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Report of	Philip Sullivan, Chief Executive of Colchester Borough Homes	Author	Terri Hamilton ☎ 03300 538007
Title	Viability Assumptions and Affordable Rent on New Build Council Housing		
Wards affected	All Wards		

1. Executive Summary

- 1.1 The Council agreed (at Cabinet on 30 January 2019) ambitious plans to deliver a “New Council Housing Programme” that delivers 350 additional affordable homes over 5 years. Since that time, several schemes have been explored to deliver new homes through different methodologies including new build developments on underused council owned garage sites, acquisition of land for council new build developments and working with developers to acquire off the shelf units.
- 1.2 Higher interest rates mean that rents and mortgages in the private market continue to rise and less people are able to afford a home in the private market. This in turn increases the pressure on the Council to provide affordable housing. The Council is facing financial pressure, both in the General Fund and the Housing Revenue Account, whilst the demand for housing continues to be an essential need. A range of opportunities to alleviate pressure on the Council’s finances are hence being explored in an effort to ensure it can continue increasing its affordable housing delivery.
- 1.3 The Council has a strategic priority to delivery affordable housing to residents in need. By charging affordable rent the Council will be able to continue working towards meeting this need. By capping the affordable rent charged at the local housing allowance rate, tenants who claim benefits should not face a financial burden to afford the rent on the properties. If a tenant’s circumstances change and they no longer require benefits towards their rent, support can be implemented to assist with this transition. Some applicants on the housing register may not be able to afford private market rent or a mortgage but are able to afford more than social rent. By charging affordable rent on the new build developments and social rent on the current housing stock, applicants will have the freedom to choose and bid for properties that suit their requirements. New development homes will be built to a high standard and will be energy efficient, reducing tenants fuel usage and in turn assisting with the cost of living crisis. Whilst affordable rent, at the local housing allowance rate, is higher than social rent, it is substantially lower than market rent, and preferable to temporary accommodation which may be the only option for applicants if the Council is not able to continue to deliver more affordable housing.
- 1.4 The purpose of this report is to seek agreement to updated development appraisal assumptions used to calculate viability and to seek a decision on the Council charging affordable rent (set at the local housing allowance rate) on all new build developments, including new build acquisitions. This will help ensure a continued affordable housing

supply that is viable and strengthens the Council's Housing Revenue Account (HRA). In addition, increasing income into the Housing Revenue Account will provide options for the Council in terms of how this increased income is used, for example, to continue with services that support our tenants such as the valued financial inclusion work.

2. Recommended Decisions

- 2.1 To agree updated development assumptions used to calculate viability, and delegate authority to the Portfolio Holder for Housing to review and agree the assumptions annually going forward.
- 2.2 To charge affordable rent, up to the level of local housing allowance rate, for all new build developments, including the acquisition of new builds, that complete from 1st December 2023.

3. Reason for Recommended Decision

- 3.1 The Housing Revenue Account (HRA) is facing a range of pressures arising, for example, from legislative and regulatory changes requiring more money to be spent to keep homes safe or compliant with the Decent Homes Standard, higher costs to build and acquire properties, higher repair and improvement work costs due to increased inflation and the requirement to achieve carbon neutral by 2050. The Council is required to prove that the Housing Revenue Account has a suitable long term business plan, over the 30-year period. With more households in temporary accommodation than has been seen in recent years, the General Fund is also under pressure. The Council will need to review spending to ensure the Council's financial stability, whilst meeting regulatory requirements. Some non-statutory services, such as financial inclusion work and building new homes could be affected if they are not affordable within the Housing Revenue Account business plan.
- 3.2 However, the Council has a strategic priority to increase the number, quality and types of affordable homes. This strategic priority will be met via a mix of Section 106 housing, acquisitions (through both the acquisitions programme and through agreements with local developers), and through the Council's new build programme.
- 3.3 The assumptions used to calculate viability need to be regularly reviewed to ensure that they remain up to date in reflecting the market and can be used to establish whether potential developments strengthen the Housing Revenue Account (HRA). By updating these assumptions to reflect the current benchmarking data available, it is likely to indicate that future developments will be unviable whilst charging social rent. These assumptions are commercially sensitive as at times we will be competing with other parties to acquire units.
- 3.4 By charging affordable rent, the Council will be able to progress with viable development opportunities, increasing the Council's housing stock, alleviating pressure on the housing register, Housing Revenue Account, temporary accommodation and in turn the General Fund. This will assist the Council to continue delivering high quality, energy efficient homes to meet the housing need in Colchester and maintain its current stock to a high standard benefitting applicants on the housing register and current tenants. The Council can bid for Homes England funding on viable developments, strengthening its position as an investment partner with Homes England.

