

The Affordable Rent Model in London: Delivery, Viability, Potential

Executive summary

Andrew Heywood
June 2013

This report examines the use and viability of the Affordable Rent Model as a means of building new affordable housing in London. Drawing on empirical data, interviews and case studies, it investigates delivery to date, and considers emerging approaches to a programme which faces considerable challenges in London's current housing and benefit context. The report culminates in a set of recommendations designed to inform future affordable housing programmes in the Capital.

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The logo for the Oak Foundation features a stylized globe icon to the left of the text 'OAK FOUNDATION'. 'OAK' is in a large, blue, serif font, and 'FOUNDATION' is in a smaller, blue, sans-serif font below it.

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About the Author

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About the Oak Foundation

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Future of London is an independent, not-for-profit forum and policy unit focused on the challenges facing urban regeneration, housing and economic development practitioners.

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Foreword

London's housing situation is a paradox. On the one hand we see soaring property values and significant new building, fuelled by the capital's strong economy; on the other, increasing problems of affordability and access to housing for those on low, and increasingly even decent incomes. How to provide more affordable housing - especially in times of public sector austerity - has become perhaps London's biggest challenge.

The Government's approach to this since 2010 has been a new Affordable Rent housing model, offering housing associations and local authorities more flexibility in how they set rents (at up to 80% of market rents), how they leverage their assets and how they set their tenancy terms. This radical shake up is designed to keep new build rates up as public spending cuts bite, with a major shift of subsidy from traditional capital grants to revenue subsidy, whilst also (perhaps paradoxically) seeking to restrain the rising costs of housing benefit.

This report investigates the impacts of these radical changes to affordable housing in London. Although it's still early days for the ARM (the current programme runs to 2015) the data discerns some clear trends in the appetite for new supply, rent levels, allocations, larger homes and, crucially, the interaction with the equally radical changes to the welfare regime for many of the occupiers of affordable homes.

As one might expect, Affordable Rent presents many challenges for London, with its high development and housing costs, and this report makes a set of cogent

recommendations for future policy that take account of the capital's very particular circumstances. In doing so, it reveals how difficult some of the choices for the future are likely to be. Can AR really deliver the numbers we need? Is it viable for larger family homes? And perhaps most fundamentally, who is new affordable rented housing for?

Andrew Heywood and Jennifer Johnson have done a valiant job in collating, analysing and making sense of a vast array of data from the GLA, DCLG, boroughs and registered partners. I would like to thank them, together with our director Lisa Taylor, and the project steering group for producing this timely and helpful report which should provide some useful signposts towards future housing policy.

I have no doubt that London government at every level, together with DCLG and providers of affordable housing will read this 'mid term' report with both interest and intention as we work together to find a genuinely sustainable model for providing the new affordable homes that London so obviously needs.



David Lunts
Executive Director, Housing and Land
Greater London Authority
Chair, Future of London

This report on the Affordable Rent Model in London is precisely the kind of work Future of London exists to deliver: rigorous research from a top contributor, the trust required to elicit frank opinions and hard-to-obtain data, and a strong network of engaged practitioners interested in contributing to and learning from the results.

We believe this report is timely and useful, and we hope it helps guide best practice on affordable housing for the Capital region going forward. This is the product of a diverse team of dedicated people. We'd like to thank researcher and author Andrew Heywood for a detailed and thought-provoking piece of work; the sector leaders who found time to participate in our ARM Steering Group; the housing association and local authority leaders who agreed to be interviewed; the public- and private-sector organisations who provided case studies; everyone who participated in our three research seminars; and the GLA, housing providers and CLG for providing current data on ARM delivery. I'd also like to thank the report readers - Daniel Arnold, Mark Baigent, David Lunts, Nigel Minto and Jo Wilson - and Future

of London Programme and Research Lead Jennifer Johnson, whose tireless efforts on coordination, research, editing and design made this report come to life.

