

London Borough of Tower Hamlets

Commons Committee – Call for evidence – 12th November 2015

Housing and Planning Bill 2015

1.0 Background

- 1.1 The London Borough of Tower Hamlets is located in the east end of London, close to the City and includes the business district of Canary Wharf. It is a borough of great contrasts with significant wealth situated alongside some of the most deprived neighbourhoods in the country. Despite consistently building the most homes in the country the borough has significant housing issues with over 9000 households in substantial housing need.
- 1.2 The Borough is very concerned about the potential loss of social housing as the burgeoning private sector is unaffordable to anyone but those on high incomes. Our submission sets out the concerns we have about the measures in the Bill which will impact further on those in most need in the Borough

2.0 Headlines:

- Starter Homes will be not be affordable to people in housing need in LB Tower Hamlets unless they are offered a significantly higher discounts to Open Market Value (i.e. in excess of 50% discount). However this would require additional subsidy, at the expense of affordable homes which is also unwelcome.
- Sufficient and appropriate devolution of affordable housing priorities rather than Ministerial direction on Starter Homes would help local authorities set an appropriate priority income band for starter homes as well as mitigate its impact on other tenures.
- Starter Homes, as currently defined by Central Government, will only be discounted homes for 5 years. Thereafter, they are lost to the sector.
- Starter Homes may have the effect of pushing up land prices thus marginalising further affordable rent and shared ownership tenures.
- Starter Homes are likely to reduce the provision of affordable homes on new schemes by at least 10%.
- Starter homes could slow the sale of market homes at 100%.
- On phased schemes the resale of starter homes could make the sale of new market homes lower

- The sale of high value voids could further reduce the social housing stock by around 15 social rent homes per year in LB Tower Hamlets.
- Pay to Stay at 'market or near market rents' for people earning around the margins of £40k per annum will have a devastating impact on their take home pay.
- In addition to affordable homes sold through the Right to Buy to Council and Housing Association tenants a further 400 homes could be lost through high value void sales and reduction of new build affordable homes over the next 5 years.
- London has a very different housing market to the rest of England and decisions on Starter Home targets, High income rents, planning and use of Right to Buy receipts generate in London should be devolved to the Mayor of London

3.0 Starter Homes

3.1 Impact on delivery of Affordable Homes and Shared Ownership

Whilst the client groups will be different, the tables below potentially shows that the provision of Starter Homes could have an impact on both Affordable Rent and Shared Ownership under s106 provision depending on Borough geography and current and changing market values.

Developer Viability Comparison	Comparative Receipts		
	1 bed	2 bed	3 bed
Starter home	£ 245,000	£ 285,000	£ 317,500
Affordable rent	£ 120,000	£ 150,000	£ 180,000
Shared ownership	£ 175,000	£ 225,000	£ 250,000

- 3.2 There is a considerable lack of detail of how Starter Homes will operate so the modelling relies on sensible assumptions about mortgage products and pricing points. A key assumption is that the annual mortgage payments (interest and loan repayment) for the Starter Homes should not exceed 35% of net annual income (after tax/NI has been deducted).
- 3.3 The gross incomes can be single or joint although this clearly widens the client group if joint i.e. a couple in their late twenties earning say £30k to £40k per annum each. The viability of Starter Homes would of course come under much more pressure in very high value areas say Canary Wharf, Whitechapel and Bethnal Green and the discount would have to increase.
- 3.4 And as values increase generally across the Borough this would continue to be a pressure. Although a similar principle would apply to

Affordable Rent and Shared Ownership. In the comparisons below, it is assumed that the delivery costs are roughly the same. In practice, the specification may well be a bit higher and therefore so would the cost but not sufficient to make a material difference, as the viability gulf between the tenures is potentially quite stark.