- 3.5 Setting the affordable rent, at Local Housing Allowance rates will help protect tenants from financial difficulties, if they claim benefits towards their housing costs.
- 3.6 The Regulator of Social Housing's *Rent Standard* (Ref 1) allows for existing homes to be converted from social rent to affordable rent if this is pursuant to a housing supply delivery agreement with Homes England. However, the Regulator of Social Housing's current policy is not to permit this and hence the decision on whether to charge affordable rent is purely in respect of new homes being built or acquired.

4. Alternative Options

- 4.1 Not to change the assumptions used to calculate viability or charge affordable rent on new build developments and continue to let all new developments and acquisitions of council housing stock at social rent levels. This will either make schemes less viable and will increase pressure on the Housing Revenue Account or lead to unviable schemes not proceeding, which in turn will fail to alleviate pressure on the housing register, temporary accommodation and the General Fund.
- 4.2 Update the assumptions used to appraise development schemes but continue to charge social rent for all developments. It is unlikely that any developments will prove viable under these circumstances. Homes England will not support a development that is unviable. The Council will be unable to increase the housing stock, failing to alleviate pressure on the housing register, temporary accommodation and the General Fund.
- 4.3 Update the assumptions and agree to the Council being able to charge the maximum affordable rent (up to 80% of the private rent market), without taking into consideration the Local Housing Allowance. This will improve viability of new schemes and reduce the pressure on the Housing Revenue Account, the Housing Register, temporary accommodation and the General Fund. However, this could lead to vulnerable tenants facing financial difficulty, where the Local Housing Allowance will not cover the full rent, and place pressure on the Housing Management service to manage the rent arrears.
- 4.4 To place the new build housing programme on hold, whilst the Council focuses on delivering on the statutory regulations for the Council's current housing stock. This may reduce pressure on the Housing Revenue Account in the short term, however the HRA will not benefit from the rental income generated by new homes which, longer term, has the potential to strengthen the HRA. This option will increase the pressure on the General Fund and the Council will be less able to meet local housing need. More residents may require temporary accommodation, and this will have a negative social impact on Colchester residents.

5. Background Information

- 5.1 (Ref 2) The Council has a Housing Revenue Account; a statutory ring-fenced landlord account that includes rental income from the Council's housing stock. This budget can only be spent on affordable housing delivery, management and maintenance. The HRA has a 30-year Business Plan to ensure finances are managed strategically over a long period, supporting debt and ensuring that expenditure can be maximised in a prudent manner.
- 5.2 In addition to investing in existing stock, the HRA can invest in building or acquiring extra housing stock (which in turn increases the income back into the HRA via additional

rents). The HRA can support investment through prudential borrowing, as long as it is affordable over the long term (similar to typical mortgage arrangements); informing, and informed by, its 30-year Business Plan mentioned above.

- 5.3 Social rent is low-cost rental accommodation, defined in the Housing and Regeneration Act 2008 *(ref 3)* as accommodation that is available to rent, below market rate and in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market. Social rent is exclusive of service charges and cannot be increased by more than the levels prescribed by the Government through the Regulator of Social Housing.
- 5.4 The National Planning Policy Framework *(ref.4)* defines Affordable housing for rent as “Affordable housing that meets all of the following conditions:
- The rent is set in accordance with the Government’s rent policy for Social Rent or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable);
 - The landlord is a registered provider, except where it is included as part of a Build to Rent scheme (in which case the landlord need not be a registered provider);
 - It includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For Build to Rent schemes affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as Affordable Private Rent).”

