

Consultation response

**Shelter response to CLG consultation
Planning Policy Statement 3: Planning
for Housing: Technical Change to
Annex B, Affordable Housing definition**

April 2011

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Shelter is a national campaigning charity that provides practical advice, support and innovative services. More than one million people a year come to us for advice and support via our website, helplines and national network of services.

We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

This work gives us direct experience of the various problems caused by the shortage of affordable housing across all tenures. Our services include:

- A national network of over 40 advice and support services
- Shelter's free housing advice helpline which runs from 8am–8pm (8am-5pm on Saturdays and Sundays)
- Shelter's website (shelter.org.uk/getadvice) which provides advice online
- The CLG-funded National Homelessness Advice Service, which provides specialist housing advice, training, consultancy, referral and information to other voluntary agencies, such as Citizens Advice Bureaux and members of Advice UK, who are approached by people seeking housing advice
- A number of specialist services promoting innovative solutions to particular homelessness and housing problems. These include Housing Support Services which work with formerly homeless families, and the Shelter Inclusion Project, which works with families, couples and single people who are alleged to have been involved in antisocial behaviour. The aim of these services is to sustain tenancies and ensure people live successfully in the community.

We also campaign for new laws and policies – as well as more investment – to improve the lives of homeless and badly housed people, now and in the future.

Summary

- Affordable Rented housing should not be defined as a form of social housing, in that it is unlikely to meet the needs of many households that are eligible for social housing for a secure and affordable home without increased welfare dependency and risk of repeat homelessness. We view Affordable Rented housing as another form of intermediate rented housing. As such, it could be an appropriate option for some working households, for example as a more affordable and secure alternative to private renting.
- Affordable Rented housing is not an appropriate option for homeless households and others in need of a secure, genuinely-affordable home. We are very concerned that existing and future vacant social rented homes could be re-let on Affordable Rents. This will reduce the number of homes available at social rents and push homeless households into insecure, higher rent homes, increasing welfare dependency and the benefit bill.
- If Affordable Rented housing is to be included within the definition of 'affordable housing', then, like 'intermediate affordable housing', it should be seen as a separate product, explicitly subject to the test of affordability, as defined in the PPS3 Annex B.
- We support the proposal that Affordable Rented housing will be defined separately to 'social rented housing' and 'intermediate affordable housing' within an overall definition of 'affordable housing', so that there will be three forms of affordable housing. This distinction is very important in the meeting of housing need through the planning system and should be retained in the forthcoming National Planning Policy Framework.
- We believe that, in order to meet their duties under the Homelessness Act 2002 to strategically prevent homelessness and secure that sufficient accommodation is and will be available to homeless people in their district, local authorities will need to plan for enough secure social rented homes available in the area.
- Both the Localism Bill and the forthcoming National Planning Policy Framework (which will supersede PPS3), should require local planning authorities to set out how they intend to meet local housing need and demand by the delivery of each category of 'affordable housing': 'social rented housing', 'affordable rented housing' and 'intermediate affordable housing'.

Consultation Question

Does the revised definition provide clarity that the Affordable Rent product should be considered as affordable housing for planning purposes?

The Government proposes that, for planning purposes, dwellings let on an Affordable Rent basis can be regarded by local authorities and providers as 'affordable housing'. Views are sought on the wording of the new definition rather than the Affordable Rent product itself. Affordable Rent homes can only be provided by Registered Providers as part of a contractual agreement on funding made with the Homes and Communities Agency. A proportion of existing social rent properties will be re-let at Affordable Rent, with the additional capacity generated from those re-lets supporting the delivery of new supply.

Definition of affordable housing

We support the proposal that affordable housing will continue to be defined as housing, provided to eligible households whose needs are not met by the market, which should:

- *Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.*
- *Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled or for alternative affordable housing provision.*

We suggest that the planning framework should include a more detailed and income-related definition of 'a cost low enough for [eligible households] to afford, determined with regard to local incomes and local house prices'. Many local planning authorities often already use income-related definitions in their local development documents. For example, the London Plan sets a more specific definition, which is income-related and updated on an annual basis¹: 'Service charges should not be so great as to make a tenancy unaffordable for a household with an income of less than £18,100 on the basis of rents and service charges not exceeding 30% of net household income.'

