, the profile of children in the household is:

number of children	single claimant	couple claimant
1	181	51
2	139	76
3	45	47
4	7	20
5	6	12
6	1	-
7	1	-

b. Current tenants not claiming benefits

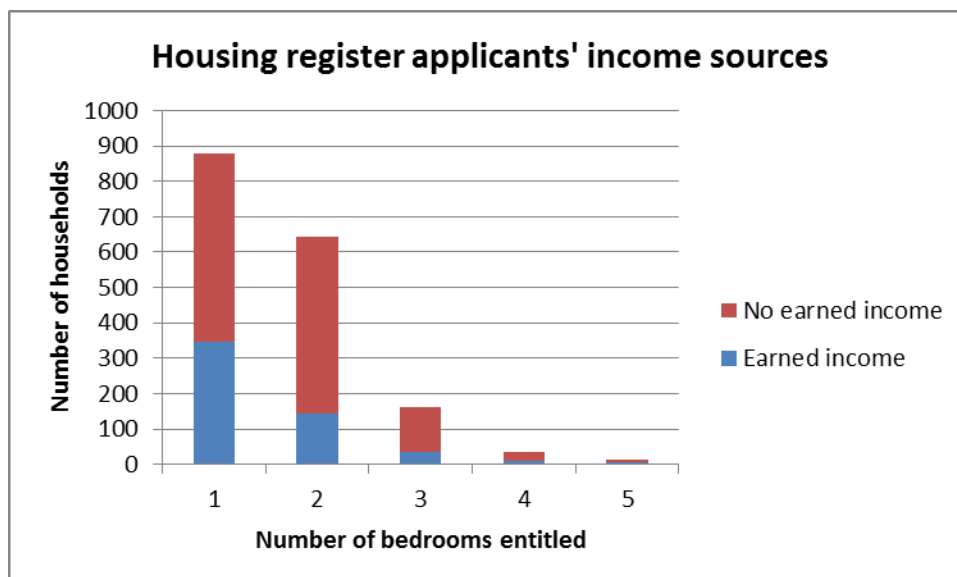
Little is currently known about the incomes of current tenants who do not claim housing benefit.

It would be helpful to have information on this group so that a) their capacity to pay an Affordable rather than social rent can be understood and b) the likely impacts of the forthcoming Pay to Stay policy on Council income, turnover and administration can be analysed and prepared for.

c. Housing register applicants

The housing register gives an idea of the incomes of people who will be coming into Council accommodation in the near future. Understanding the split of households with and without an earned income, and the total household income of all applicants, can help to illustrate what rents would be affordable for the likely profile of new tenants in the near future.

It is worth noting that 39% of applicants for 1 bed properties, and 22% of applicants for 2-4 bed properties, are in employment. If we look only at applicants of working age this is 49% for 1 beds and 22% for 2-4 beds. The rent charged will therefore directly impact on their disposable income and potentially quality of life.



Working households

Where households report an annual income of between £1000 and £90,000, the median income for households with at least one employed member is £19,800 and the mean £20,600. We express some caution when stating this figure because a review of the data suggest there may be inaccuracies in the way total annual household income is recorded. Nevertheless we are confident that it is a reasonable ballpark figure.

Incomes shown are the total income for the applicant household (this is what the register collects. This could be misleading as in larger households it is not necessarily the income of the person/people responsible for paying the rent. There are 1025 people on the register that are employed, spread across 535 households. Given the number of applications headed by one person rather than a couple, it is reasonable to assume quite a few households contain a working non-dependant adult.

The table below shows that income varies by age of lead applicant, as one might expect. Incomes are well below Basildon's median household income of £32,000, and tend to cluster around the lower quartile of £17,000.

Age of primary applicant	Total number	At least one applicant in employment	Median/mean earned household income
<21	137	37 (27%)	£12500/ £13300
21-24	321	127 (40%)	£18000/ £18700
25-34	510	191 (37%)	£22900/ £22300
35-54	362	92 (25%)	£23300/ £24600
55-65	204	74 (36%)	£14200/ £15500
65+	201	11 (0.5%)	£23000/ £24800

The following table gives a more detailed breakdown of the number of households with an earned income, by age and bedroom entitlement.

