Social housing rents consultation

MTVH consultation response

October 2022

About MTVH

Metropolitan Thames Valley Housing (MTVH) is one of the UK's leading providers of affordable housing and care and support services. We own, manage and administer more than 57,000 homes across the South East, East Midlands and London.

Our specialist care areas include older people, mental health and transitional services which provide intensive support to marginalised or vulnerable people.

MTVH is currently chair of the G15, the group of London's largest housing associations.

For more information, please contact:

[redacted]

Introduction

As a not-for-profit organisation that works with and supports some of the least well-off people in the country, MTVH is deeply concerned by the impact cost of living pressures are having on the people we provide homes to.

MTVH has increased support for residents, including increasing our Tenant Welfare Fund by 50% to provide crisis support, and helping residents to secure £1.94m of financial gains last year. This is in addition to the work we are doing to bring down people's energy bills by improving the energy performance of the homes we provide, alongside charging social and affordable rents far below market rates at around £125 per week on average (around 50% of market rents).

We are also urging the government to provide further targeted support for those most affected by the cost of living pressures, especially around sky-rocketing energy bills that are driving much of the challenges people are facing. Crucially, this must also coincide with the uprating of social payments in line with inflation, which is something that we have repeatedly called for. Almost 7 in 10 general needs residents living in the homes we provide rely on this support, and for many people this covers the entire cost of renting their home.

We have also reconfirmed our commitment to the NHF eviction pledge and will support people as much as we can where they are engaging.

We recognise why the government is considering imposing rent ceilings for social housing rents in 2023/24 in light of the cost of living pressures many residents are facing. However, we believe individual organisations, including MTVH, should be able to make decisions about rent setting independently. As a heavily regulated organisation, we are best placed to achieve the right balance in the context of residents' immediate and future needs, and the long-term requirements of the organisation.

If no ceiling were to be introduced on social rents, MTVH would not apply the maximum possible increase next year under the existing social rent setting standard.

We are concerned that imposing the rent ceilings the government has proposed in this consultation, particularly those at the lowest level proposed, could have significant impacts on our key activities and on residents too.

Potential impact of social rent ceilings

To maintain and improve existing residents' homes, and to continue to build much needed new affordable homes, significant investment each year is essential. As a not-for-profit organisation, all the resources we generate are put back into the homes we provide and build, and to support the services residents receive. Re-investable rental income for housing associations is critical to supporting this work. Similarly, meeting the significant challenges of building safety, decarbonisation, and addressing homelessness, requires strong and stable income for organisations.

The surpluses (and/or 'reserves') that are reported as part of our financial results are not 'rainy day' funds that can simply be applied to cover costs elsewhere. Instead, they are key to securing borrowing to deliver the essential work that we do, and are held as fixed assets and working capital, rather than cash.

Housing associations have already seen costs for vital materials for repairs and maintenance work increase by as much as 16.8% this year, and the cost of constructing new homes has grown by between 11-13% for MTVH. Repairs and maintenance costs have increased by as much as 25%, and professional services are also costing around 4-6% more than last year.

Energy costs for MTVH and other members of the G15 are forecast to have increased by 225% for electricity and by 573% for gas, on average, between 2021/22 and 2023/24. These above inflation increases present significant pressures on members' budgets and investment plans.

Credit rating agencies have cautioned about the impact of divergence between rental income and costs for housing associations and the impact this could have on borrowing costs and investor confidence. The current economic volatility will also have a material impact on borrowing costs, further impacting our financial standing, which is a critical aspect of how we are able to deliver the work that we do.

Based on the social rent ceilings outlined in the government consultation, this table demonstrates the scale of the reduction in re-investable rental income that MTVH would face from a one-year ceiling:

	Reduction in re-investable rental income over 5 years	**Reduction in re-investable rental income over 10 years**	**Reduction in re-investable rental income over 30 years**
Rent ceiling at 3%	£107m	£226m	£786m
Rent ceiling at 5%	£83m	£176m	£612m
Rent ceiling at 7%	£60m	£126m	£262m

If applied over two years, as the consultation invites comments on:

	Reduction in re-investable rental income over 5 years	Reduction in re-investable rental income over 10 years	Reduction in re-investable rental income over 30 years
Rent ceiling at 3%	£180m	£397m	£1.4bn
Rent ceiling at 5%	£139m	£306m	£1.1bn
Rent ceiling at 7%	£97m	£214m	£766m

As these figures demonstrate, the impact of the government's proposals would be massive.

It is that, should a low social rent ceiling be applied by the government, reductions in spending across all areas of activity will need to be considered. This includes:

- **Impact on building safety planned works** – The safety of all the people we provide homes to is our number one priority. We are concerned that, without government funding assistance, the rent ceilings being proposed will slow planned building safety works. G15 members are currently collectively forecasting to spend over £4bn on building safety works activities between 2021 and 2034, including meeting costs for social housing properties directly as there is no government funding for these homes.
- **Investment in existing homes reduced** – MTVH spent around £138m investing in existing homes last year. Investment in existing homes, such as works to replace kitchens, bathrooms, and windows, would have to be delivered over a longer period if income is significantly reduced, meaning few improvements each year.
- **Slower progress on decarbonisation and retrofitting homes** - Efforts to decarbonise and retrofit existing homes would be scaled back and progress towards achieving the requirement for all homes to be EPC C rated by 2030 curtailed.
- **Fewer new affordable homes delivered** - Significant reductions in the number of new affordable homes to rent and buy that are built, further exacerbating the housing crisis by failing to meet need and having a massive impact on economic activity at a critical time.
- **Reduced interest cover and negative impacts on financial capacity** -interest cover will also be negatively affected by the proposed ceilings, which is a key regulatory measure, and would lead to higher borrowing costs that would reduce our capacity to invest in existing homes and to deliver new homes.

Whilst outside of the scope of the government's consultation, we recognise the impact of high inflation on the formula for setting the rental element of shared ownership and the concern that many shared owners will have. It should be noted that limiting shared ownership rent increases at 7%, for example, would reduce re-investable rental income for MTVH by £17.6m over 5 years, and by £52.5m over 30 years, in addition to the figures listed above.

If possible, we do not want to apply the maximum increases on rents for shared owners. We recognise the unusually high level of inflation means rent increases for shared owners could potentially be higher than in previous years. Any decision we can make on shared ownership rents will be affected by the government's decision on social rent ceilings, and the volatile economic situation which is driving up costs further. We will make a decision based on careful consideration of multiple factors, including the need to maintain existing homes and services and the financial pressures facing residents, particularly the least well-off.

Mitigations government should consider

Further action is required by the government to support people facing cost of living pressures that are driven in most part by rapidly rising energy bills, especially those people who are least well-off. In taking action to support people with the cost of living, exacerbating the housing crisis by significantly reducing resources for organisations to invest in existing homes and to build much-needed new affordable homes should be avoided.

A number of measures that the government should consider in making its decision on the rent ceiling proposals are:

- Social security payments should be uprated in line with September inflation measures to support the least well-off, recognising that approximately 66% of MTVH's general needs residents are in receipt of Universal Credit.
- A specific exemption should be made for supported housing from the proposed rent ceilings, recognising the viability challenges that would be created otherwise and the impact this could have on the delivery of such critical services.
- Mitigations must be announced alongside any rent ceiling decision to prevent significant reduction in investment in existing and new homes, including:
    - the reintroduction of rent convergence
    - allowing Recycled Capital Grant Funding (RCGF) to fund major repairs
    - additional grant funding for development of affordable homes
    - removing VAT on housing association activity
    - discussions on the post-2025 rent settlement should introduce a long-term approach based on key principles to secure the financial future of the sector and affordability for residents.

Residents' views

We recognise the importance of residents' voices and input across all areas of our activity, including this issue.

At MTVH we have a resident/customer governance structure that includes the Customer Council, the Chair of which sits on the Customer Services Committee (a sub-group of the Board), and three regional panels across London South, London North and Midlands.

At a recent meeting of the Customer Council, we discussed the rent ceiling consultation with resident members. We have included a summary of the key points raised during the conversation below.

- All members were struck by the difficult situation that faced the organisation and the sector.
- The group were pleased that MTVH and the G15 were providing a response to the consultation and that residents were being informed and involved in the process.
- MTVH leaseholders on the Council felt that they trusted MTVH to respond in the best interests of residents and the organisation.
- There was a mixed reaction from the tenant members of the Council.
- This group were very aware of the impact on MTVH's ability to provide services if rent caps were placed too low and were keen to see a balance struck where any savings made by the government were passed back to the housing sector to ensure service delivery was maintained.

Responses to consultation questions

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

Response: Not-for-profit housing associations should be allowed to set rents independently as heavily regulated organisations that are best placed to achieve the right balance on such matters in the context of residents' needs and the long-term requirements of organisations. We are considering the impact of the cost of living challenges on residents and the essential work we do in the context of rent setting for 2023/24 carefully. If no ceiling were to be introduced on social rents, MTVH would not apply the maximum possible increase next year under the existing social rent setting standard.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Response: Not-for-profit housing associations should be allowed to set rents independently as heavily regulated organisations that are best placed to achieve the right balance on such matters in the context of residents' needs and the long-term requirements of organisations. We are considering the impact of the cost of living challenges on residents and the essential work we do in the context of rent setting for 2023/24 carefully. If no ceiling were to be introduced on social rents, MTVH would not apply the maximum possible increase next year under the existing social rent setting standard.

The impact of these ceilings is explained more fully elsewhere in this response. In terms of lost income, the proposed ceilings would have the following impact:

	Reduction in re-investable rental income over 5 years	**Reduction in re-investable rental income over 10 years**	**Reduction in re-investable rental income over 30 years**
Rent ceiling at 3%	£107m	£226m	£786m
Rent ceiling at 5%	£83m	£176m	£612m
Rent ceiling at 7%	£60m	£126m	£262m

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Response: We do not believe a rent ceiling should be applied and instead individual organisations should be allowed to set rents directly, as previously stated. Any ceiling should be for one year. If the rent ceilings being proposed were applied for two years, the impact on lost income for MTVH would be:

	Reduction in re-investable rental income over 5 years	Reduction in re-investable rental income over 10 years	Reduction in re-investable rental income over 30 years
Rent ceiling at 3%	£180m	£397m	£1.4bn
Rent ceiling at 5%	£139m	£306m	£1.1bn
Rent ceiling at 7%	£97m	£214m	£766m

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Response: We agree that any proposed ceiling should not apply to the maximum initial rent that may be charged when homes are first let and subsequently re-let. This will protect resources for investment in existing and new homes.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

Response: MTVH provides a wide range of supported housing. Due to the nature of the model, the ceilings being proposed would make many schemes unviable to deliver and would likely lead to providers exiting the scheme. In some settings, residents, often those with additional needs or vulnerabilities, have their support payments (benefits) paid directly to their landlord. Therefore, a rent ceiling will see no direct benefit to residents in terms of cost of living pressures, but a ceiling would reduce resources available to providers to deliver the services on which residents rely. This is a particular concern at a time of rising costs for supported housing providers, including with energy costs that are purchased on commercial terms and have not yet been subject to any price caps or government support. A specific exemption should be made for supported housing from the proposed rent ceilings, recognising the viability challenges that would be created otherwise and the impact this could have on the delivery of such critical services.

A specific exemption should be made for supported housing from the proposed rent ceilings, recognising the viability challenges that would be created otherwise and the impact this could have on the delivery of such critical services.

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Promoting
Independent living

Ability

The Coach House
Gresham Road
Staines-upon-Thames
Middlesex TW18 2AE
Telephone: 01784 490910
info@ability-housing.co.uk
www.ability-housing.co.uk

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Ability Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Coach House Gresham Road Staines-upon-Thames TW18 2AE
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Dear Sir or Madam,
RE: Social Housing Rents Consultation

Ability HA is a smaller supported housing association operating in London and the south of England. We provide 659 units of supported housing serving people with disabilities including people with mental health needs, learning disabilities and physical disabilities. We are a values-based organisation with a strength-based approach to the services we provide, committed to working with our residents and customers to live independent lives where they have autonomy, control and choice over the life they lead.

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

☐Yes
X No
☐Maybe

Firstly, we understand and support the government's intention to reduce the financial burden experienced by social housing tenants during the current cost of living crisis. However, we are not convinced by the consultation document that imposing a below inflation ceiling on housing association rents from April 2023 is the most effective way of achieving this outcome. Based upon Ability HA's tenant profile 82% of our tenants receive their housing costs through housing benefit, therefore a rent cap will have no positive impact for most of our residents.

The rent cap would have a positive financial impact to the treasury, with an imposed ceiling to the agreed maximum rent settlement formulae of CPI + 1%; thus, capping the rent paid to Ability HA via housing benefit for financial year 2023/24. This is acknowledged in the consultations impact assessment Annex D *"We estimate that these households would pay approximately £2.8bn (nominal) less in rent over the period 2023-28. There would also be a benefit to taxpayers of £4.6bn (nominal) in lower welfare spending (compared to the 'do nothing' counterfactual) over the same period"*. However, such savings would need to be considered in relation to the impact such a cap and effective rent reduction of at least 5% during the highest inflationary period in the UK for 40 years, would have on the sector, our tenants and the impact on the supported housing sector in particular.

For Ability Housing Association the impact will be significant as a smaller housing association focused on supporting some of the most vulnerable people in society with higher operating expenditure and lower margin that apply across the supported housing sector in which we operate. The financial impact would be significant, and the impact vary based upon the imposition of a 3, 5, or 7% rent ceiling. We have modelled a 5% rent cap scenario and this shows the impact to Ability HA would be a loss of income of £264,248 year one, which over a 5-year period compounded would incur a revenue loss of £1,478,517. As a small specialist housing association with an annual rental income of circa £4.5 million (2022/23), such a reduction in income would have a significant impact on the organisation and the services we could deliver. These are as follows:

- **Tenancy Sustainability**:
- **Achieving EPC C by 2030:**
- **Development**
- **Decarbonisation**
- **Viability**

To answer question 1 specifically, Ability Housing Association does not agree that a rent ceiling should be imposed for supported housing. We believe that the board of Ability HA are best placed to balance the needs of the organisation and its essential role in supporting people with disabilities to lead independent lives within their communities; alongside their duty to manage and be cognisant of the costs and affordability to both tenants and government ensuring our rents are proportionate to the services delivered and constitute Value for Money. This would be achieved by the board through consideration of the actual costs associated with the specialist nature of our provision and the need to remain viable within the current challenging economic environment, whilst not financially disadvantaging residents. These are duties and responsibilities taken with the utmost seriousness by the board of Ability Housing Association, who consider all material factors in their decision-making process. If no rent ceiling were to be imposed Ability HA would in probability raise its rents by 9% for financial year 2023/24, minimising the rent increase to tenants by applying a below inflation rent increase, whilst not jeopardising the service delivered to tenants or risk the future financial viability of the organisation.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

As you will note from our response to Question 1 above, Ability Housing Association does not believe the setting of rent ceiling at 5% is appropriate for smaller supported housing associations. Ability believes the decision on current and future rent increases is best placed with our board (for the reasons outlined in Q1 above), for a smaller supported housing provider such as ourselves 9% is the appropriate and sustainable rent ceiling to set.

We have modelled the impact of a 5% rent cap and its impact to Ability Housing Association and our residents. These are outlined below:

- **Tenancy Sustainability**: Through our intensive housing management service Ability HA provide intensive support to our tenants focused on maintaining independent living and community inclusion. With the proposed rent ceiling, we will have to review the financial viability of such personalised and focussed housing management support. The impact of reducing the level of intensive housing support could be significant to both our tenants and local authorities. Due to focussed and targeted supports over the past six years Ability has only had to evict one tenant and this was undertaken in consultation with the relevant local authority, ensuring appropriate housing and supports were available to the individual at the point of eviction. Should we have to reduce our housing management supports because of a rent ceiling, we predict that evictions will increase significantly through the lack of early intervention and an increase in rent arrears, Anti-Social Behaviour (ASB), inability of some tenants to sustain their tenancies without the appropriate level of housing support and so on. This would have a serious detrimental impact on the lives of our residents but would also significantly increase costs of local authority and health service commissioners. For a significant number of tenants utilising our intensive housing management service the only other alternative is more institutional care and support or health provision, which by its nature is significantly more expensive and will increase demand on what is finite resource, already struggling to cope with existing demand in many localities. Therefore, a potential unforeseen consequence of this proposed policy would lead to increased costs and demand for more specialist and expensive accommodation, care and support-based services which are already at or beyond capacity.

- **Achieving EPC C by 2030:** A rent ceiling would have a significant impact on Ability HA's business plan and its capability to ensure all its properties achieved an EPC rating of "C" or above. Having modelled the implementation of a 5% rent ceiling, we have established that a consequence would be to push achievement of EPC "C" back by three years to 2032. This will have a detrimental impact on our ability to minimise the climate impact of our stock and of equal importance the fuel efficiency of our housing through the delay in installing modern insulation across our homes. This will in turn mean that tenants fuel bills remain higher than needed because of such a delay. In an environment where gas and electricity prices are likely to remain higher than historical averages for some period to come, this will be to the disadvantage of tenants, many of whom are some of society's most economically vulnerable and as identified above largely dependent on state benefits for their income.

- **Development:** Whilst Ability has only a small development programme with a single 7-unit development identified in our business plan over the next 5 years, this development would need to be reconsidered as a result of any rent ceiling being implemented. Due to the low levels of grant available, to develop new units Ability would need to either invest its own cash or borrow to develop. With a rent ceiling and the further reduction in our already small annual surplus, this will involve a greater proportion of our own resources being required to support the implementation of our operations, bringing our stock up to EPC "C" by 2032 and managing increasing repair and maintenance costs alongside enhanced labour costs (14% increase in maintenance costs over the past 12 months), whilst experiencing a real time reduction in rental income as compared to inflation. With inflation currently running at about two times the proposed rent ceiling level and the recent significant increase in interest rates by lenders, development will become increasingly challenging to achieve.

- **Decarbonisation:** This is an essential component for ability in achieving our carbon neutral ambitions. The target of 2050 is already challenging in the context of cost and the development of new technologies to make this ambition a reality. A rent ceiling will only exacerbate this problem further. Whilst the ongoing level of governments grant available to Housing Associations to support decarbonisation is unknown, if government investment via grant were to remain the same, Ability has already identified that it would need to both use a significant proportion of its own resource alongside borrow to achieve this target within the 2050 timescale. Should a rent ceiling be implemented then to achieve the governments decarbonisation target by 2050, would require a further significant increase in the funding available directly from government to make this ambition achievable.

- **Viability:** As I have outlined above, as a smaller organisation within the timescale set out in the consultation documentation, we have modelled a one-year rent cap of 5%, the implications of which are outlined above. Such an impact would have ongoing ramifications in relation to the level of service and our capacity as a small specialist housing association to deliver intensive housing management services, meet the governments (and our) climate change objectives and to develop further supported living accommodation for people with disabilities. Were any rent ceiling to extend beyond one year or be below the 5% we have modelled, then the impact would be even greater and would potentially jeopardise our longer-term viability.

Ability Housing Association also believes that the consultation and the impact assessment (Annex D) are mistaken in their stated intention and global assessment of the financial impact to the housing association sector as a whole, without considering the impact to niche parts of the sector such as supported and sheltered housing providers who operate on very low financial margins due to the increased costs associated with providing accessible housing and the necessary housing supports required. In addition, the supported housing sector is key to meeting wider government policies such as the recent £500 million adult social care grants to free up hospital beds. To not consider the impact to specialist providers and those who primarily support older people and people with disabilities could have significant negative impact to these tenants and the organisations that support them.

We understand the premise of a universal ceiling, treating all social housing tenants the same and applying a rent ceiling across the sector. However, this is the same principle as imposing price control on food and applying the same regulation to Tesco as the local corner shop. The upshot would be a significant reduction in the number of corner shops as they could not absorb the additional costs. The same principle applies in the housing association sector and to look at the RSH global accounts and make assumptions as to the whole sectors resilience and ability to absorb higher costs, overlooks giving due consideration of the risk and viability of many smaller and specialist housing associations who significantly contribute in the areas of housing, care, support and health. As has been noted in the Impact assessment (Annex D) *"there are around 1,400 active private registered providers, of which the majority have fewer than 1,000 homes each. 209 groups own or manage at least 1,000 social homes, together representing more than 95% of the private registered provider stock".* Therefore, to exempt supported housing providers with less than 1000 units, would have minimal impact on the scale of the proposed regulatory rent ceiling implementation, but have a significant impact on supported housing providers and most importantly secure the continued provision of existing intensive housing management services and property investment at current levels to tenants.

Therefore, whilst a universal ceiling is the governments preferred option, the impact of this decision should be considered from a resident perspective and the direct beneficial impact it will have on them as an individual. As the impact assessment identifies:

"However, households with certain protected characteristics are less likely to benefit financially from the proposal than other SRS households as they are more likely to be recipients of Housing Benefit or the housing element of Universal Credit"

The above applies to the tenants of Ability Housing Association as previously stated, 82% of our residents benefit entirely from Housing Benefit to pay their rents. The remaining 18% of Ability residents are general needs tenants in housing that we manage on behalf of a charity. Therefore, for the people with disabilities we serve and provide intensive housing management services too, there is no direct financial benefit to themselves from a rent ceiling. In fact, as outlined above there is potential for there to be severe personal detriment as a result of any rent ceiling and the resulting reduction in services – both reduced housing support and delayed investment in their homes.

We accept that a counter argument to this point could be why should people accessing supported accommodation be subject to a higher rent increase than the wider population accessing social housing, and this is a fair point. However, the unforeseen consequences of applying significantly below inflation rent increases to a niche sub section of the social housing market such as the supported housing sector, could be profound and justify an exemption for this part of the sector. It is accepted that the costs associated with delivering good quality supported housing are significantly higher than the provision of general needs housing. When combining these higher costs and the low financial margin across supported housing sector, to impose a rent ceiling at circa 5% below the rent formulae will lead to negative implications and unforeseen consequences for both existing and future tenants. A potential strategy for supported housing providers to manage a scenario where intensive housing support becomes unaffordable to deliver at its current level, would be to reduce the level of support provided. Whilst remaining within the terms of nomination's agreements, organisations may seek future nominations from people whose needs are less complex and require lower levels of support. This would enable lower expenditure on intensive housing management services and lead to reduced ongoing repairs and maintenance costs with less wear and tear on properties, thus, enabling budgets to be balanced. A consequence of focusing supported housing services on people with disabilities who require less support is a reduction in capacity for those people with more complex disabilities who are most in need of the specialist services supported housing provides. This in turn would reduce opportunities and choice for some people with a disability to live in supported accommodation, increase demand for more traditional institutional type services such as registered care and health service provision, placing further demand and increased costs upon already stretched local authority and health service budgets.

Whilst we acknowledge the statement within the impact assessment on exemptions on a rent ceiling:

"We would not propose to exempt small or micro businesses from a 5% ceiling, because we do not think it would be fair to deny their tenants this protection purely due to the size of their landlord. However, the Regulator will retain the power to grant exemptions to individual private registered providers from the Rent Standard where compliance would otherwise jeopardise their financial viability".

For the reasons outlined above we strongly believe that an exemption should be provided for Supported Housing and in particular smaller supported Housing Associations with less than 1000 units. The levels of surplus in associations who predominantly deliver supported housing are tiny and not comparable to general needs housing associations, as can be seen from examination of the RSH global accounts. In addition, housing associations specialising in supported housing are unable to cross subsidise these low margin operating areas from more profitable operational activities, as many larger associations can. Many smaller supported housing associations are just beginning to recover from the impact of the government's policy to reduce rents by 1% (2017 for supported housing) for a period of three years. These rent reductions had a disproportionately large effect on the supported housing sector where the cost of delivering services is high and margins low. For the impact assessment (Annex D) to not consider the impact on this niche sub sector of the social housing sector, which will potentially lead to a marked reduction in the number of supported housing units available and the viability of many charitable housing associations operating in this sector of the market, is a significant oversight.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
X No
☐Maybe

As can be seen from Ability Housing Associations response to Q2 and 3 above, the imposition of a rent ceiling from April 2023 for 12 months has a detrimental impact on the services we can afford to deliver to the people with disabilities we serve, it will impact both the level of intensive housing management we can provide and the investment we can make in people's homes. The effect of a ceiling will not be felt for a single year but for a decade or more as we seek to recover from the 3 year rent reduction (effective 2017), manage a rent ceiling with income capped at circa 5% below inflation, fund EPC "C" by 2030 and plan and finance decarbonisation by 2050, unsurprisingly a further cut to income will impact on our capacity to meet these challenges and potentially threaten the longer term viability of the supported housing sector as a whole.

To extend the rent ceiling by a further year, assuming ongoing high inflation will jeopardise the future financial viability of Ability Housing Association to a point where seeking an exemption for financial year 2024/25 could be too late. This will place at risk the specialism we have developed as an alternative to residential care and other more institutional and expensive forms of housing, care, and support.

Furthermore, the impact will be experienced across the social housing sector, not just smaller supported housing providers such as Ability Housing Association, but also larger general needs providers who provide supported and sheltered housing. These are low margin operational areas and on the basis of simple supply and demand economics, if you cap rents (income) in a low margin high demand, specialist sector such as supported housing, housing associations will consider whether future investment in this area is the best use of their funds, alongside reviewing the viability of their current supported and sheltered housing stock.