Categories of affordable housing

We support the proposal that Affordable Rented Housing will be defined separately to 'Social Rented Housing' and 'intermediate affordable housing' within an overall definition of 'Affordable Housing', so that there will be three forms of affordable housing:

- Social Rented Housing
- Affordable Rented Housing
- Intermediate Affordable Housing (including shared equity and intermediate rent)

This will allow for more specific housing delivery targets to be set by local planning authorities, as currently required by PPS3² (which states that local planning authorities should set an overall target for affordable housing as well as separate targets for social-rented and intermediate affordable housing where appropriate). Many local development plans make a distinction between social rented housing and intermediate affordable housing when setting out targets for affordable housing. For example, the current London Plan splits targets for affordable housing into 70 per cent social rented and 40 per cent intermediate affordable housing³.

We acknowledge that, from April 2011, Affordable Rent will form the principal element of the new supply offer and that grant funding, which in the past has been available to support social rent and various intermediate affordable homes, will now mainly be aimed at Affordable Rent properties, depending on local priorities. However, the consultation states that 'social rented dwellings can still be provided but only in exceptional cases will they attract funding from the Homes and Communities Agency' and social rented homes may also continue to be delivered via section 106 subsidy, cross-subsidy and direct investment by providers.

We agree with the consultation that local authorities play a key role in the delivery of affordable housing, both through their strategic housing role and as local planning authorities. These roles require them to set out the affordable housing requirements for their area and ensure that the policies in their local development plans help them to meet these requirements. The Affordable Homes Programme Framework document makes it clear that the programme must meet local priorities and that confirmation of local authority support will be sought for new supply proposals when schemes are identified or indicative proposals become firm. It is important that local planning authorities continue to be encouraged to set out the split of affordable housing they intend to deliver to ensure that local

¹ Mayor of London (November 2005) *Housing: The London Plan Supplementary Planning Guidance*, paragraph 15.2 as updated by the *London Plan Annual Monitoring Report* (February 2009), Appendix 7

² CLG (June 2010) *Planning Policy Statement 3 (PPS3) Housing* - paragraph 29.

³ Mayor of London (November 2005) *Housing: The London Plan Supplementary Planning Guidance*, paragraph 15.2, paragraph 13.3

development plans meet the full range of housing need. It will be important that authorities clearly state how many socially rented homes they aim to build for people who cannot afford 'intermediate affordable' and 'Affordable Rent' homes without becoming benefit-dependent.

We believe that the Localism Bill and the forthcoming National Planning Policy Framework (which will supersede PPS3) should require local planning authorities to set out how they intend to meet local housing need by the delivery of each category of 'Affordable Housing': 'Social Rented Housing', 'Affordable Rented Housing' and 'Intermediate Affordable Housing'.

While we recognise that the 'Affordable Rent' product itself is not the subject of this consultation, we are concerned that the term 'Affordable Rent' and its inclusion within the definition of affordable housing is both confusing and potentially misleading. Under this proposal, 'affordable housing' will cover a wide range of tenures and rent levels, some of which will be unaffordable to many people on average local incomes.

Affordable Rent as a form of social housing

The consultation (page 5) states that Affordable Rented housing is a form of social housing. The proposed amended definition states:

Affordable Rented Housing is rented housing provided by registered providers of social housing, that has the same characteristics as social rented housing except that it is outside the national rent regime, but is subject to other rent controls that require it to be offered to eligible households at a rent of up to 80 per cent of local market rents.

We disagree with the wording of the definition that states Affordable Rented housing has the same characteristics as Social Rented Housing. There are two main features of Social Rented Housing that make it particularly suitable for people in housing need, including homeless households:

- Security
- Affordability

Security

The consultation states that Affordable Rent homes can be offered on tenancies with a minimum fixed term of two years (assured shorthold and, in future, flexible tenancies) but that providers will have the flexibility to provide longer (assured or secure) tenancies, depending on the circumstances of the tenant. Currently, Social Rented Housing is let on secure or assured tenancies, sometimes following a fixed-term probationary tenancy.