We couldn't have undertaken this project without the support of the Oak Foundation. We applaud their ethos and foresight in commissioning this study, and particularly appreciate the involvement and encouragement of Programme Associate Nicola Bristow.

I hope you learn as much from this research as we have, and that the recommendations in the report are seriously considered by central government, the GLA, and the boroughs and housing providers tasked with delivering affordable housing in London.



Lisa Taylor
Interim Director
Future of London



Executive summary

Scope of the report

This report is based on research into the implementation of the Affordable Rent Model [ARM] in London as part of the Affordable Housing Programme [AHP] 2011-15. The report covers national and London policy development in relation to ARM. Specifically it addresses the following issues:

- Policy background to the introduction of ARM.
- Who is building ARM in London and where? What are the significant characteristics of ARM homes?
- How affordable is ARM in London, particularly in the context of welfare reform?
- How does ARM affect the financial performance of HAs, their risk management and their future development plans?
- Will the London development targets set for ARM be achieved by 2015?
- What future should ARM play in affordable housing development after 2015?

The research includes:

- A review of existing literature; both policy background and stakeholder perspectives.
- Structured interviews with key stakeholders: local authorities [LAs], developing housing associations [HAs] and the GLA.
- An analysis of a wide range of available data sources covering affordable providers and ARM.
- Case studies compiled by and with stakeholders.

ARM: policy and process

The Government announced ARM in the Comprehensive Spending Review of October 2010. The key policy aims were:

- To continue to produce affordable housing with lower grant expenditure in the context of fiscal austerity.
- A move towards “intermediate contracts that are more flexible at rent levels between current and market rents” (HM Treasury, 2010).
- Flexible tenancies and flexibility of rents. (HM Treasury, 2010)
- “Relatively limited impact” on the housing benefit bill ascribable to ARM (Wilson, 2011).

The main characteristics of ARM soon emerged:

- ARM homes would be let at rents of up to 80% of a local market rent for a similar property.

- Landlords would be able to offer the homes on flexible tenancies.
- Grant levels would be reduced significantly over those available under the NAHP, and;
- Landlords would be able to re-let [convert] existing social rented homes at the new “affordable” higher rents to provide an additional revenue subsidy.

The national target

Nationally the Government set an initial target for its AHP at 150,000 new homes. This was later raised to 170,000. The Government quickly identified ARM as a form of social housing where LA allocations would predominate. This ruled out ARM as an intermediate tenure. (HCA, 2011).

The London policy response

The Mayor’s London policy responses are embodied mainly in the *London Plan* [LP] and the *Revised London Housing Strategy* [RLHS] (GLA, 2011). Overall London requires a minimum of 32,210 new homes each year according to the RLHS. The ARM target of 16,000 homes fits within the London AHP of 22,000 homes for the period 2011-15. This would be part of a larger GLA funded programme of 55,000 new homes by 2015.

Key commitments by the Mayor are:

- “The Mayor is concerned that there should be no segregation of London’s population by housing tenure.” (GLA, 2011)
- 36% of new homes built under the AHP should be “family-sized” [three bedrooms or more].
- ARM rents should be as close to 80% of a market rent [MR] as possible; later revisions to the London Plan ensure that LAs cannot obstruct this target for strategic reasons such as ensuring affordability. (GLA, 2012)

Delivery to date

Affordable Housing Programme contracts and numbers

58 HAs and LAs have contracted to implement the 2011-15 AHP programme in London. The target for AHP is 22,268 homes by 2015, which implies a target of 16,478 ARM homes.

- At Q3 to 2012-13 there were c. 3,104 ARM homes in London including 543 new-build and 2,571 conversions [CORE].
- The programme is heavily “back loaded” with 6,686

starts by 31 March 2013. Numbers vary widely between the London boroughs but both new build and conversions tend to be focussed on Outer London and the cheaper eastern boroughs.