With regard to the final condition of affordable rent being inclusive of service charge it is worth highlighting that this brings an element of risk. For example, there is a risk that service charge costs inflate faster than rents can increase. Where a new development scheme includes provision for all owners to pay towards certain costs such as management fees, this will also be inclusive and therefore reduces the amount of income into the Housing Revenue Account. This will be mitigated during the legal process of any new build acquisition by ensuring that the management fees are fair and reasonable before exchanging contracts.

- 5.5 Below is a table that shows the average private rent on the open market for Colchester, compared to the average social rent currently charged on the Councils housing stock.

The table also includes 80% of the private rent average (the maximum affordable rent can be charged at) along with the *Local Housing Allowance for Colchester.

Property type	Private Rent Avg. per week	Social Rent avg. for CCC stock (as % of Private rent)	80% of Private rent (Affordable Rent Max.)	LHA* Colchester 2023 (as % of Private rent)
1 bed	£183	£91.69 (50%)	£146.40	£120.82 (66%)
2 bed	£230	£104.07 (45%)	£184.00	£158.79 (69%)
3 bed	£311	£118.70 (38%)	£248.80	£195.62 (63%)
4 bed	£388	£130.17 (34%)	£310.40	£253.15 (65%)

Taken from Hometrack Housing Intelligence System Sept 2023

Colchester’s Local Plan states that the affordable rent should be set at or below the Local Housing Allowance rate.

- 5.6 As a Local Authority the Council is required to abide by the *Rent Standard* set by the Regulator of Social Housing. The Rent Standard 2023 states that “Affordable Rent may only be charged where the property in question is provided by:
- a registered provider pursuant to a housing supply delivery agreement between that provider and Homes England or the Greater London Authority and the accommodation is permitted by that agreement to be let at an affordable rent...**(Colchester City Council meets this requirement)**
- 5.7 The Homes England, Capital Funding Guide (Ref 5) states that “A Homes England housing supply delivery agreement can be either of the following:
- an Affordable Homes Programme (AHP) 2021 to 2026 Grant Agreement with Homes England to deliver new homes including those for rent; **(Colchester City Council meets this requirement)**
 - If a provider is a party to a current Housing Supply Delivery Agreement via an AHP 2021 to 2026 Grant Agreement they can also charge affordable rent for their new nil grant homes for rent. No Housing Supply Delivery Agreement letter is required from Homes England for these homes. This applies to the Council as we are a Strategic Partnership Delivery Partner.
- 5.8 Colchester City Council signed an Affordable Homes Programme 2021 to 2026 Grant Agreement with Homes England on 27th August 2021 and became a Strategic Delivery Partner. Therefore, Colchester City Council meets the requirements set out in both the Rent Standards 2023 and the Capital Funding Guide to charge affordable rent on delivery where grant funding is provided and on developments where no grant funding is required.

Viability and Development Assumptions

- 5.9 The viability check calculates the cost of the development including acquisition of land / units, works costs (such as construction) and on costs (such as planning fees, surveys etc). The viability check also calculates the potential rental income from the units, and the funding type used towards the development, e.g. Homes England funding.
- 5.10 Part B of this report provides a table based on benchmarking data provided by consultants, Altair. Altair work with over 30 developing organisations. The table shows the range and average assumptions for Local Authorities for 2023-2024, along with the Council’s current assumptions and proposed assumptions. The assumptions currently used in the Council’s viability appraisals are not reflective of the benchmarking data and place pressure on the Housing Revenue Account. For this reason, it is suggested that the assumptions are updated as proposed in the table above.
- 5.11 **Viability Model**
- Part B of the report provides model examples of the viability check using estimated data with the current and suggested assumptions.
- 5.12 Table 1 of Part B of the report provides the net present value (NPV) over 60 years for illustrative purposes and to allow for comparison with the affordable rents option. In reality some schemes in recent years have been viable over a 60 year period and others have not. Schemes that have not had a positive net present value have proceeded with Portfolio Holder agreement where, for example a non-financial business case exists. If the

assumptions are updated to meet the benchmarking data, at social rent, social rent development is not viable and has a negative net present value.