So in answer to question four, no we don't think a rent ceiling should apply for two years, as you will also see from our response to Q5 (below), we don't think it should apply for one year for supported and sheltered housing.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

X Yes
☐ No
☐Maybe

We agree any rent ceiling should only apply to existing tenants. Future tenants will know the cost of their rents at the point of tenancy sign up and therefore make an informed decision as to the affordability of the home, prior to signing the tenancy.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

X Yes
☐No
☐Maybe

Ability Housing Association strongly believes that there should be an exemption for supported housing. Our reasons and the need for such an exemption are set out in Q1 to 3 above, but in brief they are as follows:

For Ability Housing Association the impact will be significant as a smaller housing association focused on supporting some of the most vulnerable people in society and as a consequence significantly higher operating expenditure and low margin than apply across the housing association sector as a whole. The financial impact would be significant, whilst the impact would vary based upon the imposition of a 3, 5, or 7% rent ceiling. We have modelled a 5% rent ceiling scenario, based upon an inflation rate of 10%; this demonstrates the impact to Ability HA would be a loss of income of £264,248 year one, which over a 5-year period compounded would incur a revenue loss of £1,478,517. As a small specialist housing association with an annual rental income of circa £4.5 million per annum (2022/23), such a reduction in income would have a significant impact on the organisation and the services we deliver.

Ability Housing Association does not believe the setting of rent cap at 5% is appropriate for smaller supported housing associations focused on the delivery of accessible accommodation and intensive housing management support for people with a disability. Ability believes the decision on current and future rent increases is best placed with our board (for the reasons outlined in Q1 above), for a smaller specialist supported housing provider based upon our modelling to maintain services and investment in our tenants homes, a 9% rent increase is the appropriate and sustainable rent ceiling to set.

We have modelled the impact of a 5% rent cap and its impact to Ability Housing Association residents is as follows:

- **Tenancy Sustainability**: Through our intensive housing management service Ability HA provide intensive support to our tenants focused on maintaining independent living and community inclusion. With the proposed rent cap, we will have to review the financial viability of such personalised and focussed housing management support. The impact of reducing the level of intensive housing support could be significant to both our tenants and local authorities. Due to focussed and targeted supports over the past six years Ability has only had to evict one tenant and this was undertaken in consultation with the relevant local authority, ensuring appropriate housing and supports were available to the individual at the point of eviction. Should we have to reduce to reduce our housing management supports because of a rent cap, we predict that evictions will increase significantly through the lack of early intervention and an increase in rent arrears, Anti-Social Behaviour (ASB), inability of some tenants to sustain their tenancies without the appropriate level of housing support and so on. This would have a serious detrimental impact on the lives of our residents but would also significantly increase costs of local authority and health service commissioners. For a significant number of tenants utilising our intensive housing management service the only other alternative is more institutional care and support or health provision, which by its nature is significantly more expensive and will increase demand on what is finite resource, struggling to cope with existing demand in many localities. Therefore, a potential unforeseen consequence of this proposed policy would lead to increased costs and demand for more specialist and expensive accommodation, care and support-based services which are already at or beyond capacity.

- **Achieving EPC C by 2030:** A rent cap would have a significant impact on Ability HA's business plan and its capability to ensure all its properties achieved an EPC rating of "C" or above. Having modelled the implementation of a 5% rent cap, we have established that a consequence would be to push achievement of EPC "C" back by three years to 2032. This will have a detrimental impact on our ability to minimise the climate impact of our stock and of equal importance the fuel efficiency of our housing through the delay in installing modern insulation across our homes. This will in turn mean that tenants fuel bills remain higher than needed because of such a delay. In an environment where gas and electricity prices are likely to remain higher than historical averages for some period to come, this will be to the disadvantage of tenants, many of whom are some of society's most economically vulnerable and as identified above largely dependent on state benefits for their income.

- **Development:** Whilst Ability has only a small development programme with a single 7-unit development identified in our business plan over the next 5 years, this development would need to be reconsidered as a result of any rent cap being implemented. Due to the low levels of grant available, to develop new units Ability would need to either invest its own cash or borrow to develop. With a rent cap and the reduction in our already small annual surplus, this will involve a greater proportion of our own resources being required to support the implementation of our operations, bringing our stock up to EPC "C" by 2032 and managing increasing repair and maintenance costs alongside enhanced labour costs (14% increase3 over the past 12 months), whilst experiencing a real time reduction in rental income compared to inflation. With inflation currently running at about two to three times the proposed rent cap level and the recent significant increase in interest rates by lenders, development will become increasingly challenging to achieve.

- **Decarbonisation:** This is an essential component for ability in achieving our carbon neutral ambitions. The target of 2050 is already challenging in the context of cost and the development of new technologies to make this ambition a reality. A rent cap will only exacerbate this problem further. Whilst the ongoing level of governments grant available to Housing Associations to support decarbonisation is unknown, if government investment via grant were to remain the same, Ability has already identified that it would need to both use a significant proportion of its own resource alongside borrow to achieve this target within the 2050 timescale. Should a rent cap be implemented then to achieve the governments decarbonisation target by 2050, would require a further significant increase in the funding available directly from government to make this ambition achievable.

- **Viability:** As I have outlined above, as a smaller organisation within the timescale set out in the consultation documentation, we have modelled a one-year rent cap of 5%, the implications of which are outlined above. Such an impact would have ongoing ramifications in relation to the level of service and our capacity as a small specialist housing association to deliver intensive housing management services, meet the governments (and our) climate change objectives and to develop further supported living accommodation for people with disabilities. Were any rent cap to extend beyond one year or be below the 5% we have modelled, then the impact would be even greater and would potentially jeopardise our longer-term viability.

Ability Housing Association also believes that the consultation and the impact assessment (Annex D) are mistaken in their intention and assessment of a blanket approach with no exceptions to a rent ceiling for housing associations who provide supported housing for disabled people. As the impact assessment identifies:

"However, households with certain protected characteristics are less likely to benefit financially from the proposal than other SRS households as they are more likely to be recipients of Housing Benefit or the housing element of Universal Credit"

The above applies to the tenants of Ability Housing Association as previously stated, 82% of our residents benefit entirely from Housing Benefit to pay their rents. The remaining 18% of

Ability residents are general needs tenants in housing that we manage on behalf of a charity. Therefore, for the people with disabilities we serve and provide intensive housing management services too, there is no direct financial benefit to themselves from a rent ceiling. In fact, as outlined above there is potential for there to be severe personal detriment as a result of any rent ceiling due to resultant reduction in services in both housing support and delayed investment in their homes.

We accept that a counter argument to this point could be why should people accessing supported accommodation be subject to a higher rent increase than the wider population accessing social housing, and this is a fair point. However, the unforeseen consequences of applying significantly below inflation rent increases to a niche sub section of the social housing market such as the supported housing sector, could be profound. It is accepted that the costs associated with delivering good quality supported housing are significantly higher than the provision of general needs housing. When combining these higher costs and the low financial margin across supported housing, to impose a rent ceiling at circa 5% or more below inflation will lead to negative implications and unforeseen consequences for both existing and future tenants. A potential strategy to manage a scenario where intensive housing support becomes unaffordable to deliver at its current income level, would be to reduce the level of support provided. Whilst remaining within the terms of nomination's agreements, organisations may seek future nominations from people whose needs are less complex and require lower levels of support. This would enable smaller intensive housing management services and reduce ongoing repairs and maintenance costs, thus facilitating budgets to be balanced. A consequence of focusing supported housing services on people with disabilities who require less support, would be a reduction in capacity for those people with disabilities whose needs are more complex and potentially most in need of the specialist housing services supported housing providers deliver. This in turn would increase demand for more traditional institutional types of services such as registered care and health service provision, placing further demand and increased costs upon already stretched local authority and health service budgets and services.

Whilst we acknowledge the statement within the impact assessment on exemptions on a rent ceiling:

"We would not propose to exempt small or micro businesses from a 5% ceiling, because we do not think it would be fair to deny their tenants this protection purely due to the size of their landlord. However, the Regulator will retain the power to grant exemptions to individual private registered providers from the Rent Standard where compliance would otherwise jeopardise their financial viability".

For the reasons outlined above we strongly believe that an exemption should be provided for Supported Housing and particularly, Smaller Supported Housing Associations with less than 1000 units. The levels of surplus generated by housing associations who predominantly deliver supported housing are tiny and not comparable to general needs housing associations. In addition, housing associations specialising in supported housing are unable to cross subsidise these low margin operating activities from more profitable areas of operations, as many larger associations can. Many smaller supported housing associations are only just beginning to recover from the impact of the government's policy to reduce rents by 1% (2017) for a period of three years. These rent reductions had a disproportionate & significant impact on the finances of the supported housing sector where the cost of delivering services is high and margins low. For the impact assessment (Annex D) to not consider the impact on this niche sub sector of the social housing sector, which will potentially lead to a marked reduction in the number of supported housing units available and threaten the viability of many charitable housing associations operating in this specialised area of the social housing sector of the market, is a significant oversight.

For the reasons outlined above and to maintain the scale and breadth of the current supported housing sector at a period when it has never been needed more, we implore that an exemption to the rent ceiling is given for all supported housing units.

[redacted]

Social housing rents

Peabody response to DLUHC

About Peabody

Peabody is one of the oldest and largest housing associations in the UK and was established in 1862 by the philanthropist George Peabody. In April 2022, we merged with Catalyst Housing and are now responsible for over 104,000 homes and 220,000 customers across London and the Home Counties. We are a member of the G15, a group of the largest housing associations in the UK who own and manage over 715,000 homes and house one in ten Londoners.

We are pleased to have the opportunity to provide a response to the consultation on social housing rents.
If you have any questions or require further information on this response, please contact [redacted]

Introduction

We understand and support the need to limit rent rises in the short-term during this high inflation period and believe that Housing Associations will decide in the best interests on their residents. We recognise that these are extremely tough times for many people struggling to make ends meet. We will play our part in helping by maintaining our commitment to low rents and other financial support including our crisis support, specialist debt advice and energy advice service.

Not-for-profit housing associations and councils already have the lowest rents and a range of competing and escalating investment challenges to navigate. We are dependent on rental income to keep investing in homes and places, and the costs of repairs and maintenance are escalating. Peabody rents are already low, at an average of around £120 a week (the subsidy provided by Peabody rents when compared to market rents is over £700 million per annum). Further longer term reductions would inevitably restrict what we are able to do going forward. We are pleased to see that the government recognises this, which will hopefully lead to a wider debate about long-term rent fairness, a simplification of the system, and the need for greater certainty and investment in socially rented homes in the future that we support government objectives for our sector, which in turn promote growth for the economy.

Key points (headlines of the consultation)

A proposed rent ceiling for 2023/24 represents a short-term emergency measure to protect consumers. Not for profit housing associations are best placed to decide how best to protect their residents from unaffordable increases, but we understand the reasons for the proposal. If a rent ceiling is imposed for one year, we think it should be accompanied by a commitment by government to work with the sector on a longer-term rent settlement. This should enshrine affordability but also provide long-term certainty and protect landlords' ability to maintain and invest homes and places for their residents.

The competing investment challenges facing not-for-profit associations are significant and growing. The costs of maintaining and investing in our homes are rising at least at the rate of inflation, and for building materials at a significantly higher rate than CPI. While we want to support our customers, we also have commitments to keep their buildings safe, make sure their homes are well maintained, and provide places where people want to live. We also have a wider social purpose to support those people in housing need, through developing high quality new homes for rent and low-cost homeownership.

In September credit rating agency S&P highlighted the impact of Government intervention in the previously agreed rent standard, considering it a weakness when they assess the regulatory framework for social housing providers. Without the secure level of income at agreed rates, social housing becomes a riskier business and credit ratings will suffer accordingly, leading to increased cost of borrowing.

If a cap is set for regulated rents the government should offset the effects of the cap by:

- Negotiating a new rent settlement that allows for rent convergence, for example by reintroducing the target rent approach that allowed housing associations and councils to raise rents by up to £2 per week more than the prescribed amount
- Not extending the cap to two years, the impact of a multi year cap would be significant and would limit what we are able to invest in.
- The cap must not be extended to supported housing, which does not have the resilience to survive a dramatic reduction in income.

There are other ways that government can support not for profit housing providers, such as VAT exemption, this is explained in further detail in Appendix 1.

We must also stress that the proposed cap will reduce our ability to invest in decarbonisation of existing stock to make our homes more energy efficient for our residents which in turn will reduce their energy bills. It will also restrict our investment into vital services that we provide to our customers and wider community projects and could affect our development programme, providing much needed new homes to those in housing need.
Although this is not in the scope of this consultation, we would welcome the government to consider the impact the proposed rent cap would have on shared owners. This tenure is already subject to increases in mortgage repayments and increases in cost of living.

Our response

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

As a landlord with a social purpose, we agree that in this extreme high inflation environment there is a short term need for all housing associations to show restraint and not put regulated rents up by CPI+1%. We recognise that given the current rate of inflation a large increase in social housing rents would be unsustainable and increase hardship. However, it is important to recognise the impact limited rent rises will have on the sector, particularly at a time of significant cost inflation.

Maintenance and investment in our properties is critical to ensure our customers have safe and secure homes, with building safety being our key priority. In 2021/22 we spent £285m on routine repairs, cyclical maintenance, and capital investment in our existing homes. Materials for maintenance and repairs increased by 16.8% in April 2022 and construction costs increased by 24.1% between June 2021 and June 2022 (BEIS, Monthly Statistics of Building Materials and Components Commentary, August 2022). This upward pressure on our cost base directly impacts our ability to maintain and improve existing homes, provide the much-needed support services to our customers, and build new homes.

In addition, our cost of borrowing is likely to increase as inflationary pressure and economic policy is raising interest rates while a rent cap is likely to affect our credit rating, potentially further increasing our borrowing costs.

As a housing association we need certainty to inform investment decisions and forward financial planning. If the inconsistency of government support for the social housing sector continues it could potentially lead to downgrades in credit ratings and a negative perception to creditors.

Not only would this impact on our ability to build new homes, but it would also be hugely damaging to existing residents as we would have to scale back investment in our existing homes. We have made commitments to protect our spending on building safety, as the safety of our customers is a primary consideration in our approach to providing homes.

However, any sub inflation rent ceiling would limit our ability to:

- Meet our commitments for planned investment to improve the quality our existing homes. such as new kitchens and bathrooms, windows, replacement roofs etc.

- Continue planned investment to support generating power for residents and improve energy performance of their homes. We have continued to invest in improving the energy efficiency of our existing homes and to cut the energy bills of our residents. Social Housing Decarbonisation Fund backed improvements will retrofit 66 homes from EPC D and E to EPC C and B. The average EPC D homes will pay almost £600 extra compared to an EPC C home. This shows the need for continued investment in decarbonisation, but this can only be done with a fully funded asset management programme, which the proposed rent cap will make more difficult to implement.
- Provide non-landlord services to tenants, such as energy and financial advice, employability training and financial and digital inclusion, which will reduce our ability to support vulnerable customers facing acute financial problems. In response to the ongoing cost of living crisis, Peabody has increased our residents' hardship fund by over 200% as we anticipate many residents having to make difficult decisions paying increasing energy bills and other expenses affected by inflation. Over the last six months, we have helped over 1,000 customers with targeted welfare benefit and money advice. This has generated almost £1.2m in increased benefits and debt reduction. These are vital services supporting our residents, who are dealing with financial hardship which are likely to have to be cut just at a point when they are most needed.

Cutting back on these activities will mean that we will be unable to support government objectives for our sector, as set out in the consultation, as effectively as we might otherwise. This includes the government's growth agenda as all these activities support growth.

We hope this rent cap will not become included in wider benefit cuts as happened in the Welfare Reform and Work Act 2016, which imposed a blunt cut on Registered Providers between 2016 and 2020. This in turn meant Peabody's rents by 2019/20 were lower by approximately £30m (compared to CPI +1%) and the compound impact of 1% rent cuts, over the four-year period was £133m which could have been invested into our residents' homes. We are only just returning to 2015 rent levels and the proposed cap would further delay investment in our homes. We would ask that the government considers using the benefits of the proposed rent cap for 2023/24, to help those on benefits cope with the cost-of-living crisis. We call for targeted government support to those who receive benefits and from social security payments to increase in line with inflation.

In the future we would like to see a new rent policy that reintroduces rent convergence, along the lines of target rents. Peabody did not achieve rent convergence before the target rent regime was scrapped. Had we done so our annual rent roll would be £20 million more than it currently is. We still have many regulated properties that are substantially below target rent within the allotted convergence timeframe that ended in March 2015. As the new rent standard does not allow for rent convergence, Peabody is unable to utilise the £20 million deficit which therefore restricts us from funding the delivery of objectives as a housing provider. The difference between our average weekly rent (around £120) compared to our average weekly formula rent (around £130) illustrates this pressing issue. Currently 70% of our regulated rents are below formula rent with no way of bridging the gap other than on re-let, which given our property turnover rate, it would take between 25 and 30 years for all our properties to reach formula rent. Since the removal of the rent convergence mechanism, the blunt rent settlement has driven social housing providers to increase rents to the maximum allowable level each year, rather than risk the long term loss of income. Convergence would allow us to charge more equitable rents across our homes by enabling us to remove some of the distortions created by different permutations of the affordable rent regime - we think this proposed rent cap policy is likely to widen gap between neighbours.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Income from our regulated rent properties is our main source of income, and as described above, capping this income will limit our long term financial plans. For every 1% below the current rent setting standard (CPI+1%) our rent is capped, we would see a reduction of £5.5m in rental income. Assuming a CPI of 10%, capping rent at 7%, 5% or 3% would result in our turnover being limited by more than £20m, £30m, £40m respectively in 2023/24, with the compound impact over 5 years being over £26m for each 1% below CPI+1% the rent is capped. Without a rent convergence mechanism, this reduced rent level would exacerbate our already significant annual shortfall to formula rent of £20m (2021/22).

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

We agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024. Applying a ceiling for two years will cause immediate and long term damage to our ability to effectively meet housing need. As shown with our response to the previous question, this would be detrimental to our investment programme into our homes and services if sustained. Government intervention on the April 2020 5 year rent settlement, casts doubt over our main source of income therefore, making housing providers a riskier business which means our credit ratings will suffer and in turn will lead to an increase cost of borrowing which further restricts our investment activities in new and existing homes. Any proposed rent cap should only be for one year.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

The intention to omit new lets and re-let properties from the proposed cap highlights that rent convergence is necessary as the increased disparity between neighbours would be difficult to converge with a blunt cap policy. We agree with this principle as it will support the viability of new developments and our financial viability more generally.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

Supported housing should be exempt from a broad regulatory rent cap. Supported Housing portfolio's surpluses are marginal, with rental income struggling to cover the cost base, there is little headroom to cover cost increases. Therefore, limiting the rent income for this portfolio could make it extremely difficult to continue to deliver supported housing.

The government recognises that supported housing maybe less resilient to financial pressures resulting from a rent cap. There are significant extra costs in supported housing which have already made the financial model less resilient to inflationary pressures.

Supported Housing costs per unit are higher compared to a general needs property in a number of key areas, including a higher management cost, increased asset management spend and higher void loss rates.

The management cost per supported housing unit is approximately 60% higher when compared to a social unit. This is driven in the main by a higher housing officer to customer ratio than general needs housing. Housing management teams provide increased assistance to customers who require more support to look after themselves and their accommodation. These teams also must manage a variety of referral routes and differing lettings protocols, work with vulnerable customers, manage higher levels of anti-social behaviour and work with many stakeholders including local authority commissioners, social services teams, housing benefit teams and repairs and maintenance services.

There is a higher cost of investment in our properties that provide homes to vulnerable customer groups, who typically require specialist equipment and communal services not seen in general needs properties. For example: enhanced fire protection, warden call provision, and specialist aids and adaptations. In addition, fixtures and fittings require a more regular replacement, with bathrooms and kitchens having a much shorter life cycles than in general needs accommodation. Repairs and maintenance costs are generally higher with increased levels of wear and tear in buildings due to higher turnover and the increased usage buildings housing vulnerable customers.

Void loss is higher than general needs housing for a number of reasons including the requirement for an enhanced void specification for most supported housing, higher turnover in some schemes and conversely longer referral pathways into certain accommodation types such as mental health and learning disability provision. On average, void loss for a supported housing portfolio is 4 times higher than for general needs.

Peabody is a large organisation who has the means to support our care and support business if subjected to proposed cap for one year. However, for smaller organisations where supported housing is the majority of their portfolio the proposed cap would be detrimental to their organisation and providing a supported housing service would be unviable in the long term.

We would ask the government to build on its recognition of the issues linked to supported housing and consider exempting it from a rent cap approach.

Appendix 1 – VAT

One way that housing associations could be helped during the present cost of living crisis is through reducing our liability to tax through enabling us to recover VAT Currently we cannot recover most of the input VAT which we incur. Our irrecoverable VAT is over £55m per annum. We are asking for housing associations to be protected from irrecoverable VAT costs, this would also align with the government's tax cutting agenda. Possible ways housing providers can be protected from such costs are as follows:

- Rents charged by not-for-profit registered providers could be recategorised as being zero rated supplies rather than exempt supplies. This would allow the recovery of associated input VAT.
- A special VAT rate for purchases by not-for-profit registered providers could be introduced. There is already a zero rate for most advertising purchases by charities, for example, which could be extended to other supplies. This would mean that suppliers would not need to charge VAT and therefore irrecoverable VAT would not arise.
- An extension of the provisions in Section 33 VATA 1994 which allow councils to reclaim input VAT on their social housing costs. The Section 33 provisions would need to be amended to apply both to not for profit registered providers and also to apply where the VAT attributable to exempt supplies is not insignificant.

We would welcome the opportunity to work with government on how these approaches could work in practice.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Individual
What is the name of your organisation (if applicable)?	
What is your position in the organisation (if applicable)?	
What is your address, including postcode?	[redacted]
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:maybe , Am really struggling, scrap council tax , and increase income tax, invest in better insulated homes this will save on energy consumption, invest in centre for alternative technology

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:Agree with imposing a 1% increase that is capped , I pay over £1, 000 Council tax for a bedroom flat , compare and contrast what people pay when they are a home owner

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Yes should apply for two years

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:
No one universal cap who ever rents or moves

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?
Send each individual Tennant a list of outgoings, see how people really live

☐Yes
☐No
☐Maybe

Comment:
A above

Alliance Homes return.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Answer to Question 1:

It must be fully understood that a rent cap on a single year's income would also impact on all future years. Under current and historic rent settlements, there would be no ability to recoup the lost income, even in future years where inflation is low. The differential between an allowable rent increase under the current rent settlement and a capped increase (likely to be c.7% under a 5% cap) would result in a loss of rental income for all future years for all existing social housing properties caught under the terms noted in the consultation (98% of properties for us and the vast majority of properties for the sector as a whole).

Allowing Registered Providers to manage their own portfolio in ways that are specific to the needs of those portfolios/tenants would be hugely preferable. Having attended a recent NHF conference, it's clear that the vast majority of Registered Providers would cap rents to some degree in a way that best meets the needs of the tenants and the Registered Providers. Future detriments to Registered Providers is the same thing as future detriments to tenants as they only exist to serve existing tenants and increase the supply of social housing available for new tenants.

For us, the impact is estimated to be:

- We estimate that a **3% cap** (assuming CPI was at 10% in September 2022) would reduce our net rental income by £2.6m in 2023/24 and by £126m across our 30-year business planning horizon. That removes the potential for us either building around 800 additional new homes or using that to meet our decarbonisation agenda.
- We estimate that a **3% cap** (assuming CPI was at 10% in September 2022) would reduce our net rental income by £14.9m over the 5-year period 2023-28.
- We estimate that a **5% cap** (assuming CPI was at 10% in September 2022) would reduce our net rental income by £1.8m

in 2023/24 and by £90m across our 30-year business planning horizon. That removes the potential for us either building five to six hundred additional new homes or using that to meet our decarbonisation agenda.

- We estimate that a **5% cap** (assuming CPI was at 10% in September 2022) would reduce our net rental income by £10.6m over the 5-year period 2023-28.
- We estimate that a **7% cap** (assuming CPI was at 10% in September 2022) would reduce our net rental income by £1.1m in 2023/24 and by £54m across our 30-year business planning horizon. That removes the potential for us either building three to four hundred additional new homes or using that to meet our decarbonisation agenda.
- We estimate that a **7% cap** (assuming CPI was at 10% in September 2022) would reduce our net rental income by £6.4m over the 5-year period 2023-28.

We understand that the cost-of-living crisis will hit the most vulnerable in our society (many of whom are social housing tenants) hardest and that they will require support through these times. We consider that supporting tenants through multi million-pound support funds available for those in hardship is better targeted support and does not leave the long-lasting material detriment to Registered Providers capacity and finances.

Registered Providers are regulated and expected to remain compliant with the regulators view of viability. Capping rents in an environment where average costs to Registered Providers are rising by higher-than-average CPI, will clearly be detrimental to viability. One of the key viability measures for the sector is to meet lenders/investors interest cover (surplus as a percentage of interest due) requirements. Capping rents is clearly detrimental to surpluses at the same time as interest rates are rising sharply results in a material double detriment to interest cover viability.

The detriment to viability caused by reduced levels of income is very likely to be further compounded by increased interest costs on drawn loan debt (drawn in an attempt to curb the level of demand for social housing). Interest costs will increase as a result of credit rating of individual Associations and the sector as a whole being downgraded as a result of billions of pounds being eliminated from income to the sector. Sector credit ratings are boosted significantly by the presumed support of government. An imposed cap rather than voluntary caps is detrimental to this assumed support and would have a further credit-negative impact.