Age	Single (by no. bedrooms allowed)					Couple (by no. bedrooms allowed)				
	1	2	3	4	5	1	2	3	4	5
<21	28	3	1			3	2			
21-24	83	15	1			15	13	3		
25-34	83	32	8	2		12	44	8	1	1
35-54	41	17	9	2	3	7	7	2	3	1
55-64	48	3	3			17	3			
65+	6	2				2	1			

The following table gives a more detailed breakdown of the median and mean incomes of households with an earned income, by age and bedroom entitlement. Incomes rise to middle age, and then fall. They also rise with household size (bedroom entitlement) – although of course living costs rise with this too. It is not possible to see what is earned income and what is benefits such as tax credits, but it would be assumed that larger households do have their

earned income supplemented by benefits. Care should be taken around incomes for larger households in each age group - there is a small number of cases so they are not necessarily an accurate representation of incomes for households of those sizes.

Age	Single (by no. bedrooms allowed)					Couple (by no. bedrooms allowed)				
	1	2	3	4	5	1	2	3	4	5
<21	£11500 / £10700	£21600 / £20000	?	-	-	£20200 / £20000	£22000	-	-	-
21-24	£14500 / £15500	£23500 / £23100	£18000	-	-	£20300 / £21800	£27000 / £25000	£28900 / £28500	-	-
25-34	£16000 / £16800	£25500 / £24100	£30000 / £30500	£32400	-	£20400 / £20100	£26000 / £25300	£24000 / £25800	£23200	34100
35-54	£19300 / £19400	£22300 / £21300	£30500 / £31300	£25000	£36400 / £32500	£37000 / £33700	£30600 / £29100	£19483	£36500	£32000
55-64	£14000 / £14200	£10000 / £10400	£14100 / £16900	-	-	£24000	£32500 / £31400	-	-	-
65+	£20100 / £18800	£21099	-	-	-	£28800	£33000	-	-	-

Households with no earned income

Using the data available where households report an annual income of between £1000 and £48,000, the median income for households with no earned income is £10,600 and the mean £12,300. These households are well below the lower quartile income for Basildon as a whole.

The following table gives a more detailed breakdown of the number of households with no earned income, by age and bedroom entitlement.

Age	Single (by no. bedrooms allowed)					Couple (by no. bedrooms allowed)			
	1	2	3	4	5	1	2	3	4
<21	37	63	-	-	-	0	3	-	-
21-24	38	128	5	-	-	2	17	1	-
25-34	53	177	48	7	-	3	19	8	4
35-54	99	72	53	14	9	3	7	5	3
55-64	96	7	3	-	-	20	3	1	-
65+	141	4	-	-	-	41	3	1	-

The following table gives a more detailed breakdown of the median and mean incomes of households with no earned income, by age and bedroom entitlement. These increase above pensionable age and by number of bedrooms allowed, in line with the benefits system.

Age	Single (by no. bedrooms allowed)					Couple (by no. bedrooms allowed)			
	1	2	3	4	5	1	2	3	4
<21	£8000/ £8300	£7600/ £10000					£15300/ £17100		
21- 24	£6400/ £7200	£9000/ £11000	£17500/ £15000			£4100	£17500/ £16600	£17000	
25- 34	£6000/ £7100	£12800/ £13800	£12900/ £13300	£24500/ £26000		£21100/ £23000	£20700/ £19500	£23000/ £21400	£17600/ £21800
35- 54	£6000/ £8400	£11700/ £13800	£11200/ £12200	£16800/ £16900	£23000/ £23500	£14600	£22800	£18200/ £23300	£27700/ £32800
55- 64	£7600/ £8000	£14300/ £14000	?	-	-	£19900/ £20700	£11600/ £12000	?	-
65+	£11500/ £11700	£9100/ £16000	-	-	-	£17100	£21400/ £1640	£41600	-

Issues and observations

A high proportion of future tenants rely on benefits to pay their rent and/or to help with living costs. Therefore, to ensure its viability, Affordable Rent would need to fit with the changing benefits system or target a different client group.

Future tenants who are in work generally have low incomes, and so Affordable Rent would need to support continued employment and payment of rent. Its ability to do this is explored in more detail in the following paragraphs.

