

East Herts Council Report

Date: 4th December 2024

Report by: Jonathan Geall, Head of Housing and Health

Report title: Allocation of s106 commuted sums for affordable housing rent reduction scheme

Ward(s) affected: Bishop's Stortford North

Summary

When it is not possible for affordable housing to be developed on site at a new housing scheme, the council will accept a commuted sum in lieu of that affordable housing. The conditions for use of these commuted sums are set out in the s106 planning agreement made between the developer and the council.

This report details a scheme to use commuted sums held by the council to enable a rent reduction for 4no. four bedroom houses at the Hazel End development in Bishop's Stortford (marketed as St Michael's Hurst).

RECOMMENDATIONS FOR DECISION: That, acting under authority delegated by the Executive on 4th March 2014 to '*make decisions on any future funding contributions to aid sustainable affordable housing development*', the Head of Housing and Health, acting in consultation with the Executive Member for Neighbourhoods as required by the Executive's delegation, approves that:

- (A)** £40,000 of commuted sums held by the council for affordable housing be granted to Paradigm Homes Charitable Housing Association, a registered provider of affordable housing, to reduce the rents of 4no. four bedroom houses in Bishop's Stortford to a level commensurate with the local housing

allowance for a three bedroom property.

1.0 Proposal(s)

- 1.1 A rent reduction for 4no. four bedroom houses owned by Paradigm Homes Charitable Housing Association at Hazel End, Bishop's Stortford to a level commensurate with the local housing allowance for a three bedroom home, with a first review of the arrangement not being before the time of the next reletting after 20 years from the rent reduction being put in place. The rent reduction to be governed by a signed agreement between the council and Paradigm Housing Group.

2.0 Background

Rent reduction to be achieved by providing grant funding to Paradigm Housing Group

- 2.1 The council's 2024/25 LEAF Corporate Plan includes the commitment to '*prioritise actions to make housing truly affordable*'. One way of achieving this is for the council to provide a grant to a registered provider in order to reduce its borrowing associated with a property, which in turn allows the registered provider to charge a lower level of rent to service the borrowing.
- 2.2 In order to identify the properties best suited to this type of rent reduction scheme, the council's Housing team set a series of criteria to ensure the maximum benefit for the council's investment. The criteria are that the council's grant should:
- cover a relatively small number of properties to act as a pilot scheme
 - apply to larger, new build homes at affordable rents as these are the properties currently subject to the highest affordable rents in the district
 - minimise creating a situation whereby tenants in the same

sized properties on the same development are paying different levels of rent, so as to obviate any obvious unfairness at that scheme.

- 2.3 The council approached several registered providers who were developing new homes in the district; of these, Paradigm Housing Group expressed an interest in exploring the idea.
- 2.4 Paradigm have proposed a scheme to reduce the rents of the 4no. four bedroom houses in Phase D at its Hazel End (marketed as St Michael’s Hurst) scheme in Bishop’s Stortford North.
- 2.5 Paradigm have proposed that a £10,000 grant from the council for each property be combined with their own internal subsidy in order to reduce the rent of each house from the four bedroom local housing allowance level, allowable under the s106 planning agreement, to the local housing allowance level for a three bedroom home. Currently, the financial savings to the tenant would be significant as shown in the table below.

Rents and savings to the tenant per property – 2024/25 figures			
	Rent without reduction	Rent with reduction	Saving – rounded to nearest £
Per week	£316.44	£278.47	£38
Per calendar month	£1,375.95	£1,210.85	£165
Per year	£16,511.39	£14,530.17	£1,981

- 2.6 The average monthly current rent for a comparable new build four bedroom house in Bishop’s Stortford is £2,100¹. Thus, a reduced monthly rent of £1,210.85 represents 57.7% of an open market rent.

¹ Based on 5no. new build four bedroom houses advertised for rent in Bishop’s Stortford on Rightmove.co.uk on 9th September 2024.

- 2.7 Although registered providers' financial arrangements require them to regularly seek to maximise resources for additional affordable housing by refinancing existing borrowing and/or extending borrowing on their assets, under an agreement between the council and Paradigm, the registered provider would continue to relet these four bedroom homes at the three bedroom local allowance level (or any replacement level introduced by the government), with the arrangement not being reviewed until the time of the first change of tenant *after* 20 years have elapsed from the start this rent reduction scheme.
- 2.8 By way of illustration, if, say, the tenant in one of these properties in 20 years' time didn't then move out for another five years, the rent reduction will not be reviewed until 25 years from now. Assuming rent inflation of 2% per year, for an individual investment of £10,000, the savings to the tenant(s) of that property would amount to over £65,000 across the 25 years.

