


Housing Overview and Scrutiny Committee July 18th 2016	 TOWER HAMLETS
Report of: Aman Dalvi Corporate Director - Development and Renewal	Classification: Unrestricted
Housing Policy and Affordability Commission	

Lead Member	Councillor Blake Cabinet Member for Strategic Development
Originating Officer(s)	Martin Ling – Housing Strategy
Wards affected	All
Community Plan Theme	Great Place to Live

1. EXECUTIVE SUMMARY

- 1.1 Mayor John Biggs established a Cabinet Commission to investigate the delivery of genuinely affordable housing in Tower Hamlets. The Commission was chaired by Cllr Rachel Blake, Cabinet Member for Strategic Development.
- 1.2 This report sets out the aims of the Commission, the terms of reference and process that took place, key issues arising from its meetings and draft recommendations agreed by the Mayor in Cabinet in order to improve the affordable housing offer in the Borough.

2. Cabinet decision

- 2.1 On May 10th 2016, the Cabinet agreed the following:

To agree the recommendations of the Affordability Commission as set out in Appendix 1 to this report taking account of the constraints within the Housing Revenue Account and pending Housing legislation, in particular the Housing and Planning Bill.

3. REASONS FOR THE DECISIONS

- 3.1 To assist in the development of housing policy in relation to the Council's response to the provision of genuine affordable housing in the borough and to provide guidance on future rent setting decisions for new build housing in the borough.
- 3.2 To set out clear policy priorities for future decision making in relation to the Council's new build programme.

4. ALTERNATIVE OPTIONS

- 4.1 The alternative options were to not approve the recommendations or set out the priorities for future decision making in relation to the Council's new build programme.

5. BACKGROUND

- 5.1 Mayor John Biggs established a Cabinet Commission to investigate the delivery of actual affordable housing in December 2015. The Mayor appointed an expert external panel who met three times: December 2015, January 2016 and February 2016.
- 5.2 The Affordability Commission met during an uncertain phase for the future of social housing development. During the course of its deliberations, the impact of the Housing and Planning Bill, the Chancellor of the Exchequer's announcement of an annual 1% rent reduction for social landlords and increased industry costs were all flagged up as potential barriers to the future development of affordable housing. These issues are discussed further in this report.
- 5.3 Set out below are the terms of reference and details of the expert panel.

The Council set up dedicated webpages which published all the briefing papers, presentations and minutes from the meetings.

- 5.4 Four briefing papers were produced in advance of the first meeting:
 - Defining Affordability
 - The legal framework and grant conditions attached to rent setting for both the Council and Registered Providers
 - Local affordability – Analysis of incomes, benefit support, welfare reform, service charge costs and access to affordable homes
 - Overview of current and future housing need, and current letting patterns

All the Affordability Commission documentation can be viewed at:
<http://moderngov.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=755>

6. TERMS OF REFERENCE

6.1 The Terms of Reference were set out as follows:

Tower Hamlets is one of London's most unaffordable boroughs and Mayor John Biggs is committed to delivering affordable housing that is actually affordable to local people.

Acceptable rent levels affordable to people in LB Tower Hamlets identified by the Commission will be applied to future housing development schemes currently in the pipeline and recommended for future approval including:

- Schemes built by the Council using its Right to Buy receipts
- Schemes built by Registered Providers using Council Right to Buy receipts provided as grant
- Open market ex Council properties acquired by either the Council or Registered Providers using Council Right to Buy receipts.

6.2 The Commission also considered current models for low cost home ownership.

The Commission also considered the impact of the proposals set out in the 2015 Housing and Planning Bill on affordability in the borough, particularly the Starter Homes initiatives and Pay to Stay for higher income social tenants.

6.3 The Affordability Commission - Membership

Council		
Name	Role	Organisation
Cllr Rachel Blake	Chair and Cabinet Member for Strategic Development	LB Tower Hamlets
Mayor John Biggs		LB Tower Hamlets
Cllr Siraj Islam		LB Tower Hamlets
Expert Panel		
Name	Role	Organisation
Yvonne Arrowsmith	Chief Executive	East Thames
Duncan Bowie	Senior Lecturer	University of Westminster
Sarah Sackman	Barrister	Francis Taylor Building
Dan Hopewell	Director of Strategy	Bromley By Bow Centre
Faraz Baber	Planning and Development Policy	London First
Alastair Baird	Regional Managing Director	Barratts London

6.4 The proposed contribution from panel members was set out as follows:

- To receive and read any papers in advance of each meeting
- To attend 3 public meetings and contribute to the discussion accordingly

- To comment on the report to LBTH Cabinet Report at both initial and final draft stage
- To agree to be named in any publicity arising from the work of the Commission in their capacity as a contributor to the expert panel.