- So far 34% of new-build and 7% of conversions of ARM provision are family-sized [three-bedrooms plus]
- Around 50% of ARM are let on five year Assured Shorthold Tenancies [AST] but almost 40% are let on assured (permanent) tenancies. Feedback from RPs suggests that this is due to tenant and landlord concerns about lack of security of tenure.
- ARM properties in London are offered more times prior to letting and they take very slightly longer to let than social rented properties.

Who does ARM house?

HCA's statement that ARM is a form of social housing is borne out in the tenant profile and the process of allocation (HCA, 2011). RPs often expressed disappointment that ARM was not an intermediate tenure to house working households and that LA nominations policies had not changed in response to ARM. (In fact certain LA policies have changed but the effect of this is not yet clear.)

- The average weekly income of ARM tenants was £240 (new-build) and £205 (conversions) for 2012-13. This compares with £247 for tenants in traditional social renting.
- 19% of ARM tenants worked full-time in 2012-13, with 13% working part-time. Percentages are similar for new-build and conversions. This compares with 21% and 13% respectively for traditional social tenants.
- 87% of ARM tenants were eligible for housing benefit compared to 83% for traditional social tenants. ARM tenants working full or part-time were more likely to be eligible for housing benefit than social tenants in the same position; a consequence of the much higher rents charged on ARM homes.
- Importantly, 73% of ARM tenants had found their property as a result of an LA referral, compared to 74% of social tenants. The percentage of ARM tenants selected via choice-based lettings, the common housing register and the common allocations policy was also similar.

Affordability and welfare reform

ARM was widely seen to present serious affordability problems in London, but for all developing RPs, the Government's welfare reform proposals were seen as creating further difficulties.

For the purposes of this study the key Government welfare reforms are:

- Penalties for under-occupying properties [the bedroom tax] applying to those of working age. Introduced in April 2013
- An overall cap on maximum benefits to be paid to any household. Currently being phased in.

- Direct payment of universal credit to tenants. To be phased in from October 2013

The overall cap in benefits was seen as particularly problematic. RPs felt that they could not charge the 80% of market rent levels achievable in other parts of the country, with more extreme problems in respect of larger properties.

- "Larger re-lets have to be mainly at target rents¹. One and two beds let no problem at 60%-70%." (HA interviewee)
- The cap along with wider affordability problems was seen as a major reason why ARM development tends to be focused on Outer London and less expensive boroughs.
- The bedroom tax was generally not seen as an ARM specific issue. However, the relatively high rents of one- and two-bedroom ARM homes could mean that some tenants downsizing from traditional social renting could find themselves worse off. Interviewees believed that the bedroom tax could contribute to an increase in rent arrears which would increase risks and undermine the financial capacity of RPs.
- Most HA and LA respondents thought that direct payment was likely to erode financial capacity and increase business risk. Some interviewees believed that the higher rents under ARM would increase the risk of arrears once direct payment was introduced.

Analysis of ARM rents and MRs confirms that RP feedback is correct in that affordability and welfare benefit issues determine both the distribution of ARM towards Outer London and that the low proportion of larger properties being converted is a consequence of the inability to charge viable rent levels.

- Median ARM rents compared to MRs show wide variations between boroughs. Overall for Inner London ARM rents are 53% of a market rent, for Outer London 65% and for London as a whole, 59%.
- ARM rent levels vary significantly in relation to market rents by bedroom numbers, with one-bedroom flats at 61% of a market rent, two-bedroom at 57% and three-bedroom at 51%.
- Comparison of ARM conversion rents with social rents in the same area demonstrates the extent to which social rents have been subsidised in the high-cost areas of London. There are much wider variations between boroughs in respect of ARM rents, which also vary widely between similar-sized properties in the same borough. These variations have the potential to make tenant mobility across London more difficult and to erode incentives to move to obtain new or higher-paid work.
- There are instances where ARM rents exceed the LHA level for similar properties in the same area. In general, RPs appear to have used the LHA as a cap, which puts a further downward pressure on ARM rents and which can ultimately erode financial capacity, increase RP risks and potentially reduce the levels of future affordable development.

