

## Note for Scrutiny Committee on Affordable Housing Definitions

### Introduction

- 1) Scrutiny Committee will recall it asked for a note on the current local affordable housing definitions used in Oxfordshire.
- 2) There are in effect two broad national definitions of affordable housing, either rented or home ownership. Both must be made available to those in housing need either as defined by the local housing authority or, for some types of affordable home ownership the relevant legislation. The full national definition of affordable housing is contained within the National Planning Policy Framework (NPPF) and is provided as an appendix to this note.
- 3) Any local definition of affordable housing must comply with the national definitions. Oxfordshire housing authorities do not deviate from the national definitions but sometimes set additional criteria, within the umbrella of the national definitions.
- 4) There are practically two ways to apply a local definition of affordable housing, either attach it as a requirement of funding or enshrine it in planning policy.
- 5) Scrutiny will perhaps be aware that nationally there are local authorities that have established local definitions for affordable rented housing using the former method.
- 6) For example, in the West Midlands Combined Authority an affordable rent criterion has been established as part of funding requirements to access local housing grant. Similarly, the Greater London Authority has set a London Living rent at 60% of market rents, again as a funding criterion.
- 7) These authorities both benefit from being the sole source of public funding for affordable housing in their locality, meaning that developers or RPs wishing to access grant must comply with the condition.
- 8) For other councils the only practical method of applying a local definition is through planning policy. In such instances any policy requirement will be subject to the test of viability and subject to negotiation and agreement with the developer.
- 9) The Oxfordshire Growth Deal Affordable Housing programme (OAHP) includes the ability to set local definitions as part of funding criteria. However, the fact that the OAHP is not the only source of funding for affordable housing in Oxfordshire led to feedback from RPs that setting such additional requirements would result in them seeking alternative funding sources.

## **Rented Affordable housing**

10) The different national definitions of affordable rented housing are:

a. **Social Rented Housing**

This is affordable housing that is, since 2001 is let at what is called a social rent. These properties (which constitute a majority of rented social housing properties) have a rent set locally based on a formula set by government. This creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. The aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties.

b. **Affordable Rented Housing**

In 2011, the government introduced a new definition of affordable housing, 'affordable rent' which although not setting a minimum rent, permits rents to be set at a maximum of up to 80% of market rent (both inclusive of service charges).

### **Affordable Rented Housing in Oxfordshire**

11) Scrutiny will note that there is no ability to depart from the national definition of Social Rented housing.

12) Although able to set rents for Affordable Rented housing at 80% of market rents, in practice most local housing authorities in Oxfordshire set a maximum level for affordable rented housing that is capped at the Local Housing Allowance (LHA) levels for that type of property. The LHA is the maximum amount that Government will pay for housing benefit for that type of house in that location. Setting Affordable Rents at the LHA cap means that the occupant would be able to meet their full rent costs in the event of having to claim housing benefit.

13) Oxford is a particularly high costs area for rents and both the housing strategy, and the most recent local plan note that 80% of market rents is not affordable for low income households. Instead Oxford sets a requirement of affordability being not more than 35% of net household income for a proportion of the affordable housing secured through S106 agreements.

14) West Oxfordshire DC are in the early stages of considering the establishment of a local affordable rent.

## **Affordable Home Ownership**

15) The overall working national definition of Affordable Home Ownership is that it is made available to those in housing need at a discount of not less than 20% of open market value. There are several types included in the definition.

a. **Shared ownership/Rent to Buy Housing**

Shared Ownership or Rent to Buy offers eligible applicants an option to buy a share of a property based upon personal financial capacity with the option to buy further shares in the property. Whilst you don't own the whole property ground rent is charged on the remainder. The national scheme,

called Help to Buy requires a minimum purchase of 25% of the property, based upon an individual income assessment, although there are specific flexibilities for older persons and ex-armed forces personnel.

b. Help to Buy Equity Loans

Equity Loans are a subsidised loan from Government that allows an applicant to borrow a low-interest loan to put towards the cost of purchasing a newly built home. The equity loan is for the value of up to 20% of the purchase price for homes that are outside of London. For homes inside London, the equity loan is up to 40% of the purchase price.

c. Discounted market sale

Discounted market sale (DMS) properties are sold at a pre-set percentage discount with the proviso that if sold the same discount is applied. There are no national criteria beyond the minimum 20% discount, and this enables local authorities who secure DMS to set additional local criteria.

d. Starter homes

Starter homes are new build homes available exclusively for first time buyers aged over 23 and under 40, sold at 20 per cent below normal market prices.

- 16) Scrutiny may be aware that Government is consulting on a revamped scheme of discounted market sale called First Homes. This is a proposal to sell properties to first time buyers at a 30% market discount rate. The discount will be locked into the property for subsequent buyers. The consultation proposes that the scheme be prioritised for armed forces veterans and key workers

**Affordable Home Ownership in Oxfordshire**

- 17) The ability to set local definitions for affordable home ownership in Oxfordshire depends upon whether the scheme is the national scheme, or one established locally.
- 18) For the national schemes for shared ownership, rent to buy, equity loans and starter homes there is no ability to deviate from the national definitions, although within that there is a proposal for the First homes Scheme that councils will set the criteria for key workers.
- 19) Local housing authorities can establish additional local criteria for Shared Ownership/Rent to Buy or for Discounted Market Sale properties secured outside of the nationally funded scheme, for example those secured through S106 agreements. This could be a requirement for a local connection or perhaps to give priority to defined Key Workers.
- 20) In Oxfordshire, for example a number of councils require applicants for local shared ownership secured through S106 agreements to have a local connection with their district, whilst Oxford allow an applicant to purchase a smaller stake in a property than the 25% minimum purchase in the national programme, reflecting the high costs of housing in the city.

## **Appendix**

### **NPPF Definition of Affordable Housing**

Housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following definitions:

- (a) Affordable housing for rent:** meets all of the following conditions: (a) 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); (b) 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); and (c) 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).
- (b) Starter homes:** is as specified in sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan-preparation or decision-making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a maximum level of household income, those restrictions should be used.
- (c) Discounted market sales housing** is that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.
- (d) Other affordable routes to home ownership** is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low-cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision or refunded to government or the relevant authority specified in the funding agreement.