

<p><b>Cabinet Decision</b></p> <p>2 May 2017</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Aman Dalvi Corporate Director Place</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Approval to proceed with guidance on new rent levels.</b></p>	

<b>Lead Member</b>	<b>Councillor Rachel Blake, Cabinet Member for Strategic Development</b>
<b>Originating Officer(s)</b>	Jennifer Pepper - Affordable Housing and Partnerships Manager
<b>Wards affected</b>	All wards
<b>Key Decision?</b>	Yes
<b>Community Plan Theme</b>	<b>A Great Place to Live</b>

### **Executive Summary**

The Affordability Commission (AC) introduced a new rental level called Tower Hamlets Living Rents and monetary values for these have been calculated in line with the Commission's guidance, these are in the tables below.

Running concurrently with the Affordability Commission and the adoption of the Housing Strategy in December 2016 the Mayor of London published a consultation draft of the Affordable Housing and Viability SPG 2016 and the 2016 - 21 Affordable Homes Programme Funding Guidance. This Programme introduces the London Affordable Rent , which is a social target rent, which also chimes with the results of the AC. Approval for officers to proceed in advising developers and Registered Providers (RPs) on these new rent levels is sought.

### **Recommendations:**

The Mayor is recommended to:

1. Note the content of this report and to authorise the Divisional Director, Housing and Regeneration to advise developers and registered providers to move to the monetary values in the tables below with relation to affordable rented housing in the Borough.

## **1. REASONS FOR THE DECISIONS**

- 1.1 In the absence of an Affordable Housing SPD, to enable officers to have the Mayor's authority to advise developers and registered providers that these are the affordable housing rental levels to be utilised as schemes come in for planning applications.

## **2. ALTERNATIVE OPTIONS**

- 2.1 Before the Affordability Commission the Borough had Borough Framework Rents which were 65% of market rents for a 1 bedroom property and 50% on a 3 bedroomed property, this position could be retained.

## **3. DETAILS OF REPORT**

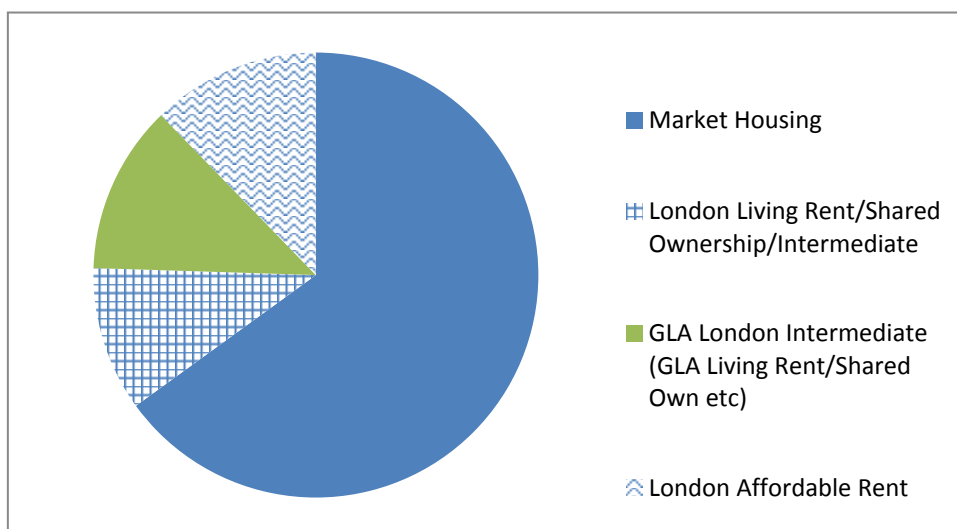
- 3.1 The Mayor of London has just published a consultation draft of the Affordable Housing and Viability SPG 2016 and the 2016-21 Affordable Homes Programme Funding Guidance. Details are provided on how all mixed tenure residential schemes will be expected to offer 35% affordable housing and if they fail this the GLA will require viability assessments.
- 3.2 The documents also provide details of rental levels for the affordable rented tenure, London Affordable Rent and introduces a new intermediate rent product, the London Living Rent. The Mayor of London wishes to see the following mix: 30% London Affordable rents, 30% London Living rents (an intermediate product) and 40% to be allocated to the tenure considered most appropriate by the Local Planning Authority.
- 3.3 London Affordable Rent levels have been published for 2017-18 and are the equivalent of what was previously called Social Target Rents. Figures are in the table below.
- 3.4 London Living Rent (LLR) levels have been published for each ward in London, based on data for average local incomes, the principle being to charge a rent at the level of a third of average gross household income, this is attached as Appendix 1. LLR is an Intermediate product, which anticipates that tenants will use their sub-market rent level to save towards the purchase of this or another equivalent property on a shared ownership basis.
- 3.5 Running concurrently while the GLA was developing its Affordable Housing documents, the Council was concluding the Affordability Commission which introduced a new rent level called TH Living Rents.
- 3.6 Tower Hamlets new approach to Rents
- 3.7 Tower Hamlets Council has adopted a similar approach to the GLA and the outline for this has been published in our 2016-21 Housing Strategy which was adopted on 5th December 2016. Rent levels have been guided by the

conclusions of the 2015/16 Affordability Commission which stated that the Borough Framework rents were too high and would like to see Registered Providers charging lower rents. The Borough Framework Rents are set out in the Tenancy Strategy 2013 and were updated annually until 2016 when the new administration decided that they wanted to move towards lower rents. The Tenancy Strategy is not a document which holds weight as material planning policy. On our own sites the Affordability Commission determined that there should be a 50% split of the new TH Living Rents and Social Target Rents (which now should be succeeded by London Affordable Rents) across all bedroom sizes. This approach has been applied at our Watts Grove site.