If Registered Providers are not left to deal with the problem through managing their individual circumstances and putting aside substantial sums to help support tenants unable to pay their rent, then the next best result would be to time limit the impact of a cap by allowing ‘catch up’ increases in the future where rents can be increased by more than CPI+1% where CPI is lower than a given threshold.

<u>Summary Answer</u>

- We do not agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling.

- Our preference would be to set rents within (but not at the maximum) the current rent settlement and to substantially increase hardship funds to support tenants where required.

- If a cap is to be imposed, we have a strong preference to allow ‘catch up’ increases in the future where rents can be increased by more than CPI+1% where CPI is lower than a given threshold.

- Any voluntary cap applied in 2023/24 by us has not yet been finalised but will be lower than CPI plus 1%.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Answer to Question 2:

As per our answer to question 1, our preference is for no externally imposed cap. If a cap is to be imposed, our preference is that the cap is as high as possible.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Answer to Question 3:

Yes, any cap should only be applied to the 2023/24 year at present to establish the impact and the outturn of the actual differential between the restriction on income for Registered Providers and the actual increase in costs.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Answer to Question 4:

We currently have a goal of building at least 2,000 homes over 10 years from April 2021. We are well underway in moving towards this target and currently have 115 units committed/under construction. These schemes have undergone our development appraisal process. Reducing the level at which rents can be set post scheme appraisal and approval could well lead to our current development programme moving to an unviable position. It is highly likely that some of this programme would not have received approval under a lower rent scenario.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Answer to Question 5:

As per our answer to question 1, our preference is for no externally imposed cap.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Altair Advisory and Consultancy
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Tempus Wharf 29a Bermondsey Wall West London SE16 4SA
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
X Maybe

Comment:

- We believe that the majority of Registered Providers wouldn't increase rent to the full CPI+1% limit.
- Through our work with boards, we have witnessed a variety of providers considering a self-imposed limit of 5%.
- We haven't witnessed organisations with an intention of increasing rent to the full CPI+1% limit.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

X Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

- If a ceiling is to be applied, then we believe that 5% is the right balance between the impact to tenants and the impact to Registered Provider's business plans.
- We identify that 7% would have a significant impact on household budgets.
- We identify that 3% would have a severe impact on organisations abilities to meet regulatory requirements, deliver EPC-C and continue developing.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

- Due to a lack of economic certainty, we feel that the ceiling should only apply for one year and an approach for 2024-25 considered in the Autumn of 2023.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
X Maybe

Comment:

- There is a danger that this approach would make an already complex rent setting environment more complicated, risking an increase in breaches of the rent standard.

- Registered Providers will require more clarity on how to apply the proposed increase to Affordable Rent properties, in consideration of the broader economic risks of Affordable Rent modelling.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
X No
☐Maybe

Comment:

- We have discussed the impact on supported accommodation and our view is that as the main costs associated with supported accommodation should be collected through service charges rather than within the rent, that there shouldn't be an adverse impact on service provision, if service charges are calculated and applied correctly.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Individual
What is the name of your organisation (if applicable)?	
What is your position in the organisation (if applicable)?	
What is your address, including postcode?	[redacted]
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

Comment: In the context of a cost of living crisis, there should be a rent freeze for all assured and assured shorthold tenancies. That would exclude supported housing tenants who do not normall occupy under these terms.

The history of rent increases shows that HA's maximise their rental returns and virtually all have increased rents to the maximum with very few exceptions. Leaving the sector to decide is a recipe for disaster, so govt should step in like Scottland and Wales and impose a freeze.

There is currently no cap on service charges, nor any requirement to apply the most efficient service delivery methods, hence service charges have rocketted from typically £60 a month to £400 a month in the worst cases. This requires a government review of service charges, including the extent to which HA's comply with existing legislation on providing information to tenants and residents.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐No

Comment:

3% or 5% is simply too high. There should be a rent freeze

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐No

Comment:

It should apply for two years or longer just as the previous Chancellor Sir George Osbourne applied

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐No

Comment:

A rent freeze should apply to all lets!

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

Comment:

Supported housing should be exempt because rent represents running costs. In the case of any housing associations experiencing financial difficulties, a government Rent fund could be established from the collasal Housing benefit savings and these could be used to compensate landlords with proven deficits. The sector is woeful on efficiency savings, so these will need interogation by an arm of the Housing regulator to ensure the tax payer is not subsidising inefficient over-paid under-performing executives.

Consultation: Social Housing Rents

Response of the Association of Retained Council Housing (ARCH)

About ARCH

The Association of Retained Council Housing (ARCH) represents councils of all parties that have chosen to retain housing and manage it themselves. Our 68 members manage over 575,000 homes.

We are grateful for the opportunity to respond to this consultation.

General Comments

Before we answer the specific questions asked in the consultation some general comments are necessary to set the current consultation in the context of:

1. Longer term pressures on local authority HRAs not caused by current economic developments;
2. The Government's wider response to the current economic situation where this significantly impacts HRAs.

As recently as January this year, DLUHC initiated a discussion with ARCH and other local authority associations on short and long term pressures on local authority HRAs. The starting point of this discussion was a recognition that the basic assumptions underlying the self-financing settlement, now over ten years old, no longer held. The 2012 settlement was premised on the assumption that rent income, which would be allowed to rise annually by RPI + 0.5%, would be sufficient to bring all council homes to the Decent Homes Standard and keep them there, allow for a modest programme of new building and repay debt over a 30-year period. ARCH argued that new expenditure pressures, coupled with and Government- imposed rent reductions from 2016 to 2020 had opened a funding gap between expected rent income and expected expenditure needs which would need to be taken into account in forthcoming discussions on rent policy beyond 2025, and that it should not be assumed in advance that an rent policy could be found that would both close the funding gap and meet other criteria of acceptability..

The principal new expenditure pressures arise from:

1. New building and fire safety requirements, particularly for high-rise blocks;
2. Decent Homes Plus
3. The Government's aim to raise all council homes to at least EPC Band C by 2030 to make progress towards its net zero objective by 2050.

These pressures remain, and the cost of meeting them has been affected by recent inflation in similar ways to other costs. The current consultation focuses on the next two years, and the accompanying impact assessment is limited to the next five years. The cost pressures listed above, however, extend over the full 30-year period of HRA business plans which extends up to and beyond the net zero deadline of 2050. Work to meet these priorities may be delayed because funding is limited for the next two years but the need for it will remain, meaning in effect that 30 years investment must now be squeezed into 28 years. We therefore believe it essential that

Government compare the long-term impact of a rent increase ceiling with a robust estimate of the need for expenditure on the housing stock.

In June ARCH joined with the LGA and NFA to commission Savills to prepare an evidenced and quantified estimate of these future expenditure needs, together with an analysis of available rent income based on alternative assumptions about future rent policy. The income analysis has now been published and made available to DLUHC. It shows convincingly that if rent increases are limited to 5% for the next two years and thereafter limited to CPI + 1%, rents will be insufficient to meet future expenditure needs and many authorities' HRAs will become unviable. This outcome is a real threat whether or not a statutory rent increase limit is introduced, as local authorities do not feel able to ask tenants for an above-inflation rent increase in the current climate. We expect this conclusion to be reinforced by the next part of Savills' research which aims to quantify local authorities' expenditure needs. We are therefore asking for an early start to discussions with DLUHC on the longer-term financial position, including both expenditure and future rent policy.

The consultation paper presents the proposal to cap rent increases as protection for tenants against rents they would find difficult to afford. However, as the impact assessment notes, only tenants not in receipt of HB or UC, or those close to the benefit cap, would benefit from the policy. Most tenants receiving HB or UC, who are around 60% of all tenants, would have their benefit adjusted to match the actual rent increase whatever it might be. The main beneficiary of the policy is not the tenant but the Government (or as the impact assessment has it, the taxpayer). The impact assessment estimates the benefit to the taxpayer of a 5% ceiling to be £920 million a year. This is a substantial saving on previous spending plans which ought to be treated as a resource available to mitigate the impact of rent restriction on expenditure in the local authority housing stock.

Three areas where Government could redeploy welfare spending savings to mitigate the impact of rent restrictions are:

1. Funding for energy performance improvements: such improvements could provide direct relief to tenants' budgets by reducing their energy costs, but no thought appears to have been given to the interaction between rent restriction and funding for energy efficiency improvements. Wave 1 of the Social Housing Decarbonisation Fund set cost caps for expenditure on each dwelling and required local authorities to contribute at least 25% of the cost. In practice, local authority co-funding often greatly exceeded 25% of total expenditure because cost caps were set unrealistically low for the work involved. This type of work has been particularly affected over the last year by inflation in materials and construction costs. Arrangements for Wave 2 of SHDF have just been announced, including new cost caps which show little recognition of actual cost inflation, and the local authority co-funding requirement has been increased to 50% at precisely a time when local authority capacity to co-fund is likely to be drastically reduced. It is hard to imagine a clearer example of failure by two Government departments to consider how their policies will interact in practice. The losers will be the tenants most affected by escalating energy costs. We urge a redesign of the SHDF process to increase the capacity of local authorities to take advantage of it despite limited rent income.

2. Affordable Housing Programme: local authority new build programmes are not only threatened by limited rent income, but also heavily affected by inflation in materials and construction costs and rising borrowing rates. Cross-subsidy for social rented homes has been undermined by wider instability in the housing market affecting homes for sale and shared ownership. Yet Homes England has not yet made any adjustment to its assumptions about appropriate grant arrangements to support local authority new build. Urgent action is needed.

3. Rising borrowing costs are a major consideration, not only for local authorities undertaking new build schemes, but also in relation to major works to existing homes and where existing debt needs to be refinanced. PWLB could mitigate the impact of these rises by reinstating preferential borrowing rates for local authority housing investment.

Responses to specific questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No. Local authorities recognise that to increase rents in April 2023 by the maximum permitted amount under the current exceptional circumstances would impose too great a financial burden on tenant households not receiving help from HB or UC. We are not aware of any local authority that is planning an increase close to the limit or of any greater amount than is necessary to meet unavoidable cost pressures or expenditure needs of the highest priority. A statutory limit on increases is unnecessary.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Cost pressures vary significantly from authority to authority for a variety of reasons, hence the minimum rent increase necessary to meet committed expenditure requirements and essential and urgent new works also varies quite widely. Some factors contributing to this variability include:

- the local government pay offer, which is for a fixed cash increase equivalent to an average of 7%. Because pay levels vary among local authorities, this fixed cash award translates to an average of 5% in one London borough, but 9% in a South Yorkshire authority.
- there is wide variation in the extent to which authorities can or need to take on new debt during the next year, and hence in the extent to which they are vulnerable to recent and expected increases in interest rates.
- variation in the need to invest to sustain the decency of existing homes, dictated by the timing of past investment in roofs, windows, kitchens, bathrooms, etc.
- variation in the proportion of the stock classified as high-risk under building safety legislation, hence in the costs of complying with the requirements of this legislation.

While we are aware of some member authorities which believe that a 5% rent increase will be sufficient to see them through 2023/24, there are many which see 7% or more as the minimum feasible increase. If, despite our argument above, a rent increase cap is imposed, it needs to accommodate the worst-affected authorities, irrespective of the average situation, hence, of the proposed options our preference is for 7%.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

We do not agree that a statutory ceiling on increases is necessary in either of the next two years. If one is imposed we would prefer that it be limited to one year.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, although we do not expect authorities universally to take advantage of this in setting the initial rent for properties brought into management in the 2023/24. Our reasons for this view are explained more fully in the first part of our answer to question 5 below.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We are proposing exceptions to any proposed rent increase ceiling for two categories of housing.

The first relates to homes where the rent charged, now, or in future, is below the formula rent. As the draft rent policy statement accompanying the consultation paper explains, the social rent formula is intended to yield a rent that strikes a balance between relative property values, relative local incomes and the size of the property. It was introduced from 2001 with the aim that, in time, tenants occupying similar properties could expect to pay similar rents. That aim, despite its obvious fairness, has still not been achieved, for two reasons.

When the social rent formula was introduced, rents previously above or below formula were expected to converge to formula over a period originally expected to be 10 years. Rents below formula could be increased by more than the general increase in each year subject to a maximum of £2 per week. Constrained by this maximum, the rents of longstanding tenants in many local authorities had not yet reached formula when the £2-a-week provision for convergence was abolished by the Government in 2015. Although since that time local authorities have been permitted to let new and newly vacant properties at formula rent, including during the four years of rent reduction, there still remain large numbers of tenants in many authorities paying below-formula rents, sometimes side by side with tenants in identical properties paying higher rents. Other considerations equal, both groups of tenant households are equally in need of help with the cost-of-living crisis but applying the same percentage rent ceiling to both means that the tenants paying the lower rent receive more help – both because their rent is lower to start with and because it is increased by a smaller weekly amount.

In recent years the formula rent has been increased each year by a factor of CPI + 1%. Hence the second reason why rents may be below formula is because a landlord authority has decided in any year to levy a rent increase below the CPI + 1% maximum. As the draft rent policy statement makes clear, the rent chargeable on a social rent property is the lesser of the formula rent plus a flexibility allowance and the previous year's rent, whatever it was, increased by CPI + 1% or a ceiling, if one is imposed. This means that, an authority, having decided in any year on an increase below the maximum permitted, is denied the opportunity in all future years of an above-the-maximum increase to close the gap or catch up with the increase in formula rents. This has not been a major issue in the past; given the low level of inflation few authorities have set increases below the maximum and the financial consequences of doing so have been relatively minor. Looking ahead, it seems unavoidable that, once the current spike in inflation rates has abated, local authorities will need to consider setting above-inflation rent increases as part of a strategy to close the funding gap that will have arisen as a result of below-inflation rent increases in 2023/24 and 2024/25. If a general policy were adopted in future years to allow rent increases of up to, say, purely for illustration, CPI + 3%, this would have the perverse effect of delivering the biggest income increases to precisely those authorities which chosen to increase their rents by the largest percentage in previous years. Our preferred alternative would be to allow rents to rise to a maximum given by the formula rent, yielding a policy that is fairer to both tenants and landlord authorities. Consistent with this is the principle that providers should be free to let new and newly vacant properties at formula rent (see question 4).

The second category of housing for which we propose an exception to any rent increase ceiling is homes subject to energy performance improvements which have the effect of reducing household energy bills. As argued in our general comments at the start of this response, the rent increase ceiling should not be judged as a stand-alone policy but part of a package of measures intended to support households – in this case social tenant households – through a cost-of-living crisis that is largely driven, not by excessive rent increases, but by rising energy and food costs. If the effect of a rent increase ceiling is that an authority cannot fund energy performance improvements that reduce a tenant's fuel bills, possibly by significantly more than in theory, they save in rent, the tenant is not helped financially but made worse off. In practice, the great majority of fuel-poor tenants likely to be in this situation will receive no financial benefit from rent increase restriction because they are on HB or UC.

For these reasons we believe that where authorities carry out works to improve the energy performance of homes that have the effect of reducing tenants energy bills they should be able to raise rents by more than the ceiling percentage but by no more in cash terms than a prescribed proportion of the estimated savings to the tenant.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Ashton Pioneer Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Margaret House, Ashton Under Lyne Tameside, Greater Manchester OL6 7TH
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?

☐Yes
■**No**
☐Maybe

The Board at APH and the Senior Management Team consensus is that rents should continue to be left to the discretion of Boards. Housing associations are disparate businesses, those with development programmes for new build and specialist providers of supported housing and those who have a high concentration of demands due to stock profiles and safety, are especially affected by the proposals. Only individual Boards have the knowledge and understanding to weigh up the complex issues involved in terms of investment demands and the needs of their customers and should be allowed the discretion to make their own decisions.

The Government needs to recognise that the costs of providing services and investment in homes is rising rapidly, and that the economic climate is extremely uncertain. Cost and affordability pressures on our business plans already exist without additional draconian rent caps. However, the Government should also recognise that small community-based organisations like ourselves would not make decisions without considering very carefully the potential impact for our customers.

Affordability for tenants and residents is of paramount importance. So is resident safety but there needs to be a balance with viability and investment responsibilities particularly when it comes to resident safety. At APH the majority of our tenants live in high rise accommodation and the demand of new legislation requires a great deal of investment which is needed to meet new regulatory requirements post Grenfell.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

At APH we would not be increasing rents in line with CPI. We believe our Board is best placed to decide on rent increases in 2023, within the existing CPI+1% regulatory limit. They will balance affordability for tenants with capacity for investment in homes and services. Our Board believes a rent increase between 7% and 9%, alongside extensive targeted support for those who would struggle with the increase would be the most appropriate proposal.

At APH we are committed to supporting residents struggling with the cost of living and have put extensive help in place. The costs of providing services and investment in homes are rising rapidly, and that the economic climate is extremely uncertain. Cost and affordability pressures on our business plan already exist without additional draconian rent caps.

As smaller RP we work directly alongside the communities we serve, we are fully aware of the impact the cost-of-living crisis is having on our customers. We are committed to supporting this agenda and most of us already provide additional targeted interventions to support the most vulnerable. It is for this reason why we strongly believe that finding the right balance of rent increases, support and the financial demands for individual small RPs should be left to the discretion of individual organisations.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling?**

☐Yes, you agree with imposing a ceiling of 5%
■**No**
☐Maybe

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

The evidence is clear that the compounded impact of any rent restrictions for the small housing sector would be significant. Rents are our primary source of income and for some of us our only source of income. Set this alongside ongoing inflationary pressures and the increasing demands and expectation of regulation, this is a significant challenge, particularly over the long-term life of our respective business plans.

At APH, we have a very heavy long term capital programme, and the rent cap would significantly affect our future surpluses which are necessary to build up funds to deliver capital works such as the Render of our high-rise blocks. This is much needed not only in terms of affordable warmth and our move to net zero but also from a safety perspective. The introduction of the new Decent Homes standard will also be very challenging with a rent cap that is significantly below inflation.

If the government does apply a cap on rent increases as low as 5%, it will seriously reduce investment in homes and services for residents, both next year and compounded in future. A cap of 5% (or lower) would make the challenges facing APH almost unmanageable. It would severely reduce investment in new and existing homes next year and for many years to come.

If the government does apply a rent ceiling, it should be set as high as possible to give boards discretion to target support below the ceiling.

Building safety issues, including concerns over fire safety, represent a significant risk to registered providers of social housing. The largely unexpected fire safety risks identified following the Grenfell Tower disaster have exerted significant pressure on social housing budgets. The publication of the Building Safety Bill on 22 July 2020 constitutes the most significant reform to the regulatory environment regarding high-risk buildings (HRBs) for over 45 years.

If a ceiling is to be applied it should be set as high as possible to give individual Boards the discretion and responsibility to find the right balance of increase relative to service and growth demands.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

■ **Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024**

☐No

☐Maybe

First and foremost, we believe that the ceiling should not be applied at all. Individual RPs should be trusted to manage their own businesses and balance business demands with the needs and expectations of their customers. However, if a ceiling is to be applied then it should be for April 23 – March 24 only. It is too early to be able to predict the inflationary rate for a second year, so any agreed ceiling for April 2023 may no longer be appropriate. Rents beyond 2023/24 should be the subject of a much more informed and nuanced debate which takes into account the investment needs of social housing.

We are disappointed that the consultation paper only addresses the potential treatment of rents for the next 2 years. It would be extremely helpful to at least have some indication of the likely direction of rent levels beyond this timeframe. Our assessment of new build developments typically appraises over a payback period of 30 or 40 years. Rental income is a key component of our appraisal model. If the intention is to restore rents over time to their real-terms 2022 levels, this makes the appraisal of development much more straightforward and reduces risk for the provider.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

■ **Yes**

☐No
☐Maybe

At least this will assist in maintaining the income on lettings that we complete within the year. Also, differential rents already exist across our properties so it will not cause any new challenges or issues. However, it needs to be acknowledged that this will not make a significant impact across the small housing sector. The majority of our properties are well looked after and well maintained and for most of us, void turnover in any given year is low.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

■**Yes**
☐No
☐Maybe

APH does not have any supported housing schemes but we believe supported and sheltered housing should be exempt from any cap, reflecting the tight financial position in which they already operate and viability risks. We are aware that colleagues in the sector who manage supported housing operate to much tighter margins. Principally this is because of the intensive nature of housing management services and the additional facilities needed in buildings. A rent ceiling could have a much greater impact resulting in potential viability issues for individual projects and potential closure. To compound this further a significant number of employees will be paid at the Living Wage level which is due to increase by 10.1%.

There is some argument to suggest that affordable rents should be exempted, given that they are inclusive of service charges and therefore result in a compounded impact for RPs

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Blue Square Residential Ltd
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	72-74 Chiswick High Road London W4 1SY
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
X Maybe

Comment:

We believe that if there was no cap, RPs would apply the same approach to increasing rents as they have done in previous years. As a specialist supported housing provider, we ensure our increases are based on actual costs and maintain records to prove this should we need to evidence this to local authorities and our tenants. The charges therefore increase in line with the costs we incur to meet lease terms/payment obligations, maintenance, compliance and support.

We recognise that we are living in unprecedented times and the current rate of inflation has led to a cost-of-living crisis and therefore welcome changes that reduce the impact on social housing tenants. However, whilst we appreciate that this is inevitably going to result in changes to funding, such initiatives cannot jeopardise the financial viability of housing providers or have a detrimental effect on the quality of accommodation and services provided to tenants.

The consultation does not make it clear whether the cap will apply to the gross rent (including service charges) or what the criteria would be to prove exemption from cap; there needs to be clarity on these points so that RPs can effectively analyse risk and plan for any changes to funding.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

RPs are not exempt from the pressures created due to rising inflation; our staffing costs, maintenance and compliance costs and rental costs all increase as a result.

By proposing a cap on rent increases, RPs will be exposed to shortfalls in funding and this will likely force RPs to reconsider the budgets in order to off-set loss of income and ensure financial viability. In this instance, it will be social housing tenants who will be directly impacted by these decisions in a number of ways:

- Less available funding will result in a reduction in delivery of new homes amid a housing crisis which will leave more people in inappropriate or sub-standard accommodation.
- Poorly-maintained stock due to reduced budgets for repairs and maintenance
- Staff shortages due to lack of increase in salaries and inability for staff to meet cost of living
- Reduction in tenant support services as a result of staff shortages and budget constraints
- Inability for RPs to comply with payment of rent under lease obligations resulting in a risk to homes for vulnerable people.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

These are unprecedented times and it is difficult to know what the environment will be like in 12 months – any plans should be reviewed to reflect current situation.

Any reduction in social housing budgets will need to be carefully monitored to ensure tenants are not suffering as a result of the reduced income to RPs. We would be interested to understand how this be monitored and by who?

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:

It will allow RPs to charge rents at a sustainable level to new tenants who have already considered whether they can afford to pay the rent based on their income. This will also limit the risk to the RP to 12 months which will mean that financial planning is more robust.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:

As a provider of Supported Housing/Specialised Supported Housing, we believe that these categories of accommodation should be exempt from the cap. This is for a number of reasons:

- The support needs of tenants are much higher than general social housing which results in higher costs to maintain properties, carry out improvements, provide adaptations to meet tenant needs, ensure enhanced compliance and provide intensive housing management services to enable people with complex needs to maintain their tenancy.

- The expectations of tenants and stakeholders of tenants in specialist supported housing is often much higher than in general social housing; stakeholders (families, care providers, social care and NHS commissioners etc) will expect repairs to be more responsive than general needs due to the behaviours displayed by tenants and the risks associated with changes or weaknesses in the environment. There is a reputational risk if stakeholders felt that tenants were not receiving appropriate services.

- Most tenants of SSH/SH are in receipt of Housing Benefit and therefore they do not directly benefit or receive protection from a cap, but may see a reduction in services offered or quality of property maintenance is the RP is forced to strip back spending due to capped income.

- There are smaller RPs specialising in this type of social housing who do not have the volumes of properties to off-set any reduction in income – there is a risk that such RPs could become financially unsustainable resulting in risks to the homes of vulnerable people.

Bolton at Home

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

98 Waters Meeting Road
The Valley
Bolton
BL1 8SW

Date: 03 October 2022
Web: www.boltonathome.org.uk
Tel.: 01204 328066

Dear Sirs,

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Yes, clearly a rent increase in excess of 10% would not be palatable for our tenants or for our boards but we believe our boards are best placed to make decisions taking account of local circumstances.

We had already adjusted the assumption for our April 2023 rent increase from CPI+1% to CPI-2%. Given the Government intervention on energy bills it is more difficult to predict what level the September 2022 CPI would reach but the assumption in our plan was probably nearer to a 7% rent increase.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We have looked at the implications of a rent increase of 3,5 & 7% and an increase at the lower levels would make it very difficult to balance all of the competing demands for expenditure on our stock, including maintaining Decent Homes, Health & Safety improvements including actions arising from Fire Risk Assessment, improving energy efficiency and starting to invest in retrofitting our stock. Lower rent increases make meeting loan covenants more difficult and have the potential to impact on credit ratings and hence borrowing costs.

Lower rent increases will almost inevitably impact on the level of pay awards organisations are able to offer and make it more difficult to retain skilled staff.

The impact of the loss of income from a one year 5% rent cap over 30 years, assuming a 5% relet rate to full rent is a loss of investment resources to Bolton at Home (BH) of

£60.2m, more than the entire BH funding required to bring all of our homes up to EPC level C.