1. Rents set for social housing under the national rent setting process.

Rents and incomes

In comparing median ARM rents with incomes, median household incomes have been used, broken down by London borough. A benchmark of 35% of household income was used to assess whether a rent was affordable. This is a rough and ready measure but is commonly used.

- Across boroughs ARM rents varied between 20% and 42% of the local median household income. In three boroughs rents were at, or above, 35% of the local median income.
- 16% of London households earn £15,000 a year or less. For these households, very large areas of London would be unaffordable in terms of ARM unless they are receiving benefit, whether working or not.
- The percentage of the local median household income taken by ARM rents increases very little by number of bedrooms. [Source: CORE 2012-13Q3/ Paycheck 2009]
- ARM rents and incomes suggest that those with incomes below and above the median (c. £20,000-£40,000 pa.) could in many cases be successfully housed in ARM properties without recourse to housing benefit. This marks out ARM as potentially an intermediate tenure serving working households who would require limited benefit assistance and who would not in be affected by the benefit cap. This would avoid many of the distorting effects of affordability constraints and welfare reform in London.

Risks and challenges for providers

RP identified several key risks and challenges associated with developing under ARM:

- The benefit cap makes it impossible to build larger properties on a viable basis and puts a general downward pressure on rent levels.
- The bedroom tax and direct payment of universal credit are significant risks to the rental income stream and impact on financial capacity and viability.
- It is difficult to achieve sufficient numbers of conversions at an adequate uplift in rent.
- ARM is harder to let and welfare reform and affordability again play their part.
- Lower grant rates lead to a greater reliance on cross-subsidy and mean an enhanced risk.
- ARM can erode financial capacity which would impact future development capacity.
- Greater reliance on low-cost homeownership, open market sales and market renting as sources of subsidy significantly increases risks.
- The HCA's discussion paper *Protecting social housing assets in a more diverse sector* (HCA, 2013) recognises the enhanced risks of increased diversification.

- There is uncertainty whether measures to safeguard core social housing assets in a riskier operating environment will lead to some diminution of development in the future

The HA view post-2015

The majority of HAs questioned said that they would participate if the ARM programme continued post-2015, mainly to preserve development expertise and capacity. There was also the belief that it was important to maintain favour with the GLA as the grant-giving body, should more public finance be made available for development in the future. A number were unsure of participation post-2015, because of the risks. HAs believed that if they did participate in a further ARM programme post-2015 a smaller number of units would be produced. This was notwithstanding the substantial reserves built up by some HAs. Unless significant measures are taken to mitigate the risks of developing under ARM, the prospects for future programmes are that numbers of units developed will decline.

ARM: the score so far

The GLA: will targets be met?

At the time of writing the 2011-15 programme is at its halfway stage. While definitive conclusions are not possible, a brief assessment can be made about what the outcomes will look like in 2015:

- The GLA is likely to meet its overall 55,000 affordable target, although much will depend on the level of starts achieved in the next few months.
- Within the AHP there is a possibility that the risks attendant on ARM development (see above) may create a situation where ARM development falls short of expectations.
- It will be interesting to see the extent to which any shortfall within the AHP is made up by development within other tenures, such as shared ownership.
- ARM risks ultimately falling significantly short of the Mayor's target of 36% family-sized homes.
- The distribution of development across London raises questions about the degree to which excessive concentration and even "segregation" by tenure could become a risk.

ARM: the Government scorecard

Although the AHP programme is only at its halfway stage, there may be merit in looking at the Government's key stated objectives for ARM nationally and comparing them to London's experience.

Four Government aims for ARM were identified in section 2 of this summary:

- To continue to produce affordable housing with lower grant expenditure in the context of fiscal austerity. 150,000 homes built under AHP by 2015.

Conclusions & recommendations: towards a post-2015 strategy

There is some likelihood that ARM will be extended for a further programme (possibly for one year only) after 2015. What lessons can be learnt from the programme so far?