Impact of different thresholds of affordable rent on household incomes

Tables that illustrate the impact of different thresholds of Affordable Rent on household incomes are presented in Appendix 6.

They model a range of archetypal households, with a range of incomes, paying a range of rents. The resulting information shows the impact of different rent levels on:

- Residual income after rent is paid
- % of net income spent on rent – using 35% as an affordability threshold
- Interface with maximum LHA amounts
- Interface with the new benefit cap
- Increase in Housing Benefit payable compared to social rent.

Appendix 5 sets out the changing impact of LHA and the benefit cap on the ability of different types of household to pay rent as welfare reforms come in from 2015-17.

In broad terms the means tested benefits system provides a very similar residual income position across a range of low earnings notwithstanding variation in rental charges, provided that the rent charged is within prevailing LHA levels. This means that earning more does not significantly improve residual income for the lowest earners.

The critical change in residual incomes is where there is no wage earner, or extremely low wages, so that the household is effectively wholly dependent on benefits as the source of income.

Households may be in receipt of low wage rates, near the minimum wage, and work considerably less than the full working week and still get sufficient benefits support to have residual incomes in a fairly narrow range for their size of household. For example, the analysis shows residual weekly income for a single parent with two children in a 2 bedroom home ranges between £322 and £358 for earnings which may vary from £8,000 pa to

£17,000 pa irrespective of the wide range of rental charges, in our examples from a social rent of £95 pw to 80% of market rents at £164 pw.

Higher rents trigger correspondingly higher housing benefits, smoothing residual income across a range of low earning households. There is some incentive to work longer hours, or improve skills to secure better paid jobs, but across low earners – in our analysis those earning £17,000 pa or less – the increase in residual income if more hours are worked or a slightly better wage is secured is modest. Universal Credit is designed to address this to some extent, but due to recently announced reforms the improvements are quite limited.

Similarly, the spread of percentages that show rent as a percentage of net income for low earners, whilst wider, on the whole does not go beyond the 35% limit which often is used as a benchmark of affordability. The effects for single person households stand out as an exception to this 'rule' so that the 35% benchmark often is passed for single low wage earners but this reflects the understandable significant difference between the living costs of a single adult as compared to the living costs, say, of two adults and two children - so does not provide a different or better guide to the core question of 'affordability'.

The broad conclusion from this analysis is that, at present, the means tested benefits system, principally through the operation of the housing benefits system, sustains a similar level of required household income across the range of low earning households and, in effect, provides all such households with affordable homes – as long as their rent is within the LHA levels.

A highly relevant associated issue which is partly reflected in the percentage rate of rent as a percentage of net income, is the absolute level of rent per week. By definition households in receipt of significant amounts of benefit income are close to the limits of what can be managed on a day to day basis and fluctuations in their circumstances may quickly lead to arrears of rent so that higher 'affordable rents' will so much more quickly mount up with obvious implications for the Council – and difficulties for the household.

The broad conclusion is that where the Council expects to be housing and rehousing mostly households on low earnings – typically around £17,000 and below – then rental variations from social rent levels to around 70% of market rent averages will be affordable due to the support of the benefits regime. At 80% of market averages we start to see percentages above the 35% benchmark. Combined with our earlier analysis of the disconnection between the two principal rented markets, this points to an Affordable Rent setting of 70% of current market averages.

We also need to identify the points at which households earning modest incomes above the c.£17,000 range and approaching the median borough level of £32/£33k pa could be considered to be able to pay 'affordable rents'. Appendix 6 identifies these points for four of the five archetypal households. The fifth, households with 3 children requiring 3 bedrooms, are not included here because the present good supply of 3 bed homes in the social rented sector combined with the development viability challenges for new AR 3 bed homes and the significantly higher household living costs for such households suggest that, for the time being at least, there is no net benefit to the Council of including 3 bed homes in an AR regime.

The tables at Appendix 6 show for the four archetypal households the income points at which means tested benefits are triggered. These range from £28k to £35k pa for the families and £18k for a single person. As noted, the position for the single person household in relation to the benchmark affordability test of 35% of net income is quite different. In order to satisfy this affordability test earnings need to be at or higher than £20k pa.

