



Ministry of Housing,
Communities &
Local Government

Rents for social housing from 2020

Government response to the consultation



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Introduction

1. On 13 September 2018, the Ministry of Housing, Communities and Local Government launched a consultation on a proposed direction from the Secretary of State to the Regulator of Social Housing ('the Regulator') on social housing rents from 1 April 2020 onwards.
2. The consultation paper is available at:
<https://www.gov.uk/government/consultations/rents-for-social-housing-from-2020-to-2021>
3. We consulted on a new draft direction to the Regulator on rents and sought views on a draft Policy Statement (which the direction would require the Regulator to have regard to when setting its rent standard). The consultation focused on two main issues in particular:
 - bringing local authority registered providers within the scope of the Regulator's rent standard;
 - permitting registered providers to increase rents by up to CPI+1% each year.
4. The consultation closed on 8 November 2018.
5. We have considered all of the responses received. This document summarises the responses received and sets out the Government's response to the consultation.
6. We are grateful to organisations and individuals who took the time to respond to the consultation.
7. Copies of this document are available from the Ministry of Housing, Communities and Local Government website at:
<https://www.gov.uk/government/consultations/rents-for-social-housing-from-2020-to-2021>
8. Enquiries about the document should be addressed to:
SocialHousingRents@communities.gov.uk

Summary of responses received

9. We received a total of 157 responses to the consultation.
10. 37% of responses were from local authorities or their representative bodies. 18% of responses were from private registered providers or their representative bodies and 35% were from individuals or tenant organisations.
11. The table below sets out a breakdown of the origin of responses.

Type of respondent	Number of responses
Local authorities (and representative bodies)	58
Individuals (including individual social housing tenants)	46
Private registered providers (and representative bodies)	29
Tenant representative bodies	9
Other organisations	15
Total number of responses	157

12. Some respondents did not answer every question. As such, the number (and percentage) of answers to the questions often differ from the total number of responses received.

Responses to questions

Applying the rent standard to local authorities

Question 1: Do you agree that the rent standard should apply to local authority registered providers from 2020?

13. 71% of those who responded to this question agreed that the Regulator's rent standard should apply to local authorities. Out of 58 local authorities and their representative bodies who responded to this question, 47 (81%) agreed that the standard should apply to local authorities.
14. However 19% of those responding to this question disagreed with this proposal. They were concerned that the proposed application of the rent standard to local authorities was inconsistent with the principles of self-financing and did not provide sufficient control over income.
15. There were also calls to allow local authorities to increase rents on social rent properties up to the level of formula rent before the rent standard applies, as some charge rents below formula rent.

16. Responses from individuals were evenly split on being in favour or opposed to this proposal.

Question 2: Do you agree that the same requirements should apply to both local authorities and private registered providers?

17. 70% of those responding to this question agreed that the same requirements should apply to local authorities and private registered providers. Out of 57 local authorities and their representative bodies who responded to this question, 40 (70%) agreed with this proposal. This suggests support for the continuation of the principle of a consistent national policy framework for setting social housing rents, applying to both local authorities and private registered providers.
18. However, a number of respondents said that they did not feel that there was a level playing field between local authorities and private registered providers, and some went on to suggest that local discretion be given to set rents that reflect local circumstances.
19. 11 out of 18 (61%) responses to this question from individuals were in favour of this proposal.

Permitting annual rent increases of up to CPI+1%

Question 3: Do you agree with the proposal to permit registered providers to increase rents by up to CPI+1% each year?

20. 57% of those responding to this question agreed with the proposal. Of those, 86% were from local authorities, private registered providers and their representative bodies. However, within these sectors there were some calls for rent policy to be set beyond 2025 in order to provide greater long-term confidence.
21. 34% of those responding to this question disagreed with the proposal, including 87% of responses from individuals and organisations representing tenants. The main concern was increases in rents being unaffordable for those on benefits and those supporting rental payments themselves.
22. A small number of respondents were also concerned about the potential for large rent increases should the Consumer Prices Index rise. Some asked for the Retail Prices Index with an increase factor of 0.5% to be used instead.
23. Some landlords advocated the reintroduction of the flexibility to increase the rent on social rent properties each year by an additional amount (over and above CPI+1%) where the rent is below formula rent. Some respondents from both local authorities and private registered providers and their representative bodies pointed out that if convergence was re-introduced it would help to generate additional funding for housebuilding. It was also argued that reintroducing the flexibility would make landlords more inclined to set initial rents below formula rent.