Who is ARM for?

ARM was designated as “social housing” by the Government and current tenant profiles are consistent with that designation. There has been discussion that some LAs may use recently acquired discretion to alter their nomination/priority policies in order to allow more “aspirational” working households to become tenants. The data so far shows no evidence that this has begun to happen. However, there are some boroughs that have acted to change their policies, or are intending to do so. It is still too early to judge what impact these changes have had on the personal profiles of new ARM tenants.

RPs have made it clear that the present low-income, benefit-dependent profile of ARM tenants creates risks for the programme in terms of achieving sufficient rental uplift, particularly in the context of welfare reform and the welfare cap.

The issue of attracting working families into ARM homes raises a dilemma for government focussed on the housing benefit bill. If ARM homes at 59% of a market rent are taken up by working instead of workless households, then the latter will be housed in greater numbers in the private rented sector at 100% market rents to be paid by housing benefit. The reluctance of HM Treasury to countenance the use of grant-funded homes to house those who are not benefit-dependent can be accounted for in this way.

Further, any re-assessment by LAs of their nomination/priority policies should take into account the incidence of increased homelessness. If ARM homes are to be increasingly allocated to working households it is important that provision for homeless households is maintained.

The confusion and unintended consequences created by the interaction of welfare reform and affordable housing development are not uniquely London problems. The issue of the benefit cap is significantly more important for London, because of a residential property market which drives high and rising land values, rents and house prices. There is a case for reviewing whether problems might be mitigated by setting the benefit cap at a higher level in the capital.

Adjusting the cap would allow a higher proportion of family-sized homes to be built in London and this would attract larger households into ARM properties. If no re-evaluation of allocation criteria to attract working families were considered, then these larger homes would be tenanted in large measure by benefit dependent households. It is important that adjustment to the cap is

- Government has continued to build “affordable” homes in significant numbers and the national target for AHP has been increased to 170,000. However, AHP in London is significantly smaller than the preceding NAHP. There are questions as to whether even this volume of output can be maintained in subsequent programmes.
- A move towards “Intermediate contracts that are more flexible at rent levels between current and market rents” (HM Treasury, 2010). There is an implication here that ARM was conceived as an intermediate tenure, i.e. not simply for those who would traditionally have access to social housing.
 - The Government defined ARM as social housing and in London at least, the profile of ARM tenants closely matches that of traditional social tenants in all key respects. In London this has caused problems due to the effects of the welfare benefit reforms and has distorted development both geographically and in terms of rent levels for family-sized homes.
- Flexible tenancies and flexibility of rents. (HM Treasury, 2010)
 - ARM in London has allowed landlords to introduce five year ASTs in around 50% of cases. Nevertheless, many landlords still use the standard assured tenancy for ARM lettings, largely because they, or their tenants, resist the erosion of security of tenure that “flexibility” implies. Rent levels under ARM in London vary much more widely than rents for traditional social housing. This variation is within a framework of ensuring that rents are maximised in relation to MRs. There is only limited evidence that flexibility over rent setting has been used for strategic purposes such as ensuring affordability, although there are exceptions. The inability of LAs to determine or cap the rents set by other RPs in their areas has contributed to this in London.
- “Relatively limited impact” on the housing benefit bill ascribable to ARM. The impact assessment on ARM was qualified in this respect. (Wilson, 2011)
 - The impact of ARM on the housing benefit bill in London will be very significant. A largely benefit-dependent clientele is being placed in ARM homes at rents over 40% higher than the rents of traditional social housing. It is beyond the scope of this report to quantify the impact on housing benefit expenditure but Government should enquire as to whether the reduction in grant for ARM homes will be balanced, or exceeded, over time by what is likely to be a substantial increase in housing benefit payments.

The picture for Government is a mixed one. There have been achievements through the introduction of ARM but many of them are partial and there is a residue of unanswered questions, notably about the scale of ARM development and the impact on housing benefit expenditure.

considered in tandem with consideration of the option to re-designate ARM to facilitate tenancing by working households.