We suggest that these earnings levels are compatible with Affordable Rent pitched at 70% of average market rents.

The analysis of household earnings of those living in the borough and those likely to be formed in the future and seeking homes is not as comprehensive as we would wish. The overall median point seems to be £32k/£33k pa. Further work on this aspect is being undertaken by the Council.

The concurrent Housing Needs Study may shine much more light on this key aspect but our analyses suggest that an Affordable Rent regime set at 70% of median private rentals would provide affordable homes for the archetypal household types we have identified earning modest incomes in the range from £28k to £35k pa for the families and at £20k for a single person. At the same time, the current benefits regime would be triggered for households earning below these figures and would support those households and in effect provide the affordability for their homes too – without breaching the 35% benchmark (single persons households excepting).

We recognise however that these calculations are theoretical and do not take account of interlocking policies in relation to lettings, housing register and housing management considerations in the best utilisation of the existing social rented stock and questions of 'parity' with the local housing association stock.

Neither do they take account of the actual, absolute and significant weekly mark up of rents from social rent levels which, in a choice based lettings system, may genuinely constrain movement and acceptances and, in management terms, might significantly impact on arrears and risk to tenancies.

These latter considerations have led us to suggest two main options for the Council:

Option 1

Establishing an Affordable Rent regime at 70% of average market rents for households currently able to apply through the housing register, and assimilating the risks of tenancy failures, benefits dependences and arrears; all balanced against revenue gains to the Council offset in the public sector by increases in the housing benefits bill.

Option 2

Establishing an Affordable Rent regime at 70% of average market rates for working households earning modest incomes – mostly from £28k pa upwards – which would ease the affordability challenge for all such local households presently priced out of the local housing market but not necessarily expecting or wishing to access social rented homes

AND

Establishing an Affordable Rent regime at 60% of average market rates for working households on low earnings and for those outside the labour market, recognising that the present housing benefit regime effectively supports the affordability of their homes. This latter approach would help to ease the gap between the social rented sector and the private market, would provide much needed additional revenue and would mitigate the practical effects of the significant mark up of social rents.

This means that creating Affordable Rent provision at the 70% mid-point will cater for most households with solid/modest average earnings (3 beds excluded because of child costs).

Non-working families living in 2 bedroom properties would be hit by the benefit cap if rents were set at 80% of market rents. Families in 3 and 4 bedroom properties will be hit by the cap even at social rents, but affordable rents would exacerbate the problem.

So if the Council chose to use Affordable Rent to extend the social rented market, we would recommend keeping close to 60% and certainly no higher (and the benefit bill on average will be higher). However if the Council decided that it has the capacity to cope with low earners housing needs across the social rented stock and can at the same time invest in Affordable Rent to create an intermediate housing market, then a connecting market at 70% would cater for moderately waged households who the Council might wish to attract/retain in the borough.

SECTION 4: ILLUSTRATIVE IMPACT ON DEVELOPMENT VIABILITY

The previous sections explore the potential to charge Affordable Rents, their possible place in the local housing market, and possible policy matters relevant to their use. Taking account of the values and issues covered, this section illustrates how Affordable Rents could contribute to a development programme in Basildon.

The figures provided are to illustrate the relationships between different variables, using figures that are realistic for the social housing sector. It is not intended to illustrate what would or could be achieved in Basildon. The modelling that provides the figures uses variables based on typical social housing sector practices, along with Basildon-specific rents. It does not necessarily mirror assumptions made in existing business plans for Sempra Homes or HRA development. It also looks only at Social and Affordable Rents, and does not include possible cross subsidy from market rent or sale properties. More specific modelling is needed to support a development programme, and whilst Ark can provide Basildon with the model used to support this, we understand you already have a suitable model available in house.

The following variables have been used:

- £120,000 per unit build costs
- £20,000 per unit internal subsidy (e.g. from RTB receipts, HRA surplus etc.)
- £500/£600 annual management costs (new build/existing stock), rising 0.5% above inflation
- £1000/£1200 annual maintenance costs (new build/existing stock), rising 0.5% above inflation
- CPI inflation rising to 2.5% over 6 years
- Rental inflation at 0% above CPI after 4 years of 1% reductions
- 3.5% voids/bad debts
- 5.5% discount rate.

