

STATEMENT

Affordable Rent Westminster City Council

September 2011

1. Introduction

- 1.1 This statement sets out the City Council's position on Affordable Rent. Section 4 sets out some guiding principles on Affordable Rent and Section 5 covers the affordability thresholds supported by the City Council. The statement is accompanied by a statistical appendix. Registered Providers (RP's) are expected to be in general conformity with the statement.

2. Background

- 2.1 The aim of Affordable Rent is to assist in the delivery of new social housing and provide an offer 'which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent¹'. Affordable Rent is part of a package of measures announced to create a more flexible social housing sector. 'Local decisions: a fairer future for social housing' published in November 10 proposes a new council flexible tenancy, local authorities having greater control over who is able to apply for and is eligible for social housing and discharge of homeless duty into the private rented sector.
- 2.2 The changes are also accompanied by welfare reform, with a universal credit replacing current benefits from 2013. This will be capped at £350 for a non working single person and £500 per week for a non working couple or family.
- 2.3 Affordable Rent includes the following characteristics:
- It is a form of social housing and is part of a new funding model for affordable housing delivery
 - From 2011/12, RP's will be able to convert vacant social rented properties to Affordable Rent at a proportion of up to 80% of gross local market rent (inclusive of service charges) for an equivalent property for that size and location. Local authorities will have this flexibility from 2012. The National Affordable Homes Programme 2011-15 Framework states that circumstances where less than 80% may be appropriate, are when rents are close to or exceed LHA caps, for regeneration schemes where prior commitments have been made and for some specialist housing in exceptional circumstances. Providers need to consider welfare reform in their proposals
 - Conversion of tenancies will be subject to agreement with the HCA and additional income must fund new supply. It is expected conversions in London will fund new supply in London

¹ <http://www.communities.gov.uk/news/housing/1792375>

- Affordable Rent tenancies will have minimum fixed tenancy periods of two years, but RP's will have the flexibility to grant longer tenancies. Where an RP decides not to reissue a tenancy they need to give advice and assistance on alternative housing
- Affordable Rents should be set using approved RICS methodology taking into account, location, property size and condition. During the tenancy period, rents can increase by RPI +0.5 per year
- Housing Benefit payments for Affordable Rents will be based on actual rents. Local authorities will be able to discharge their homelessness function through the tenancy
- Lettings will be in the same way as for social rent although they can be targeted towards specific groups as long as allocations are framed around reasonable preference
- Affordable homes programmes must meet local priorities set out in local authorities local investment plans and the HCA will seek confirmation of support.

3. Westminster profile

- 3.1 There is high demand for social housing in Westminster and limited supply opportunities given high costs of land and shortage of development sites. Much affordable housing has been delivered through s106 agreements which include covenants restricting the type of affordable housing that can be employed on them, including restricting units to social rented units only.
- 3.2 There are currently c3500 households registered for social housing with priority. This includes c1,700 households in temporary accommodation and c1,000 existing tenants needing to move. On average around 40% of supply annually comes from the RP sector from new supply and relets.

Table 1: Westminster needs and lettings profile

	Demand from priority groups at May 11	Lettings 2010/11	
		All Lettings	Of which were from the RP sector
0	416 (12%)	228 (18%)	79 (35%)
1	429 (12%)	436 (34%)	145 (33%)
2	1,417 (40%)	397 (31%)	189 (48%)
3	1,030 (29%)	207 (16%)	117 (57%)
4	248 (7%)	18 (1%)	6 (33%)
5+	37 (1%)	1 (0%)	0
Total	3,577	1,287	536 (42%)

- 3.3 The annual gross median pay from employment in Westminster is £39,951 and the 25th percentile is £22,880. This compares with a

London median salary of £27,762 and a 25th percentile of £16,832². Caci estimate the Westminster median income (from all income) to be £37,741 and the modal income band to be £20-25k.