- 5.13 By updating the assumptions to a cash flow and repayment period of 45 years this will reduce the amount of interest the Council will incur on a delivery. Whilst the initial borrowing requirement may be slightly higher as the Council would expect to receive less grant funding, this would be off set against the interest incurred, and result in a higher Net Present Value over a shorter period of time.
- 5.14 Part B of this report compares the output of charging social rent over 60 years using the current assumptions (which places the Housing Revenue Account under pressure) to the output of social rent and affordable rent over 45 years with the updated assumptions. Social rent over 45 years using the updated assumptions is not viable.
- 5.15 Charging Affordable Rent at the Local Housing Allowance level with the new development assumptions will allow more schemes to be viable. It would have a positive financial impact on the Housing Revenue Account business plan. This would allow the Council to continue to delivery high quality, energy efficient homes to help meet the housing need in Colchester. Alleviating pressure on the Housing Revenue Account will assist the Council in continuing to maintain the current housing stock to a high standard and improve the energy efficiency of the current stock, benefitting tenants and the environment.
- 5.16 There is a risk that the affordable rented properties could cause tenants financial difficulty. This would be mitigated, by keeping the affordable rent charge set at the Local Housing Allowance rate. The properties would be advertised through the Gateway to Homechoice. This will show tenants the rent levels allowing them to decide whether to bid for one of the new build affordable rent homes or one of the existing Council homes that are let at social rent. Any tenants choosing to transfer into a new affordable rent property will also free up a social rent home which would then be re-let at a social rent.
- 5.17 **Housing Need**

As at mid October 2023 there were 318 households in temporary accommodation in Colchester including 77 in bed and breakfast (of which 28 are families). As of March 2023, there were 2561 households registered on the Gateway to Homechoice in Colchester with 1482 of these households in priority bands A-C.

Below is a table that compares the properties that were let versus the property type need, with the average time applicants are waiting:

Property Type / Bed size	Let in 22-23	Housing Need (A-C only)	Average waiting time on Housing register (for band B applicants*)
0/1 bed	272	640	13 months
2 bed	272	312	6 months
3 bed	131	415	35 months
4 bed +	27	115	43 months

Band B average provided as this is the band with the highest number of applicants housed. Band A may include applicants with urgent housing needs who may be housed significantly quicker. Applicants in Band C may include homeless prevention and may take significantly longer.

The number of households priced out of the market for first time buyers' affordability has increased. Below is a table to show the percentage of first-time buyers priced out of the

market at 4 times their annual income. This highlights the increasing need for affordable housing delivery within Colchester including both social and affordable rented properties as well as affordable homeownership options i.e Shared ownership/First Homes.

	Percentage of households priced out of the market at 4 times annual income
Flats	35.05%
Terraced Houses	61.43%
Semi-detached houses	71.88%
Detached Houses	85.25%

Hometrack – housing intelligence system Sept 23

Equality, Diversity and Human Rights implications

- 6.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to:
- eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act.
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 6.2 The recommendations will have no disproportionate impact on any protected group. The Equality Impact Assessment for the Council’s provision of new affordable housing is [here](#).

7. Strategic Plan References

- 7.1 The Strategic Plan 2023-26 sets out clearly the Council’s priorities.
- 7.2 This report particularly contributes to the following parts of the Strategic Plan 2023-2026 priority areas:

Respond to the climate emergency

- Reduce our carbon footprint.

Deliver Modern Services for a Modern City

- The Colchester Council family of organisations work together to a shared and ambitious vision for the future of our city.
- The Council transforms services and moves to a community centred approach, where it enables, helps, and supports local communities as they help prioritise, shape and deliver local services.

