

Affordable Rents policy - Annexe to the Housing Strategy

Purpose

1. This policy sets out the objectives for both South Cambridgeshire District Council and Cambridge City Council with regards to how Registered Housing Providers determine new Affordable Rents for social housing in Greater Cambridge. It applies only to Affordable Rents and does not look at Social Rent levels or the wider affordability issues of other affordable housing tenures. However, in considering Affordable Private Rent as part of a Build to Rent scheme, regard should be given to this policy.
2. It should also be noted that both Cambridge City and South Cambridgeshire District are identified as high affordability pressure areas and therefore the Councils encourage Registered Housing Providers to provide social rented homes where possible.

Introduction

3. This policy is set within the Greater Cambridge Housing Strategy's long-term vision and objectives, which in turn reflect the broader priorities of the two Councils. In particular it will help to tackle poverty and inequality and promote health and well-being through:
 - Ensuring homes are affordable to live in
 - Promoting mixed, balanced, and inclusive communities
4. This policy builds on the existing Greater Cambridge Housing Strategy published in April 2019 and will form an Annexe to that document.
5. The [Policy Statement for Rent for Social Housing](#) published in February 2019, states that: "the rent for affordable rent housing (inclusive of service charges)

must not exceed 80% of gross market rent. Housing Providers should have regard to the local market context including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located, when setting Affordable Rents.”

6. Given the sharp increase in the Local Housing Allowance (LHA) rates for Greater Cambridge from March 2020, this has impacted on the affordability of Affordable Rents if they continue to be based on LHA rates. For many median rents within South Cambridgeshire, the LHA rate now exceeds 80% of market rent.
7. The Councils are committed to working with Registered Housing Providers to achieve a balance between increasing supply of affordable homes and ensuring that rented homes are affordable to those on lower incomes on our Housing Register. This policy has been developed having regard to the local market context and the affordability challenges facing the area. It builds on the current good practice and partnership approach with Registered Housing Providers, with the aim to achieve consistency and fairness across Greater Cambridge.

Policy Position – Affordable Rents

8. Based on affordability evidence below, the following discount should be considered when determining Affordable Rents for Greater Cambridge:
 - Cambridge City Council and City fringe sites crossing the border with South Cambridgeshire - the rent for Affordable Rent housing (inclusive of eligible property related service charges) should not exceed 60% of gross median market rent in Cambridge City for that size of property, location type and service provision, or the current Local Housing Allowance rate, whichever is the lower.
 - South Cambridgeshire District Council (excluding City fringe sites) - the rent for Affordable Rent housing (inclusive of eligible property related

service charges) should not exceed 70% of gross median market rent for that size of property, location type and service provision, or the current Local Housing Allowance rate, whichever is the lower.

- Alternatively, Registered Housing Providers may wish to continue to use the January 2020 pre-Covid LHA rates as a baseline, and apply the annual inflationary increase as set out in the Policy Statement on Rents for Social Housing (paragraph 3.13)

Table 1: January 2020 pre-Covid weekly LHA rates (Cambridgeshire Broad Rental Market Area)

1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
£136	£156	£182	£242

9. Gross median market rent means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector in the relevant district. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

10. Valuations for initial rent setting must be made in accordance with a method recognised by the Royal Institution of Chartered Surveyors, as set out in the Policy Statement on Rents for Social Housing. This requirement is intended to help ensure that Registered Housing Providers adopt a consistent and transparent approach to the valuation of market rents. Where a Registered Housing Provider chooses to apply the 2020 pre-Covid LHA rate (plus inflationary increase), a valuation will not be required.

11. For new developments, the Registered Housing Provider must inform the relevant local authority of the projected rents to be charged as part of the

scheme approval, providing details of the valuations undertaken where applicable.

12. Where the design and quality of homes is above national or local standards to help achieve the Councils' objectives in relation to zero carbon homes and tackling fuel poverty, consideration will be given for Affordable Rents to be charged at up to 80% of a median market rent. Registered Housing Providers will need to demonstrate that the overall affordability of the home, in terms of issues such as fuel costs and repair & maintenance of heating systems will be sufficiently reduced so that it is cost neutral to tenants.
13. In terms of rebasing Affordable Rents following initial lets, Registered Housing Providers may not always need to undertake a full valuation on each occasion that a property is let on Affordable Rent terms. As set out in the Policy Statement on Rents for Social Housing, paragraph 3.11 – *'in areas where affordable rent is widely used, providers might have a rolling schedule of tenancies coming up for re-issue or re-let. Where that is the case, providers might have adequate comparables readily to hand, and if so there might be no need for a full valuation. In these circumstances, providers may decide to re-set rents using a desktop review of recent transactions.'*

Justification for policy change

14. Since the introduction of Affordable Rents in 2011, there has been a general consensus between the sub regional local authorities and the Registered Housing Providers that Affordable Rents should be set at or below the Local Housing Allowance rate. This has also been the policy approach required since the Greater Cambridge Housing Strategy was introduced in 2019. This ensured that the Affordable Rents were kept below the maximum threshold of 80% of the gross market rent and that housing benefit (or the housing element of Universal Credit) would cover the costs of an Affordable Rent. For Cambridge City this equated to between 55%-60% of median market rents depending on property size, and for South Cambridgeshire between 70%-75%. As the LHA rate is a fixed amount (payable for private rents based on

property size by number of bedrooms), this also ensured a level playing field in terms of Registered Housing Providers bidding for schemes and setting Affordable Rents.