7. FORMAT AND OUTCOME OF MEETINGS

7.1 Format

The first three meetings were held in public and involved presentation on key issues, contributions from both the panel members and from the public. Issues that arose were then summarised by the Chair.

One addition meeting between the Mayor, Cllr Blake and panel members was also held to discuss the Commission's findings and inform this report and subsequent policy development.

7.2 Meeting 1 – LB Tower Hamlets Housing context – 15th December 2015

At the first meeting officers presented the key facts about housing in the borough covering:

- Population growth - Population expected to increase from 254,000 in 2011 to 370,000 by 2035
- Current tenure mix - Private Rented Sector is now the biggest single tenure at 39% of homes in the borough
- Housing need – nearly 20,000 households on the Common Housing Register with over 50% in high priority need
- Projected housing need - evidence from both the GLA London and LBTH Strategic Housing Market Assessments estimate that LBTH will require an additional 58,000 homes by 2035
- Projected housing development and growth – GLA has set LBTH a target of 3,931 homes per year for the next 10 years
- Affordable housing delivery – 4,386 new affordable homes built over the last 5 years.

2010/11	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed
Social Rent	65	91	105	29	28	5
Intermediate Rent	65	73	30			
Shared Ownership	46	53	43	13		
2011/12	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed
Social Rent	377	536	427	187	78	5
Intermediate Rent	20	30	1			
Shared Ownership	142	127	31	16	4	

2012/13	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed
Social Rent	129	80	122	30	20	
Affordable Rent	1	1		1		
Intermediate Rent	6	6	3			
Shared Ownership	52	94	23			
2013/14	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed
Social Rent	47	95	102	33	26	
Affordable Rent	35	26	22	4		
Shared Ownership	78	70	40	2	1	
2014/15	1 bed	2 bed	3 bed	4 bed	5 bed	6 bed
Social Rent	64	96	95	32	10	
Affordable Rent	75	46	29	14	2	
Shared Ownership	45	74	28			
Total	1,247	1,498	1,101	361	169	10
Total	4,386					

It should be noted that this scale of delivery up to 2014/15 relied heavily on the 2008-11 National Affordable Housing Programme which provided significant grant levels to Registered Providers delivering target rent homes. At this point, target rents were comparable to social or council rents and 'Affordable Rent' (where rent is set as a proportion of market rents) had not been established as a rent policy.

- Rental costs in the borough across all tenures – Average weekly rental costs are well above Local Housing Allowances
- The Housing market in LBTH with slides illustrating current for sale and market rent levels – Vast range of for sale and rental costs
- Affordability tables – detailing impact of Housing benefit top ups for people in work and negative impact of the welfare benefit cap on affordability
- The potential impact of the 2015 Housing and Planning Bill on supply and affordability.

The presentations from all the sessions are attached at Appendix 3

7.2.1 The panel then heard contributions from the Tenants and Residents Federation and Tower Hamlets Renters (an independent umbrella group for private renters) that set out the concerns on affordability from a residents' perspective.

7.2.2 The discussion that followed highlighted that there was a clear need for truly affordable housing in the borough and that the current levels of 'affordable rent' introduced since 2010 were beyond many households on full benefits and that those receiving in work housing benefit would be vulnerable if they lost their employment. The tables set out in the briefing paper on 'Local Affordability' demonstrate in detail the impact of the benefits system and in

particular how the reduction of the benefit cap in late 2016 to £23k will make all new homes at affordable rents unaffordable or risky for people who are benefit dependent or on low incomes. The briefing papers are attached at Appendix 2.

- 7.2.3 The local housing market was also discussed in detail and it was recognised that the borough's desirability, land values, competition amongst developers, high construction costs and shortage of labour all added to the overall costs of schemes which impacted on affordability.
- 7.2.4 The need to keep London competitive as a world city and make housing affordable for the workforce not just those in housing need was also recognised.
- 7.2.5 It was acknowledged that there are no easy solutions to making new housing more affordable and that the next meeting would consider how the Borough could respond to the challenges considered.
- 7.2.6 The meaning of affordability in terms of relationship to income was a common issue raised throughout the session. As set out in the briefing paper, although there is no definitive calculation, it has been generally accepted that 25% - 30% of a gross household income has been used as a reasonable benchmark for housing costs in recent assessments. It is very clear that for private sector housing, residents on low to average incomes would expect to be spending more than 50% of their income on housing costs in the borough which was generally viewed as too expensive by the Mayor and panel members.

7.3 **Meeting 2 – Responding to the challenge – 18th January 2016**

- 7.3.1 The second meeting considered how the borough could respond to the critical issues impacting on housing need.
- 7.3.2 The presentation to the Commission set out how the Council could explore providing lower rented housing on its own sites by cross subsidising from market housing. It also put forward the notion of different rent levels for different income groups with a mix of lower and higher rents rather than across the board affordable rents. The presentation described the different delivery models that could be considered and innovation taking place in other boroughs.