- 3.8 Officers now propose to formalise how they negotiate s106 schemes in line with the Draft GLA SPG. A draft guidance note to developers and RPs is attached as Appendix 1.
- 3.9 The LBTH preferred mix will continue to be 70:30 in favour of rented, and the 30% Intermediate should be provided as Shared Ownership or London Living Rents (GLA) or any form of intermediate rent.
- 3.10 The 70% of the affordable provision (by hab room) will be for rent and should be split 50/50 between Social Rents (at same level as London Affordable Rents) and TH Living Rents. TH Living Rents will be a rented tenure based on average median income levels which are £31,645 pa, and working on the premise that it is reasonable to spend a third of income on rents – see figures in the tables below.

**Scheme Showing all tenures**

Market Housing	65.00%
London Living Rent/Shared Ownership/Intermediate	10.50%
GLA London Intermediate (GLA Living Rent/Shared Own etc)	12.25%
London Affordable Rent	12.25%
<b>Total</b>	<b>100.00%</b>



3.11 The Affordability Commission recommended that sites which produce these higher rent homes should be let to applicants from a separate waiting list, potentially developed by a council owned Housing Company'. This approach was endorsed by Full Council on the 5<sup>th</sup> December 2016 and a separate report on how such a waiting list could be set up will be brought to Cabinet in due course.

3.12 Registered Providers and developers will be encouraged to apply these new rent levels on fresh planning applications.

3.13 Grant funding

The GLA have also issued a new document giving Funding Guidance for their Affordable Homes Programme 2016-21. This provides details of the circumstances in which grant may be used by RPs and developers to increase the level of affordable housing above the benchmark level established by a viability assessment.

3.14 Mirroring the GLA's London Affordable Rent levels will enable RPs to be eligible to apply for grant funding with a view to encouraging more affordable housing (up to 50%) into a scheme.

3.15 Rent Levels for 2017-18

The table below provides sample figures for the different rent levels:

**Rents-Registered Providers**

<b>2017-18</b>	<b>1 bed £</b>	<b>2 bed £</b>	<b>3 bed £</b>	<b>4 bed £</b>
London Affordable Rent (Social Rent) 2017-18	144.26	152.73	161.22	169.70
*TH Living Rent exclusive S/C	177.85	198.14	218.42	238.71
TH Living Rent 2017-18	202.85	223.14	243.42	263.71

The table below shows monetary values for average Framework rents and Local Housing Allowance for 2017-18.

<b>2017-18</b>	<b>1 bed £</b>	<b>2 bed £</b>	<b>3 bed £</b>	<b>4 bed £</b>
Borough Average Framework Rents (POD)	221.08	239.01	272.59	295.67
Local Housing Allowance	257.35	302.33	354.46	417.02

3.16 London Affordable Rents are the same values as the GLA's and are exclusive of service charges.

3.17 TH Living Rents are inclusive of service charges (S/C), the assumed service charge here is £25.

\*These are the rents with the assumed £25 service charge disaggregated to compare values with the London Affordable Rents and the Tower Hamlets Average Formula Rents below.

3.18 For LBTH own new-build the rents will be 50% at Tower Hamlets Formula Rents, which are less than London Affordable Rents and TH Living Rents:

**Rents – Council (LBTH)**

<b>2017-18</b>	<b>1 bed £</b>	<b>2 bed £</b>	<b>3 bed £</b>	<b>4 bed £</b>
Tower Hamlets Average Formula Rents	141.64	149.97	158.31	166.64
*TH Living Rent exclusive S/C	177.85	198.14	218.42	238.71
TH Living Rent	202.85	223.14	243.42	263.71

**4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 The report seeks the approval of the Mayor in Cabinet to the changes to the definition and calculation of affordable rent specified to developers for submission in planning applications. Affordable rents are also used by registered providers and for the Council's own new build schemes.

4.2 The affordable rent levels applied by the Council to current Section 106 planning applications are based on rent data collected by the POD Partnership. These rents are based on current market rents and are post code specific. Currently, the rent of a one bedroom flat represents 65% of market rent; a two bedroom flat is 55% of market rent; a 3 bedroom flat is 53% of market rent with the rents of 4 bedroom flats and larger properties based on 48% of market rent

4.3 In May 2016, Cabinet considered the recommendations of the Affordability Commission that had been established to consider rental levels for new developments. The Cabinet adopted option, incorporating the Affordability Commission's recommendations, was based on rental charges for a one bedroom flat which, using the criteria of a predicted average single household income of £31,645 per annum in 2017/18 results in a weekly rent of £202.85 i.e. 33.3% of the annual household income. The weekly rent for larger properties increases by 10% for each additional bedroom, with a further 5% added to differentiate between a house and a flat.