Funding of the grant to Paradigm Housing Group

- 2.9 The £40,000 grant to Paradigm Housing Group would be funded from the commuted sum held by the council arising from the s106 planning agreement for the South Street Commercial Centre development in Bishop's Stortford, for which there are available monies that need to be spent before the end of 2025/26 on the provision of affordable housing in the district to avoid the risk of repayment to the developer.

3.0 Reason

- 3.1 The council's 2024/25 LEAF Corporate Plan includes the commitment to '*prioritise actions to make housing truly affordable*'. An identified way of achieving this is for the council

to provide a grant to a registered provider to allow for a rent reduction.

- 3.2 The scheme discussed in this report would reduce the rent payable on 4no. new build four bedroom houses to 57.7% of a market rent, considerably lower than both the local housing allowance and 80% of market rent upper limit for an affordable rent. Although the rents of the properties would still come under the affordable rent regime, rather than the social rent regime, capping the rent level in this way essentially makes the rents commensurate with a social rent.

4.0 Options

- 4.1 Use the £40,000 towards the building of homes at social rents. NOT RECOMMENDED as estimates would suggest that the grant required to fund the building of a 1no. four bedroom home with an social rent, without any other subsidy, would be c£150,000 - £200,000. The value for money of the proposed rent reduction scheme is thus self-evident.
- 4.2 Retain the £40,000 and seek other registered partners' suggestions on how the amount could be used to reduce rents. NOT RECOMMENDED as Paradigm Housing Group was the only register provider open to exploring the potential use of the grants in a considered way. In addition, the council's grant is, in fact, unlocking Paradigm's own internal subsidy such that the combined impact of the council's and registered provider's subsidy is able to fund a significant reduction in the rent of £165 per calendar month, this being down to level which equates to a social rent.

5.0 Risks

- 5.1 There is a risk of the developer who provided the commuted sum requesting its repayment if it is not used by the deadline

set in the s106 agreement. In this case, the monies must be spent by the end of March 2026 to avoid this; the proposal is a legitimate use of the commuted sum and will contribute to use of the full amount by the deadline.

- 5.2 There is a risk that Paradigm could receive the money but not then use it to reduce the rents. This risk has been mitigated by the drawing up of an agreement between the council and Paradigm which (a) commits the registered provider to use the sums for a rent reduction, without it being able to review this arrangement until the first relet after 20 years has transpired and (b) should the property be disposed off before this review, commits the registered provider to use the council's grant only for purposes specified in the agreement, these being, in cascading order of preference, to subsidise the rent of another property in the East Herts, to assist with energy efficiency works to a Paradigm property in East Herts or for another purpose agreed by the council.

6.0 Implications/Consultations

Community Safety

None arising directly from this report.

Data Protection

None arising directly from this report.

Equalities

The council will have 100% nomination rights at the point of first letting, with 75% nomination rights thereafter. That said, Paradigm, like other registered providers, typically relet their properties through the council's choice-based letting system thus affording the council 100% nomination rights on subsequent relets. The council's means of

allocating applicants to vacant homes has been subject to an equalities impact assessment.

Environmental Sustainability

None arising directly from this report.

Financial

As noted earlier in this report, the council holds commuted sums for affordable housing purposes. Monies held by the council pursuant to the s106 planning agreement for the South Street Commercial Centre development in Bishop's Stortford (3/12/2154/FP) are available and can be legitimately used for this project; the s106 gives the use for these monies as *'the provision of affordable housing in the Council's administrative area'*. This has been confirmed by the council's s106 Programme Manager.

As discussed earlier, the proposed use of the commuted sums represents a very cost-effective way for the council to enable homes at, effectively, social rent levels.

Health and Safety

None arising directly from this report.

Human Resources

None arising directly from this report.

Human Rights

None arising directly from this report.

Legal

The proposal represents a legitimate and legally compliant use of the commuted sum arising from the s106 planning agreement for the South Street Commercial Centre development in Bishop's Stortford. This has been confirmed by the council's s106 Programme Manager.

Specific Wards

The 4no. four bedroom houses whose rents will be significantly reduced are located in the Bishop's Stortford North ward.

7.0 Background papers, appendices and other relevant material

None.

Contact Member

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