The discussion that followed presented a number of challenges for the Council which will have to be addressed either individually, through the Council's emerging Housing Strategy or during the development of the Local Plan including:

7.3.3 **Meeting Need:**

- Which particular target groups (by household /need/ income etc) are the Council's priority for new housing on Council sites?

- What is our overcrowding and under occupation strategy? Are we making best use of the existing stock?

7.3.4 **Land:**

- What is the Council's capability and capacity to develop its own sites?
- What is the proposed scale of development? Would we rather build to higher or lower density?
- Would we consider using commuted sums from higher value developments?
- Do we have a clear picture of available Council land to develop on?
- Have we mapped out a site development programme in the short/medium/long term?
- Have we developed options for land disposals and subsequent use of receipts?
- Have we considered joint strategies, equity shares, including deferred payments on disposals for partners with payback deferred when set thresholds for development are achieved?
- Do we have a land assembly plan making use of Compulsory Purchase Order powers with other public bodies such as Transport for London?
- What is our view on demolition and regeneration?
- Have we identified where our land is in close proximity to land held by other Government bodies – have we considered the 'marriage' values?
- Have we identified what we want to develop on an area basis?

7.3.5 **Delivery:**

- Is the Council confident in its role as a developer?
- Have we considered making use of temporary structures, making savings on manufacturing and providing flexible solutions?
- Does the Council have the capacity to challenge viability studies?
- Where will subsidy in addition to 'free' land come from to keep rents affordable?
- Should we use cross subsidy from outright sale of other sites or market housing on other sites?

- Will this require a ‘whole borough’ approach and to what extent should commuted sums be used?

7.3.6 Partnership

- Have we considered developing out of borough in neighbouring authorities where better value could be achieved?
- What is our position on self build and social enterprise housing, are we being innovative and thinking beyond HRA borrowing restrictions and standard development models?

The Chair agreed that all these issues would require consideration when taking forward future housing policy.

7.4 Meeting 3 – 10th February 2016

The meeting considered 11 draft recommendations as set out below:

Discussion of Recommendations

1. Priority for affordable housing

Key Findings – The Council needs to make it clear who its priority group for affordable housing is.

Recommendation: Agree a clear statement of intent over who the Council wants to assist over the lifetime of the current parliament and in response to changing market conditions.

2. Social rented housing on Council owned sites

Key Findings – The local affordability papers demonstrate the need for homes rented at social target rents to protect tenants from either being hit by the benefit cap or overly reliant on housing benefit if they are on lower incomes.

Recommendation: Explore options to produce a lower (social) rent product on Council owned sites not necessarily with market sale cross subsidy.

3. Bespoke intermediate rented product on Council owned sites

Key Findings – As above - where will subsidy come from to keep rents affordable? – cross subsidy from outright sale of other sites or market housing on other sites? – will require a ‘whole borough’ approach.

Recommendation: Explore options to produce an intermediate rent product for households with average/median incomes on Council owned sites not necessarily with market sale cross subsidy.

Explore how will this relate to lettings policy – will higher rent properties be let separately with income/residency related criteria?

4. Market Housing

Key Findings: That market housing is no longer affordable for those with reasonable deposits and average earnings and saving for deposits is extremely difficult whilst paying market rents.

Recommendation: Develop clear policy for market sale, for discounted market sale including Starter Homes and shared equity schemes.

5. Institutional investment and other delivery models in affordable housing

Key Findings – Attracting institutional investment is an ongoing debate across London with GLA/HCA past initiatives producing limited success – How can we make it work in LBTH, who would be the key local Business partners from Canary Wharf/City?

What other types of joint venture companies and/or the Council's own development vehicle could be developed to lever in institutional investment.

Recommendation: Explore long term financial investment from institutions to develop an intermediate rent product for households with average/median incomes.

6. Guidance for lower than current affordable rents for Registered providers

Key Findings – Partners would welcome lower rents but warn that it would impact on viability – would the Council be willing to give up a percentage of affordable housing for lower rents? How would this sit with planning policy/London Plan requirements?

Recommendation: Explore the option to reduce Borough Framework rents to more affordable levels taking into account the impact on viability and possible reduction in overall affordable housing units. Could they be reduced enough to make work pay better without recourse to Housing Benefit subsidy for those on lower incomes?

7. Making best use of Council owned land/assets

Key Findings – What would be the timescale for a short/medium/long term plan? How dependent is the link to the Local Plan/Whitechapel Civic Centre funding?

Recommendation: Commit to carry out a full capacity study of Council owned land and sites to identify opportunities and funding options.