The model assesses financial performance over 45 years, with a positive Net Present Value an indicator of viability. We understand that Sempra Homes models viability over 45 years so have adopted the same timeframe, although we note that most housing associations work with 35-40 years currently.

A development programme model would typically assume a pipeline of new properties coming forward over several years. However, to give a simple illustration of the financial impact of Affordable Rent compared to social rent we have assumed no development after year one.

WITHOUT CONVERSIONS

The following two tables show the financial position in pounds (£) – the NPV after 45 years - for development of 10 homes of 1, 2, 3 or 4 bedrooms, with rents set at current Council, 60%, 70% and 80% of median market rents for the borough.

Table 1: No subsidy:

	Social rent	60%	70%	80%
1 bed	-620,399	-424,000	-234,457	-44,912
2 bed	-420,461	-122,132	-117,726	357,583
3 bed	-244,045	221,860	519,046	816,236
4 bed	-208,762	867,720	1,272,553	1,677,382

Table 2: With subsidy

	Social rent	60% median market	70% median market	80% median market
1 bed	-430,826	-234,426	-44,883	144,662
2 bed	-230,887	67,442	307,299	547,147
3 bed	-54,472	411,433	708,620	1,005,809
4 bed	-19,189	1,057,293	1,462,146	1,866,956

The first table shows the clear impact of higher rents on the properties' financial performance. Larger properties with higher rents are viable over 45 years, smaller properties with lower rents are not. Even where the smaller properties are viable, the financial contribution to the business over that period is comparatively small and the performance of those assets would not necessarily be considered valuable/acceptable to the business.

The second table draws attention to the difficulty of recouping the full cost of smaller properties over a 45 year timeframe. When a sixth of the development costs are paid up front financial performance does improve, and some smaller properties become viable at lower rents. However, asset performance for the smaller properties is weak and the much needed affordable 1 bedroom properties remain unviable.

WITH CONVERSIONS

These tables show the financial position in pounds (£) - NPV after 45 years for development of 10 homes of 1, 2, 3 or 4 bedrooms, with rents set at 60%, 70% and 80% of median market rents for the borough if 10% of vacant 1 and 2 bed social rent properties (31 homes) are converted to Affordable Rent when re-let in the first year of the programme. An average starting rent of £84 social rent per week has been used, based on current rents and turnover patterns.

Conversion of social rents to Affordable Rents in order to support development of new social rents seems counter-intuitive (and is unlikely to be supported by the HCA) so is not illustrated here.

It should be noted that in this model the whole surplus rent from converted properties is used to support Affordable Rent development, it is not just the difference between social and affordable that is used. There would be a balancing consequence for the NPV of remaining social rented stock, although no costs are passed from these properties onto the remaining social stock.

Table 3: No subsidy:

	60%	70%	80%
1 bed	1,651,825	2,428,956	3,206,097
2 bed	2,889,485	3,872,904	4,856,318
3 bed	4,299,849	5,518,320	6,736,796
4 bed	6,947,873	8,607,686	10,267,497

Table 3 illustrates the significant difference that a small number of conversions of existing social rents can make to overall viability. Development of the full range of properties is now possible using this approach. However, care should be taken not to overstate the sudden increase in values. The overall asset performance for the smaller properties at lower rents is still weak, because it is now the performance of 33 properties rather than 10.

Table 4: With subsidy

	60% median market	70% median market	80% median market
1 bed	1,841,398	2,618,530	3,395,670
2 bed	3,079,059	4,062,077	5,045,891
3 bed	4,489,423	5,707,894	6,926,370
4 bed	7,137,446	8,797,259	10,457,071

In this example, subsidy does increase the financial performance, but it does not make the striking difference seen in table 2, and its impact compared to conversions seen in table 3 is small.

Issues and observations

The tables above show that whilst letting new homes at Affordable Rents rather than social rents does make a significant contribution to the properties' financial performance, it is not enough to support a viable programme.

They suggest that it may be difficult for the Council to deliver viable Affordable Rent properties of the size and price identified as most suitable in earlier sections (1 and 2 bed homes at no more than 70% of market rents) without a financial contribution above the rental income.