Recommendation 1 - Currently ARM is designated as “social housing” rather than as an intermediate tenure. However, research shows that ARM is more viable housing working households. Government should therefore re-assess its current designation of ARM as “social housing” and decide whether some increase in the housing benefit bill can be justified in the interests of promoting new affordable housing supply via ARM.

Recommendation 2 - The newly introduced cap on welfare benefits which forms part of the programme of welfare reforms will bear particularly heavily on London and is already distorting the ARM programme in terms of rent levels and could ultimately prejudice the ability to build a proper balance of family-sized properties. The cap also increases the business risks for Registered Providers and thus risks reducing outputs. The government, in conjunction with the GLA, should consider whether there is a case for raising the level of the cap in London in order to promote the strategic housing aims for the capital.

Recommendation 3 - Notwithstanding the need to reconsider the level of the benefit cap in London, the GLA should monitor closely the progress of ARM development to ensure that its own requirement for 36% of new homes to be “family-sized” is being met and should examine what steps might be necessary to ensure that the 36% target is fulfilled.

Recommendation 4 - The GLA should confer with local authorities as a matter of urgency to determine their likely future policies in regard to tenant referrals and priorities in relation to ARM properties. The GLA should consider whether further encouragement to amend these policies to favour working households is desirable. Any conclusions should take account of the need to maintain provision for homeless families.

The geographical distribution of ARM properties

ARM new-development and conversions tend to be focussed in the outer boroughs, and to the East rather than the West. However, as the London Plan has stated:

“The Mayor is concerned that there should be no segregation of London’s population by housing tenure. London’s legacy of mono-tenure estates has in some cases contributed to concentrations of deprivation and worklessness. Coupled with some housing trends and management practices, these have been exacerbated by the tendency for new social housing to be built in the areas where it is already concentrated. Conversely, market homes have tended to be developed in areas with very little social housing.” (GLA, 2011)

Recommendation 5 - The GLA should monitor the concentration and distribution of ARM development in the context of existing social rented provision to ensure

that the Mayor’s concern “that there should be no segregation of London’s population by housing tenure” does not risk being excessively compromised over time with negative implications for the development of sustainable and vibrant communities.

Variations in rent levels

Significant variations in rents on similar properties occur within individual boroughs and across London. The variations in rent for ARM properties are far more exaggerated across the London boroughs than rents for traditional social rent properties. Wide variations between boroughs can hamper tenant mobility and create inequality of demand for affordable housing across the capital. Variations within individual boroughs may cause frustration and annoyance amongst residents and are likely to foster administrative complexity.

The GLA should ascertain whether it is possible for individual LAs and/or the GLA to co-ordinate some “smoothing” of rents for similar properties within their borders without seriously compromising RP business plans, and recognising the current limited powers of LAs to set rent levels of Private Registered Providers [PRP]. The wide variations in rents between boroughs will be more difficult to tackle under ARM. Nevertheless, it may be that the GLA can examine options to mitigate these problems, for instance through offering differential grant rates, although this unlikely to be an approach free of difficulties.

Recommendation 6 - THE GLA should work with local authorities and with PRPs to examine ways in which rent structures for similar properties within individual boroughs can be made more coherent, and to look for possible interventions to mitigate the very wide variations in ARM rents between boroughs.

Rents and incomes

It has been suggested that ARM rents might be linked to household incomes rather than to median rents in order to better achieve affordability and maximise the rental stream.

RP consider income related factors such as the benefit cap in setting rents relative to market rents. The process is an indirect one and if ARM were to be used to house working households in the future then a means to target a particular income band more directly would be advantageous.

The idea that rents be directly linked to affordability is an attractive one. However, linking rents to individual household incomes is problematic. A compromise position might be to link ARM rents to incomes in a particular borough. This would make ARM genuinely affordable for a particular group and targeted and promoted as such. Different sized properties could be set at different percentile points in relation to median incomes. This would provide an opportunity to set rents in relation to different sized households. It would also mitigate the disparity of rents within boroughs that this research has shown to be a current characteristic of ARM.