We are also concerned about the impact of the rent cap on the local economy. The loss of several million pounds of income per annum to Bolton at Home will impact on the local sub-contractors we do business with.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Given the volatility in the financial markets which has only increased since this consultation paper was released, we would suggest a one year cap, with a review in the summer of 2023.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree that reletting properties should be at the full target/formula rent with CPI +1% applied.

We would like to see some form of rent restructuring reintroduced to allow a faster catch to the new target / formula rents for properties benefitting from any rent cap implemented in April 2023. Reintroducing a restructuring policy, similar to the one which ended in 2015 whereby weekly rents below target / formula rent levels were allowed to catch up at up to £2 annum would go a long way towards bridging the gap in investment resources caused by any cap on the rent increase in April 2023. We would ask that special consideration be given to RPs which had large numbers of properties below target rent in 2016 when rent restructuring was ended.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Given the arguments for implementing a cap (see Q1) then we do not see any strong arguments for the cap not applying to all the properties covered by the Rent Standard

Yours sincerely

Edward Mellor

Executive Director, Finance

BPF

SOCIAL HOUSING RENTS

CONSULTATION RESPONSE

PREPARED AND SUBMITTED BY

[redacted]

INTRODUCTION

Thank you for the opportunity to respond to this consultation exercise.

The social housing sector provides a secure and affordable home to millions of people in the UK, with at least a million more who need to access to the sector.

It is therefore important that any consideration of capping rents takes account of not just the impact on existing residents, but also protects the long-term health of the sector to attract investment and thus deliver safe homes that are energy efficient, thus cutting residents' bills for years to come. Investment also supports the sector to expand to improve access for those who need a home.

Our perspectives on the consultation issues have been shaped by members of our Affordable Housing Committee. Their views come in two parts:

This brief cover sheet provides responses to the questions asked.

There is then an accompanying paper in the annex, which we hope is helpful, in explaining the wider context of investment in the sector, and how that might be affected by the Government's decisions on rents. We have also sought to explain the consequences and likely approach that shared ownership providers will take to supporting their residents.

We reach six main conclusions:

1. We cannot support a cap, but that does not mean we want to see unbridled rent rises. We simply think there are better ways of protecting tenants, whilst ensuring that the most damaging effects of capping rents, that have been seen before, do not occur. There are already regulatory obligations on providers' boards to take account of affordability. Many will not apply the full CPI+1 increase. Providers already support residents with affordability difficulties via mechanisms such as hardship funds and provide a range of other support from energy efficiency improvements to employment support. The Government should trust the sector to support its residents.

2. Our White Paper issued earlier this year, set out the sector's substantial capital requirements to meet new housing need, retrofit existing stock, and provide building safety remediation. This is estimated at £32bn over ten years. A cap would also impact on the operations of the sector. Illustrative modelling suggests that HAs alone would likely need to make savings in the region of £1.2billion if rents are capped at 5%. Providers may have more options than simply making revenue cost savings, but this £1.2billion does represent c4-5% of management, maintenance, and major repairs expenditure. It is worth stressing generally also that conditions in the sector are a lot more challenging than when rents were previously capped, with inflation, interest rates, wage inflation, construction costs, and operational costs all growing at rates far higher than in recent history.

3. For the sake of national growth also, the Government should not be setting a rent cap. The sector provides a vital counter-cyclical role in delivering new homes and supporting wider construction activity when other parts of the housing and construction sectors are contracting.

4. Any proposed cap could also setback future investment in the sector. Stability and predictability in rent policy are essential to provide a foundation for housing providers, investors, and lenders to have the confidence to invest in affordable housing at scale, and to do so at low cost of funds. The need for stability and predictability is particularly important at times of rapidly changing market conditions, with inflation and interest rates increasing and gilts fluctuating.

5. Providers of shared ownership property already have the tools to support shared owners that need it. Actions, voluntary or otherwise, that reduce the attractiveness of shared ownership to funders, especially those relatively new entrants with an appetite for shared ownership, will further reduce development capacity, compounding the loss of capacity that will arise from caps to rental income.

6. Regardless of whether a cap is set or not, mitigation measures are required if the sector is to deliver on its important purposes and priorities – building safety, energy efficiency, repairs, and maintenance, and increasing the number of affordable homes, which are needed more than ever. This is because, even with no cap, the sector will need to support its residents and will face other increased pressures on operations, development, and its cost of capital.

   There are several forms of mitigation that could be considered. These might include increased spending on the Affordable Homes Programme and revisions to the Benefit Cap.

   Looking beyond 2023-4, a commitment to index linking of rent increases from 2025 will assist recovery from recent economic pressure, sustain and grow capacity for future investment in new and existing homes, and support continued investor confidence to participate in the affordable housing sector.

A fuller list of consequences of a rent cap is listed in the last two pages of this document.

CONSULTATION QUESTIONS

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not support a ceiling being imposed. We do not think it is a sufficiently targeted measure. For numerous reasons set out in this paper we think the short and long-term consequences of a cap on the finances of the sector are damaging and will prevent a lot of activity that benefits residents taking place on maintenance, energy efficiency and delivering more affordable homes. It will also impact on economic activity, which contributes to growth.

Housing association boards will be best placed to understand what their residents need by way of support and balancing that with investment in homes and services. That will often not mean CPI+1, but providers also face significant cost inflation and boards will need to balance the two. The Government should trust the sector to support its residents and make the best all-round decisions for them.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We do not agree with imposing a ceiling on rent increases, below the CPI+1% limit.

We have rehearsed several damaging consequences elsewhere in this paper, which mainly also impact residents.

The relatively unique perspective we can bring is the impact on private sector investment in affordable housing:

- A reduction in 'green appeal' and desire to provide ESG funding (as zero carbon works are not pursued)
- Loss of confidence in the stability of affordable housing as a generator of index-linked income that increases smoothly over time (as rent increases will have been below inflation for 5-6 years out of the 10-year period 2015-25)
- Loss of confidence in the stability of the affordable housing to generate steady growth in asset values (as cost increases cannot be fully offset)
- Need to price in the risks arising from uncertainty, impacting credit scores and therefore increase costs of debt

- Loss of capital allocations to other countries / sectors / investment classes
- Reduction in the pool of providers that can deploy capital, and thus reduction in demand for funds
- Reduction in the value of rental assets held in charge or owned, as property condition reduces and rental potential for a mortgagee in possession falls
- Reduction in the value of shared ownership assets, as the income profile changes
- Increased impetus to reconsider covenant structures.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

We disagree with a ceiling being applied. Given the volatility in both inflation, interest rates, and energy prices at present, it is quite difficult to make any judgements on caps for one year, let alone two.

It is why we promote the alternative of allowing providers' boards the flexibility to make their own decisions, as they will be better placed and nimbler to economic, local, and individual conditions.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree, but there will be a growing gap between actual rents and formula rents for most social rent properties for decades and the Government should consider some sort of 'catch-up' mechanism.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

If a ceiling is applied, we believe there should be an exemption for supported housing provision.
It is difficult to reduce operating costs due to the nature of services and customers they support, and where margins are already extremely low.

Any savings will also not end up predominantly in the pockets of tenants as the vast majority of tenants in the sector will receive housing benefit or universal credit to pay their rent.

If a rent ceiling is applied to supported housing, there will be a significant risk to the viability of some organisations, and future provision, as many of the organisations involved in this type of housing are under financial strain, with rising costs of energy, staff, repairs, etc.

ANNEX

Rent Policy & The Foundations of Private Capital in Affordable Housing

Contents

Note: With particular thanks to Savills for their input and evidence into this paper.

Executive Summary

The availability, cost, and deployment of private capital is central to delivery of new and existing affordable homes by housing associations and for-profit registered providers. The largest 250 of these registered providers (RPs) use around £86bn of debt to deliver their growing stock of 2.2 million homes: with for profit providers attracting £7-10bn in the last 10 years.

Appetite for additional investment is strong. Over the next 10 years, HAs need to raise at least £32bn in new finance to deliver building safety works including sprinklers, decarbonisation and 46,000 new homes per year at the Future Homes Standard. And over the next 5 years, FPRPs have the potential to deliver £27bn of new private capital to help deliver more than 140,000 much needed new affordable homes.

RPs make an important contribution to economic growth through their development and investment activities, as well as supporting households' financial strength and employers' access to labour by providing affordable homes. Their development and acquisition activities are important to housebuilders, supporting volume and speed of delivery and (as seen in 2008) with some ability to act counter-cyclically at times of downturn.

Investors deploy funds into affordable housing because it is a safe, long-term, low-risk asset that delivers a steady risk adjusted return. It matches the liabilities that pension funds and other 'patient capital' require over the long term; and accordingly, the interest rates paid by RPs are (historically) low.

Central to the investment proposition of RPs and private funders are the rent policies that apply to affordable rented and shared ownership homes. These are set by government and are implemented through regulatory standards and leases which are binding on registered providers. Both specify above inflation annual increases and allow providers discretion to set lower increases if desired. RPs are required by the regulator to take account of the local market context and affordability to customers when setting and increasing their rents.

In response to the sustained high rate of CPI and the consequent cost of living crisis that particularly affects lower income households, RPs have considered what flexibility they have around the 2023 annual increase for renters and shared owners. Latterly, government has proposed using its power to direct the regulator to cap increases for renters.

Illustrative modelling suggests that HAs alone would likely need to make savings in the region of £1.2billion if rents are capped at 5%. RPs have more options than simply making revenue cost savings, but this does represent c4-5% of management, maintenance and major repairs expenditure. In practice RPs' responses will be a balancing act between operating expenditure, capital expenditure and use of debt.

The external imposition of a cap on rent increases reduces the ability of established businesses to respond to the economic headwinds that they and their customers are facing, and thus their capacity to sustain their business plan priorities for investment in new and existing homes, service standards, and social wellbeing. It is essential that they can align revenue stream growth with the cost of capital. Removing capacity to do this undermines delivery.

RPs have recent experience of dealing with government-imposed reductions in rental income. Efficiencies were made, asset investment re-profiled, and planned development output reduced. Considering a further intervention, it is important to note that the efficiencies made to offset the rent cut have already been taken, and the context in which they managed that income reduction is significantly different from the current time when need for investment in existing homes is high, inflationary pressures on operations are high, and cost of debt is increasing. Notably the cost of funding increased by 3-4% in the 12 months to October 2022.

Coming on the heels of the government-imposed 2016-20 rent cut, a mandatory cap risks driving changes in the pricing and terms set by established funders to RPs. It could also undermine confidence of investors that are new to the sector - known as the “wall of capital” – who bring new money that is beginning to increase availability of funding to deliver new homes and improvement programmes for existing homes. RPs are well regulated, as they are closely overseen by the Regulator of Social Housing, whose steady and stable approach backed up by a clear framework gives confidence in robust financial governance. A high level of political intervention in a sector is not good regulation, and indeed undermines the benefits derived from it. Of particular concern is the effect on risk adjusted returns in the sector, and the potential medium to long term impacts of this.

In terms of the overall objective to protect tenants from exposure to high cost of living pressures, RPs already have a range of tools available to provide targeted support to renters and shared owners facing affordability constraints, and good insight into which customers most need assistance. The blunt tool of a mandatory cap on rent increases is too restrictive in a context where the most vulnerable to financial pressure can already be protected by other targeted means that RPs can deploy.

The government’s impact assessment estimates that a 5% cap on rent increases could save government £4.7bn in welfare spending over a five-year period. This is a small saving in comparison to the potential negative effects on the £27bn of new private capital that FPRPs could bring into the sector over five years, and the tens of billions of private finance that HAs could raise to deploy in improving property conditions and providing new homes.

Fundamentally, the disbenefits of a mandatory cap on rent increases will outweigh the gains.

1. Introduction

This report sets out the role of rent policy in creating the conditions for sustainable private investment in affordable housing, for both new supply and improvement of existing homes. In describing the role, it aims to bolster understanding of the operation and contribution of private investment in the affordable housing arena and considers the risks to new supply and investment in existing homes posed by the current policy and economic environment.

It considers rent policy set by government for affordable rented housing and shared ownership, which is implemented through regulatory standards and leases which are binding on registered providers. It also considers service charges, which whilst not subject to control under government policy are a subject of debate in the current climate.

Within this report, the experiences, perspective, and operating models of not-for-profit housing associations (HAs), for-profit registered providers (FPRPs), and the established and new entrant investors backing these businesses are reflected; alongside existing research and data that set out the historical context and current trends/issues facing providers of affordable housing.

Whilst HAs and FPRPs both deliver affordable homes for rent and sale and operate as Registered Providers (RPs) within the same regulatory framework, they have differing interests and operating models. HAs currently deliver most new affordable homes and are directing substantial investment into existing social homes. As such their capacity is under pressure but continued access to private finance is central to delivery of their core business objectives. FPRPs make a growing contribution to the supply of new homes and have potential to attract more investment and so continue to increase the pool of private capital in the affordable housing sector.

Fundamentally, this report shows that stability and predictability in rent policy are essential to provide a foundation for housing providers, investors, and lenders to have the confidence to invest in affordable housing at scale, and to do so at low cost of funds. The need for stability and predictability is particularly important at times of rapidly changing times of market conditions, with inflation and interest rates increasing and gilts fluctuating.

The external imposition of a prescribed rent increase cap on all RPs should be avoided. Such a cap would reduce the ability of established businesses to respond to the economic headwinds that they and their customers are facing; and it risks driving changes in the pricing and terms set by established funders to RPs, as well as reducing the availability of resources from new entrant funders. RPs already have an ability (and regulatory expectation) to exercise restraint in setting rent increases and have the tools to deliver targeted support to households that need it. Ultimately the disbenefits of a government-determined rent cap will outweigh the gains.

2. History of private investment in affordable housing

All social housing was delivered with public or charitable funding until the mid-1980s. Almost all delivery was through local authority direct provision of council housing. Many small HAs had also been created and these were funded with grant from 1974, in most cases to fill gaps unable to be met by council housing such as area-based regeneration.

Housing associations: debt finance from banks and bonds

Changes to housing policy in the 1980s encouraged local authorities to transfer ownership of affordable homes to HAs. This led to rapid growth in the number and scale of HAs. From the late 1980's to date, HAs have been the main providers of new affordable housing taking on £86.3bn of private debt alongside £39bn of government grant[1], bringing total RP stock to 2.8 million affordable homes.

HAs borrow private finance to deploy alongside rental income from tenants and capital grant provided by central government. Banks and building societies historically lent at favourable rates (reflecting the security of rental income underpinned by government rent policy and funding support for affordable housing) over long terms, building up almost £55bn of investment in the period up to the Global Financial Crisis in 2008-09. This funding model was complementary to HAs' operating model, with net rental income covering debt costs over the long-term, driven by indexed rent increases of at least RPI (now CPI).

The recapitalisation of high street banks following the GFC restricted access to cheap long-term debt. In some cases, banks were underwater on much of their lending and wished to renegotiate loan portfolios with HAs.

HAs have tapped the capital markets for sources of long-term funding since the early 90's and increasingly since the Global Financial Crisis. This has delivered over £30billion of funding to date, starting with the large players (Places for People, L&Q) but now extending right across the sector to relatively small HAs. Bond aggregators for the smaller RPs are also a feature. The bond issuances are well-suited to the high-demand, long-term inflation-linked and stable nature of affordable housing. There has been a full range of offers ranging from 10 years to 40+ years with sizes starting as little as £50m up to £350m and larger. The market has matured significantly, and spreads have been extremely competitive with the strong ESG credentials of the sector combined with income stability attracting a huge weight of capital interest.

Bonds introduced new types of investors to RPs, including many UK and overseas institutions and pension funds. Many have become familiar and comfortable with the features, risks, and rewards of the sector.

For profit registered providers: direct institutional investment

Until the late-2000s, only charitable RP or government organisations could operate affordable housing. The Housing and Regeneration Act 2008 permitted profit-distributing organisations to operate affordable housing. Fourteen years on, there are 67 of these for-profit RPs (FPRPs) operating alongside 1,330 not-for-

[1] RSH Global Accounts 2021

profit HAs. HAs and FPRPs are subject to the same regulatory framework. The primary difference is the ability of FPRPs to distribute profits in the form of shareholder dividends, whereas HAs profits are non-distributable and are returned to the business to support future investment in stock and building new homes.

FPRPs own just under 20,000 affordable homes according to Savills' latest analysis[2]. That means investors have grown the number of affordable homes they own by 47% since the end of March 2021; and this built on an increase of 50% between 2020 and 2021. The number of FPRPs has grown too, more than doubling from 31 in 2017 to 67 in 2022. A strong pipeline of applications means this has the potential to grow further.

Many have backing from institutional investors looking to build large, long-term portfolios. Private investors have long funded HAs by offering debt and buying bonds. Some of these investors, having become familiar with the sector, have now registered FPRPs. They have looked through the bond structures and seen the potential to deliver enhanced investor returns through direct asset ownership. Others are developers who want to retain control of the Section 106 homes they deliver, so they can sell larger, stabilised portfolios at a premium.

The level of interest in the affordable housing sector from new money and new equity investors has never been higher. The combination of net initial yields of stable 3-4.5% available on new build mixed tenure affordable housing and low costs of borrowing, makes English affordable housing a very attractive asset class. We are at the dawn of a new era of FPRP provision and, as with the Build to Rent market, the weight of capital seeking access far outweighs the availability of product. The availability of private investment via FPRPs is beginning to make a very significant contribution with an estimated £6-7billion in total now deployed over the last 10 years. Crucially, to date just 5 FPRPs are responsible for over 90% of new supply – all backed by large-scale well-established UK and US backed institutional capital.

Over the next 5 years, FPRPs have the potential to deliver £27bn of new private capital to help deliver more than 140,000 much needed new affordable homes.

Appeal to investors

The regulated status as well as the steady income stream of general needs affordable housing rents have generated a huge amount of interest from investors, which continues to build momentum. Particularly during periods of economic uncertainty and volatility, capital has flowed consistently into RPs as investors seek quality and safety. There are plenty of examples in recent years that highlight this strength in demand, including Clarion's £50m 2048 bond tap in early 2021 which priced at 0.88% over gilts and LiveWest's benchmark primary issue of £250m 2056s, which priced at 0.90% over gilts and attracted over 2.5x over-subscription.

As noted in L&G/BPFs recent paper, the aims and objectives of institutional investors are closely aligned with the societal benefits of providing new affordable housing[3] with investors benefitting from a long-term cashflow and households benefitting from security of tenure and high-quality affordable accommodation.

---

[2] Equity investment in affordable housing; May 2022

[3] Delivering a Step Change in Affordable Housing; March 2022

Investor interest in the affordable housing market reflects a natural progression by the investment community seeking returns from the relative stability of real residential assets, starting with the student market and latterly the build to rent market.

The sector continues to attract interest from increasing pools of capital across the full range of fund mandates, operating over a variety of risk profiles and over a range of hold periods. Core pension fund and insurance fund capital continues to provide the basis for stabilised exits for long-term hold. Core plus funds operating a mix of development, s106 and stabilised stock over a medium-term hold period, are an increasing source of capital. Value-add funds provide the ability for investors to take development risk over shorter hold periods. The sector also continues to attract investment from Family Offices and High Net Worth individuals where there is more opportunity for bespoke investment terms. There are also significant opportunities for lenders to leverage investments at fund, JV, FPRP level – with the potential to attract relatively lower cost funding drawing upon the delivery of investment at scale.

Whereas 10 years' ago, the focus was very much on long-term stable capital, the future is likely to draw upon the full range of investment mandates for equity and debt.

3. Operations of HAs and FPRPs

The overall financial capacity of RPs is predicated on strength and stability of the core rental income stream overlaid with levels of indebtedness, underlying asset value, and the ability of the business to maintain loan covenant compliance whilst meeting cost obligations.

HAs face high costs associated with making their existing homes comply with building safety and energy efficiency standards and this is impacting capacity and appetite to invest in new homes. The figures involved – particularly for decarbonising the stock - are potentially very large compared to the scale of development programmes. At 2020 prices, Savills estimated that £20.0bn of investment would be required over the next ten-years to pay for building safety works from 2021-2026, and the initial phasing in of decarbonisation from 2026-2030. The cost of these works has been subject to significant inflationary pressure over the last year.

Savills' detailed study of capacity for the NHF in 2020 showed that HAs would need to raise £32bn in new finance by 2030 to deliver building safety works including sprinklers, decarbonisation and 46,000 new homes per year at the Future Homes Standard.

Development activity is concentrated in a relatively small number of providers - the largest 50 developing HAs deliver around 73% of new affordable homes. A third of respondents to a 2021 Savills survey said they are scaling back existing development aspirations to prioritise investing in existing stock. Some are also experiencing further pressures from increased costs and lost revenue due to the Coronavirus pandemic, and this was cited by interviewees as potentially leading to a lack of appetite to push for higher delivery figures in the next programme.

The larger developing HAs do not have significant untapped financial capacity, with lower interest cover and higher gearing than the sector-wide average and increasing liabilities. Use of debt funding for expenditure on existing stock diminishes interest cover because, unlike development, such expenditure is considered as capital improvements and is deducted from surplus. In isolation, long-term funding for development is credit positive and would slightly increase financial capacity, but this excess would be exhausted quickly if it was used to fund more development, particularly for sites that are larger, more complex, or carry additional planning risk.

FPRPs don't (yet) have legacy stock issues and with modern, more energy efficient homes, they have lower repairs and maintenance costs, and huge capacity to take on more new supply. However, they are subject to the same economic headwinds as HAs which affect their funding costs and, in some cases, their operating costs.

Inflation has been well below 4% per annum for most of the previous 25 years; however, it has risen sharply since February 2022, driven by a rise in energy prices and a mismatch of resurgent demand with ability to supply goods. As a result, CPI inflation reached 10.1% in July 2022 and has far exceeded the 2% target for the past year.

RPs have felt effects of inflationary pressures. Energy costs affect office space; fuel costs directly affect customer services such as repairs; increased materials costs directly affect repairs, planned maintenance and development; and the indirect effects of these materialise as upward pressure on wage bills, and collapse of suppliers and renegotiation of fixed price service contracts.

This position leaves HAs seeking to make choices around revenue, capital expenditure and debt that balance their core objectives of achieving long term stability to support housing delivery into the future and protecting current tenants' social and wellbeing needs. FPRPs, often with rapid growth plans and outsourced management arrangements, have more significant exposure to changing cost of debt, which is considered in more detail below.

4. RP business plans and the proposed rent cap

RPs get the bulk of their revenue from social housing lettings – effectively regulated rents and shared ownership. 84% of HA and FPRP stock is low-cost rental, which is a mix of general needs and supported housing. 88% of general needs homes and almost all supported housing is let at a Social Rent, where initial rent is determined by a formula that considers national rent levels, local wages, and property values. 12% of general needs homes are let at Affordable Rent, where initial rents are capped at 80% of local market rents. Rent increases on these properties is subject to a multi-year rent settlement set by government. The current rent settlement runs from 2020 to 2025, allowing rents to rise by up to CPI + 1% per year. The September CPI figure is used to determine rent increases that in most cases take effect the following April. Global rental income from social housing lettings for the year 2020-21 was £14bn, with a further £1.5bn from service charges[4].

HA and FPRP business plans therefore contain future rent increases linked to CPI+1% to 2025 and to CPI or CPI+1% annually thereafter. Despite the high rate of inflation in recent months, RPs have not built this into business planning, preferring to model rental growth on previous lower OBR projections, and therefore rental income in business plans has not been predicated on 10% increase in 2023-24.

The recently issued consultation on a direction to the RSH regarding the Rent Standard for 2023-24 primarily considers ways to mitigate of the impact of a potential CPI+1% rent increase on tenants. It seeks to understand the effects of a one- or two-year rent settlement, with increases capped at 3%, 5%, or 7%. It would affect annual rent increases but not rent setting for re-lets or new homes.

RP's have recent experience of an unexpected deviation from stated rent policy, as rents were subject to a mandatory 1% reduction in each year from 2016-20. Although there is some learning from the effects of this policy, the current economic context and changes in provider types and priorities means that consequences will be different for the current proposed amendment to the Rent Standard.

The likely level of CPI at September 2022 which would otherwise have been utilised as the basis to set rent increases for April 2023 is around 10% - a significant level above business plan projections. However, there are also significant cost inflationary drivers affecting contractor, supplier and construction costs, some service areas (especially utility costs), and in some cases pressure for increased pay awards – these combine to drive costs at a rate that it typically higher than CPI for many providers.

Therefore, whilst a commitment to CPI+1% rent increases might have delivered increased resources over and above business plans, the interplay between income and costs is more complex. Our research and analyses with providers suggest that the sector needs rent increases in the region of 7-9% to "break even" in revenue terms for 2023-24. At the same time, there is little appetite from provider boards for rent increases that add further pressure on the finances of low-income households (those that pay all or make a contribution to their rent).

Whilst revenue income and cost pressures are broadly being felt across all parts of the sector, there are significant differentials between HAs and FPRPs in the context of investment into development. HAs are expected to be required to reallocate large elements of capital investment to their existing stocks to address challenges of building and fire safety, damp, mould, and energy efficiency. For FPRPs however, the focus on delivering new homes is likely to be critical – making stability in rent policy even more important in providing the conditions for continued low-cost investment.

If the proposed cap on rent increases goes ahead, 2023-24 will be the fifth year out of the last eight in which a confirmed rent-setting framework has been disregarded. The optics of this will necessarily have an impact on approaches to business planning and perceived risk, both for long-established HAs and the fastest growing new providers who entered the sector during this period.