We believe that it is very important that general needs social housing is let on a secure basis and that this should be one of its main characteristics. People need homes, not simply a roof over their heads, and secure tenure is an essential feature of a settled home. Removing security of tenure would result in future tenants facing a lifetime of insecure housing with all the associated 'exported' costs to education and health budgets. For example, a longitudinal survey of public housing tenants in Brisbane⁴ provided evidence of the positive impacts on the educational outcomes for children resulting from greater stability and security of tenure for the family.

The definition of social housing as providing secure housing is reflected in the London Plan, which states⁵: 'social housing should be available as such on a long-term basis' and 'rented accommodation, which is let on the basis of short-term lets (tenancies or licences of under 5 years) should not be treated as social housing'.

Secure homes and homelessness

⁴ Khan, A. and Phibbs, P. (2005) *Education and Public House Building for Diversity* (<http://www.nhc.edu.au/downloads/2005/Refereed/4Khan.pdf>)

⁵ Mayor of London (February 2009) *London Plan Annual Monitoring Report*, Appendix 7, paragraphs 15.2 and 15.4

It is important that only secure housing is defined as social housing because lack of security of tenure is a major cause of homelessness. In 2010, the loss of an assured shorthold tenancy was the third biggest cause of statutory homelessness in England (14 per cent of cases accepted as being owed main homelessness duty), after family and friends no longer being able or willing to accommodate (33 per cent) and relationship breakdown (20 per cent)⁶. The number of households accepted as homeless as a result of loss of a shorthold tenancy rose by 34% from 4,580 in 2009 to 6,150 in 2010. This increase was responsible for the number of overall homelessness acceptance rising for the first time since 2003.

The new Affordable Rent tenure does not represent an adequate or sustainable offer for people who have experienced homelessness and are in significant housing need. People find themselves in housing need and apply for an allocation of Social Rented Housing because, as the PPS3 definition acknowledges, their needs cannot be met by the market, where they are unable to obtain a secure and affordable home. The regulated rents and security of tenure that social housing provides is often the only way they can gain access to a secure and genuinely affordable home. Research shows⁷ that social tenants closer to the labour market report that security of tenure, sub-market rents, and more supportive landlords all provided work-related benefits and that 'any moves to undermine security of tenure in the social rented sector are likely to have an adverse impact on levels of worklessness as well as undermining the well being of some of the most vulnerable tenants.'

We particularly oppose the proposals that councils could be able to discharge their homeless duty through the new tenancy, and that existing and future vacant social rented homes could be re-let on Affordable Rents. These measures would reduce the number of homes available at social rents and push homeless households into higher rent, less secure homes. We believe that, in order to meet their duties under the Homelessness Act 2002 to strategically prevent homelessness, local authorities will need to ensure that there are enough secure social rented homes available in their area.

Affordability

The consultation proposes to retain the existing PPS3 definition of affordability as '*a measure of whether housing may be afforded by certain groups of households*'. As stated above, it also proposes to retain the current PPS3 definition of 'affordable housing' as housing that '*meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices*.'

Reference to affordability test

It should be noted that the proposed definition of Affordable Rented housing does not make reference to the latter definition of affordability. This contrasts with the retained definition of Intermediate Affordable housing, which explicitly states that such housing must '*meet the criteria set out above*'. We believe that the definition of Affordable Rented housing should explicitly make reference to rental costs with regard to local incomes to ensure that it meets the definition of affordability.

80 per cent market rents

Affordable Rented homes will be made available to tenants at up to a maximum of 80 per cent of gross market rents (including service charges). The recent HCA Affordable Homes Programme - Framework document⁸ states (paragraph 3.10) that 'while offers which include Affordable Rent for new supply and/or conversions at less than 80% of market rents will be considered, it is expected that providers utilise the flexibility to charge rents of up to 80% of market rents to maximise financial capacity'. It goes on to say (3.11) that 'the HCA would wish to explore with providers the rationale for considering *rents at less than 80% of market rents*.' The clear implication is that providers will generally only receive HCA funding on the basis that they charge 80 per cent of market rents.