Recommendation 7 - The GLA should analyse the implications for the ARM programme of linking ARM rents for different sizes/types of ARM properties to a particular percentile point in relation to median incomes in different boroughs, with the aim of setting rents that are affordable for different sized households.

What about tenants?

There appears to be a shortage of research into the attitudes and experience of tenants as consumers of ARM, at least in the public domain.

ARM creates a range of new issues for tenants as consumers which include:

- Tenant mobility given the wide disparity in rents within, and, across boroughs.
- Moving from benefit dependency to employment in the context of ARM rent levels.
- The impact of the fixed term ASTs used in the majority (but not all) of ARM lettings.
- Questions about relative value for money and the adequacy of service levels in a new higher rent environment.

Recommendation 8 - The GLA should work with local authorities to commission qualitative and quantitative research into the views and attitudes of ARM tenants and prospective tenants about ARM as a programme and, importantly, about tenant experience as consumers of ARM. Such research should be London-wide but should aim to explore a range of social, economic and geographical variables insofar as they may have an impact on the tenant experience.

Post-2015 prospects for ARM

Should the Government implement a programme of ARM post-2015, it is unlikely that the same level of output in terms of new homes will be attained as that contracted for under the 2011-15 programme, unless certain key issues are resolved.

Historically, grant subsidy has diminished in relative importance while subsidy from housing benefit and other sources has become relatively more important. The move to ARM can be seen as a further move away from grant subsidy and an only partially acknowledged move to demand-side revenue subsidy in the form of higher rents, largely to be met by housing benefit.

It may be seen as unfortunate that government has altered the balance between capital and revenue subsidy for affordable housing at the same time as it has introduced radical reform to the benefit system with the aim of reducing the housing benefit bill.

The impact of welfare reform in London has been to distort strategic aims in favour of ensuring the financial viability of RPs and reducing risk. The most serious potential impact is the effect on the output of homes under ARM, particularly under any future programme. There is some doubt as to whether all RPs will deliver their full contracted ARM outputs in the present

programme. Looking beyond 2015, analysis of the risks associated with ARM and feedback from RPs as to their future intentions, suggests that any future programme would have to be scaled back in terms of volume even if effects were mitigated by the use of accumulated HA reserves.

Clearly, this would have serious implications for the supply of affordable housing in London and for overall new supply since London represents around 13% of the national AHP programme.

The Government should seek to resolve the tensions between capital and revenue subsidy and between its housing and welfare policies. Government should also make its intentions about the scope and funding of future programmes explicit so that uncertainty amongst RPs does not lead to needless caution in terms of future development plans.

Recommendation 9 - The Government should seek to resolve the current tensions between its affordable housing policy and welfare reform policies; these tensions have undermined the move from capital towards revenue subsidy implicit in ARM, and threaten future programme levels in London.

Recommendation 10 - Government and the GLA should be realistic in setting out goals for any forthcoming ARM programme and ensure that there is certainty over the longer-term future of such programmes.

Towards a broader strategy

A strong commitment to meeting the need for affordable housing across London has been apparent amongst HAs, LAs and other stakeholders. Yet there has also been a strong sense that there are limitations on what Government is prepared to countenance, particularly over issues such as grant. ARM as currently constituted is flawed in a London context in important respects:

- It creates a distorted social rented programme in terms of geography and rents for different house types.
- It creates very wide disparity in what are de facto social rents, limiting tenant mobility and potentially damaging “back to work” incentives.
- It is not consistent with the government’s welfare reform programme and is likely to increase the housing benefit bill overall in spite of welfare reform.
- Even if it produces the planned numbers in this programme, it is likely that subsequent programmes of ARM would produce progressively smaller numbers.
- The current AHP leaves a gap in provision for lower income working households, especially those with families that ARM, as currently constituted, cannot fill.