- 3.5 In the above example the receipt from selling a Starter Home is greater than the alternative a Registered Provider may pay to the developer for both Affordable Rent and Shared Ownership. Therefore, it could affect both Affordable Rent and Shared Ownership supply assuming the Housing & Planning Bill and subsequent Ministerial Statements come into play.
- 3.6 For noting in each flat size scenario the Starter Home discount would need to be below 20% i.e. selling at less at less than 80% of Open Market Value. None of the attached/above assumes any grant support.

Impact on affordable tenures on schemes

- 3.7 In order to model how schemes will be impacted through the introduction of Starter Homes a lot will depend on what happens to land values and actual acquisition prices of land going forwards, as well as further clarity on planning policy and requirements on Starter Homes emerging from the Housing & Planning Bill.
- 3.8 The detail above suggests that Starter Homes could be more viable than Affordable Rent and Shared Ownership so in theory a developer would seek to replace what might have been Affordable Rent and Shared Ownership with Starter Homes.
- 3.9 It is conceivable that the new policies may serve to increase land values and actual acquisition prices in anticipation of the potential viability contribution of Starter Homes. I.e. the developer pays more for the land and therefore has to do Starter Homes rather than Affordable Rent and Shared Ownership to make it viable – hence by default Affordable Rent and Shared Ownership get reduced. As the subsidy for Starter Homes will be negotiated through Section 106 agreements, subsidy will be removed from affordable homes accordingly.
- 3.10 This is may well expose some sites beyond ‘acceptable’ benchmark EUVs and through viability negotiations you may end up getting a mix say as follows:

- Say 100 units overall
- 65 market sale
- 15 starter homes
- 10 affordable rent
- 10 shared ownership/intermediate

3.11 Impact: Net loss of 15% affordable homes if LBTH policy of minimum 35% affordable is applied and Starter Homes included as affordable housing

Or in the existing schemes in LB Tower Hamlets below potentially push them towards the 50% affordable housing mark (including starter homes) given they are already at 35%.

3.12 Scheme A (35% by habitable room – 65:35 tenure split by habitable room)

- 89 units
- 18 rented
- 10 intermediate
- 61 market sale

Possible alternative scenario with introduction of Starter Homes:

- 89 units
- 55 market sale
- 15 starter homes
- 10 affordable rent
- 9 shared ownership/intermediate

Impact: Net loss of 9 Affordable Homes

3.13 Scheme B (35% by habitable room- 69:31 tenure split by habitable room)

- 78 units
- 18 rented
- 8 intermediate
- 52 market sale

3.14 Possible alternative scenario with introduction of Starter Homes:

- 78 units
- 45 market sale
- 15 starter home
- 10 affordable rent
- 8 shared ownership/intermediate

Impact: Net loss of 8 Affordable Homes

3.15 Set out below are the number of affordable homes delivered in LB Tower Hamlets through S106 agreements over the past 5 years:

Financial Year		Total	Rent	Intermediate
2010-11		453	192	261
2011-12		1452	1161	291
2012-13		478	315	163
2013-14		537	382	155
2014-15		500	369	131
Total		3420	2419	1001

3.16 If a similar number of homes are delivered over the next 5 years, with Starter Homes being introduced, there could be a reduction of around 350 affordable homes in the borough.

4.0 Sale of high value Council voids to fund Registered Provider Right to Buy sales discounts

- 4.1 Receipts from high-value voids are to be used to fund the Right to Buy discounts given to RP tenants
- 4.2 The Bill is unclear about the definition of 'high value'. However, based on the values set out in the table below which were quoted in a press release in the run up to the election– possibly 5% of LBTH stock would be above the thresholds.

Bed Size	1	2	3	4	5+
Market Value Threshold	£340,000	£400,000	£490,000	£790,000	£1,205,000

- 4.3 The Council had 357 void properties in 2014/15 and on the values set out above, 16 properties would have been caught generating £7.7 million of receipts
- 4.4 The Bill specifies upfront payment based on estimated sales – therefore if we don't sell properties then we would lose that money out of the Housing Revenue account which would effectively mean that tenants would lose out on services in order to pay for Right to Buy discounts out of their rent.
- 4.5 The key points arising from this policy could be:
- There will be a year on year loss of social housing in London which won't be replaced which will have negative impact on huge demand for this type of housing in London and LB Tower Hamlets.