8. Private sector licensing

Key Findings – What is the longer term plan for Council interventions in the private rented sector? There is major bureaucracy to produce further licensing approved with private landlord groups ever more willing to challenge in the courts.

Recommendation: Review selective/additional licensing schemes for the private rented sector and explore options for extensions to schemes.

9. Develop a quality Housing in Multiple Occupation model for younger people

Key Findings: Any such development would require a pilot study, identification of sites or buildings etc.

Recommendation: Consider using private sector renewal empty property grants to assist in the development of higher quality HMO provision for younger people under 35 who can only claim shared room rates if requiring Housing Benefit subsidy.

10. Self Build housing/Co-operative housing

Key Findings: Self Build is now a statutory requirement but the GLA is leading on a London wide register. Possible low priority as self build does not necessarily meet affordable housing need.

What is the future for Community based housing?

Recommendation: Develop position on self build options in line with statutory requirement and in order to inform the Local Plan. Monitor the development of the Community Land Trust model.

11. Out of Borough solutions

Key Findings: Out of Borough development in lower value areas could provide an affordable solution for some households.

Recommendation: Should the Council consider working with other outer London Boroughs and brokering agreements to provide a long term solution to affordable housing need?

- 7.5 Discussion centred around recommendations 2, 3 & 7 which the panel felt presented the Council with the most opportunity to have control and could yield the most viable solution for producing rent levels which could be truly affordable.

The meeting also considered the Government's recent announcements on estate regeneration. It was generally agreed that whilst improvements and better use of space is welcome, more detail was required and that the needs of existing residents should be paramount.

8. CALL FOR EVIDENCE - SUMMARY OF RESPONSES

8.1 The Commission called for evidence from the public and partners and received 4 submissions.

- Tower Hamlets Federation of Tenants and Residents Association
- Tower Hamlets Renters
- Ms Cate Tuitt - Trustee East London/London community land trust. Trustee Tower Hamlets law Centre. Bethnal Green resident
- Peabody Trust

8.2 The first two contributions set out the challenges in providing truly affordable housing in the borough across both the public and private sector.

8.3 The Tenants Federation was particularly critical of the impact of the Right to Buy policy and successive government housing policies. The Tenants Federation is of the view that the Council should strive to achieve rents that are linked to median incomes across the Borough. The Federation also urged the Council to ensure that when disposing of its own sites it ensures that at least 50% of the new housing is affordable.

8.4 Tower Hamlets Renters set out the unaffordable levels of private rent and the conditions and compromises which many residents have to endure as a consequence.

They state that the only credible solution to this situation is for firm rent regulation to be implemented (in whatever form) and for vast amounts of social or 'affordable' housing to be built and be primarily allocated to local people. Tower Hamlets Renters acknowledge that the former is beyond local authorities, but call on the Council to do more to oversee an increase in social/affordable house-building as well as protecting the existing stock.

8.5 The third contribution set out the benefits of Community Land Trusts and Co-operatives as well as providing an overview of the impact of the Housing and Planning Bill.

8.6 The Peabody Trust emphasised the need to contribute homes across the spectrum of affordability to meet the needs of different groups in society.

The submissions are attached at Appendix 3

9. POLICY CONSIDERATIONS – WIDER CONTEXT

9.1 The evidence set before the Affordability Commission and the contributions from both the panel and the public all demonstrated that delivering truly affordable housing and meeting local need across the borough will be extremely challenging. The Commission also took into account the wider national and regional context through the course of its meetings.

9.2 Government announcements

9.2.1 It is significant that the Commission's deliberations coincided with the initial passage of the 2015 Housing and Planning Bill through Parliament which when enacted will add to the complexity of achieving the Commission's goals. Central Government policy for new housing as set out in the Bill is firmly aimed at increasing homeownership, an aspiration that is unaffordable for the vast majority of people with housing need in the Borough. The detail of the potential for the Starter Homes proposal to diminish levels of other forms of sub market housing has yet to be fully agreed but it is expected that this initiative will reduce the delivery of truly affordable homes in the borough.

9.2.2 In addition, the extension of the Right to Buy to Housing Association tenants funded through a levy on stock holding Local Authorities through the sale of high cost voids and the introduction of the Pay to Stay are also likely to impact on the supply of affordable housing in the borough. Furthermore, the annual high cost void levy will also have a negative impact on the Housing Revenue Account which could compromise the Council's ability to subsidise future Council new build developments as proposed at 10.2 below.

It is estimated that the Council will need to meet a levy of around £8.4m related to the calculation of high value void sales.

9.2.3 Equally significant was the Chancellor of the Exchequer's announcement in July 2015 that rents for existing Council and Housing Association tenants would decrease by 1% per year for each of the next 4 years. Whilst the reduction is welcome for tenants in work and has primarily been introduced to reduce the cost of Housing Benefit, it has caused major concern for Councils and housing associations with regard to their long term business plans and viability in developing new homes.

