

London Borough of Tower Hamlets

Housing Policy and Affordability Commission

Briefing Paper 3

Local affordability – Analysis of incomes, benefit support, welfare reform, service charge costs and access to affordable homes

Affordability in LB Tower Hamlets

1. Background

This briefing paper sets out affordability issues related to different household types and their ability to afford the range of affordable rents now on offer across the Borough.

The 4 household types analysed are as follows:

- Married parents with 2 children of junior school age, neither of whom are working
- Married parents with 2 children of junior school age, both of whom are working earning an average household income for the borough.
- Single parent, 3 children, not working, no partner/parental support
- 2 parent, 3 children, single earner on 40 hour week, minimum wage

For the purposes of this basic exercise it is assumed that nobody has a disability, any savings, a private pension or other means tested benefits and consequently are only in receipt of the following income streams:

- Taxable earned income
- Income support
- Working tax credit
- Child tax credit
- Child benefit
- Housing benefit
- Council tax support (nb – Not included in benefit cap)

Methodology

The following rents have been used in producing this analysis:

	2 Bed	3 Bed
2015/16 LBTH Social Rents	£112	£126
2014/15 Social Rent Cap Levels (RPs)	£146	£154
2014/15 POD Affordable rent levels	£244	£266

2014/15 Local Housing Allowance	£299	£354
2014/15 80% Market rents	£354	£425

The following online benefits calculator has been used in producing this analysis: <https://www.turn2us.org.uk/>

In addition, all calculations for Council Tax have assumed a band b rating at a cost of £918.18 per year.

Service charges are included in the POD rents only and would be an additional household cost for the Council and RP rented homes.

It should also be noted that tax credits and tax thresholds will reduce under the changes introduced in the July 2015 budget. The changes involve removal of the family premium, lowering the income threshold and increasing the income taper. The child element will also be limited to 2 children for new claims from April 2017. (The precise effect of the changes is difficult to model because they kick in at different times and there is an element of transitional protection for existing claims).

Household 1: Married parents with 2 children of junior school age, neither of whom are working

Annual Incomes at different rent levels	2 Bed	Annual Rent	Taxable earned income	Income Support	Working tax credit	Child tax credit	Child benefit	Housing benefit	Council tax Support	Weekly income	Annual Total Income
2015/16 LBTH Social Rents Council	£112	5824	0	114.85	0	117.52	34.40	112	17.66	396.	20614
2014/15 Social Rent Cap Levels Registered Provider	£146	7592	0	114.85	0	117.52	34.40	146	17.16	430	22382
2014/15 POD Affordable rent levels	£244	12688	0	114.85	0	117.52	34.40	233.23	17.16	518	26918
2014/15 Local Housing Allowance	£299	15548	0	114.85	0	117.52	34.40	233.23	17.16	518	26918
2014/15 80% Market rents	£354	18408	0	114.85	0	117.52	34.40	233.23	17.16	518	26918

Impact on affordability of each rent level	2 Bed	Annual Rent	Annual Total Income	Income after rent	Rent as % of income	Commentary – Benefit system assumes weekly income of £266pw/£13832pa is adequate to meet all costs beyond rent and council tax. A POD rent requires the family to contribute towards the rent so could be considered unaffordable . The reduction in the benefit cap will compound this situation.
2015/16 LBTH Social Rents Council	£112	5824	20614	14790	28%	Affordable
2014/15 Social Rent Cap Levels Registered Provider	£146	7592	22382	14790	34%	Affordable
2014/15 POD Affordable rent levels	£244	12688	26918	14230	47%	Borderline affordable at present, with HB top up required from other benefits. Rent will be unaffordable when benefit cap is reduced to £23k reducing HB entitlement
2014/15 Local Housing Allowance	£299	15548	26918	11344	58%	Unaffordable
2014/15 80% Market rents	£354	18408	26918	8485	68%	Unaffordable

Household 2: Married parents with 2 children of junior school age, both of whom are working earning an average household income for the borough

Annual Incomes at different rent levels	2 Bed	Annual Rent	Taxable earned income	Income Support	Working tax credit	Child tax credit	Child benefit	Housing benefit	Council tax Support	Weekly income	Annual Total Income
2015/16 LBTH Social Rents Council	£112	5824	26799	0	0	30.82	34.40	0	0	550	30190
2014/15 Social Rent Cap Levels Registered Provider	£146	7592	26799	0	0	30.82	34.40	0	0	550	30190
2014/15 POD Affordable rent levels	£244	12688	26799	0	0	30.82	34.40	79.56	0	660	34327
2014/15 Local Housing Allowance	£299	15548	26799	0	0	30.82	34.40	134.56	0	715	37187
2014/15 80% Market rents	£354	18408	26799	0	0	30.82	34.40	189.78	0	770	40059