- 3.4 The City Council does not hold up to date income information on households with priority on the housing register. In the main evidence points to them having low incomes. Ninety four percent of households in temporary accommodation receive some housing benefit and 69% of Westminster council tenants and 75% of RSL tenants are in receipt of housing benefit.
- 3.5 The Housing Needs Survey 2006³ estimated 53% of households living in social housing had a gross annual income of £11k or less (uplifted by RPI this would equate to £12k or less in 2010). Small numbers were estimated to have higher incomes, with 9% (2,237 households) having a gross annual income of more than £47k (uplifted by RPI this would equate to £50.5k or more in 2010). Of these, 361 households had incomes above £68k (uplifted by RPI this would equate in 2010 to £73k or more).
- 3.6 There are also just over 2,000 households registered for intermediate housing in Westminster both for homeownership and intermediate rent products. Figure 4 in the Statistical Appendix shows the incomes of registrants for each bedroom size (only 10 households are registered for four bedrooms so the information is not shown).
- 3.7 Private rents in Westminster according to Hometrack, are the third highest in London (behind Kensington and Chelsea and the City of London). The City is covered by two Broad Rental Market Areas for LHA, with only one rent (the 1 bedroom in the Inner area) less than the LHA cap. There is significant market variation across Westminster - for example 80% of a lower quartile market rent for two bedroom property, (according to the GLA London Rents Map), is £564 per week in the WW1 area, £440 in the SW1 area and £316 in the NW8 area.
- 3.8 Figure 1 in the Statistical Appendix shows a range of incomes needed to sustain different rent levels without housing benefit.

² www.statistics.gov.uk/downloads/theme_labour/ashe-2010/2010-res-la.pdf

³ The housing needs survey sampled 1,200 households across all tenures so the sample size for social housing tenants was relatively small

4 Affordable Rent in Westminster – guiding principles

- 4.1 The City Council supports the following guiding principles for Affordable Rent tenancies:
- 4.2 The City Council expects to benefit from development opportunities generated through Affordable Rent in Westminster, either through increased supply in the borough, or through nomination rights to properties developed out of the City.
- 4.3 Affordable Rent should not reinforce long term benefit dependency and should reflect incomes that households could reasonably be expected to sustain at a future point without housing benefit. Lower quartile to median incomes of households registered for intermediate housing is a good indicator of this (particularly as it is these households that have often not been able to afford intermediate housing products in Westminster).
- 4.4 Affordable Rent tenancies should ideally be linked with support for non working households to access training and employment.
- 4.5 Affordable Rent for replacement new supply is not supported on regeneration schemes where commitments have been made to residents that they will be offered similar tenancy conditions.
- 4.6 Affordable Rent tenancies for elderly households in sheltered accommodation is not supported as they have fixed incomes.
- 4.6 RPs should take account of wider welfare benefit policy and the welfare benefit cap when setting affordable rent levels and letting properties. Figures 4 and 5 in the Statistical Appendix estimate the possible impact of the welfare benefit cap on housing credit. This modelling is purely indicative and based on what is currently known about the welfare benefit cap which may be subject to change.
- 4.10 The disposal of properties which results in a loss of supply is not supported. Disposals are only supported if they result in direct benefits for Westminster residents.
- 4.11 The City Council should be involved in discussions between RP's and the HCA on the proportions of stock that are converted to Affordable Rent in the City and on rent levels.
- 4.12 Properties converted to Affordable Rent will need to contain features which will make them attractive to bidders in terms of location, tenancy terms size and quality. There is a danger that otherwise there will be a 'tenancy hierarchy' and bidders will wait for secure or assured tenancies at target social rents (at least until the new flexible tenancies come into effect).

4.13 Where there are s106 agreements which restrict relets to target social rents, RP's wanting to convert properties to Affordable Rent need to approach original private development partners and ask them to request variations from the City Council. The City Council will only agree to variations in accordance with this statement. It should be noted that the agreed price paid by the RP to the developer on an historical s106 site would have reflected a price based on target rents. It is probable that a developer would seek to renegotiate an overage in these cases to be paid by the RP to reflect that they now have the ability to charge higher rents. Any financial benefit that an RP might generate through Affordable Rent therefore could be constricted by overage payable to the developer.

5. Affordability thresholds

5.1 The City Council's expects Affordable Rent levels to be sustainable to households without housing benefit with incomes set out in table 2. The Mayors affordability guidance in the London Plan has been used, that net income is 70% of gross and housing costs should not exceed 40% of net income. The Incomes reflect lower quartile to median incomes of households registered for intermediate housing in Westminster and do not exceed the gross annual median income for Westminster.

Table 2: Affordable Rent Thresholds supported by the City Council

Beds	Gross Affordability Threshold*	Weekly Gross Affordable Rent Range
1	£25k-32k	£135 - £172
2	£27.5-£36k	£148 - £194
3+	£29k-£39k	£156 - £210

*Based on net being 70% of gross and housing costs not exceeding 40% of net income.

5.2 Rent levels within the bands should reflect the quality and location of the property. The City Council will not support all Affordable Rent levels to be at the upper end of the bands.