The impact of the 1% rent reduction for each of the next four years on the Housing Revenue Account has been modelled and indicates a loss of rental income over four years of £24 million, and a loss in excess of £400 million over 30 years (this includes estimated inflation).

9.3 Mayor of London

The Commission was also mindful of the role of the Greater London Authority in steering city wide policy and rent setting for grant funded properties as set out in briefing paper 2 and the potential impact of a new Mayor being elected to City Hall in May 2016.

10. POLICY DIRECTION

10.1 The Mayor and the Chair of the Commission met once further with Panel Members to discuss the process of setting policy direction arising out of the Commission's work.

The opportunities for the Council combined with the challenges, constraints and uncertainties at a regional and national level were recognised and it was

agreed that the Council should develop a rental policy on its own sites as a first priority. It will then develop other policies on affordable housing in the medium and longer term for the whole borough which will be captured in both the Housing Strategy and Local Plan in 2016 and 2017 respectively.

10.2 The Council's own sites

10.2.1 Land holdings in either the General Fund or the Housing Revenue Account present the best opportunity to produce affordable housing in the Borough. This is because there is no land purchase involved and the Council can use its retained Right to Buy receipts and potentially, other resources such as appropriate capital receipts or uncommitted New Homes Bonus to subsidise the development in order to produce lower rents. This however will have implications for the financing of other council priorities.

The Council has a programme to deliver a minimum of 553 new homes at the following sites:

Site	No of affordable homes at Borough Framework rents
Bradwell Street (completed)	12
Poplar Baths	60
Dame Collet	40
Watts Grove	148
Jubilee Street	26
Baroness Street	22
Locksley Estate	54
Hereford Street	37
Ashington Street	53
Tent Street	56-84
William Brinson/Arnold Road	45-65
	553 (minimum)

10.2.2 Rent models for these homes either built or in development were produced through a development model which sets the rents at the Borough Framework rents, often call POD or affordable rent levels in line with 2011 government affordable rent guidance. However the rent model for those sites that have yet to be built out can be reviewed as the findings of the Affordability Commission emerge.

10.2.3 The Commission agreed that the Borough Framework rents are too high and are unaffordable to non-working households and require many working households on low incomes to be dependent on housing benefit. In addition, the model is now flawed as it was based on the link between market rents and the percentage of household income which is now broken as the market rents were set at 2011. Since then market rents have risen at much higher rates over the last 5 years whilst salaries have remained relatively static.

10.2.4 It should also be noted that the Borough framework took into account a range of values across the Borough reflecting the high values in areas such as the

City fringe, Wapping and Canary Wharf as well as lower values in Poplar and some parts of Bow. The range of property values are not reflected in local incomes in those areas which further undermines the rent/income relationship at the centre of the framework.

- 10.2.5 The evidence to the Commission demonstrated a need to move back to social target rents but to also moved the Commission to consider introducing a median rent or 'living rent' (at or below Local Housing Allowance levels) that is affordable without recourse to benefits for households with higher incomes. This group would be expected to pay around 30 – 35% of their gross income in rent as a living rent. For a 2 bedroom property this would amount to an annual rent of £15,704. To meet the 35% criteria, the gross income of the household would therefore have to be around £45,000.
- 10.2.6 Initial modelling demonstrates that in order to produce a 100% rented site with a mix of social target rents and higher rents (at or below Local Housing Allowance levels), additional subsidy will be required in order to not have a negative impact on the Housing Revenue Account. The Council is currently in a position to commit up to 30% of scheme costs through its retained Right to Buy Receipts and consider adding additional subsidy via other available HRA resources, including earmarked New Homes Bonus.
- 10.2.7 The modelling demonstrates that if the rents were all set at Borough Framework Rents levels then the schemes would break even in 24 to 31 years – depending upon the site. Moving the rents to social target rents would increase the break even time to between 69 and 78 years which is unacceptable. If the sites were split at 50% social target rent and 50% Local Housing Allowance the break-even point is a more acceptable time period of between 28 and 32 years.
- 10.2.8 Financial viability modelling which includes high levels of subsidy on four estates where the Council is committed to developing 100% rented schemes, demonstrates that the Council could produce a mix of new homes at both social target rents and the higher rents as described above. It should be noted that the modelling will also need to include a service charge element in the overall rent. The Council will take forward this proposal in order to deliver new homes at social target rents.
- 10.2.9 However there is concern that this model would not be sustainable in the long term as the high levels of HRA resources required to offset the negative impact on the HRA will not be available in the current fiscal climate. The Council will therefore need to consider other models which could include cross subsidy through market sale of homes on sites it owns, borrowing against General Fund reserves, and use of commuted sums.
- 10.2.10 Cabinet is asked to approve the testing of this model further against the selected Council sites where a development opportunity has been identified to confirm whether it is viable to have a mix of social target rented properties and living rents. This work will be undertaken in parallel with the options appraisal for potential delivery options through a Company either wholly or partially owned by the Council.