Conversions have a much greater impact on financial performance than subsidy at typical levels. A small number of conversions beyond year one could help the Council to move from simply achieving viability to achieving a level of return that could support ongoing business growth objectives. However – the Council is not currently permitted to convert properties, and the wider policy challenges associated with conversions are explored in earlier sections.

Larger properties have much better financial performance regardless of subsidy and conversions, but they do not match local need in terms of household size or affordability.

CONCLUSIONS AND RECOMMENDATIONS

Previous chapters set out the variables that would affect the operation of Affordable Rent and that may guide the Council's decision on how to proceed.

In summary the key variables are:

- Local private rent levels
- Current social rent levels
- Need/demand for Council-run accommodation
- Affordability to different types of household, including interface with the changing welfare system
- Fit with existing Affordable Rent homes/policies in the area
- Use of existing social stock (conversions)
- Impact on development viability and overall capacity for new supply of Council homes

Charging Affordable Rent would give the Council additional financial capacity to support its development programme. The gap between social and market rents is sufficient that a market-linked Council rent would provide an income uplift. However, development viability and affordability to potential tenants need to be balanced, otherwise rent may not be collected on new properties that are built. Rents that are in close proximity to market levels are unaffordable for households with low to median earned incomes that would be potential tenants. Affordability is less of an issue for households that are wholly or significantly dependent on benefits, but the downward pressure on benefits is starting to constrain the ability of these working age households to pay for Council accommodation.

There is a need for accommodation that caters for both of these groups, and the Council will need to decide if it wishes to target one or both with any Affordable Rent accommodation. 1 and 2 bed properties are best suited to Affordable Rent in terms of affordability to potential tenants, and coincidentally properties of this size would also contribute most to expressed need. 60% market rent may be most appropriate for traditional housing register applicants, and 70% market rent for median income households who are likely to be struggling in the private rented sector. These percentages may need to reduce over time to protect affordability, as social rents fall, and as market rents increase faster than earned incomes.

This level of uplift on Council rents would not deliver a viable Affordable Rent-only development programme. Additional finance would be required to achieve viability – perhaps through internal capital funds or cross subsidy from mixed tenure development. Conversion of some existing 1 and 2 bed social rented homes to Affordable Rent would improve viability, and it may be beneficial to explore gaining permission to do this.

Conversions of existing stock bring additional complexity to an Affordable Rent policy, and need to take account of current stock profile and waiting list composition, plus wider Council functions such as discharging homelessness duties and managing the allocations system.

Affordable Rent is not a panacea and a policy for its use is not without complexity, but on balance it could help the Council to deliver its wider housing aspirations. Careful management and an overview of links to all housing priorities would be key to successful implementation.

Ark Housing Consultancy LLP
OCTOBER 2015

Appendix 1 – Basildon Council stock profile

Overall stock numbers (at June 2015)

Total	10899 (1876 sheltered, of which 169 currently in use as general needs)
Houses	5126
Flats	4080
Maisonettes	510
Bungalows	1183

All properties

	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed	Total
All	576	3633	2551	3710	399	23	2	10895
GN	501	2008	2419	3680	394	23	2	9027
Sheltered	75	1625	133	30	5	0	0	1868

Houses

	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed	Total
All	3	1436	3322	336	23	2	5126
GN	3	1434	3297	333	23	2	5092
Sheltered	0	2	25	3	0	0	30

Bungalows

	Bedsit	1 bed	2 bed	3 bed	4 bed	Total
All	148	664	232	87	51	1183
GN	118	391	180	86	50	825
Sheltered	30	273	53	1	1	358

Flats

	Bedsit	1 bed	2 bed	3 bed	4 bed	Total
All	428	2931	696	24	1	4080
GN flat	383	1581	619	21	0	2604
Sheltered	45	1350	77	3	1	1476

Maisonettes

	1 bed	2 bed	3 bed	4 bed	Total
All	35	187	277	11	510
GN maisonette	33	186	276	11	506
Sheltered	2	1	1	0	4