⁶ CLG Homelessness Statistics, 2010, 2011

⁷ Hills, J (2007) *Ends and Means: the future of social housing in England*, Centre for Analysis of Social Exclusion

⁸ CLG and HCA (February 2011) *2011-15 Affordable Homes Programme - Framework*

We believe that, in some areas, Affordable Rented homes will not meet the proposed definition of affordability nor be of a low enough cost for many households to afford, with regard to local incomes, without dependence on housing benefit. For example, in Inner London, rents at 80 per cent of market rents would not be affordable to many eligible households, determined with regard to local incomes. Research for East Thames Group⁹ has found that, in Newham, 65 per cent of households would be unable to afford a three bedroom home at 80 per cent market rents.

In our response to the TSA's 2009 consultation, we stated:

The average income of social housing tenants is around £13,970 per annum. Of course, many social housing tenants have most or all of their rent paid by Housing Benefit. But for those whose incomes place them just above housing benefit thresholds – including those on low pay, and on fixed incomes such as pensioners – even small increases in rents or service charges can have a significant impact on budgets and also on work incentives.

Housing Benefit and Welfare Dependency

The consultation states that, 'as set out in the Department of Work and Pensions white paper, *Universal Credit: welfare that works*, housing benefit for Affordable Rent will be based upon the actual rent charged for that property'. However, the Explanatory Notes to the Welfare Reform Bill¹⁰ (paragraph 325) state that 'in the short to medium term, housing benefit for social-rented sector tenants (including those who rent properties with the new shorter tenures and affordable rents) will continue to be based on the actual rents, including in the new 'affordable rent' tenure, subject to the new size criteria mentioned above'. This implies that housing benefit may not always be based on the actual Affordable Rent charged.

One of the main advantages of social rents is that they allow people to enter low paid employment without the need to claim housing benefit, or to increase their income without facing benefit withdrawal. Affordable Rents are likely to force an increasing number of tenants into dependency on benefits to pay their rents, as the higher rents would require a much higher employment income for people to cease claiming housing benefit. Because Affordable Rents will be based on local market rents, this will particularly disadvantage households living in areas where market rents are high, which tend to be areas where housing need is greatest.

Family Mosaic Housing Association¹¹, recently published research into the impact of the new Affordable Rent model on fifty new tenants in London and Essex. This concludes that 'for those tenants receiving benefits, the proposed new affordable housing model creates, or worsens, the poverty trap, acting as an additional disincentive to gain employment'. Of the fifty tenants surveyed, only three (all living in Essex) would be able to afford to pay 80 per cent market rents and still have 70 per cent of their income to live on. The research for East Thames Group¹² found that a household of two adults and two children, requiring a three bedroom Affordable Rented property in Newham, would need an annual household income of £43,384 to avoid housing benefit eligibility.

Increased dependence on housing benefit increases the welfare bill for the taxpayer. The Family Mosaic research concluded that, at 80 per cent market rent, the yearly housing benefit bill for just fifty properties would increase from £164,060 to £411,372. There will certainly be housing benefit increases associated with social re-lets converted into Affordable Rent. This means that the capital funding savings made via Affordable Rented Housing could well be lost through higher revenue subsidy in the form of housing benefit payments. We acknowledge that some households moving into Affordable Rented Housing may be moving from the more expensive private rented sector and therefore be able to float off benefits, however, in higher rent areas the difference between the 30th percentile of the local

⁹ East Thames Group, *Impact of the Affordable Rent Model: Newham* (unpublished)

¹⁰ House of Commons (16 February 2011) *Welfare Reform Bill, Explanatory Notes*

¹¹ Family Mosaic (February 2011) *Mirror, signal, manoeuvre: our drive to provide more social housing*

¹² East Thames Group, *Impact of the Affordable Rent Model: Newham* (unpublished)

rents and 80% of market rents may be marginal or negative and this would not lead to an overall reduction.

In conclusion, we believe that, because it will not deliver the level of security and affordability needed by eligible households in housing need, Affordable Rented Housing should not be defined as social housing. We view it as another form of intermediate rented housing. As such, it could be an appropriate option for some working households, for example as a more affordable and secure alternative to private renting.

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