5.3 For some larger non working households, Affordable Rent may not be a sustainable housing option given what is currently known about the welfare benefit cap. RPs will need to work with the City Council to ensure that bidders are aware of the implications of the cap and lettings are considered on a case by case basis.

6 Relets and disposals

6.1 The City Council does not expect more than 25% - 30% of Westminster relets in the short term to be converted to Affordable Rent tenancies at above target rents.

- 6.2 It is expected that RPs proposing to dispose of Westminster stock, or to move relets to Affordable Rent, provide an annual investment plan to the City Council setting out projections for disposals and conversions to Affordable Rent for the year ahead. Plans for housing investment in the City should also be included. The City Council will monitor progress against these plans and use them to support investment planning and to identify development partners.

7. Statement Review

- 7.1 This statement will be updated periodically to take account of changing income information and the City Council's demand profile.
- 7.2 For more information on how this statement was developed or to discuss RP disposals, conversions to Affordable Rent and investment plans contact:

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Affordable Rent Statement - Statistical Appendix

Figure 1: Gross annual incomes needed for different gross rent levels without HB*

	1 bed	2 bed	3 bed	4 bed	5 bed
80% of median market rates**	£52,000	£77,257	£104,000	£230,286	£230,286
80% of lower quartile market rates**	£46,057	£63,143	£86,766	£141,143	£141,143
LHA cap	£46,429	£53,857	£63,143	£74,286	£74,286
80% of LHA cap	£37,142	£43,086	£50,514	£59,428	£59,428
60% of LHA cap	£27,857	£32,314	£37,886	£44,571	£44,571
50% of LHA cap	£23,214	£26,929	£31,571	£37,143	£37,143
Current RP rents	£24,514	£27,300	£28,229	£28,971	£29,714
Westminster Affordable Rent Bands	£25,000 - £32,000	£27,500 - £36,000	3 + £29,000 – £39,000		

* Based on guidance in the London Plan that net income is 70% of gross and housing costs should not exceed 40% of net income

** From GLA rents map. Separate figures are not available for 4 and 5 bed properties.

Figure 2: Summary of different weekly gross rent levels

Bedsize	RP Current	LHA				MARKET		AFFORDABLE RENT
	RP - including HB eligible service charges*	50% of weekly LHA cap	60% of weekly LHA cap	80% of weekly LHA cap	LHA cap	80% of lower quartile market**	80% of median market**	Westminster Bands
1	£132	£125	£150	£200	£250	£248	£280	£135-£172
2	£147	£145	£174	£232	£290	£340	£416	£148-£194
3	£152	£170	£204	£272	£340	£467	£560	£156-£210 (3 +)
4	£156	£200	£240	£320	£400	£760	£1,240	
5	£160 (estimated)	£200	£240	£320	£400	£760	£1,240	

* Based on RP rents for new schemes. **GLA London Rents Map. Separate figures are not available for 4 and 5 bed properties

Figure 3: Estimated income of Westminster social housing tenants (Housing Needs Survey 2006)



Figure 4: Gross incomes of households registered for intermediate housing in Westminster

Beds	Lower quartile	Median	Average	Total Registrants
1	£25,054	£32,000	£35,238	1,234
2	£27,500	£36,200	£41,659	672
3	£29,079	£39,196	£47,094	99

Figure 5: Estimated housing credit within the welfare benefit cap

	Single person	Couple	Couple + 1	Couple + 2	Couple + 3	Couple + 4
Credit (excluding housing credit)						
Single over 25/couple basic rates*	£67.50	£105.95	£105.95	£105.95	£105.95	£105.95
Child Tax Credit (Family element)*			£10.48	£10.48	£10.48	£10.48
Child element*			£49.13	£98.26	£147.39	£196.52
Child Benefit			£20.30	£33.70	£47.10	£60.50
Council Tax**	£9.92	£13.22	£13.22	£13.22	£13.22	£13.22
Total	£77.42	£119.17	£199.08	£261.61	£324.14	£386.67
Welfare benefit cap	£350	£500	£500	£500	£500	£500
Bed size***	0/1	1	2	2/3	3/4	3/5
Housing credit	£272.59	£380.83	£300.92	£238.39	£175.86	£113.33

*Based on 2011 levels. **Based on Council Tax Band D (it is unknown if any local benefit from local schemes which replace Council Tax Benefit will be included in the cap). *** Bed sizes will vary depending on landlord policy and age of children

Figure 6: Estimated housing credit within the welfare benefit cap