- If sales don't take place, other tenants will pay through their Rent to meet the shortfall - It could be argued this is not fair.
- It is to some extent a false economy as those in most need will end up living in expensive Temporary Accommodation in the private sector at considerable cost to the Housing Benefit Bill.

5.0 Pay to Stay

- 5.1 The Government's view is that tenants in social housing should not always benefit automatically from subsidised rents, identifying that there needs to be a better deal in the social housing sector with housing at subsidised rents going to those people who genuinely need it.
- 5.2 On that basis, the Government has decided that social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England, will be required to pay an increased level of rent for their accommodation if their rent is currently being subsidised below market rent levels, i.e. at a social or affordable rent. It is expected that the increased level of rent would be at market or near market rent.
- 5.3 As set out in the consultation document 'household' means the tenant or joint tenants named on the tenancy agreement, and any tenant's spouse, civil partner or partner where they reside in the rental accommodation. Where several people live in the property the highest two incomes should be taken into account for household income. It is thought that this could require changes to the tenancy agreement to take into account high earners not named on the Tenancy Agreement
- 5.4 The regulations are expected to 'encourage timely declaration of income information by providing that if a tenant fails to declare income in accordance with the Regulations, the tenant's rent will be raised to maximum HIST levels'. The regulations will allow for a right to appeal.
- 5.5 Income means taxable income in the tax year ending in the financial year prior to the financial (i.e. rent) year in question. Money raised by local authorities through increased rents will be returned to the exchequer to contribute to the deficit reduction, whereas Housing Associations will be able to use the additional income to reinvest in new housing.
- 5.6 We are aware that 69% of tenants of Tower Hamlets Homes are in receipt of Housing Benefit so there is a broad assumption that these tenants will not be classed as HISTs. That will leave around 3600 tenants whose incomes will need to be established and rents adjusted or not according to the information received.

- 5.7 If the scheme is introduced it is suggested that tapers are introduced and In principle a tapering system would seem a 'fairer' approach in the implementation of this Policy; however any benefit to the introduction of a taper could be offset by an increase in the costs to administer such a system.
- 5.8 The scheme also suggests that the increased level of rent would be at market or near market rent. As set out in the table below increasing rents to such levels in Tower Hamlets would likely to be beyond the reach of anyone earning at least £50k per year, if not more.
- 5.9 An alternative method could be to suggest restricting the amount of net earnings a HIST should spend on rent. A maximum level could be suggested e.g. 33% of net income maximum contribution.
- 5.10 Therefore a tenant in a two bedroom flat who earns over £40k and takes home £30k could be expected to pay £10k per year in rent - £192 per week, just under 50% of a local market rent in LBTH. This would compare to an existing rent of £112 per week and a market rent of £416 per week which would represent nearly 70% of their annual income.
- 5.11 Setting rents on a tapered basis to a maximum of affordable rent levels would appear to be fairer in London if the £40k entry point is retained.

	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
2015/16 LBTH Social Rents	£99	£112	£126	£141	£157
2014/15 Social Rent Cap Levels (RPs)	£138	£146	£154	£162	£170
2014/15 Affordable rent levels	£206	£244	£266	£284	£312
2014/15 Local Housing Allowance	£255	£299	£351	£413	£413
Market rent	£388	£416	£548	£700+	£700+

5.12 Key points:

- The policy will have a negative impact on incentives to work and career progression to higher earning and reduction of higher earners financial contributions to local economies.
- Applying a policy 'at or near to market rents' will have a devastating effect in LB Tower Hamlets other than for those on much higher than £40k incomes in social housing.

- Administering the policy is likely to be very expensive until the full level of co-operation of HMRC is agreed and because of the possible need to change condition of tenancy and detail of allocations schemes.