24. Several respondents raised concerns about the definition of the '2020 limit', to be used to calculate maximum rents in the first year after the social rent reduction period. They highlighted that using an average over the final year of the rent reduction period might result in a landlord being required to reduce a rent in 2020 if the property had been re-let at a higher rent level at some point during that year.

Social rent

Question 4: Do you agree with the proposed direction as it relates to social rent properties?

25. 69% of those responding to this question agreed with the proposed direction as it relates to social rent. 24% disagreed.
26. Of the 19 responses to this question from individuals, 26% agreed with the proposal but 47% disagreed.
27. Some respondents argued that the link to 1999 values and earnings data in the calculation of formula rent should be reviewed, to make social rent properties more responsive to current local housing market trends and conditions.
28. In addition, some respondents objected to the expectation (set out in the draft Policy Statement) that the rent flexibility level should be used in a "balanced way", on the basis that this would unnecessarily restrict their discretion to respond to local factors.

Affordable rent

Question 5: Do you agree with the proposed direction as it relates to affordable rent properties, including the proposal relating to the re-setting of affordable rent?

29. 70% of those responding to this question agreed with the proposed direction as it relates to affordable rent. 19% disagreed, with some stating that affordable rent is not affordable.
30. Generally there was support for the intention to ensure that existing tenants in affordable rent properties are not exposed to rent increases in excess of CPI+1% at the start of a new tenancy. However a number of respondents from the local authority and private registered provider sectors asked for clarification about the definition of "existing tenant" in this context, and in particular whether this would apply to tenants moving into affordable rent properties who were previously tenants of the same landlord.
31. Some respondents sought greater clarity about the circumstances in which affordable rent may be charged, in particular where this involves the conversion of social rent properties to affordable rent.

Exemptions from the rent standard

Question 6: Do you agree with the proposed arrangements for making exemptions from the rent standard on financial grounds?

32. 69% of those responding to this question agreed with these proposals. 16% disagreed. The largest positive response (in absolute terms) was from local authorities and their representative bodies, where 41 out of 54 (76%) responses agreed with the proposal.
33. A number of local authorities were keen to see details of the process that will be put in place. Some believed that they should be able to seek an exemption on similar lines to private registered providers whilst others were keen that it focused on specific issues of rent profiling or stock as opposed to management or stewardship.
34. Some respondents were concerned that exemptions would give landlords an opportunity to avoid complying with the rent standard.

Question 7: Do you have any other comments on the proposed direction (including the draft Policy Statement)?

35. A further area raised was the definition of specialised supported housing, with some respondents seeking a return to the definition set out in the existing rent standard (or a more general widening of the definition). Some respondents expressed the concern that schemes developed under the definition in the existing rent standard may be excluded under the proposed definition (which is similar to the definition that is already used in the Welfare Reform and Work Act 2016).

Government response to the consultation

36. We are grateful for the 157 responses received to this consultation. In a number of cases respondents have provided detailed responses. We have considered the comments and evidence provided and our response is set out below.

Applying the rent standard to local authorities

37. Our consultation proposed to direct the Regulator to apply its rent standard to local authority registered providers. The consultation also proposed that the rent standard should apply the same requirements to both local authorities and private registered providers. Previously, local authority rents were effectively regulated through the Housing Benefit system by the Department for Work and Pensions. This will no longer exist with the introduction of Universal Credit. The Government is therefore proposing to align the regulation of council rents with that of private registered providers.
38. The Government acknowledges that some respondents felt that the proposed application of the rent standard to local authorities was inconsistent with the principles of self-financing, and did not provide sufficient control over income. However, a majority of all respondents agreed with the proposal. The Government considers that, with the changes to the welfare system, the proposal provides the best option to control the welfare costs of social rents for both local authorities and private registered providers, whilst also protecting the interests of existing social housing tenants who pay their own rent. The proposal also reflects the importance of ensuring that providers have sufficient income with which to manage and maintain their properties, and to build new homes.
39. We therefore intend to proceed with the proposal that the Regulator's rent standard should apply to local authorities.