Appendix 2 – Basildon Council stock locations

Ward	Total	Flat	House	Bungalow	Maisonette
Billericay West	301	191	90	20	-
Burstead	303	138	134	31	-
Crouch	217	95	69	53	-
Fryerns	1503	342	784	107	270
Langdon Hills	238	71	136	21	10
Laindon Park	1208	549	514	144	1
Lee Chapel North	1136	473	568	36	59
Nethermayne	897	318	516	50	13
Pitsea North West	1599	416	757	397	29
Pitsea South East	1154	435	499	126	94
St Martins	1049	453	502	77	17
Vange	604	238	333	33	-
Wickford Castledon	142	98	19	22	3
Wickford North	381	189	153	39	-
Wickford Park	167	74	52	27	14
Total	10899	4080	5126	1183	510

Appendix 3 – Basildon Council rents and service charges

House

	Rent (average)	Service charge (average)	Rent (range)	Service charge (range)
1 bed	80.11	1.69	74.99-82.93	0-5.06
2 bed	94.78	0.08	86.26-128.11	0-5.06
3 bed	100.37	0.23	87.93-134.47	0-36.50
4 bed	108.33	0.23	88.68-145.95	0-5.06
5 bed	121.04	-	109.31-127.49	-
6 bed	121.76	5.06	-	-

Flat

	Rent (average)	Service charge (average)	Rent (range)	Service charge (range)
Bedsit	£69.08	£3.88	65.54-77.83	0-19.14
1 bed	75.86	5.20 (median 2.72)	67.54-89.12	0-17.25
2 bed	84.11	3.25	75.26-97.09	0-39.41
3 bed	91.10	3.01	88.03-102.40	0-10.18
4 bed	102.54	-	-	-

Bungalow

	Rent (average)	Service charge (average)	Rent (range)	Service charge (range)
Bedsit	72.20	2.49	67.79-79.54	0-10.62
1 bed	79.27	5.50	70.66-91.78	0-18.41
2 bed	89.90	3.84	77.10-129.98	0-28.55-
3 bed	97.70	0.33	84.25-105.52	0-10.26
4 bed	105.42	-	101.05-106.66	-

Maisonette

	Rent (average)	Service charge (average)	Rent (range)	Service charge (range)
1 bed	75.82	3.12	75.17-86.97	0-22.54
2 bed	84.06	2.04	82.46-91.58	0-9.63
3 bed	91.82	1.58	83.77-104.48	0-7.03
4 bed	101.22	1.25	100.81-101.71	0-2.66

Appendix 4 – Private rents

Basildon Town

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	7	106	92	113	115
1 bed flat	11	177	150	183	202
2 bed flat	23	203	190	208	219
2 bed house	10	211	196	208	219
3 bed flat	-	-	-	-	-
3 bed house	29	248	219	231	288
4+ bed flat	-	-	-	-	-
4+ bed house	16	326	294	329	346

Laindon

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	7	106	92	113	115
1 bed flat	11	177	150	183	202
2 bed flat	23	203	190	208	219
2 bed house	10	211	196	208	219
3 bed flat	-	-	-	-	-
3 bed house	29	248	219	231	288
4+ bed flat	-	-	-	-	-
4+ bed house	16	326	294	329	346

Billericay

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	2	121	-	-	-
1 bed flat	7	180	162	190	196
1 bed house?	-	-	-	-	-
2 bed flat	16	235	205	225	271
2 bed house	12	253	216	242	289
3 bed flat	1	208	-	-	-
3 bed house	22	309	277	294	346
4+ bed flat?	-	-	-	-	-
4+ bed house	13	412	361	404	450

Pitsea

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	9	117	98	115	133
1 bed flat	8	149	141	147	157
1 bed house?	-	-	-	-	-
2 bed flat	7	172	-	173	-
2 bed house	4	198	-	202	-
3 bed flat	1	191	-	-	-
3 bed house	8	204	196	207	216
4+ bed flat?	1	208	-	-	-
4+ bed house	3	294	-	-	-

Wickford

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	-	-	-	-	-
1 bed flat	3	160	-	-	-
1 bed house?	-	-	-	-	-
2 bed flat	2	251	-	-	-
2 bed house	9	209	193	207	207
3 bed flat	1	202	-	-	-
3 bed house	10	248	225	253	266
4+ bed flat?	-	-	-	-	-
4+ bed house	5	379	-	323	-