10.2.11 The median, 'living rent' target group for the working households who would be eligible for the higher rents will be those with an income in the region of £30k to £45k per annum, paying 33% of their income on rent. This income to rent ratio was identified as a fair level through the Commission. This formula equates to a minimum of £13k per year rent - £1,100 per calendar month for a one bed rising to around £1,500 for a three bed. This would become more affordable where more than one person in the household is working and will meet the need of couples or shared households.

10.2.12 Whilst the target rented properties will continue to be let through the Common Housing Register, further consideration will need to be given to letting the higher rent homes through a separate waiting list and potentially developed by a Housing Company. Eligibility criteria based on local connection will need to be established as well as regular reviews of the households' eligibility to remain in the property. These properties could be let on longer term assured shorthold tenancies to give the residents added security.

10.3 Sites not owned by the Council

Rented Homes

10.3.1 The majority of new housing supply is through homes negotiated with developers and housing associations through Section 106 agreements. Since 2011, the majority of new homes have been let in line with the Borough's Affordable Rent Framework.

10.3.2 The Commission suggested reviewing the impact of requiring that rented homes are let at social target rent on these sites. Registered Providers may welcome units at social target rents as they are cheaper for them to buy from the developer. However, the concern is that lower rents will lead to an overall loss of affordable units. Consideration will need to be given as to whether this can be justified given the high level of need in the Borough despite reservations about the true affordability of Borough Framework rents to significant numbers of households in priority need.

10.3.3 As set out above the Council's current policy for these sites also requires 30% of the affordable housing to be built as intermediate housing, generally as shared ownership, and this would need to be factored into the overall tenure mix calculation.

10.3.4 In addition the Council would need to consider the impact of a lower rent/lower output proposal on the delivery numbers if the recommendations are incorporated into the Local Plan.

It will be challenging to deliver such a proposal in the context of the National Planning Policy Framework and the GLA London Plan. The risk of being challenged by the Planning Inspectorate or GLA by making homes more affordable but reducing regional and local affordable housing supply targets will need to be considered.

Intermediate Homes

- 10.3.5 The type and tenure of intermediate homes provided through Registered Providers will to some extent depend on the area, especially in relation to the affordability of Shared Ownership. It has become clear that 3 bedroom Shared Ownership homes are unaffordable in the more expensive parts of the Borough and this will need to be reflected in the Local Plan. Residents who might consider such an option would be able to consider buying outright on the fringes of London at a similar price and may prefer to travel to work from Zone 6 as an annual travel card is relatively affordable.
- 10.3.6 Shared equity is likely to be less attractive to Registered Providers as it is more expensive for them to buy. The Council will also consider an intermediate product that does not leak subsidy by restricting 100% incremental purchasing of further shares in the house (also known as stair casing) up to 100% to full ownership. Alternatively the Council could let the market take its course as there is limited subsidy.
- 10.3.7 Analysis of recent shared ownership sales by Housing Associations shows that the majority of applicants are based in the Borough and their previous tenure is the private rented sector. Median incomes range across the postcodes, with higher incomes in E1, E2 and E14 (£45k to £67k) compared to E3 (£35k - £55k). E3 also had some purchasers with much lower entry point incomes at around £21k - £24k compared to entry levels of over £30k in other postcodes.
- 10.3.8 However many of these residents will be purchasing as little as a 25% share in the property. This suggests that due to their income constraints, their initial aspiration is to buy into a property with a lower deposit requirement and where they pay a high rent with smaller mortgage. The income outlay will be similar to a local private rented home but offers both long term security and a degree of ownership. It should also be noted that as all intermediate housing is now marketed through the Mayor of London's First Steps program, the Council has less influence on setting local priorities for intermediate housing in the Borough.
- 10.3.9 In addition there is a role for higher quality private rented sector housing outside of S106 delivery. New homes provided in the borough by Essential Living, Fizzy Living and across London by Pocket Housing show demand for a product which provides a better value, well managed product for young professionals and can make a valuable contribution to housing those in less housing need.
- 10.3.10 Decisions on the provision of such homes is made through the planning system and they are not classified as intermediate housing on a small site or as part of the intermediate offer on an s106 scheme.
- 10.3.11 As set out earlier in this report, the impact of the Housing and Planning Bill 2015 on all schemes, particularly the introduction of Starter Homes, will need to be taken into consideration once the Government's regulations are published.

10.4 Local Plan

In developing the Local Plan, the Council will need to address the following:-

10.4.1 **Density** – At what point do higher additional costs for lifts, security, concierge and maintenance of communal areas render a scheme as unaffordable due to the higher service charge costs?