Impact on affordability of each rent level	2 Bed	Annual Rent	Annual Total Income	Income after rent	Rent as % of income	Commentary – All properties affordable with this income. However, HB top up is required for POD rents and above and if employment was lost family may be in a precarious situation after Benefit Cap is reduced for these rents.
2015/16 LBTH Social Rents Council	£112	5824	30190	24366	19%	Affordable
2014/15 Social Rent Cap Levels Registered Provider	£146	7592	30190	22598	25%	Affordable
2014/15 POD Affordable rent levels	£244	12688	34327	21639	37%	Affordable
2014/15 Local Housing Allowance	£299	15548	37187	21639	42%	Affordable
2014/15 80% Market rents	£354	18408	40059	21639	46%	Affordable

Household 3: Single parent, 3 children, not working, no partner/parental support

Annual Incomes at different rent levels	3 Bed	Annual Rent	Taxable earned income	Income Support	Working tax credit	Child tax credit	Child benefit	Housing benefit	Council tax Support	Weekly income	Annual Total Income
2015/16 LBTH Social Rents Council	£126	6552	0	73.10	0	171.02	48.10	126	14.25	432	22488
2014/15 Social Rent Cap Levels Registered Provider	£154	8008	0	73.10	0	171.02	48.10	154	14.25	460	23944
2014/15 POD Affordable rent levels	£266	13832	0	73.10	0	171.02	48.10	208	14.25	514	26741
2014/15 Local Housing Allowance	£354	18431	0	73.10	0	171.02	48.10	208	14.25	514	26741
2014/15 80% Market rents	£425	22100	0	73.10	0	171.02	48.10	208	14.25	514	26741

Impact on affordability of each rent level	3 Bed	Annual Rent	Annual Total Income	Income after rent	Rent as % of income	Commentary: – Benefit system assumes weekly income of £292pw/£15195 pa is adequate to meet all costs beyond rent and council tax. A POD rent requires the family to contribute towards the rent so could be considered unaffordable . The reduction in the benefit cap will compound this situation.
2015/16 LBTH Social Rents Council	£126	6552	22488	15936	29%	Affordable
2014/15 Social Rent Cap Levels Registered Provider	£154	8008	23944	15936	33%	Affordable
2014/15 POD Affordable rent levels	£266	13832	26741	12909	52%	Unaffordable: Rent will be very unaffordable when benefit cap is reduced to £23k reducing HB entitlement
2014/15 Local Housing Allowance	£354	18431	26741	83909	69%	Unaffordable
2014/15 80% Market rents	£425	22100	26741	4641	82%	Unaffordable

Household 4: 2 parent, 3 children, single earner on 40 hour week, minimum wage

Annual Incomes at different rent levels	3 Bed	Annual Rent	Taxable earned income	Income Support	Working tax credit	Child tax credit	Child benefit	Housing benefit	Council tax Support	Weekly income	Annual Total Income
2015/16 LBTH Social Rents Council	£126	6552	12564	0	36.14	171.02	48.10	68.37	0	565	29393
2014/15 Social Rent Cap Levels Registered Provider	£154	8008	12564	0	36.14	171.02	48.10	96.37	0	593	30849
2014/15 POD Affordable rent levels	£266	13832	12564	0	36.14	171.02	48.10	208.37	0	705	36673
2014/15 Local Housing Allowance	£354	18431	12564	0	36.14	171.02	48.10	296.37	0	793	41428
2014/15 80% Market rents	£425	22100	12564	0	36.14	171.02	48.10	296.37	0	793	41428

Impact on affordability of each rent level	3 Bed	Annual Rent	Annual Total Income	Income after rent	Rent as % of income	Commentary: – Benefit system assumes weekly income of £292pw/£15195 pa is adequate to meet all costs beyond rent and council tax. HB top up is required to support all rents and as long as person remains in work they will be affordable. If the main earner was to lose his/her job then they would not be able to afford POD rents and above.
2015/16 LBTH Social Rents Council	£126	6552	29393	22841	22%	Affordable
2014/15 Social Rent Cap Levels Registered Provider	£154	8008	30849	22841	26%	Affordable
2014/15 POD Affordable rent levels	£266	13832	36673	22840	38%	Affordable
2014/15 Local Housing Allowance	£354	18431	41428	22840	45%	Affordable
2014/15 80% Market rents	£425	22100	41428	19149	54%	Affordable