Permitting annual rent increases of up to CPI+1%

40. In October 2017, we announced plans to permit registered providers to increase rents on social rent and affordable rent properties by up to CPI+1% each year from 2020, for a period of at least five years. This proposal recognised the need for a stable financial environment to support the delivery of new homes by registered providers.
41. The Government acknowledges the concerns raised about the potential impact on tenants of permitting rent increases of up to CPI+1% each year from 2020. However, it is important to recognise that most existing tenants will have benefited over the previous four years from a reduction of 1% each year as implemented through the Welfare Reform and Work Act 2016. In that context, we believe that our proposal strikes the right balance between the interests of existing social housing tenants who pay some or all of their own rent, the need to build more homes, and the importance of ensuring that providers have sufficient income with which to manage and maintain their properties. We have stressed in the Policy Statement that CPI+1% is the maximum increase but landlords have discretion to apply a smaller (or indeed no) increase based on local circumstances.

42. A number of registered providers argued that social rents that are below formula rent should be allowed to increase by an additional amount each year, over and above CPI+1%. Whilst we recognise that some rents remain below formula, we are concerned about the impact on tenants and welfare costs if some rents were permitted to increase by an additional amount per week over and above CPI+1%. Overall, we believe that the proposed CPI+1% limit strikes a fair balance between the interests of landlords, tenants and taxpayers.
43. The Government therefore intends to proceed with the proposal to permit annual rent increases of up to CPI+1%.
44. The Government recognises the concerns raised about the definition of the '2020 limit', and in particular that this could lead to unintended consequences where properties are re-let at a different rent level during the final year of the social rent reduction period. In light of these concerns, we have amended the proposed direction to ensure that – for properties that were re-let during the final year – the calculation of the 2020 limit is based on the average weekly rent in the final year since the accommodation was last re-let. We have also made some minor and technical changes to the definition to ensure it reflects the language used in Section 23 of the Welfare Reform and Work Act 2016, and added further explanation to chapter 2 of the Policy Statement.

Social rent

45. Linking formula rents to more recent property values would be likely to result in further increases in rent payments for social housing tenants beyond those already consulted upon, as well as additional welfare costs. For this reason the Government intends to retain the policy of formula rent calculations being set with reference to 1999 property values, at least for the period 2020-25.
46. The Government understands the concerns raised by some respondents about the expectation (set out in the draft Policy Statement) that registered providers should use the rent flexibility level "in a balanced way". Similar wording was previously used in the guidance on rents for social housing that was issued by the Department in 2014. Nevertheless, in light of the concerns raised and in order to avoid an unintended restriction on providers' discretion, we have removed this wording from the Policy Statement. We have replaced it with an expectation that providers, if applying the rent flexibility level, should ensure that there is a clear rationale for doing so which takes into account local circumstances and affordability.

Affordable rent

47. In light of the queries raised by a number of respondents, we have amended the direction and the accompanying Policy Statement to clarify the circumstances in which registered providers may not increase the rent by more than CPI+1% where they are re-setting the rent as a result of re-letting affordable rent housing to an existing tenant. We have made clear that, in this context, 'existing tenant' means an existing tenant of the specific property concerned.

48. Some respondents asked for greater clarity about the circumstances in which affordable rent may be charged, in particular where properties are converted from social rent. We have added further clarification to the Policy Statement.

Exemptions from the rent standard

49. The Government believes it is in the interests of both tenants and registered providers that an exemption mechanism should exist for cases in which a provider's financial viability would otherwise be jeopardised. We have concluded that it would not be appropriate for the Regulator to carry out this function in respect of local authorities, because (unlike private registered providers) the Regulator is not responsible for regulating their financial viability. We therefore intend to proceed with the approach set out in the consultation paper, which would enable local authorities to seek the Secretary of State's agreement that it would be inappropriate to apply government rent policy because this would cause unavoidable and serious financial difficulty. The process for local authorities to seek the Secretary of State's agreement will be set out separately in due course.

Other Comments

50. We have reviewed the definition of specialised supported housing in light of the concerns raised by a number of respondents. One of the drivers for tightening the definition in the Welfare Reform and Work Act 2016 was the potential for gaming, and we are therefore reluctant to make significant changes to the definition at this stage. We have however slightly modified the definition in the Policy Statement to allow for circumstances where small grants or subsidies have been provided by local authorities.
51. We have also made a number of minor and technical amendments to the direction and the accompanying Policy Statement.

Next steps

52. Alongside the publication of this response, the Government is issuing the final direction from the Secretary of State (and the accompanying Policy Statement) to the Regulator. Both the direction and the Policy Statement have been amended as set out above.
53. The direction requires the Regulator to set a new rent standard with effect from 1 April 2020. It will publish its proposed rent standard for consultation in due course.