[4] This figure includes rent and shared ownership combined

Housing Associations

The principal impact of capping rent increases at a rate lower than the aggregate of cost inflation across the full range of expenditure areas will be to reduce operating margins. The way HAs approach business planning in this context matters for their good financial governance, and management of debt and expenditure.

For some providers, this will drive revenue savings and efficiencies to maintain operating margins and to secure continued flexibility for future investment by maintaining (for example) interest cover headroom. Those savings will be made at a time when there is arguably more support needed for households in social and affordable housing – increased staff time ensuring rent is paid and preventing hardship, management of increased damp and mould risk as households turn heating off, and so on.

Given that rent increases need to be in the region of 7-9% to break even across the sector, our illustrative modelling suggests that HAs would likely need to make savings in the region of £1.2billion if rents are capped at 5%.

This represents c5-7% of day-to-day management and maintenance expenditure, or c4-5% if major repairs are included in the cost base.

It is important to be clear that RPs have more options than simply making revenue cost savings. Realistically RPs' responses will be a balancing act between operating expenditure, capital expenditure, and use of debt i.e., proposed borrowing is scaled back. Careful consideration will be given to understanding trade-offs and consequences of options and decisions. Where providers are prepared to accept a dip in operating margins and cut back on investment, the impact on investment programmes could be significant.

For-profit providers

Whilst FPRPs are not affected by the legacy issues and pressures relating to existing stock, and CPI+1% at 11% is likely to be well above the estimate of rent increases in their business plans, FPRP plans are still affected by inflationary pressures on costs of materials, services, and wages.

5. Shared ownership rents

Shared ownership rents are not regulated by rent policy but are a contractual matter between landlord and tenant set out in the lease. The standard form of lease used by most providers states that rents will increase by up to RPI+0.5% annually. It is understood that RPs can reduce rent, not apply an increase, or apply a lower increase without varying the lease.

RPI runs higher than CPI, and some providers have expressed concern about the effect of permitted rent increases on shared owners who are by their definition lower income households and are exposed to various cost of living pressures as well as, possibly, increasing service charges and mortgage costs.

For HAs, shared ownership properties are rarely in charge and so fluctuations in value do not affect loan security. However, where providers have large, shared ownership portfolios a voluntary reduction in shared ownership rental income would impact on cashflow, covenant compliance, and revenue to invest in rental stock.

Many FPRPs hold more shared ownership homes than rental property. Funders backed these assets because of the inflation plus link, the relatively low operational risk, and the low risk of exposure to policy intervention compared to rented housing. The RPI+ link is fundamental to the business case, and if providers voluntarily break the link, it will undermine funder confidence in the asset class. Similarly for providers, they need to be able to align their revenue stream growth with their cost of capital – downward pressure on revenue combined with upward pressure operating costs (for some) and debt costs (which increases the cost of holding the residual capital) hinders ability to deliver the required returns.
From an investors point of view, the value of shared ownership assets changes if the income profile associated with it changes. Revenue stability is therefore essential.

We have only recently started to see a strong market emerging in trading shared ownership stock, as the funders active in the sector have diversified. This is beneficial for liquidity and should be allowed to grow further. It allows property that is capital intensive for HAs to be sold to FPRPs that desire the long-term income; thus, releasing capital for HAs to re-invest in new development.

Actions, voluntary or otherwise, that reduce the attractiveness of shared ownership to funders, especially those relatively new entrants with an appetite for shared ownership, will further reduce development capacity, compounding the loss of capacity that will arise from caps to rental income.

Providers already have the tools to shield shared owners who are at risk due to increasing housing costs. They can, and do, exercise forbearance on the rent if a shared owner is in financial difficulty, without altering the terms of the lease or significantly reducing their revenue stream in a way that impacts required financial performance. Similarly, they can buy back equity from shared owners who are unable to sustain their proportion of ownership or participation in the tenure at all. They have good insight into their customers' circumstances and strong channels to publicise the assistance they make available. The cost of increasing discretionary funds to support households that need assistance is significantly lower than the cost of providing blanket reductions to all shared owners; and capacity to fund programmes to provide revenue support or equity buy-back is reduced if shared ownership income is reduced across the whole portfolio.

6. Service charges

Service charges are not regulated by rent policy, although the Rent Standard indicates a preference for service charges not to increase by more than rents do. Where costs run above rental inflation, RPs would have to subsidise services if they restricted service charge increases.

For Social Rent properties, service charges are payable in addition to the rent and therefore there is scope to recover the actual costs of communal services from tenants. In fact, best practice would suggest full cost recovery of service costs through an "estimated/actual" approach.

However, given that a significant proportion of these charges relate to communal energy, heating and lighting, which have been subject to very high inflationary pressures, RPs are considering whether a simple "pass on" to tenants who are already disproportionately affected by the cost of living crisis would be appropriate for 2023-24. The 6-month Energy Bill Relief Scheme may assist with reducing actual costs that would otherwise need to be recovered in 2023-24; but it gives no protection against estimated costs that inform in-year service charges, and these will likely be high.

Service charges are therefore an area of additional concern for RPs as not being able or willing to pass on charges weakens the link between service costs and charges and reintroduces what used to be called rent pooling (where tenants not receiving services contribute to costs through rent or service charge income). For FPRPs providing social rent properties, this might be a "first time impact".

Loan security valuations assume full cost recovery of service charges, and so any RP deciding to protect tenants from service charge increases would expect to see financial consequences beyond change in cashflow and margin.

For Affordable Rent properties any service costs are included within the rent and so it is the landlord, rather than the tenant, who is exposed to cost increases that outstrip rental inflation. Increased service costs for Affordable Rent reduce the amount of net rental income received to support business activities. The Energy Bill Relief Scheme will help 2022-23 finances, but the impact of high service costs in 2023-24 remains a concern.

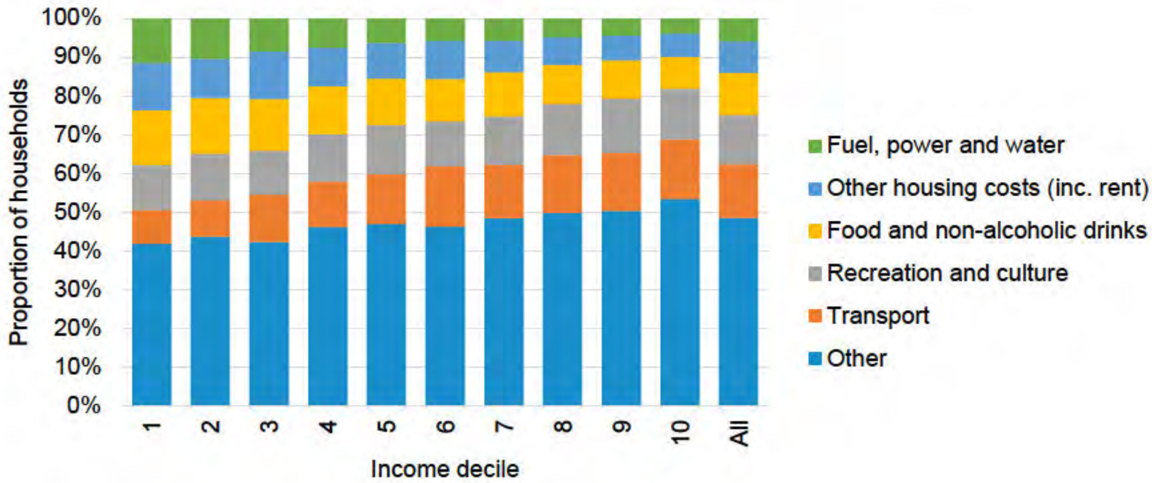
For shared ownership, the principle of full cost recovery also applies to shared owners living in multi-family accommodation i.e. flats with communal spaces/services. Any discretionary waiver or even deferral of service charge costs to protect household income means the cost falls onto RPs. Necessarily this then reduces income available to invest in rental properties and meet funder' covenants or service debt.
RPs are well placed to use hardship funds to assist tenants and shared owners who are struggling financially. Through these they can provide help that most meets the needs of the household, for example provision of white goods and furniture, debt write-off, or match funding charitable funding applications. If budgets are used to subsidise service charges for all, capacity to allocate funding for targeted support is reduced.

7. Customer experience

As providers of accommodation to lower income households, some of whom are particularly vulnerable due to age, health, or disability, HAs and FPRPs take the customer experience into account when determining their financial priorities. As well as having an interest in tenants' wellbeing, RPs will be mindful of increased arrears and property turnover that can arise from pressure on household incomes.

Inflation

The sharpest increases in costs have been seen in food, fuel, and energy, with the resultant pressure on non-discretionary household finances referred to colloquially as the "Cost-of-Living Crisis". Whilst the government has announced a package of support with energy costs for residential households; the high cost of energy remains a concern for affordable housing residents because households with lower incomes spend a greater proportion of their incomes on power and fuel. The poorest 10% of households spent 12% of their income on fuel, power, and water in 2020, double the 6% average across all households. Similarly, the Russian-Ukraine conflict is likely to keep food and oil prices elevated for some time.



Welfare benefits

Where a tenant renting from an RP has a low income, they may be able to claim help with housing costs through the benefits system. The Benefit Cap limits the total benefits that a working age tenant/household can claim when they are not in employment; and the limit is implemented by reducing help with housing costs payable. Because rents are lower in affordable housing than in private renting, there is a little more headroom for RP tenants before they are affected by the Cap i.e. the cap primarily affects private rented tenants. However, with the Cap fixed since 2016, and affordable rents increasing since 2020, there is a prospect that more RP tenants will find their benefit entitlement restricted over time.

	Outside London	London
Couple/family rate	£20,000 per year	£23,000 per year
Single person rate	£13,400 per year	£15,410 per year

In 2020 Savills projected that smaller families renting general needs affordable family homes would begin to be affected by the Benefit Cap by 2025, with pressure spreading across the South-East and affecting the rest of the country by 2030 if rents continued to increase at around 3% per year[5].

[5] i.e. assuming CPI at 2% and the permitted +1% being applied

This would increase the number of households who were unable to cover rent from benefits, with the effect that those who continue to cover their rent will their income to cover non-housing living costs fall below the minimum level provided by the welfare system. The consequences could include an increase in arrears, voluntary or required end of tenancies, homelessness, 'voluntary' overcrowding via households combining. Alongside the cost-of-living crisis the future effects are likely to be greater than those experienced to date by Benefit Capped households. RPs seeking to prevent such outcomes may choose to increase resources to help these households to progress into work; but in the context of a tightening economy and forecast recession, where availability of jobs reduces and competition for vacancies increases.

Increased expenditure to offset the effects of the benefit cap on households and/or higher voids or arrears resulting from pressures on tenants both impact on RPs capacity to raise and service finance.

Shared owners – a foot in both camps

Shared owners may be simultaneously exposed to rent inflation and current pressures in the mortgage market. Some of those living in flats may face a triple whammy with service charge increases coming alongside high rent and mortgage costs increases.

However, not all shared owners will come under such pressure. Not all properties are subject to service charges. Longer standing owners will have higher equity (from a combination of house price inflation and staircasing), giving both lower rents and a firmer cushion if forbearance is required. Not all owners will be due to remortgage soon.

RPs will want to focus their support on the shared owners who are under stress and will use understanding of their customer base to do this.

8. The future of private capital in affordable housing

We already know there is huge investor appetite for environmentally friendly, regulated assets that provide tangible social benefit. Investor interest in the affordable housing market reflects a natural progression by the investment community seeking returns from the relative stability of real residential assets, starting with the student market and latterly the build to rent market. Investors deploy funds into affordable housing because it is a safe, long term, low risk asset that delivers a steady risk adjusted return. It matches the liabilities that pension funds and other 'patient capital' require over the long term; and accordingly, the interest rates paid by RPs are historically low. This position gives existing and future RPs a deep well of capital to draw on as they grow and invest in existing homes.

Investor confidence and support for the affordable housing sector depends on the availability of a stable policy environment. The sector has been subject to a range of government fiscal and policy interventions in recent years, and the current economic climate is especially challenging with rising cost of debt (which has seen a 3-4% increase in the 12 months to October), cost inflation, and so on.

Investors have considered the political and economic backdrop to affordable housing, assessing the creditworthiness of the sector and the risk profile compared to other residential asset classes and indeed other property sectors.

Early mover new entrants such as L&G Affordable Homes, Heylo, Sage Housing and ReSi, established their FPRP entities in 2017 and 2018 – this was shortly after the Government imposed a 4-year rent cut policy (2016-2020) that was announced just two years after announcing a 10-year rent settlement for annual increases of CPI+1. Other recent policy changes include the introduction in 2020 of Energy Performance Certificate and Decarbonisation targets for residential property, and in 2021 of a new model lease for shared ownership. So far, new entrant FPRP investors have adapted to the changing policy environment and maintain their commitment to invest in the sector.

Patient capital can withstand some bumps over a long term but fundamentally it cannot be exposed to much risk, political or otherwise. Investors value the robust regulation to which RPs are already subjected by the Regulator of Social Housing, which takes a steady and stable approach with an explicit intention to give confidence in robust financial governance. However, a high level of political intervention in a sector is not good regulation, and indeed undermines the benefits derived from it.

If credit committees and credit rating agencies begin to lose confidence in the credit worthiness of the sector, e.g., due to financial performance or concern about policy directions, the capital allocation required by lenders / investors will increase. This leads directly to an increase in the cost of debt for associations. On average the sector is rated at a low single A. If average ratings reduced to BBB+, the increase in debt costs would be in the region of 20-40 basis points.

The foundations for maintaining investor confidence include long term stability on rent policy, ongoing provision of capital grant to support new supply along with continued availability of planning led affordable housing.

9. Summary of consequences and policy options

In undertaking robust business planning RPs always need to consider their short- and long-term plans for operating expenditure, capital investment, and borrowing to balance expenditure and liabilities appropriately with income.

Particular financial priorities in the current economic context include:

- Maintaining strong financial governance, including adherence internal treasury golden rules
- Protecting compliance with lending covenants, in particular interest cover ratios.

Consequently, a rent increase cap, coming at a time of rapidly increasing cost of debt, high inflation, and instability in financial markets, could have the following consequences:

- Significant reduction of investment in existing stock, including progress towards zero carbon, with providers resorting to a minimum investment standard of statutory compliance plus maintaining components at Decent Homes level
- Increased incidences of damp and mould resulting from reduced investment, which ultimately cost more to rectify than the initial preventative investment would
- Reduction in liquidity arising from reduction in availability of capital from HAs and FPRPs to acquire tenanted stock from other RPs
- Reduction in liquidity arising from loss of FPRP buyers for HA stabilised shared ownership portfolios – an emerging source of capital for HA decarbonisation/growth plans
- Loss of capacity to improve financial performance of portfolios through active asset management e.g. remodelling of underperforming properties to better meet local housing need, despite higher need to use such tools
- Reduction in development and acquisition of new affordable homes, despite already high levels of need for such homes and increasing affordability pressures in the owner-occupier and private rented sectors
- Depression in prices offered for s106 properties, with knock on consequences for the viability of SME builders and delivery delays due to renegotiation of planning obligations
- Reduced net income from Affordable Rent properties as service charges increase as a proportion of the gross rent
- Loss of financial viability in supported housing portfolios and dedicated supported housing providers, where it is difficult to reduce operating costs due to the nature of services and customers they support, and where margins are already extremely low
- Reduction in the security value of supported housing stock
- Reduction in the ability to provide and financial support for customers and target this at households that most need it
- Increased need for lenders to grant waivers on loan covenant calculations, in order to carve out financial capacity to deliver fire safety, net zero and other building safety works

And as a direct result of these consequences, providers of private capital to RPs may experience:

- Reduction in 'green appeal' and desire to provide ESG funding (as zero carbon works are not pursued)
- Loss of confidence in the stability of affordable housing as a generator of index-linked income that increases smoothly over time (as rent increases will have been below inflation for 5-6 years out of the 10 year period 2015-25)
- Loss of confidence in the stability of the affordable housing to generate steady growth in asset values (as cost increases cannot be fully offset)
- Loss of confidence in the stability of the sector if there are mortgagees in default
- Need to price in the risks arising from uncertainty, impacting credit scores and therefore increase costs of debt
- Loss of capital allocations to other countries / sectors / investment classes

- Reduction in the pool of providers that can deploy capital, and thus reduction in demand for funds
- Reduction in the value of rental assets held in charge or owned, as property condition reduces and rental potential for a mortgagee in possession falls
- Reduction in the value of shared ownership assets, as the income profile changes
- Increased impetus to reconsider covenant structures.

It is possible to suggest mitigations to accompany a below inflation cap on rent increases that aim to protect affordable housing outcomes and safeguard appetite for, and volume of, private investment into the sector. However, the optimum approach is not to deviate from current rent policy. This approach enables RPs to target assistance at households that most need it; maximises flexibility afforded to RPs to manage their business plans in the face of strong economic headwinds; and maintains confidence of investors in the sector from whom tens of billions of pounds need to be raised over the next ten years.

Alongside any rent increase the Benefit Cap requires revision. This would reduce the financial pressure experienced by households and reduce the likelihood of lost revenue to RPs (placing further pressure on margins) arising from its implementation.

Looking beyond 2023-4, as we approach the end of the ten-year rent settlement given to RPs in 2013, of particular importance is a commitment to index linking of rent increases from 2025 to assist recovery from recent economic pressure, sustain and grow capacity for future investment in new and existing homes, and support continued investor confidence to participate in the affordable housing sector.

Consultation on Social housing rents

Consultation response

October 2022

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

As a provider of affordable housing, bpha is deeply concerned about the unfolding cost of living crisis and the impact that this has on our customers. Whilst affordability for our current and future customers needs to be carefully considered, as a business we also need to ensure that we are sustainable and able to offer a great standard of service to customers, ensure homes are safe and well maintained and fit for the future. We also need to ensure we are able to play our part in building homes for the future and fulfilling those we have already committed to. Financial security to ensure this can be done is vital. When considering rent setting and a potential cap, we need to look at the impact of this cap on investment, ensuring decent homes, ability to deliver the Tenant Satisfaction Measures and beyond. The impact of this on our projected finances is immeasurable.

Regarding rent setting, without a rent ceiling, as a socially responsible business, we would have considered lower than CPI + 1% at current levels, but with an emphasis on the use of hardship funds – which themselves need funding. Prior to this consultation, we had modelled the impact of imposing a CPI minus a % and did this at 5%, 7.5% and 9%.

From a business model perspective, we need the rent standard model of CPI + 1 % to sustain the finances of the business and deliver our core business plan as it currently is. We had anticipated this rent settlement for five years, and without this we will face challenges in meeting our strategic objectives. We will have substantially less to invest in our people, systems, current stock, and new developments not to mention meeting the costs of implementing the Tenant Satisfaction Measures. It should also be noted that we are still behind because of the of the welfare reform and work act 2016. Hard choices will need to be made about investment and expenditure priorities, business plans will need revision and we need to be clear about what action we need to take to maintain viability and compliance with regulatory standards.

Whilst we understand why the government is looking at this proposed rent cap, and the exceptional circumstances we are living through, we would be interested in hearing what support the government will be offering to housing providers, to ensure their ability to continue to build properties and offer services to customers to prevent housing associations from failing. Will grants be available? There is a lack of consistency from government, as other areas are seeing increases – for example water bills, are being allowed to increase by CPI.

It is worth noting that energy is a key risk for us as a business as we need to recharge this to our customers (for communal supply in the main), however if we cannot get a price from suppliers then we will have to use an estimate for this.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Considering a 5% limit on rents, bpha do see this as manageable for one year but we will be required to put mechanisms in place to generate savings across the business to compensate the impact of the cap, with some of them required to continue in the medium term [redacted]

We would aim to recover our service charge expenditure from residents, but we do need to be mindful that any increase in service charges will impact on net rent recoverability for our Affordable rented properties if rents are capped at 5%. When considering service charges, could we be offered help from the government Energy Bill Relief Scheme so that we, and our customers who we pass the charges on to, can be protected from escalating utility costs? Perhaps we could be offered a similar agreement to that of the utility companies in terms of being able to recover our costs over several years. We would also benefit from cheaper loans to give us the liquidity to reinvest in our business.

As part of our financial planning annual exercise, we have updated our business plan financial forecast with the latest information and modelled the 5% and 3% rent cap scenarios to understand the impact alongside the update of other economic assumptions including interest rates.

The financial modelling exercise shows that even before the rent ceilings, our financial projections including surplus and cashflow have worsened significantly, mainly driven by reductions and delays in our development programme and inflationary costs increases to date. The rent caps further reduce surplus and operating cashflow availability to cover interest cost and investment on existing assets.

This can be seen in the table below as we present the impact of the business plan updates in our operating cashflow (before development and sales of new and existing assets):

	FY2024	FY2025	FY2026	FY2027	FY2028
Approved (22/23) Cashflow	£5,302	£3,883	£4,942	£5,713	£7,106
Latest cashflow assuming economic pressures	(£718)	£1,229	£406	£1,860	£4,415
Cashflow assuming a 5% cap	(£7,546)	(£5,599)	(£7,090)	(£6,360)	(£4,563)
Gap to approved cashflow	**(£12,848)**	**(£9,482)**	**(£12,032)**	**(£12,073)**	**(£11,669)**
Cashflow assuming a 3% cap	(£9,656)	(£7,713)	(£9,110)	(£9,387)	(£8,020)
Gap to approved cashflow	**(£14,958)**	**(£11,596)**	**(£14,052)**	**(£15,100)**	**(£15,126)**

The expected material adverse impact of the rent cap in our business plan indicates that some adjustments to approved strategies may be required, including to development ambitions, to maintain financial strength.

For this reason, we rehearsed potential mitigations to improve our cashflow position (which are all illustrative at this stage), including the reduction of c.700 units to our planned development programme over the 5-year period to FY28, operational savings and some reprofiling of capital investment programme, with the last two having potential implications on the level of service we deliver to our customer

We also need to consider the other impacts on our business, including reduced confidence of investors, ratings agencies, EUV-SH valuations, reduced investment in homes, decarbonisation, repairs, decent homes, customer satisfaction and customer expectations

Exposure to interest rates is a significant impact for our business. For example, if our interest bill increases by £2m then that equates to roughly 2% of the rent increase being swallowed up “leaving” 3% for Utilities, Staff Costs, Increases in other costs etc

If the Government choses to not impose a CAP to rent increases, then our projections show that we will be better positioned to face the squeeze in our finances generated by higher interest rates and other costs increases above CPI and RPI levels. This will also allow us to continue with our existing assets investment programme as planned (including the investment to regenerate our tower blocks and the initial investment to achieve EPC targets), all this whilst remaining covenant compliant and ensuring long term financial viability.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

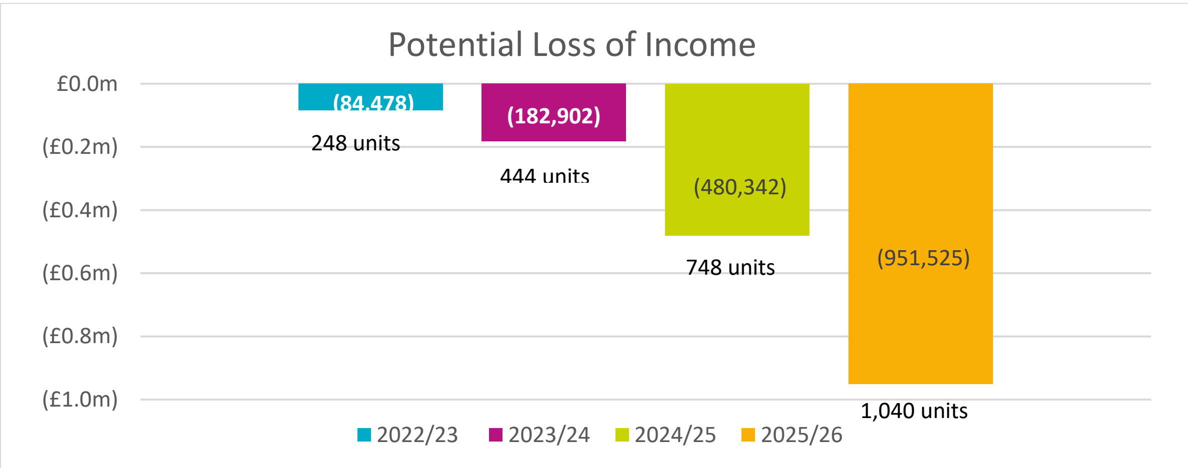
We have concerns that the decision about year 2 should not be made now, due to the current climate being too volatile, e.g.

- cost of utilities,
- cost of staff leaving the sector as the 5% would impact our ability to pay market rate salaries,
- affordability of increases for customers,
- supplier price increases.

The sector needs to see what next year brings so that we can make an informed decision. Decisions made now will have a knock-on impact. Perhaps the government can look to offer similar support to that they have offered to energy companies – we have not had these conversations or been offered support like this as yet.

The business plan projections show that the impact of the 5% rent cap alongside other economic assumptions including interest rates and slow down in development, have already put significant strain on our finances and ongoing savings across the whole business are required to compensate for the loss on income and surplus to ensure financial targets and long term viability are achieved.

It is worth noting for Affordable rented properties we currently have 248 properties at the Local Housing allowance, and we would not increase above this. If rents were to increase by 5% over the next 2 years but LHA remains, then same then this number is predicted to increase to 1040 units. This would be 40% of affordable stock at LHA. The graph below shows the potential loss of income over the next four years.



Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree from a business finance perspective that the proposed ceiling should not apply to initial lets or subsequent re-lets. However, we are concerned about the impact on our neighbourhoods of potentially charging vastly different rents. We are keen for our neighbourhoods to have as much equity as possible between similar homes to keep things fair and equitable.

If Formula rent is to rise by CPI plus 1% but a cap is to be introduced for current residents, then we would like the Government to consider the reintroduction of rent convergence so that we are able to bring those that are not at Formula rent back in line to formula. Currently 32% of our social and supported rent stock is below Formula and if we can only increase to Formula at relet it will take many years for these 3000 homes to reach Formula.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

If there was a cap, we would impose it across all our tenancies, for fairness. We would also consider this for tenancies other than social rented.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Brighton & Hove City Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	3rd Floor Bartholomew House, Bartholomew Square, Brighton. BN1 1JE
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

If a specific ceiling is not imposed, careful consideration would need to be given to the potentially significant impact of any increase in rents to the existing CPI + 1% limit during 2023/24 on tenants in lower wage employment and / or not solely reliant on benefits to cover their rent and eligible service charges

In principle a rent cap, depending upon the ceiling set, could balance the need to support tenants during this time of the rising cost of living, including rising energy bills and general inflation, against the need to maintain our investment in our council homes and manage current inflationary pressures facing the council.

Our Housing Revenue Account Budget Strategy anticipates significant investment requirements in our homes to comply with legal and regulatory changes following the post Grenfell tragedy review of building safety through the Building Safety Act, Fire Safety Act and proposals that will change how social landlords operate encompassed in the Social Housing Regulation Bill.

Our Budget Strategy also plans for increased investment in carbon reduction measures to achieve net zero and tackle fuel poverty in order to provide our tenants with more energy efficient homes, improving their health & wellbeing and saving money on their rising energy bills.

As outlined below, depending on how any proposed rent cap is applied, the council will be at risk of foregoing significant income at a time of:

- Post Covid recovery, tackling backlogs of outstanding works;
- Increasing inflationary pressures on the HRA;
- Requirements to invest in post Grenfell health & safety improvements to our homes;
- Need to reduce carbon emissions and tackle fuel poverty.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

In applying a rent cap increase during 2023/24, tenants who pay their rent without assistance with benefits to support housing costs or who receive partial support will see a direct benefit that will assist them in coping during the cost of living crisis. A rent increase that is in line with the current CPI+1% policy may also prove a disincentive to some tenants who may be in a position to return to work or increase their employment hours.

For those tenants that are in receipt of benefits the impact of the increase will be minimized by the fact Housing Benefits would uplift at the same rate. Therefore this is income which the authority is foregoing to invest in the tenants' homes in future years.

Imposing a ceiling of 5% has significant implications on the funds available to invest in tenants' homes over the next 5 years. On current estimates not applying the CPI+1% policy would mean c.£15m would be lost in cumulative income over a five year period. It would take up to year three of the medium term plan to start recovering from this position.

A 3% cap would further hinder the investment required and would start to impact on the service delivery within the HRA, with decisions around key services to support tenants needing to be made. This cap would increase borrowing needs further in the HRA which at the moment with interest rates rising would create additional pressures within the revenue resources unforeseen at the time of setting the current year's budget and medium term financial strategy. It would be a number of years before the HRA would start to recover from this income being lost and get back to the level of investment that is required.

A 7% cap would see a drop in income in year one of the medium term plan which would need to be funded from within the current budget envelope, however it would allow for recovery a lot sooner than the 5% cap does, ensuring the HRA remains viable and able to increase the investment required whilst keeping the cost of the rent increase below the estimated inflation for September 2022.

Whilst a 5% and 7% increase in income is above the forecast CPI rate for 2022 at this time last year, the rate of inflation on labour, materials, and contractual costs, including CPI increases built into some of our contracts was not anticipated to be at this level last year and so is creating a significant pressure when setting the 2023/24 budget position. In addition to this, the increased investment required to ensure compliance with the Building Safety Regulations, Fire Safety Regulations, the outcome of the Social Housing White paper and carbon reduction measures to achieve net zero and tackle fuel poverty are creating pressures on the HRA business plan over the medium term.

These pressures are also being felt at a time when the authority is still recovering from Covid related backlogs, including relating to voids, routine repairs, and income recovery.

It is understood that the Government intends to consult in 2023 on rent policy from 2025/26 onwards though the scope of this is not within this consultation. There should be scope as part of this consultation that any lost income could be recovered in the medium term plan to help maintain a viable Housing service that is providing the investment required to keep residents safe and provide good quality homes. This could be through providing government grant to replace the lost income.

The cumulative impact of the 4 year rent reduction between financial years 2016/17 and 2019/20 should also be noted. This saw a reduction in rent of c.£0.500m per annum, removing c.£2.000m from the base rent in the medium term. The longer term impact means that any uplift in rent is from a lower base and therefore reduces the resources available for investing in tenants' homes.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Applying this for a second year without knowing the full implications of the economic environment in 12 months' time would potentially further restrict investment available. On current estimates a further £2.4m would be lost in cumulative income if the rent was capped at 5% for two years. It would then mean that recovery from this income cap would stretch beyond five years. The Government are planning on consulting on the rent policy from 2025/26 during 2023, so any further consideration of a rent cap could form part of that consultation.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

Applying a cap on new rents that are set subject to the current market conditions will potentially reduce the income upon which new homes business cases have been built. Controls are already in place that ensure the council are setting rents appropriately. This includes ensuring new build homes are valued 3 months before setting rents.

It should be noted that the impact of not applying any proposed ceiling to properties on first let and relet will be limited given the small proportion of homes this would apply to overall.

There may also be equalities impact assessment implications if there is a disproportionate impact on any particular groups.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

While there may be the case to make an exception for our Seniors Housing or other homes subject to more intensive housing management costs that would be reflected in our rents, and where a cap could have a disproportionate impact, we anticipate that there would be equalities issues around application of a more significant rent increase to homes occupied by some of our most vulnerable households while applying a rent cap to our general needs homes.

From: [redacted]
To: Social Housing Rents
Cc: [redacted]
Subject: Broadwater Farm Residents" Association Response to Rent Consultation
Date: 11 October 2022 14:29:06
Attachments: LTF response and proposals - consultation socaial rents Oct 22.docx

---

You don't often get email from [redacted]. Learn why this is important

Dear DLUHC

The Broadwater Farm Residents' Association fully endorses the response of the London Tenants Federation to the current consultation on social rent levels. We support the LTF's points regarding the need for a rent freeze and the other related matters they raise.

Yours faithfully

[redacted]

BRUNSWICK
Tenants' Management Organisation
Proud of our homes and community

11/10/2022

Consultation on social rents

We, Brunswick Close Estate TMO in Islington Borough

- We agree that there should be a temporary amendment to the CPI +1% policy for social housing tenants for 2023/24.
- We propose that rents should be frozen at 2022/23 levels covering all social rented and affordable rent homes. This should include existing, new, relet and sheltered homes - without a 5% flexibility (or 10% in respect of supported housing) above the formula. .
- There should be a full review of the policy in 2025.
- Social landlords should have sufficient funding to manage and maintain existing social rented homes.

- Our estate has communal heating. From Islington council heating charges meeting held last Thursday 06/10/22, we were told that the heating season is reduced to 13 hours/day; delayed for 4 weeks start 13/10/22 - Off 2 weeks sooner 30/04/23. The service charge will be up £2.55/week and the heating up 25% to about £17/week. This is a considerable increase to households' financial burdens of heating and energy.

In the current circumstances of high inflation already creating hardship and impoverishment we have reasonably made our case for a rent freeze.

[redacted]

[redacted]

Dear DLUHC

Consultation: Social Housing Rents

Thank you for the opportunity to respond to the Government's consultation on a proposed rent cap for our sector in 2023/24.

This response is on behalf of BuildEast, a collaboration of 15 housing associations working together in the East of England. The organisations in BuildEast are listed in Appendix 1.

Inflation presents a dilemma for us all in striving to deliver housing and related services that are affordable to tenants. Our assessment of the rent cap proposal is that it ***offers some valuable protection for all tenants; and it will work against growing the quantity and quality of affordable homes and keeping tenancies sustainable for those in greatest need. Additionally, we offer suggestions for how the less favourable impacts could be mitigated.***

We have taken proactive steps to understand the impact of the economic situation on affordability for tenants. A survey of 2,800 tenants across 3 of our members this summer provides statistically robust information about the impact of the cost-of-living crisis on tenants in the East of England. We found that:

- 13% of tenants borrow money each month to cover their living costs.
- 25% of tenants have used a foodbank in the last year.
- 51% of tenants have missed a meal because they could not afford food.

There can be no doubt that any rent increase will be extremely difficult for tenants on a fixed income.

Sustaining Tenancies

We have a track record in balancing affordability for tenants and income for our organisations to ensure that we continue to invest in homes and communities. For example, members have capped previous rent increases at local housing allowance.

The proposed rent cap for all tenants works against our ability to provide direct support to where it is most needed to sustain a tenancy. Examples of the support we currently provide are:

- Maintaining Tenancy Sustainment Funds for tenants that require financial support to maintain a tenancy.

BUILDEAST
THE FUTURE OF HOUSING

- Commissioning tenancy sustainment workshops for tenants focussed on the cost of living where tenants receive support in the different aspects of maintaining a tenancy, information about where to turn for help and develop a peer group of tenants across different housing associations.
- Free access to 24/7 advice and support including debt advice and counselling.
- Purchasing energy vouchers for tenants.

Quality of affordable homes

Investment in improving the quality of homes can directly reduce the cost of living in them. We are concerned that the rent cap will reduce members' ability to make sufficient additional investment in existing homes to reduce tenants' cost of living. To illustrate this point, across 11 of our members, a 5% cap removes £32m of investment capacity in 2023/24 and – without the ability to catch up the lost income – over £1.5bn over 30 years.

Quantity of affordable homes

We are also concerned that supply of affordable homes has not reached government targets, that homelessness remains a significant problem and we have many thousands of families living in temporary accommodation and millions of people living in less secure privately rented housing.

There is significant pressure on the housing system, and we want to work with you to solve the housing crisis and to provide good quality affordable homes for today and future generations, and believe that this will in turn support UK economic growth.

To help us to understand the challenges of meeting this need across the Eastern Region, we recently commissioned independent research which has highlighted that although 6,000 new affordable homes are being built each year, there remains an annual shortfall of 7,000 new affordable homes.

Stable inflation linked rental income streams of housing associations are hugely attractive to global institutional investors, which in turn presents a significant growth opportunity by enabling housing associations to access private finance to build affordable homes.

Intervention in rent setting is viewed as credit negative by investors and any potential resultant increase in the cost of borrowing directly reduces the number of new homes we can build and makes it more difficult to plan and make long term investment decisions.

Mitigations

The following measures alongside the proposed rent cap would help maintain intended levels of investment in sustaining tenancies and growing the quality and quantity of affordable homes.

- The proposed rent cap will create savings in welfare benefits. Re-investing these savings in improving the quality of homes (for example, from grants for investment which improves energy efficiency and reduces carbon emissions) would improve the quality and cost of living for tenants.
- A mechanism (such as convergence that was available in previous years) whereby housing associations can recoup lost income from the 2023/24 rent cap would mean the reduction in investment is much nearer £32m (the one-year effect) than £1.5bn (the long-term effect without the ability to catch up).
- We would welcome the opportunity to contribute to the national debate about the long-term rent policy post 2025. As a principle, we would urge Government to loosen the complicated rules around rents, giving Boards the freedom and flexibility to set rents and involving tenants and the local stakeholders in this process.
- If housing associations were able to recover input VAT (in a similar way to local authorities) this could provide significant help in maintaining investment.

Our response to the specific consultations is as follows:

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

We believe the Boards of housing providers are best placed to understand the impact on tenants of reducing rents compared to targeting investment on making tenancies sustainable and helping those most in need and most significantly affected by the cost-of-living crisis. As mentioned above, our Boards have a track record of balancing these difficult decisions and there is no suggestion any of our members would have been increasing rents to the maximum allowable under the CPI+1% limit. Members have commented that the rationale for any increases they would have taken above 5% would have been to provide direct support to sustain tenancies where most needed.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Please be assured that members understand value for money has never been more important and will continue to run their organisations as efficiently as possible. However, it is fair to say that all options that cap rents lower than inflation would lead to either a reduction in investment or deterioration in financial robustness. One member reports an internal inflation rate across its cost base of 12.8%, with elements such as utilities being considerably higher.

We would prefer a cap of 7% because this gives Boards the widest parameters for decision making and does not prevent a Board taking a decision to keep rents lower.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

If a cap is applied, we believe it should be for one year and that the ability to catch up the lost revenue will allow our members to better maintain long-term investment in the quality and quantity of affordable homes and provide targeted support for sustaining tenancies.

Question 4: ***Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?***

On balance we agree with this. However, we do feel that the system is complicated, and this proposal adds further complexity. Explaining to members of the same community why their rent is different for seemingly the same home can be very difficult to do with credibility. We would urge the Government to simplify rent policy for the post 2025 period and would be very pleased to work alongside you in making reforms.

Question 5: ***We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?***

We would urge strong consideration of tenants in receipt of care and / or support falling outside of any cap due to the (typically) greater day to day costs of sustaining tenancies and the importance of being able to retain front line colleagues providing care and support services. The viability of supported housing is already under considerable pressure with many providers being reluctant to build new supported housing, and we feel a cap on rents would make this situation worse and potentially put more pressure on the health and social care system more generally.

Thank you again for the opportunity to respond and we hope our response is helpful. We would like to reiterate that we remain committed to working positively with you to tackle this country's housing crisis in a positive and proactive way. Please feel free to get in touch with any queries.

[redacted]

[redacted]

[redacted]

BUILDEAST
THE FUTURE OF HOUSING

Appendix 1 BuildEast Members:
CHP
B3 Living
Bpha
Broadland Housing
Eastlight Community Homes
Estuary Housing Association
Flagship Group
Freebridge Community Housing
Grand Union Housing Group
Havebury Housing Partnership
Hightown Housing Association
Orwell Housing Association
Saffron Housing Trust
settle
Watford Community Housing Trust

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Centrepoint
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	E1 8DZ
What is your email address?	[redacted]
What is your contact telephone number?	

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X ☐No
☐Maybe

Comment:

While we support the principle of protecting social housing residents' income against inflation and the rising costs of living, we think that a ceiling applied to rents in supported housing would have an overall detrimental effect to residents of this kind of accommodation.

As such, we think supported accommodation should be exempted from any rent caps.

As a provider of supported accommodation to vulnerable young people, we feel that the impact of limiting rent increases from April 2023 to below CPI inflation would have serious financial impact on our organisation and as a result the services we provide to this client group.

As most residents in supported housing have their rent covered in full through Housing Benefit and paid directly to their landlord, limiting rent increases below inflation for this many cohort will not have the effect of putting money in their pocket or protecting them against the rising cost of living.

It will however impact the services on which they rely on and the quality of accommodation they live in, by reducing revenue available for repairs and maintenance.

Following the April price cap increase, the cost of heating our hostels has more than doubled, with our annual gas bill on course to reach almost £564,000 compared to £214,000 last year. A similar increase in costs will see our annual electricity bill rise to over £900,000 a year by 2024.

Centrepoint has committed to a multi-year major repairs program in order to bring the properties we manage to the high standards needed to deliver psychologically-informed support to young people moving on from homelessness.

Due to these works planned and the decision to give frontline staff a cost of living pay increase, Centrepoint is already projecting a deficit in our housing services for 2023/24. If a ceiling is imposed below CPI this would have the impact of limiting our ability to carry out works and improvements in future years, to the detriment of the young people we support. Below is an indicative estimate of how these rent caps would affect our overall income, alongside maintenance and other costs rising with CPI:

Cap	3%	5%	7%
Rental income	8094637	8251814	8408991
Deficit	-4,374,171	-4,307,131	-4,241,780

We want to stress that lots of the financial challenges faced by supported housing providers are underpinned by a long term reduction in grant funding for supported housing and the loss of the ring-fenced Supporting People grant.

Another consideration for supported housing providers accommodating looked after children and care leavers is that from April 2023, registration will open for the new Ofsted regulated regime. This will mean further costs to providers, through registration directly and potential costs of complying with new maintenance, support and training standards.

Centrepoint is in the position of being an established national organisation with capacity to access income from fundraising and partnership working. However, we are concerned that smaller providers are not in the same position and so will experience greater financial impacts as a result of this. As part of this response, Centrepoint engaged with our partnering network of smaller youth homelessness organisations. As one organisation reported:

Although we can do this for 2021/2022 as the cost increases were unexpected and we have a small reserve we would not be able to continue this year on year and ultimately we would need to look at whether the provision remains financially viable or if we need to close.

We would not be able to afford these basic but necessary parts of the housing provision that we manage. Projects would fall into disrepair. The standard of provision would drop significantly.

We are also concerned about the impact this may have on the supply and availability of supported accommodation. Already, it is difficult for supported accommodation providers to find suitable stock. Evidence suggests that bedspaces in homelessness accommodation projects have decreased by more than a quarter (27 per cent) since 2010 (Homeless Link Annual Review 2020). We are concerned that capping supported housing rents while other costs are increasing significantly will mean that providing this kind of accommodation will become less viable. This is turn could lead large registered providers moving away from providing supported accommodation, and smaller providers no longer able to operate at all.

We also want to make a comment about fairness between tenants in the private and social rented sectors. The Government has made no indication of capping rents in the private rented sector, leaving tenants unprotected against significant rent increases. We think that any rent caps in the social rented sector should be reflected in the PRS, and supported accommodation should be exempted from any rent caps.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X ☐No
☐Maybe

Comment:

For supported housing, we do not think any ceiling below CPI is viable for the reasons outlined above. If the Government is determined to impose a ceiling at one of the three options, and include supported accommodation within this, then we believe a ceiling of 7% would have the least impact on providers and their ability to support vulnerable residents.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X ☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

If a ceiling is imposed and supported housing is not exempted this should be limited to a year only.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X ☐Yes
☐No
☐Maybe

Comment:

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X☐Yes
☐No
☐Maybe

Comment: We believe that supported housing should be exempted for the reasons as stated in our response to question 1.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Cheltenham Borough Council (and its ALMO Cheltenham Borough Homes Ltd)
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Cheltenham Borough Council Municipal Offices Promenade Cheltenham GL50 9SA
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☑Yes
☐No
☐Maybe

Comment:
Certainty and consistency on long term rent policy is key for housing providers such as Cheltenham Borough Council to model for the long term and to have confidence to invest in both existing homes as well as new homes. Changes to policy can reduce such confidence, however, it is understandable that during a

period of very high inflation and the cost-of-living crisis intervention is being proposed.

In Cheltenham, the Council, and colleagues from its ALMO Cheltenham Borough Homes, are working on the HRA budget for next year and future business plan and have not yet concluded on the level of rent increase for next year.

The Council is very aware of the strain on the finances of our residents and wants to support tenants in multiple ways to prevent hardship and the risk of homelessness. This is during a period of significant financial challenge for the Council itself and the need to make some hard decisions on the level of investment that is possible and sustainable within the HRA over the long term due to high inflation on expenditure (particularly build costs) and increasing debt costs.

This needs to be balanced with the need in the town for high quality, sustainable, affordable accommodation and increasing the supply of this accommodation for those most in need.

Recognising the balance between affordability for tenants and the need for investment in the future, the Council was already proposing to limit the level of rent increase below CPI and therefore would impose its own cap on rents even if this were not proposed by Government.

Therefore, the Council supports the proposal of capping rents below CPI+1% during the present cost of living crisis exacerbated by international events.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☑No
☐Maybe

Comment:
A 5% rent cap would have a significant impact on the strength of the HRA (5000 homes) in Cheltenham and ability to invest in future plans. The HRA already needs to provide additional funds for new compliance requirements, support for

tenants during the cost-of-living crisis and higher borrowing rates. It would reduce income by £6.5m over 4 years, increase debt by £55m over 30 years and reduce interest cover over the next 10 years by 35% from 168% to 133%.

Whilst the HRA is able to service the higher debt levels the 5% rent cap does not allow for the repayment of this borrowing which exposes the HRA to interest rate risk and overall viability concerns. In addition, this rent cap would significantly reduce the level of future investment that the HRA can make in new homes and net zero carbon works both of which are crucial for the support of existing and future tenants and for Cheltenham as a whole.

The table below summarises the effects on total rent over the next 4 years.

Scenario/Sensitivity	Total rent (4 years) £000	Difference £000
Baseline	104,524	
7% Rent Cap	99,441	- 5,083
5% Rent Cap	97,989	- 6,535
3% Rent Cap	96,536	- 7,988
Rent Freeze	94,358	- 10,166

Under all of the rent capping scenarios the HRA receives less rental income generated than under the Baseline. Whilst the HRA is able to maintain a steady level of revenue balances under each rent capping scenario (not rent freeze) the level of debt increases progressively leading to risks over sustainable debt levels and lack of capacity for further investment.

The next table shows the corresponding impact of each scenario on the level of HRA-related debt at 10 year intervals:

Scenario/ Sensitivity	HRA CFR				Peak debt		Terminal debt	
	2022.23 £000	2031.32 £000	2041.42 £000	2051.52 £000	Year	£000	Year	£000
Baseline	£63,685	£188,231	£153,142	£135,853	2030.31	£192,182	2051.52	£135,853
7% Rent Cap	£63,685	£201,032	£180,821	£180,783	2030.31	£203,518	2051.52	£180,783
5% Rent Cap	£63,685	£204,458	£188,465	£193,265	2031.32	£204,458	2051.52	£193,265
3% Rent Cap	£63,685	£207,745	£196,102	£205,736	2031.32	£207,745	2051.52	£205,736
Rent Freeze	£63,685	£203,834	£207,581	£224,475	2051.52	£224,475	2051.52	£224,475

All of the scenarios increase the financial pressure on the HRA by reducing the income generated from rents. As a result, the HRA needs to borrow more in order to finance its capital and new build programme. All of the scenarios increase HRA debt levels progressively over the medium term, with peak debt rising by between £11.336m and £32.293m. At the end of the period each of the scenarios shows substantially higher debt levels than the Baseline, requiring the HRA to spend more of its rental income on paying for interest charges on debt.

Under all scenarios, the HRA is unable to repay the debt as quickly as under the baseline, while maintaining a reasonable minimum balance on its HRA. Debt levels are also static or increasing at the end of the projections (5%,3%,rent freeze), indicating potential exposure to interest rate risk and overall HRA viability.

The following table shows the impact of each scenario on the interest cover performance of the HRA:

Scenario/ Sensitivity	Interest cover ratio				Minimum cover	
	2022.23 %	2031.32 %	2041.42 %	2051.52 %	Year	%
Baseline	147.72%	168.12%	230.59%	322.79%	2022.23	147.72%
7% Rent Cap	147.72%	140.60%	183.19%	230.87%	2028.29	131.73%
5% Rent Cap	147.72%	134.26%	172.34%	212.86%	2023.24	120.06%
3% Rent Cap	147.72%	130.88%	162.31%	197.05%	2023.24	101.34%
Rent Freeze	147.72%	128.45%	148.58%	176.62%	2023.24	73.74%

Interest cover shows the ability of the HRA to afford the interest payments on the debt it needs to borrow. As a guide, interest cover of less than 125% indicates a risk that surpluses could fall below those required to cover the cost of interest charges. If interest cover drops below 100%, the HRA could be at risk of borrowing to finance day to day expenses.

This table shows that interest cover would be weaker for all of the scenarios, when compared with the baseline. The lower the rent cap is set, the lower interest cover performance drops.

Interest cover remains at broadly acceptable levels over the long term under the 7% debt cap and 5% debt cap scenarios. However, it is clear that the longer-term impact would be of concern for the 3% rent cap and rent freeze scenarios, as performance drops for each of them by 2051/52.

Imposing a rent cap of 5% will reduce the new supply programme over the next 10 years by 25% (250 homes) and restricts investment in schemes where Homes England grant is not available such as s106 schemes. It would also severely restrict plans to invest in the regeneration of existing estates.

A 5% rent cap would endanger the ability of the HRA to deliver the necessary investment to move existing homes to a minimum EPC C by 2030 unless additional government grant funding is made available.

A 3% rent cap would leave no room for additional investment leading to the need for cost savings (revenue and capital) which will negatively impact services for tenants.

Of the options set out in the consultation a 7% rent would therefore be the preferred option.

In order to compensate the HRA for the rent cap and allow for future investment the following changes could be made alongside the rent cap by Government:

- Reduce the margin on PWLB borrowing for HRAs from 1% to 0.25%
- Increase Homes England grant levels for new supply, in particular for social rent and net zero carbon homes
- Extend the period for use of RTB receipts or remove the requirement to return these to central government
- Increase grant rates under the Social Housing Decarbonisation Fund or extend to works beyond EPC C target
- Fix future rent policy at above CPI levels for the next 5-10 years

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
The impact of a one-year rent cap will be very significant on the Council's HRA business plan in terms of investment possible in future years. This will be replicated across all Providers and stakeholders and implementing a two-year cap could exacerbate this impact making business plans unviable and add unnecessary financial strain on Council finances whilst significantly limiting the ability to invest in existing and new homes in the medium term.

It is also clear that we are operating in a period of great uncertainty presently affecting inflation, debt costs and the confidence to invest amongst other factors. Whilst certainty is important for future planning the fixing of a further rent cap for a period not starting for another 18 months is not considered appropriate at this time. Based on certain projections of inflation it may also not be necessary with CPI possibly returning to levels below 5% by the end of next year.