Improve health, well-being, and happiness

- Tackle the causes of inequality and support our most vulnerable people.
- Work with residents and partners to address quality of life and issues of happiness.

Deliver homes for those most in need

- Increase the number and quality and types of homes.
- Meet our duty to prevent or assist those facing homelessness.

Grow our economy so everyone benefits

- Work with partners to deliver a shared vision for a vibrant city and attract inward investment

Celebrate our city, and our heritage and culture

- To make our city a yet better place in which to live and work and visit.

8. Consultation

- 8.1 Colchester City Council has consulted Homes England regarding the possibility of charging Affordable Rent on new build developments and acquisitions. Homes England have confirmed that social rent is the priority, however if a development is not viable at social rent, funding can be bid for on affordable rented developments and opportunities.

The Council has consulted with Altair to provide relevant benchmarking data. Colchester City Council has also consulted with other Local Authorities who are already charging affordable rent successfully on new developments, including Babergh and Mid Suffolk Council and Ipswich Council.

9. Publicity Considerations

- 9.1 There may be public concern regarding the increased charges for affordable housing. This could be mitigated by publicity highlighting the housing delivery opportunities this decision would provide, the applicants choice to bid on social or affordable housing and relating to other developing local authorities in the area as a way of progressing for the future.

10. Financial implications

- 10.1 By updating the assumptions this decision would protect and strengthen the Housing Revenue Account when considering the viability of future developments.
- 10.2 Charging Affordable Rent set at local housing allowance rates, would strengthen the Housing Revenue Account with additional income.
- 10.3 By agreeing to these decisions the Council would be able to continue providing additional affordable housing in Colchester. This would in turn alleviate the pressure on the housing register, temporary accommodation and therefore reduce the strain on the General Fund.

11. Health, Wellbeing and Community Safety Implications

- 11.1 It is broadly expected that communities, where these developments would take place, will be positively affected by the provision of new affordable housing. Improved buildings and estates reduce anti-social behaviour and crime, improve health and associated outcomes for residents and communities. Recent medical reports have identified, more than ever, that the quality of housing has a significant impact on the health of residents within those properties.

12. Health and Safety Implications

- 12.1 There are no Health and Safety Implications from this report.

13. Risk Management Implications

13.1 The changes suggested in this report would assist the Council in reducing the risk of pressure on the Housing Revenue Account. There is a risk that the affordable rented properties could cause tenants financial difficulty. This would be mitigated, by keeping the affordable rent charge set at the Local Housing Allowance rate. The properties would be advertised through the Gateway to Homechoice, allowing tenants the choice to bid for the properties, that will be advertised along side the Councils current housing stock let at social rent, giving the tenants the opportunity to bid on a property that is suitable to their requirements.

14. Environmental and Sustainability Implications

14.1 Agreeing to update the viability assumptions and charging affordable rent (set at the local housing allowance rate) on new build developments, will reduce the pressure on the Housing Revenue Account. This in turn will free up funds to assist the Council in meeting the government requirements to ensure all current housing stock meet the EPC rating of C by 2030 and carbon neutral by 2050. This will also ensure that viable developments are of a high quality and energy efficient.

Appendices

Appendix A - Affordable Housing delivery in Colchester (on part B of the agenda as it contains not for publication information).

References

1. [Rent Standard April 2023 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk) Section 3.8 p4
2. [Document.ashx \(cmis.uk.com\)](https://cmis.uk.com), Housing Revenue Account: Financial Model and New Council Housebuilding Programme Updates - July 2020, Section 7 (i) p29
3. [Housing and Regeneration Act 2008 \(legislation.gov.uk\)](https://legislation.gov.uk)
4. [National Planning Policy Framework \(publishing.service.gov.uk\)](https://publishing.service.gov.uk) – Annex 2 Glossary P65
5. [Capital Funding Guide - 4. Housing for Rent - Guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk) the Grant Agreement Section 2.2
6. [Key Housing Needs Report Colchester 2023](#)