Whole borough

	Count	Mean (£)	Lower quartile (£)	Median (£)	Upper quartile (£)
Shared accommodation	24	116	102	115	121
1 bed flat	39	166	150	162	187
2 bed flat	56	208	181	202	222
2 bed house	40	222	207	208	231
3 bed flat	4	201	-	-	-
3 bed house	80	265	225	254	289
4+ bed flat	1	208	-	-	-
4+ bed house	44	356	306	346	404

Appendix 5 – Benefit positions following forthcoming reforms

2015

Household type	Bedroom allowance	2015 'applicable amount'	max rent under benefit cap	max rent under LHA
Single 18-24	1	£57.90	£292.10 (£350-£57.90)	£63.50
Single 25-34	1	£73.10	£276.90 (£350-£73.10)	£63.50
Single 35+	1	£73.10	£276.90 (£350-£73.10)	£132.33
Couple	1	£114.85	£385.15 (£500-£114.85)	£132.33
Lone parent +1	2	£157.45	£342.45 (£500-£157.45)	£166.85
Lone parent +2	2	£224.35	£275.65 (£500-£224.35)	£166.85
Lone parent +2 (boy + girl over 11yrs)	3	£224.35	£275.65 (£500-£224.35)	£195.62
Lone parent +3	3	£291.25	£208.75 (£500-£291.25)	£195.62
Lone parent +4	4	£358.15	£141.85 (£500-£358.15)	£276.16
Couple +1	2	£199.20	£300.80 (£500-£199.20)	£166.85
Couple +2	2	£266.10	£233.90 (£500-£266.10)	£166.85
Couple +2 (boy + girl over 11yrs)	3	£266.10	£233.90 (£500-£266.10)	£195.62

2016

Household type	Bedroom allowance	2016 applicable	max rent under benefit cap	max rent under LHA
Single 18-24	1	£57.90	£200.10 (£258-£57.90)	£63.50
Single 25-34	1	£73.10	£184.90 (£258-£73.10)	£63.50
Single 35+	1	£73.10	£184.90 (£258-£73.10)	£132.33
Couple 22+	1	£114.85	£270.15 (£385-£114.85)	£132.33
Lone parent +1	2	£157.45	£227.55 (£385-£157.45)	£166.85
Lone parent +2	2	£224.35	£160.65 (£385-£224.35)	£166.85
Lone parent +2 (boy + girl over 11yrs)	3	£224.35	£160.65 (£385-£224.35)	£195.62
Lone parent +3	3	£291.25	£93.75 (£385-£291.25)	£195.62
Lone parent +4	4	£358.15	£26.85	£276.16

			(£385-£358.15)	
Couple +1	2	£199.20	£185.80 (£385-£199.20)	£166.85
Couple +2	2	£266.10	£118.90 (£385-£266.10)	£166.85
Couple +2 (boy + girl over 11yrs)	3	£266.10	£118.90 (£385-£266.10)	£195.62

2017

Figures for single households remain unchanged on 2016 rates, although note the current proposal to remove housing benefit from people aged 18-21 unless they have been in work for the previous 6 months or extenuating circumstances (not yet specified) can be proved. Changes to tax credits/universal credit awarded to non-working families will affect new claims from the following types of household.

Household type	Bedroom allowance	2017 applicable	max rent under benefit cap	max rent under LHA
Lone parent +1	2	£140	£245 (£385-£140)	£166.85
Lone parent +2	2	£206.90	£178.10 (£385-£206.90)	£166.85
Lone parent +2 (boy + girl over 11yrs)	3	£206.90	£178.10 (£385-£206.90)	£195.62
Lone parent +3	3	£206.90	£178.10 (£385-£206.90)	£195.62
Lone parent +4	4	£206.90	£178.10 (£385-£206.90)	£276.16
Couple +1	2	£181.75	£203.25 (£385-£181.75)	£166.85
Couple +2	2	£248.65	£136.35 (£385-£248.65)	£166.85
Couple +2 (boy + girl over 11yrs)	3	£248.65	£136.35 (£385-£248.65)	£195.62

Appendix 6 – Affordability: household incomes and residual incomes

Separate document provided alongside this report.