Due to this uncertainty and the long term need to invest the Council would support a one-year rent cap only.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑Yes
☐No
☐Maybe

Comment:
We agree with the proposal that the formula rent continues to increase by CPI + 1% and that affordable rent properties continue to be re let at a maximum of 80% of market rent. The current proposals of a rent cap will have a significant impact on the finances of the HRA removing £55m of capacity out of the HRA over 30 years (assuming a 5% cap for one year). If the formula rent were also capped at 5% for one year this could take a further £53m of capacity out of the HRA over 30 years [redacted] by not being able to deliver the decent homes capital programme on existing properties, not being able to afford additional compliance related works or energy efficiency works whilst having to service ever increasing debt levels.

The focus of the proposals is on supporting current tenants rather than future tenants and therefore it seems appropriate that the cap should support current rents rather than future rents on re-let.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☑No
☐Maybe

Comment:
In Cheltenham we have followed a consistent approach for all tenants in the spirit of equality and parity. Whilst there are always differences in individual circumstances we believe that a consistent approach across rented tenures is fair and continues to be appropriate at this time. Higher increases for specific groups of tenants has the risk of causing additional financial hardship on specific groups and therefore we support there being no exceptions for particular categories of rented social housing.

CIH response to the social housing rents consultation

Summary

- The social housing sector houses over 4.4 million households (with over one million on waiting lists), with rents set below market rates and reinvested to provide quality services and homes. General needs (social rent) homes make up the majority of the sector at 77% of all stock, with supported housing at 13% and low-cost home ownership at 7% (RSH social housing stock, Oct 2021). Up to two thirds of social housing residents are on some form of housing benefit/universal credit support for rents and benefitable service charges, with around three-fifths of income covered by benefits.
- Social housing providers are committed to keeping homes safe and well maintained, improving energy efficiency to lower bills, and building much needed new social homes. Providers have been working hard to support tenants and residents struggling with the cost of living and have put extensive help in place for this winter (as highlighted in our cost of living briefing series). However, without government intervention on welfare reform an increasing number of people face hardship. Even before the recent spike in inflation 68% of social housing residents were worried 'all or most of the time' about meeting normal monthly living expenses (Resident Voice Index).
- Whilst recognising the sovereignty of boards and councils to be best placed to make informed and localised decisions, we understand government's wish to intervene in rent setting next year given cost of living pressures. In the absence of intervention, we would expect most social housing providers to increase rents by significantly less than CPI+1%, alongside targeted support for those most in need. Rent increases below CPI will however mean reduced investment without additional government support, which will impact tenants and residents.
- Should the government choose to apply a cap, our analysis shows that based on the current economic outlook:
    - 3% would lead to a projected net loss of resources for LAs of c7-9% of all operating costs (management, maintenance and major repairs) and over 10% of operating expenditure excluding major repairs. For HAs it would equate to c9% operating expenditure or loss of interest cover of up to 30bps.
    - 5% would lead to a reduction of c5-7% in operating costs and c7-9% of operating expenditure (excluding major repairs) for LAs. For HAs it would equate to c7% operating expenditure or loss of interest cover of up to 15-20bps.
    - 7% would equate to a cut for LAs of c3-5% of all operating costs and c5-7% of operating expenditure (excluding major repairs). For HAs, a c3-5% cut in operating expenditure or loss of interest cover of up to 5-10bps. Even at the highest cap providers would have to take difficult decisions about what to prioritise and how to make savings, but this would be more manageable. Our analysis suggests it would allow social housing providers to adapt increases to their context and target support for residents facing affordability challenges.
- Under any cap scenario essential investment in social homes is at risk. To maintain investment in services and homes for residents, while keeping rents affordable next year, the government should:

- provide grant to support investment in homes and services for residents, to at least the level of the benefit savings resulting from any cap
    - commit to reintroducing a 'catch up' mechanism so that rents can gradually return to their real terms level once inflation has fallen back, preserving long term investment for residents and confidence for lenders.
- Should government choose to intervene, any cap should be for no more than one year given the level of economic uncertainty. Supported housing should be exempt, reflecting its vulnerable financial position and viability risks.
- The impact assessment which accompanies the rents consultation underestimates the cost to the sector. We call on the government to publish a full assessment of economic impacts, including the loss of new development, impact on building safety works, decarbonisation and repairs and maintenance programmes before making a final decision on next steps.
- Whilst we agree with the imposition of a rent cap in these unique circumstances, it is important to recognise that this is the second time in seven years that a rent settlement has been broken and this does much to undermine the critical partnership between government and the sector and the investor confidence that is crucial to ensuring a viable, sustainable social housing sector. We welcome the commitment to shortly consult on a post 2025 rent settlement; the detail of which will be essential in shoring up investor confidence and guarding against future fiscal shocks, thus delivering affordable rents for residents and securing future investment in homes and services.

Introduction

The Chartered Institute of Housing (CIH) welcomes the opportunity to respond to this consultation. Affordability for tenants and residents is of paramount importance and we know from our discussions that social housing landlords were already exploring how best to balance this with viability and investment responsibilities. In order to inform our response, we commissioned Savills to provide an independent commentary and analysis (attached and referenced). We also hosted a member roundtable with DLUHC officials, ran an online member survey and spoke to tenant representatives and other partner organisations.

Context

Since the consultation was launched on 31 August, the economic climate has become even more challenging. Inflation is forecast to rise to 13% by the end of the year so whatever cap is introduced providers and tenants/residents will face considerable financial challenges. To that end, this consultation cannot be viewed in isolation. Government decisions on uprating benefits (previously committed to but now unknown), the impact of some measures announced in the 'mini budget' and decisions to be taken in the October Budget have a significant bearing. We continue to call on government to address the benefits shortfall. Up to two thirds of social housing tenants are on some form of housing benefit/universal credit support for rents and benefitable service charges, with around three-fifths of income covered by benefits. Many of these are working but on low incomes that need topping up (or unable to work because of disabilities or caring responsibilities). Even before the recent spike in inflation, basic benefits were worth 11% less than a decade ago – equivalent to a benefit cut of £1,800 for a family with two children. We welcomed recent government support via the energy unit price cap, however, at £2,500 for the average household's bill, this is still nearly double the amount that residents would have paid this time last year and out of reach for many.

Similarly, wider government priorities on building safety, decarbonisation, housing supply and economic growth, homelessness prevention, maintenance programmes, tenant engagement etc all risk being impacted by a cut to housing provider income. The current situation facing the social housing sector is very different to when a rent freeze was implemented in 2016. This comes after a pandemic, a building safety crisis and an acknowledged climate change crisis. We cannot afford to step back on the medium-long term agenda. Recent analysis and discussions support this. For example:

- Latest figures from the Regulator of Social Housing (RSH) show investment in major repairs across the sector was 33% below target last quarter because of inflationary pressures, as well as labour and material shortages.
- Analysis from the Local Government Association highlights that slow progress in insulating homes will cost Government at least £4.2 billion in energy waste over the next two years. To illustrate this, one housing association said the difference in heating costs for their worst stock compared with their best was £2,000 annually. Another highlighted that their plans to improve the energy efficiency of their homes would save tenants far more in reduced energy costs than the marginal saving they would make from rents being capped at 5% rather than 7%: the

average annual savings of a property moving from EPC D to C is £500, whereas the average saving in rent would be £84 per week x2% x52 = £87pa. These energy efficiency plans are however at risk if rents are capped without substitute investment.
- Research by the Institute for Public Policy Research shows that a government retrofitting programme could sustain over 400,000 direct jobs and 500,000 indirect jobs by 2030.
- As the UK Housing Review shows, government grant forms a relatively small part of social landlords' new build investment (e.g., outside London, only 13%), meaning that by far the biggest proportion of the cost is met from their own resources which in turn means their rental income.

Social housing landlords are already facing cost increases running at CPI or, in the case of construction work, higher. Borrowing costs have more than doubled in the last year. The latest economic signals (rising interest rates) will add to this pressure. (Savills' analysis for us provides an assessment of key determinants of landlord costs and likely inflation, as well as impact of financial market movements.) Providers are already starting to be asked to provide more assurance on mitigations to protect operating margins to satisfy ratings agencies. (If UK government debt is downgraded there is a risk that housing association debt will follow suit.) Moody's have warned that a rent cap, at any level, would constrain revenue growth for housing associations and impact credit scores, noting that we can expect to see trade-offs within the sector, such as reducing investment in existing stock and developing new homes. Without support to counter this, there is a real risk that the government's economic growth plans and wider policy agenda will be undermined.

Conversely, many tenants and residents are already struggling with day-to-day costs. A survey of over 5,000 social housing residents by Resident Voice Index in April/May (pre-dating the latest inflation spike) found that 68% were worried all or most of the time about meeting normal monthly living expenses. This rose to 82% for under 35s. Our research during the summer highlighted that for one large London-based housing association, 25% of residents regularly found their rent unaffordable and 35% were already finding that they had "nothing left" after meeting all essential outgoings. Our research suggests that cost of living pressures already play into the current (2022/23) financial year with an increased risk of arrears at up to 10-15% of rent across the whole sector. In response, many social housing associations have reiterated their evictions pledge, reassuring residents that where they engage with their landlord, they will not be evicted as a result of financial hardship.

It would be wrong to see a dichotomy between "tenants" and "landlords" on this issue. Tenants are well aware that the quality of service they receive depends on their rents, and for them the cost-of-living crisis may be more about energy and fuel costs, and income failing to keep pace with inflation, than about their rents. Social housing providers are acutely aware of the impact of what they do on tenants' wellbeing, and want to assist tenants to manage the current crisis, reduce their energy costs and help them survive on what are likely to be low incomes. To do this, of course, they need resources and their main one is rental income.

In weighing up the way forward, we would urge government to reflect on lessons learnt from the previous compulsory rent reductions – introduced before Grenfell – which directly led to reduced investment in maintaining existing stock, and reduced expenditure on tenant involvement. It is important to avoid inadvertently triggering a race to the bottom in terms of cost cutting, especially with regard to building safety. Post Grenfell, (and with the Building Safety Act) it is now more likely that new development and decarbonisation would be impacted – with consequent impacts on housing needs, including higher public expenditure on temporary accommodation for homeless families and energy support. We must also be mindful of wider supply chain vulnerability, with some private sector suppliers exiting from the market.

Finally, under the council housing self-financing settlement in 2012, councils took on considerable debt from HM Government on the understanding that future rent levels would sustain these debts, whilst maintaining homes at a decent standard. It is therefore appropriate that any decision to cap rents should be supported with substitute grant.

CIH response to consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Response:

Yes. Our discussions with providers, coupled with Savills' analysis for us, suggests that most (if not all) providers would have exercised restraint in increasing rents. However, we recognise that a cap could be helpful to ensure a level playing field and to assist local authority providers under pressure to keep rents artificially low, for example those facing contested elections. We do, however, recognise that individual boards and councils are best placed to determine the appropriate level of rent setting based on their circumstances. (These decisions should always follow tenant consultation, which could, in some scenarios, call for rents to be higher in order for services or investment in homes to be maintained.) It is also important to note that, despite the unique circumstances in which this consultation is taking place, the impact of government intervening in what is meant to be a long-term rental framework risks undermining investor confidence and our discussions suggest that it will inevitably do so.

Whilst we support the principal of a cap despite these reservations, we believe that the £4.6bn which DWP is forecast to save over the next five years should, as a minimum, be redistributed into grant to protect existing investment in current and new homes and support for tenants, compensating lost rental income. This funding could be made available through a combination of existing schemes such as the Social Housing Decarbonisation Fund, the Affordable Homes Programme, and the Building Safety Fund, or distributed directly to providers via a new mechanism explicitly aimed at revenue support. As we set out under mitigations at p.10, there is also a strong case for additional government investment.

To maintain and improve existing residents' homes, and to continue to build much needed new affordable homes, significant investment each year is essential. As not-for-profit organisations, the resources which social housing providers generate are put back into the homes they provide and build, and to support the services residents receive. Re-investable rental income is critical to supporting this work so any reduction will come at a cost in some form. The surpluses (and/or 'reserves') that are reported as part of financial results are key to securing borrowing to deliver the essential work that they do, and are held as fixed assets and working capital, rather than cash.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?
Response:

No. On balance, we believe that it would be more appropriate to impose a ceiling of 7%, on the understanding that this is a cap and not a target and that for some providers a 5% cap (and certainly a 3% cap) would be prohibitive. For example, a cap will significantly impact providers with large development programmes and those with large building safety or decarbonisation programmes. As our research with Savills notes, given that many of these programmes are deemed essential in order to comply with legislation, and are also subject to 10% inflationary pressures, this is likely to focus the recovery of operating margins within housing associations towards savings in day-to-day management and service costs. For LAs, given the pressures on HRAs arising from net reductions in income, if these essential programmes are to be completed, there is likely to be a need for direct capital grant support. (Recognising the pressure on rental affordability, one mitigating approach could be to provide a strong direction to apply a 5% ceiling but with an upper 7% cap to give those providers under financial pressures some margin.)

We believe that a 7% cap should be conditional on government uprating benefits in line with inflation (as previously committed to) so that existing tenants and residents in receipt of benefits are not unfairly penalised. This would allow housing providers to provide discretionary support for those not in receipt of benefits (in full or part) where needed. As set out above, a decision on cap level should not be taken in isolation from wider decisions on welfare uprating/reform.

When forming a view on cap level, we have referred to Savills' analysis which highlights the projected net resource challenge for 2023/24 and includes case studies to illustrate. This shows that the "minimum rent increase required to stand-still" as stated by LAs and HAs engaged as part of their research falls into the range of 7-9%, which they suggest might be understated.

In summary:

At a cap of 3% for 2023/24:

- LAs projected net loss of resources £600-700million – equating to between c7-9% of all operating costs (management, maintenance and major repairs) and over 10% of operating expenditure excluding major repairs.
- HA projected net loss of resources £1-1.2billion – equating to c9% operating expenditure or loss of interest cover of up to 30bps.

At a cap of 5% for 2023/24:

- LAs projected net loss of resources £400-500million – equating to between c5-7% of all operating costs (management, maintenance and major repairs) and c7-9% of operating expenditure excluding major repairs.

- HAs projected net loss of resources £750million-£1billion – equating to c7% operating expenditure or loss of interest cover of up to 15-20bps.

At a cap of 7% for 2023/24:

- LAs projected net loss of resources up to £300million – equating to between c3-5% of all operating costs (management, maintenance and major repairs) and c5-7% of operating expenditure excluding major repairs.
- HAs projected net loss of resources up to £400million – equating to c3-5% operating expenditure or loss of interest cover of up to 5-10bps.

Taking the net impact of a rent cap at 5% combined with increased financing costs, around 30% of all housing associations may trigger "golden rule" reviews of their lending covenants and business plans. This is likely to result in capital investment cuts and cuts in services. This would negatively impact tenants and residents both now and in the future.

Our discussions with providers over the summer (pre-dating the consultation) highlighted specific examples of potential impacts from cutting rental income. These are summarised in Savills' analysis.

In advocating for a 7% cap, we are very mindful of the impact on tenants of any rent increase. However, if social housing providers must cut their expenditure significantly, apart from new build practically everything they are likely to have to cut is a service to tenants, with often the ones most affected being those in most potential hardship (due to cuts in hardship funds, debt advice, energy-efficiency measures and advice, help into work programmes, etc).

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Response:

Yes. Given the uncertainties we believe any ceiling should apply for up to one year, with a review thereafter. We recognise that both providers and residents/tenants benefit from longer term certainty where possible, but forecasts suggest that inflation should revert within two years. As Savills' analysis shows, until recently many commentators have tended towards a projection of CPI which falls sharply back to the long-term 2% OBR target but over a period of two years. In the last 2-3 months, the trajectory for reduction has tended to be seen to be shorter, with the average of 14 economic forecasters now projecting CPI at 3-4% next September.

The implications of policy announcements towards energy price caps (domestic and business) could also have a significant impact on the level of CPI next September. For example, one report has suggested that the cap on energy prices could have as much as a 5% impact on the overall level of CPI.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Response:

Yes, though we would expect social housing providers to exercise restraint when setting rent levels for new lets or re-lets. It is important that affordable rents remain affordable.

It is worth noting, as Savills' analysis for us sets out, that re-let rates across the social housing stock vary widely but a consolidated average of no more than 3-5% annual churn is experienced across the sector, and in some cases considerably lower. Some properties churn more than once in a 30-year business planning period, some not at all. Savills estimate that only around 75% of stock will turnover in a 30 year business planning period. The impact of this is that the loss of net revenue is never fully recovered, and to the extent that there is any recovery, it is gradual and extends over decades.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Response:

Yes. We believe that supported housing should be exempt from a cap, though recognising that an exemption does not necessarily mean that providers would increase rent by CPI+1%.

Long-term measurements of operating margins within social housing landlords differ significantly between general need and supported housing. Savills' analysis for us notes that supported housing margins can vary between 10-20% and therefore pressure on net operating budgets from a capped rent increase would be significant in terms of service delivery and essential capital investment (e.g., on building safety).

The government's [National Statement of Expectations (NSE) of supported housing] notes that "supported housing provides crucial help to some of the most vulnerable people in our country". Supported housing provision is already under financial strain, with rising costs for energy, staff, repairs, security, buildings insurance, safety checks, materials and constructions, and reductions in funding from local authorities. A rent cap could punish the best supported housing providers, many of whom are working to help deliver the government Rough Sleeping Strategy. As a recent article in [Inside Housing] outlines, organisations such as Centrepoint and other homeless or domestic abuse refuges, which are also struggling with soaring energy costs, have done the right thing and increased pay for their hard-working staff without increasing the service charges for the vulnerable people they support. Without an exemption, many such providers will have to find savings. In lots of cases this would mean cutting back on support and being forced to de-prioritise repairs and maintenance (already under pressure).

The cap could also have particularly dire consequences in some managed properties, where organisations are leasing the building where they deliver services, because owners could see their margins tighten beyond profitability and decide the provision is simply not viable. There has already been a significant reduction of bed spaces in the supported housing sector over the past decade. (With the loss of Supporting People and the previous reviews that threatened changes to income streams we saw some providers exit the market, particularly for short term, complex service users.) This bears out in our street homelessness figures. To lose more would seriously undermine the government's commitment to end rough sleeping by the end of this Parliament. Discussions with local authority partners have highlighted concerns that a cap could lead to the collapse of some supported housing providers, resulting in councils having to find alternative specialist housing in a very limited market – or forcing people to accept residential care which they are trying to avoid where they can support people to live independently in the community. This would add to pressure on NHS services.

A higher proportion of supported housing users are in receipt of benefit to cover rent and service charge costs. With an uprating of benefits, they should continue to receive the support they need to meet any increase in rents to cover inflation. A failure to uprate would be very damaging– many working age tenants in supported housing already struggle with finding and maintaining work as they have little disposable income. Older people make up the largest part of this sector and, where in receipt of benefits, are dependent on an uplift to housing and legacy benefits, as well as state pensions. Those with some private income/resources and therefore not eligible to benefits may struggle with a CPI+1% increase so support would need to be put in place to recognise this.

Other comments

<u>Mitigations</u>

Given the pressures outlined above, we believe that financial mitigations should be announced alongside any rent ceiling decision to prevent significant reduction in investment in existing and new homes, including:

- the reintroduction of rent convergence (further details below)
- urgently make available and if possible augment the full Social Housing Decarbonisation Fund (SHDF)
- allowing Recycled Capital Grant Funding (RCGF) to fund major repairs
- additional grant funding for development of affordable homes
- removing VAT on housing provider activity
- greater flexibility over the use of Right to Buy receipts to allow continued delivery in local authorities
- discussions on the post-2025 rent settlement should introduce a long-term approach based on key principles to secure the financial future of the sector and affordability for residents.

Convergence and future rent settlement

We recognise that the government intends to consult on its future rent strategy but would highlight that in our discussions with providers on a possible cap almost all mentioned the need for convergence towards target rents to be allowed for. Many have 'uncollected' rents from properties at below target rent, equivalent to significant sums (one housing association said £20m annually). One way to do this would be to impose the cap on a social landlord's rental income as a whole, so that in practice rents can be raised to different levels within an overall percentage cap. Savills' analysis for us provides more detail on this.

Further, a convergence mechanism would enable providers to continue to invest in new and existing properties with confidence, where income lost through the imposition of a rent cap could be recovered over multiple years upon inflation returning to normal levels. This would allow the investment to continue in both new and existing homes while shielding tenants from cost-of-living increases at this time of high inflation. The rent convergence mechanism could involve registered providers being offered greater flexibility to increase rents, over a number of years, to recoup the income lost through the application of a rent cap, while ensuring that rents did not increase beyond the level allowable under the current Rent Standard. This would involve providers making moderately higher above-inflation rent increases over a number of years once inflation has returned to 'normal' levels. This would smooth rent increases and avoid tenants being faced with significant cost increases in any single year. The current rent mechanism, which allows registered providers to increase rents by up to CPI+1%, does not allow this type of flexibility and incentivises registered providers to apply the maximum rent uplift every year, as failing to do so means losing the potential income in perpetuity.

We welcome the government's confirmation that it will consult next year on rent policy from 2025 onwards. The detail of long-term rent policy will be important in delivering affordable rents for residents and securing future investment in homes and services. We look forward to working with the government on the detail of this consultation.

Impact Assessment

We believe the Impact Assessment which accompanied the consultation significantly underestimates projected losses within the sector which must be considered when mitigating impact. For example, it sets out rent increase 'losses' below the projected level of CPI+1% but this does not take account of lost growth. One large housing association we spoke to said that a 7% cap equates to a 21% cut in new build whereas 3% would mean a 74% cut and would mean exiting from existing schemes on site with consequent wasted (and penalty) costs. Any cuts generated by a rent cap next year will impact new build in 2-3 years, losing momentum which it will take much longer to recover. Further, some landlords would have to renege on existing contracts, incurring wasted costs and delaying schemes for years. There is a particular impact on complex regeneration schemes which require investment over a period of years (e.g. to buy out leaseholders to enable land to be redeveloped).

There are also additional costs related to cutting planned investment programmes. For example, one large London provider told us that their preliminary modelling of repair demand suggested that implementing their Major Works Investment Programme will prevent the need for 7,500 reactive repairs per year after two years – translating to a direct saving of at least £2.19 million each year. Any delays or reductions to major works investment such as this will cancel out some of the savings identified and undermine customer satisfaction.

Given the above we would urge the government to publish a full assessment of economic impacts, including the loss of new development, impact on building safety works, decarbonisation and repairs and maintenance programmes, before making a final decision on next steps.

Service charges

Whilst the consultation paper makes brief reference to service charges, highlighting that these are not subject to the Rent Standard and therefore not able to be influenced by national policy, there is an implication that government wishes providers to exercise restraint and thus consider restricting increases in line with rents. The affordability of service charge increases is extremely important for residents, and social housing providers will be working hard to minimise increases. However, any service charge increase should reflect the actual costs incurred in providing a service, in discussion with residents. As such service charges should not be subject to a cap.

Shared ownership

There is a significant group of tenants not covered by the proposed cap but which should also be considered. Rent increases for shared owners are set out in their leases and linked to the higher RPI rate of inflation plus up to as much as 2% (so 10%+). This could be unsustainable for those facing rising mortgage costs and/or potential bills for building safety. We are aware that many providers are considering what they can do to offer flexibility and targeted support but also that many shared owners are anxious about their ability to meet their housing costs. We are concerned that a cap of 3% or 5% could place greater pressure on shared ownership rent increases.

Support for tenants in the private rented sector

We recognise that this consultation relates to social housing residents but would encourage government to also consider the lot of private renters (in less secure tenancies) facing rising costs. Private rents are increasing at the fastest rate in 16 years and evictions have doubled. Once again, this points to the need for urgent welfare reform (notably benefits uprating (linked to September CPI) and increase to local housing allowance) and for delivery of the government's commitment to introduce renters reform legislation as soon as possible, removing s21 evictions.

We would be happy to discuss any elements of this consultation response further. We remain fully supportive of the new and enhanced consumer regulation which is currently passing through Parliament, as well as the increased role of the Housing Ombudsman which raises the bar of accountability for housing providers. However, as our response seeks to demonstrate, such standards must be supported by the necessary investment. We will be expanding on some elements of this in our forthcoming budget submission.

Contact:
Rachael Williamson, Head of policy and external affairs: rachael.williamson@cih.org
[Personal information included as published on CIH website]

Background on CIH: The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support, and knowledge they need. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We are a registered charity with a Royal Charter, which means that our work is always focused on the public interest. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world. Further information is available at: www.cih.org.

Chartered Institute of Housing

savills

CHARTERED INSTITUTE OF HOUSING: SOCIAL RENTS ANALYSIS

1. Introduction

This commentary and analysis was instructed by the Chartered Institute of Housing (CIH) during August 2022 in response to the likely high rate of CPI inflation at September 2002, which would, without any intervention from housing providers, government or the Regulator of Social Housing, result in very large increases in social rents at April 2023.

There is a strong feeling within the CIH and its membership, and the wider affordable housing sector, that rent increases at CPI+1% (expected to be in the region of 11%) would be unsustainable for tenants and residents, particularly in the light of the prevailing cost of living crisis which has seen essential goods and services, particularly food and energy, subject to significant inflationary pressures in the recent years, and which is likely to continue.

In the run up to August, therefore, there was a prevailing view that members of local housing authorities and boards of private providers would generally be unlikely to want to increase rents at CPI+1%.