10.4.2 **Use of off-site and commuted sums.** The Council will need to identify how it can get the best return from commuted sums. Land values vary greatly across the borough and developing affordable housing in high value areas, particularly when at high density, creates further affordability issues, especially when service charges are taken into account. Accepting commuted sums which could increase the number of affordable homes in cheaper parts of the Borough will need to be considered in the context of the new Local Plan.

10.4.3 **Affordable Housing tariffs** - The existing use value versus development value of land debate will continue and provides flexible negotiation space for viability consultants. Setting an Affordable Housing tariff at a target range of 25% - 40% with a 70/30 split could bring more certainty to the process. This is a proposal which is set out in the recent IPPR London Housing Commission report and this stance could be supported in discussions with regional and central government.

10.4.4 **Housing Supplementary Planning Document** - Further consideration needs to be given to developing a revised Affordable Housing Supplementary Planning Document. . As part of the statutory development plan an SPD can help the Council to lay down more detailed, prescriptive policies for the delivery of Affordable Housing providing it is in compliance with NPPF paragraph 153.

10.5 Housing Strategy

10.5.1 Several other ideas that emerged during the course of the Commission will be incorporated into the consultation and development of the 2017-20 Housing strategy.

These will include:-

- Revision of the Allocations policy
- Creation of a separate waiting list for higher rental homes
- Private Rented Sector Policy
- The way forward for the Preferred Partner Protocol
- Delivering homes through the Estate Capacity Study and Growth Strategy, land disposal and asset management generally.

- 'Tied housing'. There are huge companies in the Borough that need a workforce that can live near to them. CWG, NHS, Banks. The Council could explore the possibility of companies subsidising PRS for their employees?
- Out of Borough solutions
- Self build and custom build housing

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 11.1 The report sets out a number of recommendations of the Affordability Commission. These need to be fully evaluated as the financial implications for the Council are likely to be significant and will need to be considered in the context of the medium term financial strategy and the impact of the delivery of affordable housing in the borough. A comprehensive assessment of the implications will need to be undertaken to ensure the options that are developed do not adversely affect the sustainability of the Housing Revenue Account in the medium to long term.
- 11.2 Appendix 1 of the report includes a specific recommendation in respect of the proposed level of rents that will be charged on new developments and acquisitions. That will have an immediate impact upon the new housing supply programmes that are being undertaken within the Housing Revenue Account.
- 11.3 Recent Government announcements have set out a number of policies that will affect the delivery of social housing. The implications of the reduction in rents on social housing properties by 1% a year for each of the four years from 2016-17, were incorporated into the Housing Revenue Account 2016/17 budget report (Cabinet – 2nd February 2016), however the full impact on the HRA is not quantifiable until all other specific legislation is adopted and detailed guidance on the proposals is published. The combined impact of the rent reduction, the possible impact of the Sale of High Value Voids and 'Pay to Stay' rent policies will mean that significant savings will be required in order to maintain a sustainable HRA in the long term.
- 11.4 A significant risk to the council relates to the levels of Right to Buy receipts that have been retained under the one for one arrangements for the provision of new housing supply. These have accumulated significantly following the government's reinvigoration of the Right to Buy system and currently total approximately £50 million. Tight time constraints apply to the use of these resources (they must be spent within three years of receipt) and if not utilised they must be paid to the government with large interest penalties falling on the council. The use of the resources is limited in that they can only be used to fund up to 30% of a scheme's costs, meaning that in excess of £160 million of expenditure on new supply is necessary with the council or partners needing to finance £110 million of the costs. Furthermore, RTB receipts cannot be applied to schemes that attract GLA or other government grant funding.
- 11.5 The report recommends that housing developed by the council is 100% rented, combining social target rents and homes at a median rent or a 'living

rent' that is affordable without recourse to benefits for households with higher incomes. The 'living rent' will be at or below Local Housing Allowance levels. This must be considered in the context of the government's commitment to introduce some form of 'Pay to Stay' tariff which could render the HRA non-sustainable and render any policy to be ultra vires. It is essential that any policy that is introduced complies with all relevant legislation.

- 11.6 Various new build proposals are currently being developed, in addition to the initiative to repurchase properties that have previously been sold under right to buy legislation for which a capital estimate of £27.28 million has been adopted.
- 11.7 If developed within the HRA, any new build properties will be 30% funded through retained one for one receipts. The council will use its own available capital resources to finance the required 70% contribution, with the residual element being a call on the council's HRA borrowing requirement. The loan charges that result from this borrowing are met through HRA revenue resources, predominantly the rental income. Any reduction in rental income will therefore put additional pressure on the HRA and will reduce the funding for other schemes to be developed within the HRA. Previous viability modelling undertaken on new developments has assumed that all properties would be let at 'POD' rents. As outlined in paragraphs 10.2.6 to 10.2.10, it is therefore essential that modelling is undertaken at the proposed rental levels to quantify the impact of any proposed scheme on the overall HRA.
- 11.8 The tables below provide a comparison between the average council rent for 2016-17 and the Local Housing Allowance on both a weekly and an annual basis.