15. Whilst the increase in LHA rates is good news for private renters on housing related benefits, it has unintended consequences for the setting of Affordable Rents. If Affordable Rents continued to be set at the LHA rate, this would see rent increases of between 22% and 33% on new and re-let properties and would provide a huge disparity across the area on the Affordable Rents charged.

Affordability

16. Affordable Rents should be targeted at those on lower incomes, where housing options are limited. According to a locally commissioned draft GL Hearn Report on 'Housing Needs of Specific Groups April 2020, based on Office for National Statistics modelled income estimates, English Housing Survey and the Annual Survey of Hours and Earnings', the lower quartile household income for Cambridge City is around £25,400 and £27,100 for South Cambridgeshire. The Councils' Housing Strategy states that for housing costs to be affordable, households should not spend more than 35% of their net household income on housing costs, such as rent or mortgage. Table 2 below demonstrates what would be considered affordable in terms of rent and service charges on this basis, with Table 3 identifying the likely discounts required to make rents affordable based on different property types.

Table 2: Affordability based on 35% of lower quartile household income spent on rent

Local Authority Area	Gross Income per Annum	Estimated Net Income per Annum	Estimated Net Income per month	Estimated Net Income per week	35% to be spent on Rent per week
Cambridge City LQ Household Income	£25,400	£20,914	£1,743	£402	£141
South Cambs LQ Household Income	£27,100	£22,070	£1,839	£424	£148

This table's data is sourced from [the Money Saving Expert's tax calculator](#).

Table 3: Discounts required for Affordable Rents to be affordable based on median private rents and 35% of lower quartile incomes

Local Authority Area	Average Median Weekly Market Rent (Hometrack February 2020 data)	35% to be spent on Rent based on Lower Quartile income*	% Discount required for Affordable Rent	Percentage of median rent
Cambridge	£321	£141	56%	44%
South Cambs	£245	£148	40%	60%

17. The significant increase in LHA rates does mean that those who receive full housing benefit are likely to get their rent paid in full even if Affordable Rents are based on the new LHA rate. However, some households on Universal Credit will be hit by the benefit cap which will mean that the gap between benefit and rent will increase. With higher rents charged this will impact on those on lower incomes who may be forced into claiming benefits where previously they were just managing, or for those currently reliant on full or partial housing benefit, making them less likely to be able to break the benefit cycle and who may be caught in the poverty trap. This is also likely to have implications for the public purse in terms of seeing an increase in benefit claimants.
18. In terms of determining Affordable Rent levels, as the current LHA rates are no longer an appropriate benchmark for rent setting, an appropriate discount percentage of local median market rent should be sought, unless the pre-Covid January 2020 LHA rates are used.
19. Whilst the discounts identified in Table 3 are calculated based on 35% of net income, it is recognised that this is unlikely to be achievable in terms of viability and that generally low income households will need to pay more than 35% of their net income on housing costs.
20. On balance, taking into account previous discounts achieved through the pre-2020 LHA rate that proved to be viable in terms of Registered Housing Providers' business plans, and the affordability analysis at Table 3, the Councils will seek a discount resulting in Affordable Rent levels not exceeding 60% of the local median market rent for each property size in Cambridge City (including the City fringe sites crossing the border with South Cambridgeshire) and 70% in South Cambridgeshire (excluding City fringe sites), or the LHA rate if this is lower.

Table 4: Example of estimated rent levels to be achieved under this policy.

Local Authority Area	District's Median Weekly Market Rent (Hometrack February 2020 data)	Affordable Rent Level	Pre-Covid LHA Rate January 2020
Cambridge		@ 60% of median weekly rent	
1 Bed	£219	£131	£136
2 Bed	£294	£176	£156
3 Bed	£334	£200	£182
4 Bed	£438	£263	£242
South Cambs		@ 70% of median weekly rent	
1 Bed	£178	£124	£136
2 Bed	£211	£148	£156
3 Bed	£253	£177	£182
4 Bed	£340	£238	£242

21. Within the Greater Cambridge Housing Strategy it is acknowledged that affordability is not just about the cost of the rent or mortgage associated with an affordable home, but is also affected by living costs associated with the location and design of someone's home. For example, a highly energy efficient home can lead to it being more affordable in terms of utility costs. Therefore, provision has been made within this policy for Affordable Rents to be charged at up to 80% of a median market rent, where it can be demonstrated that higher rental costs (including service charges) will be offset by lower utility bills.