The outline model that follows aims to address the above issues to varying degrees.

ARM and a new model

It was a strong view held by interviewed RPs that ARM would work better if it were targeted at working households. In their view workless/benefit dependent households would best be housed in grant-funded social rented housing built as part of an overall affordable programme. In the view of these providers, offering ARM to working households would:

- Reduce tenant dependency on housing benefit in respect of ARM and remove the issue of the benefit cap.
- Allow rents to be higher in some cases (particularly for larger properties) and better matched to local needs and incomes.
- Reduce the risks faced by developing RPs by ensuring that the part of the programme aimed at housing benefit dependent households would be more adequately grant funded than ARM is at present. This would also reduce the benefit bill for these households.

A new model for London might therefore comprise the following four elements:

A tier of grant-funded new-build social rented housing

This would fulfil the function that traditional and ARM social housing currently does in London; house benefit-dependent, workless and very-low-income households. This would provide a stream of new-build social rented housing to take up the pressure of LA referrals and to replace homes lost through ARM conversions.

The need for grant to build “traditional” social rented housing would cut across the reductions in grant introduced in 2010 and might be seen as a political problem by the Government. However, the additional grant would enable rents to be set at standard target-rent levels for traditional social housing. This would reduce the amount of housing benefit required to service rents compared to housing the same households in ARM properties. It is arguable that over a period of years the overall level of subsidy from the combination of grant and housing benefit would be lower. The lower rents would also lessen the likelihood that larger households would be caught by the benefit cap, which in consequence might not need to be raised in London as suggested earlier (Recommendation 2). There would also be stronger “back-to-work incentives” because of lower rent levels and fewer constrictions on mobility due to reduced rent disparity. Government could present such change as a response to London’s particular situation and as a fine-tuning of its national welfare reform and strategic housing policies.

ARM directed principally at working households

Although HM Treasury may have reservations about housing non-benefit-dependent households in grant-funded housing, the Scottish Government has offered grants for Mid Market Rented housing [MMR] to housing association subsidiaries since 2009, “...when MMR is

included as part of new developments for social rent” (Scottish Government, 2010).

ARM targeted at working households, at rents at similar levels to those at present, would be affordable for many households below, or above, median income levels i.e. in the £20,000-40,000 p.a. These households would be substantially less dependent on benefit than current ARM households and would thus reduce the benefit bill significantly. There would be strategic advantages in using such a saving to reduce the rate of conversions required for cross-subsidy purposes but such a decision would require detailed calculations of consequences in terms of housing benefit outcomes and numbers of social rented housing versus housing need amongst particular groups.

This shift to ARM as a tenure for working households would not negate the need to address Recommendations 5, 6, 7 and 8 on geographical distribution of properties, rent disparities, linking rents to household incomes and tenant feedback.

Market renting

An expansion in MR would be coherent in serving working households with incomes above those of working ARM households. Market Rent as an option for London HAs is clearly taking off and attracting institutional investment. Initiatives by London and Quadrant, Thames Valley Housing Association and most recently Aviva and A2Dominion are three examples.

Shared equity/shared ownership/open market sale

Shared ownership/equity can be seen as an option for those households with incomes insufficient to access full home ownership in London but able to gain a foothold. The existence of a model that includes ARM for working households, plus a market renting option, allows for the introduction of a range of “rent to buy” initiatives to ease the transition from renting to owning.

Open market sale is seen by some providers as a means to gain a cross-subsidy for affordable housing. This is a legitimate pursuit. Open market sales can also be linked to shared ownership/equity programmes; this will influence the type of property built and the target group for outright sale.

While the proposal above, which is applicable to London, is not a fully worked-out blueprint, it is a sketch that merits further analysis and assessment.

Recommendation 11 - The GLA should work with the HCA and DCLG to assess the merits of re-targeting ARM towards working households within a model of development across four tenures, including grant-funded social renting, market renting, building for shared ownership/equity, plus open market sale.



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