	Number of Bedrooms			
	1	2	3	4
Weekly				
LBTH Average Weekly Rent 2016-17 (£)	98.29	111.04	124.75	139.73
Local Housing Allowance 2016-17 - London Inner East (£/week)	257.35	302.33	354.46	417.02
Annual				
LBTH Average Annual Rent 2016-17 (£)	5,111	5,774	6,487	7,265
Local Housing Allowance – London Housing East (£/annum)	13,382	15,721	18,431	21,685
Difference between LHA and LBTH Rent per annum	8,271	9,947	11,944	14,420

11.9 As can be seen there is a significant difference between the social rent (at the council's current average rent) and the Local Housing Allowance. In the case of a two bedroom property, this is approximately £10,000 per annum, which would provide resources to finance and repay a loan in the region of £100,000.

12. LEGAL COMMENTS

- 12.1 Section 8 of the Housing Act 1985 places an obligation on a local housing authority to consider housing conditions in their district and the needs of the district with respect to the provision of further housing accommodation. In line with government policy, the Council is required to deliver affordable housing in the Borough. To achieve this aim the Council will have to take account of its various powers and duties in relation to rent setting and managing the Housing Revenue Account and its Housing Strategy. Section 24(1) of the Housing Act 1985 gives the Council the power to make such reasonable charges as it may determine for the tenancy or occupation of its houses. Under section 24(2) of the Act, the Council is required to review rents from time to time and make such changes, either of rents generally or of particular rent, as circumstances may require.
- 12.2 The Council is required to maintain a balanced HRA and therefore care must be taken to ensure that any policy the Council adopts to achieve affordable housing in the Borough does not impact on its ability to maintain a balanced Housing Revenue Account. The comments of the Chief Financial Officer have highlighted a number of potential significant risks to the Housing Revenue Account if the recommendations of the Commission are taken forward. The Council must consider how those risks can be eliminated or minimised before proceeding with the recommendations.
- 12.3 In formulating its policy, the Council will also need to take account of the government's policies on rents for social housing. These are explained in detail in Appendix 2 attached to this report. Government proposals in the Housing and Planning Bill will also have an impact on the Council's ability to deliver affordable housing in the Borough and will have to be factored into any schemes that the Council decides to adopt.
- 12.4 The recommendations at present will require further detail to be produced before the Council is in a position to finalise any policy or scheme that it wishes to adopt to deliver more affordable housing. In particular the effect on the Housing Revenue Account and to ensure that all relevant legislation has been complied with.
- 12.5 When deciding whether or not to proceed with any project, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). Some form of equality analysis will be required which is proportionate to proposed projects and their potential impacts.

13. ONE TOWER HAMLETS CONSIDERATIONS

- 13.1 Concerns regarding the affordability of housing can impact on all sections of the community and the findings and recommendations of the Committee provide an opportunity to take forward a number of initiatives to address these concerns and assist in community cohesion between groups across the Council.

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 14.1 The actions and recommendations taken forward from the Affordability Commission relate to the built environment and will have an impact on the Green Environment. All new build schemes are subject to environmental appraisal in line with Local Plan requirements and related building regulations.

15. BEST VALUE (BV) IMPLICATIONS

- 15.1 The recommendations set out in this document align with the Council's Best Value duty. Actions taken forward from the Affordability Commission will aim to ensure that consideration of best use of resources is effectively appraised and that best value is achieved.

16. RISK MANAGEMENT IMPLICATIONS

- 16.1 The actions and recommendations taken forward from the Affordability Commission will be subject to further financial appraisal and risk assessment in line with best practice. Issues around risk related to new development and the Housing Revenue Account are set out further in the financial comments above.

17. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 17.1 There are no specific crime and disorder reduction implications.

18. SAFEGUARDING IMPLICATIONS

- 18.1 There are no significant implications arising from the recommendations in this report.

Linked Reports, Appendices and Background Documents

Linked Report

None

List of Appendices

Appendix 1 – Summary of recommendation

Appendix 2 - Briefing papers

Appendix 3 - Presentations

Appendix 4 - Submissions

Appendix 5 - Panel Questions

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

List of “Background Papers” used in the preparation of this report	Martin Ling Development and Renewal London Borough of Tower Hamlets
Housing and Planning Bill 2015	Mulberry Place, 5 Clove Crescent London, E14 2BG Tel: 020 7364 0469