- 4.4 In November 2016, the Mayor of London published his proposals to introduce London Living Rents to provide help for households on average incomes and to assist tenants to save for a deposit by offering them a below-market rent. It is proposed that initial rents for this initiative will be based on median gross household incomes for particular geographic areas, rather than using a single London-wide rate. Rents for a two bedroom property will be set at one third of these household income figures with adjustments applied for different sized properties. Overall it is assumed that the rent for any individual unit should be at least 20% below its assessed market rent. The indicative 2017/18 London Living Rent levels for each ward in the Borough are set out in Appendix 1.
- 4.5 This report proposes that the Council will implement rental charges for affordable housing within new developments based on 50% of the properties being let at London Affordable Rents (formerly Social Target Rents) and 50% let at London Living rents.
- 4.6 The change from the existing POD rents to this new structure should result in reductions in affordable rent levels. It will not affect the rents charged by the Council on existing tenancies held within the Housing Revenue Account but will apply to any new build schemes developed by the Council, Registered Providers and developers. The lower rental charges will mean that Council led schemes will become marginally less cost effective than previously anticipated although there will be a direct benefit to tenants through lower rental charges.
- 4.7 Reductions in the rental levels charged for all new social housing units developed within the borough should result in lower housing benefit / universal credit being claimed by tenants. Although not quantifiable, this should lead to a net reduction in the future costs of housing benefits to the Council.

## **5. LEGAL COMMENTS**

- 5.1 Policy 3.11 of the Mayor's London Plan seeks to maximise the delivery of affordable housing in London. Policy 3.12 sets an affordable housing target across London and provides that boroughs should implement a tenure mix of 60% social rented/affordable rented and 40% intermediate housing. The London Plan is clear that boroughs should take account of supplementary planning guidance when implementing Policies 3.11 and 3.12. In November 2016, the Mayor of London published draft supplementary planning guidance (SPG) for consultation called *Homes for Londoners: Affordable Housing and Viability*. Amongst other things, this document set out a new approach to rent levels in London (including setting new 'London Living rents' levels for each ward in the borough). This document supports the affordable housing policies in the London Plan. It does not, and cannot introduce new planning policy.
- 5.2 The draft SPG set out the Mayor of London's preferred split of tenures for new developments, being 30% low cost rent (social or affordable rent), at least 30% as intermediate products, with the remaining 40% to be determined by

the Local Planning Authority (LPA). As part of the consultation LPAs were encouraged to provide the Mayor of London with their preferred split of housing tenures for developments coming forward. In addition, as part of the consultation LPAs were invited to give guidance on what rent levels they considered to be genuinely affordable in their borough, if these were to be above the benchmarks for London Affordable Rent.

- 5.3 In order to comply with the requirements of the London Plan and respond to the draft SPG, officers have set out in this report, details of the Council's preferred tenure mix and new rent levels and seek the approval of the Mayor in Cabinet to proceed to advise developers and registered social housing providers to move to the values set out in the tables at paragraph 3.15 of this report. In other words, this decision will reflect the Council's position in negotiations on planning applications in respect of the Council's preferred mix of affordable housing and as to what rental levels the Council considers to be genuinely affordable. It will support the policies in the Council's Development Plan (which includes the London Plan) but does not itself make planning policy. It will not carry the same weight as the Development Plan itself, but it is capable of being a material planning consideration which is taken into account when making decisions on planning applications.
- 5.4 When considering the recommendations in this report, regard must be given to the public sector equalities duty to eliminate unlawful conduct under the Equality Act 2010. The duty is set out at Section 149 of the 2010 Act. It requires the Council, when exercising its functions, to have 'due regard' to the need to eliminate discrimination (both direct and indirect discrimination), harassment and victimization and other conduct prohibited under the Act, and to advance equality of opportunity and foster good relations between those who share a 'protected characteristic' and those who do not share that protected characteristic.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 These new rent levels are expected to have a positive impact for those with protected equality characteristics, as the profile of priority band 1 and 2 applicants on the Common Housing Register demonstrate that many of these groups are disproportionately represented among those in greatest need of affordable housing. Research indicates that these groups are more likely to experience homelessness or over-crowding, or to have low incomes that make it difficult for them to afford market housing. In addition, monitoring of the initial round of lettings to Tower Hamlets Living Rent tenancies in Spring 2017 will be analysed to evaluate the impact of these new rents on equality groups.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 There are no implications arising from these recommendations.

**8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 There are no implications arising from these recommendations.

**9. RISK MANAGEMENT IMPLICATIONS**

9.1 There are no risk implications arising from these recommendations.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no implications arising from these recommendations.

**11. SAFEGUARDING IMPLICATIONS**

11.1 There are no implications arising from these recommendations.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

**NONE**

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**Appendices**

- Appendix1 – Guidance for developers and RPs.

**Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012**

**NONE**

**Officer contact details for documents:**

Or state N/A