This is however in the context that expenditure pressures exerted on providers have been well above the prospective level of rent increase, continue to be so and this situation is likely to carry on into the near-term future.

The result of expenditure pressures being greater than prospective rent increases will lead to revenue losses for providers. The potential level, range and extent of these are explored in this paper.

The original instruction sought to test the implications of providers exercising restraint in increasing rents – effectively voluntarily capping increases. Subsequent to the instruction, the Government is formally consulting on a nationally applied cap on rents at a range of levels; therefore, the work to inform this paper will now form part of the response by CIH to the DLUHC consultation document, due by 12th October.

The economic and policy environment remains extremely fluid, following the appointment of a new government including new DLUHC ministers, and in respect of related policy initiatives that might have a significant impact on the work undertaken.

At the time of writing, the measures announced within the "mini-budget" on 23rd September could have a material impact on the assumptions made within the analysis summarised below, especially in respect of both their impact on 1) mitigating the impact of inflation towards certain key expenditure items (such as energy and utility costs to 2023/24), but also 2) and potentially more significantly, the overall level of CPI itself.

2. Areas of enquiry

The specific areas addressed within this paper are set out below:

1. An estimate of inflation assumptions built into current housing providers business plans
2. An assessment of key determinants of landlord costs and of likely inflation in them over the years 2022/23 and 2023/24, in comparison with CPI inflation
3. An assessment of the level of the percentage rent increase required in April 2023 to meet expected costs, meet business plan requirements, including an assessment of the range of such forecasts

4. Commentary on outliers (i.e. landlords with significantly greater cost pressures, landlords without new build programmes, landlords in the care business).
5. Commentary on implications for the longer-term rent settlement (e.g. convergence)
6. Commentary on other government policy issues that might affect the assessment (e.g. Right to Buy)
7. Consider any options for restraining rent increases that the sector might offer (or government might propose), and their implications (this part to remain confidential)
8. Considerations relating to service charges and service charge increases
9. Feedback as to how members and boards are viewing rent increases in the light of cost of living pressures on tenants.

3. Methodology

We have drawn evidence from a wide base of providers, within the local authority and RP sectors, and have cross-referenced this with other pieces of work undertaken for trade bodies, particularly in the local authority sector.

We have prepared an analysis of the "national position" relating to local authorities and private RPs utilising core data drawn from, in the former case, Savills' own 5 year analysis of all HRA final accounts statements, and in the latter, the Global Accounts produced by the Regulator of Social Housing.

We have applied a range of scenarios in respect of rent and income inflation consistent with the policy options under consideration by government and by providers themselves.

We have also applied a range of expenditure inflationary assumptions based on the collation of a range of evidence bases as follows:

- Feedback from providers via CIH and directly to Savills, including all types of client providers (local authorities and RPs) on their experiences of inflation in key cost areas
- National forecast indices relevant to each area of expenditure (e.g. BCIS for construction costs, pay award offers for local authority employee costs)
- Cost of capital (i.e. interest rate forecasts) drawn from Savills Financial Consultants and the experience of providers directly.

We have engaged directly with providers in relation to "specialist " areas such as supported housing and extra-care.

We have also gathered feedback from providers in relation to the perceived intentions of their boards and members, so as to capture a sense of the "mood of the sector".

We have also undertaken an analysis of the possible risks of tenants failing into arrears as a result of cost of living pressures elsewhere within their household budgets, which we hope is of interest to CIH and its members in the context of direct impact on housing management.

The situation remains fluid in the context of ongoing announcements, and it is likely that some of the analysis set out below may need to be refined in the light of further work undertaken to understand the implications of the government key fiscal announcement on 23 September.

All references to business plans reflect business plans in place prior to the current discussion on rent increases.

4. Business plan inflation assumptions for rents and income

4.1 Rent increase assumptions

There are essentially two approaches adopted by all providers in setting out the longer term trajectory of rent increases over the long-term. With rare exceptions, all providers have modelled CPI+1% up to and including 2024/25.

Beyond 2025, the key approaches can be summarised as:

- CPI+1% - a majority of providers, virtually all private RPs and a large minority of local authorities; the assumptions made by RPs are consistent with both the approaches expected within business plans in relation to agreements with lenders, and with the approach to security valuations provided by the main valuation agencies.
- CPI – we find a very small handful of RPs with longer term rent increases at or below CPI, primarily small specialist RPs not reliant on bank funding.
- We find a majority of local authorities have adopted an approach to CPI only from 2025.

The levels of rent increases within business plans are generally predicated on the long-term forecast for CPI from the OBR at 2%, therefore 3% pa for RPs (occasionally 2.5% CPI and therefore rent increases of 3.5%) and some LAs, and 2% pa for most LAs.

Critically, we find that the recent spikes in inflation have come at such a pace that very few, if any, providers have amended the assumed underlying rate of CPI from 2% (occasionally 2.5%) even in the very short-term within their business plans.

In summary therefore, the overwhelming majority of providers are (or have been) projecting a rent increase of 2% or 3% within their business plans for April 2023 and April 2024.

4.2 Rent convergence

It is highlighted that a significant number of providers (particularly local authorities) have not "converged" rents with target or formula rents – our estimate is c80% of HRA authorities are "below target".

The principal reason for this is the interruption to rent convergence during the period from 2005 to 2012 and then its cessation by government from 2016. Many authorities have felt that this cessation adversely affected their ability to finance expenditure and "locked in" what was a work-in-progress position at 2015 which successive governments had encouraged.

In some cases, the distance from convergence is significant, particularly as a result of frozen or below CPI+1% rents increases since 2020. For example, around 30% of authorities are not thought to have increased their rents CPI+1% in April 2022[1], although in most of these cases, rents were still increased.

[1] *Inside Housing and Savills own HRA user group research*

That rents might not be at target or full formula rent levels is also found to be a similar issue for some RPs, particularly those that may have a significant amount of former local authority stock[2].

We have tested whether providers incorporate within their business plans an increase in future rent income that is above CPI+1% as a result of a general policy to relet at target rents. We find that whilst most authorities do relet at target, no authority with which we have engaged makes an assumption of the rate of relet, presumably electing to take the marginal gain into the business plan upon update rather than as a matter of projection.

Feedback from providers has also highlighted that whilst convergence is not an issue in respect of Affordable Rents, as these tend to be quite a bit higher than social rents, there may be a case in local circumstances for differential increases applying to different tenure types.

Impact on business plans

When considering the projected level of CPI for September 2022 (to drive rent increases at April 2023), all providers have recognised that the level of CPI+1% would be in the region of 10-11% (depending on the precise timing of the projection).

Whilst there has been a very small number of providers (all private RPs) that have stated publically the need to stick to CPI+1% and implying that rent increase at this level were under consideration by their boards, in practice we find that the overwhelming majority of providers would not have seriously considered increases at this level.

We understand that many have recognised that a rent increase at 5% or 7% would be above the level of rent increase that was included within their business plan.

Put simply, rent increases at this rate, whether capped by government or levied voluntarily, would deliver more cash into business plans for 2023/24 and all subsequent years.

Whilst providers have recognised that business plans would therefore have more cash income, whether the increase would be at 5% or 7%, there is also deep concern that expenditure inflation as it affects providers' key expenditure areas is actually running at or above CPI (see below).

DLUHC Impact Assessment

We note that the Impact Assessment which accompanied the government's consultation paper set out the rent increases "losses" below the projected level of CPI+1%.

DLUHC have based the assessment on the difference in Present Values between rent income received at the full CPI+1% rate (10-11%[3] in 2023 and 2024) and rent income following the proposed capped levels, suggesting this would be the impact on the sector of a cap.

This might appear somewhat disingenuous in this context, as it is in the interplay between income and expenditure increases that affect the future financial viability of the business plan.

We have based our assessment of future net revenues utilising forecast inflation for expenditure and how this is affected by proposed rent caps. As set out above, the difference between CPI+1% (at 11% for example) and a 5% cap is not necessarily considered by

---

[2] *One medium sized HA quoted an income gap of £20m*

[3] *DLUHC Impact assessment measured CPI September 2022 at 9.6% and September 2023 at 9.5%*

providers to be a "loss of income" of 6%. It is however important to compare this increase with the drivers for cost inflation for 2023 onwards as this will form the basis of an impact assessment more reflective of the actual impact on business plans. Such an approach also enables us to capture the impact of cost inflationary pressures which exceed CPI in the current and future climate.

5. Assessment of key determinants of landlord costs and of likely inflation in them, in comparison with CPI inflation business plan inflation assumptions for rents

We have worked with a range of providers to determine the drivers of cost inflation applying to the delivery of housing landlord services.

For ease of illustration, the split of expenditure inflation drivers has been applied as follows.

5.1 Housing management and services

The primary cost driver relates to pay and salaries. Our estimate is around two thirds of housing management costs are driven by employee costs. In the RP context, this also applies to central and corporate costs, and in the LA context, recharges to the HRA from central and corporate functions.

The remaining costs of housing management fall into the general categories of external contractors, supplies and materials, and utility/energy costs, and whilst the proportion of each varies depending on circumstance, location and service delivery model, around one third of each type applies to non-employee budgets.

5.2 Repairs & maintenance

The primary cost driver affecting repairs expenditure is external contractor costs.

A significant minority of RPs and majority of LAs employ direct labour in some form or other, with some carrying very large DLOs. Our estimate of employee cost drivers informing pay awards for DLOs and other direct repairs employees (client and technical/managerial staff) is around one quarter of costs. Clearly, for a large LA with large DLO (for example), the employee cost element will be much greater (perhaps up to two thirds).

For a repairs service that is entirely outsourced, the employee driver is likely to be c10% or less. Overall therefore 25% appears to be reasonable view of the sector average.

We estimate that around one quarter of costs of repairs relate to materials.

5.3 Major repairs and construction

Whilst there is occasional use of in-house staff on major works and construction/development programmes, the overwhelming majority of work is outsourced to contractors. Whilst some element of "capital management" is charged to programmes, particularly development programme, and inflation here may be driven by pay awards, we find the pay ranges of programme managers tend to be in line with wider inflation in the construction market.

For ease of illustration, we have therefore assumed that all major repairs – whether charged to Income and Expenditure in RPs or the Major Repairs Reserve for LAs – and all development costs are driven by the wider inflation in the construction market.

5.4 Employee costs

Pay award offers have been announced for those local authority employees affected by national pay structures. As it is a flat rate offer, if implemented it may affect different authorities in different proportions with authorities with relatively lower paid staff experiencing a higher percentage increase. We find the range anything between 5% to over 8% depending on pay structures and the volume of lower paid staff.

For RPs, as pay award negotiations are more localised, we find a wider variety of experiences, though we are not aware of any provider that is offering anywhere near the level of CPI – with the majority also falling into the 5-8% range, with a significant minority below 5%.

5.5 Contractors and suppliers

Experience varies widely in terms of indexation rates and new contract tender prices but we are aware of a number of key trends across the sector:

- The shortage of tenderers for many repairs and construction contracts, driven by a shortage of labour, both skilled and unskilled trades
- A tendency for successful tenderers to wish to renegotiate prices before commencing contracts
- A number of contractors going out of business during the course of contracts.

These, and other factors, provide for a very unstable environment, especially in relation to contracts that are being relet or being let for the first time.

For ongoing contracts, the principal indexation relates to BCIS-construction, BCIS-labour or BCIS-maintenance drivers. Whilst many new contracts may exhibit price inflation well above CPI, the overall experience is felt to be at or around the level of CPI.

5.6 Materials

Similarly, materials and supplies are affected by shortages earlier within the supply chain, with providers' opinions that these are driven by a combination of factors, especially: supply chains yet to fully recover post-Covid, the departure from the EU and the current geopolitical situation.

In some cases, this is leading to interruptions in supply, in others significant inflationary drivers, although it is felt appropriate to interpret that these drivers to be at a minimum of the level of CPI (being 10%) when taken across all expenditure areas across the sector as a whole.

The experiences in some parts of the overall supply chain may be very challenging, overall inflation c10% (as a minimum for modelling purposes) appears appropriate.

5.7 Utility/energy costs

For energy costs, the experiences are however significantly exacerbated.

Many providers lock into supplier contracts for a period of years.

Where these are coming to an end, and where contract prices are being re-quoted we are aware of some extremely large movements in prospective costs.

As a minimum we have not come across any provider that has had quoted an increase at less than 50% on current costs (and this is on the basis of contracts that were entered into relatively recently).

At the higher end, we are aware of contract quotations at increases of over 400% (i.e. five-fold increase)[4].

There is likely to be some general negotiation down around proposed prices, but our estimate of 30% increases in 2022/23 and 100% increases in 2023/24 are based on the very lowest end of expectations.

5.8 Summary

We have presented for reference two separate approaches to estimates of expenditure drivers at annex 1.

The first of these draws upon a blend of indices data (which vary monthly) and experience of feedback from RPs and LAs, set as an average across both sectors; we might usefully state that we would expect these to be a minimum for modelling purposes.

The second of these are up to date assumptions being utilised to inform security valuations for RP stock in charge to lenders.

It will be noted that the assumptions are very similar, with a slightly higher rounded and blended series of drivers drawing upon local business plan assumptions (as opposed to reliance solely on indices).

One area of continued uncertainty relates to the level of CPI forecast for September 2023 in the light of the various government announcements relating to energy and other cost capping. Assumptions of CPI within business plans of providers tend therefore to be above the very latest Treasury forecasts (as set out in annex 1).

The consolidated estimate of inflation drivers for expenditure across both sectors, taking into account the variation in pay awards assumed, are therefore as follows:

	2022.23	2023.24	2024.25
Consolidated repairs inflation	7.40%	9.20%	6.40%
Consolidated management inflation	5.25%	16.40%	9.35%
Construction costs	7.00%	10.00%	7.00%

** All costs assumed to revert to CPI+% 3.5% pa increases from 2025 (aligned with rent increases)*

6. Assessment of the level of the percentage rent increase required in April 2023 to meet expected costs, meet business plan requirements

Our impact assessment is set out in summary below, based on the above assumptions. To clarify, this assessment is based on our best calculations of likely actual changes in landlord costs due to projected inflation, as against the DLUHC Impact Assessment, which is based on a change in presumed rent income comparted to increases of CPI+1%.

[4] *In one case we are aware of a 25,000 unit RP in the North where annual costs of £4million have been quoted to increase to £18million.*

6.1 Projected net resources challenge 2023/24

The overall assessment of net impact on business plans for increases in expenditure as set out above and increases in income (principally rents) at the rates set out in the consultation is set out below.

As against the DLUHC assessment (for the sector as a whole) of a projected annual and 5 year impacts, our best assessment of the impact of each proposed level of cap is set out below, identified separately for each of the RP and LA sectors.

At a cap of 5% for 2023/24:

- LAs projected net loss of resources £400-500million – equating to between c5-7% of all operating costs (management, maintenance and major repairs) and c7-9% of operating expenditure excluding major repairs.
- RPs projected net loss of resources £750million-£1billion – equating to c7% operating expenditure or loss of interest cover of up to 15-20bps.

At a cap of 3% for 2023/24:

- LAs projected net loss of resources £600-700million – equating to between c7-9% of all operating costs (management, maintenance and major repairs) and over 10% of operating expenditure excluding major repairs.
- RPs projected net loss of resources £1-1.2billion – equating to c9% operating expenditure or loss of interest cover of up to 30bps.

At a cap of 7% for 2023/24:

- LAs projected net loss of resources up to £300million – equating to between c3-5% of all operating costs (management, maintenance and major repairs) and c5-7% of operating expenditure excluding major repairs.
- RPs projected net loss of resources up to £400million – equating to c3-5% operating expenditure or loss of interest cover of up to 5-10bps.

6.2 Impact of financial market movements

Movements in lending markets, base rates and gilt yields since the 23rd September announcement have led to volatility and unpredictability around the costs of finance to be assumed going forward[5].

However, work undertaken by Savills colleagues has highlighted that long-dated lending at rates being quoted on 3rd October suggested that this might take a further average 20bps off interest cover across the private RP sector.

Whilst just over 80% of the borrowing in the RP sector is at fixed interest rates (i.e. hedged against increasing interest rates in the short-medium term), rising interest costs will significantly reduce financial capacity, as well as lead to more short-medium risk as RPs turn to shorter-term loans with associated refinancing risks.

[5] For example, PWLB rates for 50 year maturity loans increased to c5.7% on 28th September but have since fallen to c4.2% on 3rd October bur risen again to c4.7% on 5th October

Early indications from the credit ratings agencies suggest that many associations could be subject to ratings downgrades, with the entire housing association sector at risk of potential downgrade.

This average will likely mask a large degree of pressures within those associations that have lower than average operating margins, higher than average liabilities towards stock investment, and in some cases, the implications will be to potentially breach covenants.

Taking the net impact of a rent cap at 5% combined with increased financing costs, our estimate is that around 30% of all RPs may trigger "golden rule" reviews of their lending covenants and business plans.

In these cases, a combined programme of revenue savings and cutting back on capital investment is likely.

6.3 Responses to prospective losses

We find a significant difference of emphasis between local authorities and RPs in regard to the approach to addressing projected net income shortfalls.

In general, many local authorities with HRAs have operating margins which are able (or have been able) to sustain capital investment borrowing for new development, for acquisitions and latterly for building and fire safety works (in some cases at scale).

However, there are two key differences compared to RPs:

- The general level of operating margin is below that of RPs (22% including major repairs in 2020/21)
- Surplus resources are as likely to be utilised as additional revenue contributions to capital programmes or even debt repayment, than to sustain additional borrowing.

In turn, this is likely to mean that reductions in net income are balanced through reductions in revenue expenditure (i.e. cuts in services).

Whilst LA reserves are in the region of £3.5-4billion, we have not picked up a trend towards thinking that one years' reduced rent increase would be addressed through drawing on reserves to any great degree, although in some cases this is likely to be part of the solution. Authorities are far more likely to hold onto reserves against future uncertainty beyond 2024.

For RPs however, the reduction in net income is likely to be initially measured as a fall in interest cover and options for rebuilding interest cover, recovering flexibility and resilience within the business plan taken as a rounded set of decisions affecting operating expenditure, investment in the stock and scaling back new build programmes.

Those RPs committed to Strategic Partnership programmes with Homes England are likely to feel pressure from three directions: construction cost inflation, challenges in programme delivery timescales given labour and supply chain shortages or contractor liquidations, and increasing borrowing costs.

These are prevailing issues irrespective of any cap on rent increase but will need to be addressed in the light of net reductions in operating margins.

6.4 Examples from research

Previous research undertaken by CIH during the course of the summer (and pre-dating the government's consultation) highlighted some examples of potential impacts:

Large private RP experience

- Rent cap and inflationary pressures are in context of significant additional investment in Building Safety (in this case more than £30m over the last two years, with a plan to spend at least £100m over five years) which was already pushing borrowing capacity to build additional affordable homes under SP programmes
- Rising costs associated with service delivery are exacerbated where there is a skills shortage, including technology/digital transformation roles, development and building safety roles
- Many providers face significant increases in pension costs, including employer funded past service deficit payments running to several £millions each year
- Responses to the need for more investment and to address these pressures have been to continuously review the cost base meaning that there is now "less to go at" than previously in terms of further efficiencies, without significantly adversely impacting services and homes

Medium-sized RP experience

- At 5% capped increase, and no change to energy efficiency and initial net zero carbon programmes leads to breach of interest cover (EBITDA-MRI) covenant by 2027/28; the RP operates a higher "golden rule" of 1.38 and therefore required to increase operating margins through reducing expenditure to cover at a rate above that level to allow for future additional stresses arising.
- Already have a Hardship Fund for tenants struggling to pay their rent. Consideration would be required to increase from £40k to £150k even with increases at 5%.

6.5 Summary

The "minimum rent increase required to stand-still" as stated by LAs and RPs engaged as part of this research effectively fall into the range of 7-9%.

Our research and analysis into the numbers suggests that these might be understated.

The combined impact of lower rent increases compared to increases in revenue and capital expenditure, and increasing financing costs, is likely to lead to significant challenges for many privately financed RPs in restoring resilience and flexibility to their business plans.

For local authorities, the choices are more likely to be focused on expenditure reductions, with particular challenges around investment into the existing stock.

7. Commentary on outliers (i.e. landlords with significantly greater cost pressures, landlords without new build programmes, landlords in the care business, etc)

7.1 Developing RPs

For RPs with large development programmes, the combined impact of net reductions in operating margin from the interplay between capped rent increases and higher inflation on costs together with increased borrowing costs is likely to lead them to reconsider the scale of programmes, certainly beyond the current Strategic Partnership programme period.

It should be noted that increased interest rates on borrowing are also likely to profoundly impact equity investment from new For Profit RPs; these bodies might otherwise have been able to take up some financing to maintain development and s106 acquisition programmes.

The impact of capped rent increases would therefore likely impact activities on those RPs with the greatest range of programmes. Those with lower reliance in new build programmes may be more likely to focus on their revenue and reserves position.

7.2 Fire and building safety, energy efficiency

Significant capital investment programmes financed directly from operating income or financed via borrowing are being focused towards the existing stock under these headings.

Our estimate[6] of an overall average of £7,500 per unit additional costs for the existing stock (over and above usual life cycle replacements in the forthcoming period) suggests c£12billion for LAs and c£18billion for RPs is already placing significant additional pressure within business plans.

The implications on private RPs have already been felt as many have negotiated carve outs for building safety costs for their interest cover covenants, and many lenders and RPs have agreed to focus on EBITDA[7] interest cover as opposed to EBITDA-MRI[8] interest cover.

The net reduction in interest cover across the board will be felt across both covenant approaches and lead to significant pressure in working through the implications of capital investment into the stock.

Given that many of these programmes are deemed essential in order to comply with legislation, and are also subject to 10% inflationary pressures, this is likely to focus the recovery of operating margins within RPs towards savings in day to day management and service costs.

---

[6] Savills research into fire, building safety and energy efficiency costs (to EPC C)

[7] EBITDA = Earnings before Interest, Taxation, Depreciation and Amortisation – the Net Operating Income arising from operational income and expenditure, commonly also referred to as Operating Margin

[8] Interest cover is a standard lender covenant comparing net operating income to interest costs measuring the headroom to cover costs should operating conditions change; in the last 10 years, lenders have focused on interest cover taking into account "Major Repairs Included – MRI" and setting on average c1.10 as a minimum hard covenant and 1.25 as a "Golden Rule" which triggers lender review; recent trends have been to carve out some major repairs from this calculation so that covenants are not breached; very recently many lenders have been prepared to revert to excluding major repairs from the calculation entirely, setting it higher (generally 1.75).

For LAs, it is not an overstatement to say that given the pressures on HRAs arising from net reductions in income (as above), if these essential programmes are to be completed, there is likely to be a need for direct capital grant support to complete the programmes.

7.3 Supported housing providers

Long-term measurements of operating margins applying within RPs differ significantly between general needs housing and supported housing.

Supported housing income and expenditure is rarely reported separately within HRAs hence evidence is local and anecdotal.

Margins for RPs are better measured and understood: general needs margins are approaching double those of supported housing and other activities.

Supported housing margins can vary between 10-20% and therefore pressure on net operating budgets significant from capped rent increases.

Conversely, the overwhelming majority of supported housing users are likely to be in receipt of benefit to cover rent and service charge costs. It is likely that the provision of these services would come under significant financial pressure if rents are capped below CPI+1%.

8. Commentary on implications for the longer-term rent settlement (e.g. convergence)

Our modelling has tested a range of scenarios which set out future rent increase trajectories beyond 2024.

8.1 Rent increase 2024/25

Until recently many commentators have tended towards a projection of CPI which falls sharply back to the long-term 2% OBR target but over a period of 2 years. This has informed our assumption of 6% for September 2023 (see above).

In the last 2-3 months, the trajectory for reduction has tended to be seen to be shorter, with the average of 14 economic forecasters now projecting CPI at 3-4% next September.

The implications of policy announcements towards energy price caps (domestic and business) could also have a significant impact on the level of CPI next September. For example, one report has suggested that the cap on energy prices could have as much a 5% impact on overall the level of CPI[9].

8.2 Rent increases beyond 2025

If it is assumed that CPI falls back towards its long term projection of 2% from 2025, it is likely that providers' boards and members will revert to CPI+1% for rent increase policies in line with former business plan projections.

However, we find the potential differences in approach between different providers to be a significant factor in future business planning between LAs and RPs.

[9] BBC report 23/9/22

8.3 Convergence to formula rents

Should the government cap rent increases in April 2023 but allow, as per the consultation paper, relet at target rents in line with the formula having increased the full CPI+1%, the following are key findings from our research and analysis.

Relet rates across the social housing stock vary widely but a consolidated average of no more than 3-5% annual churn is experienced across the sector as a whole, and in some cases (e.g for houses in London), this is considerably lower. Some properties churn more than once in a 30 year business planning period, some not at all.

Our estimate is therefore that only around 75% of stock will turnover in a 30 year business planning period.

The impact of this is that the loss of net revenue is never fully recovered, and to the extent that there is any recovery, it is gradual and extends over decades.

We have modelled "catching up" to formula rents over 5 years and 10 years across both sectors in order to test the implications on future rent increases over such these periods. Such a catch up process could be via a fixed period and add increases above CPI+1% for the relevant period:

Assuming CPI+1% for April 2023 is 11% and…

- Rent increases capped at 5%: average rent increases over a 5 year catch up period CPI+2.2% and over a 10 year period CPI+1.6%.
- Rent increases capped at 3%: average rent increases over a 5 year catch up period CPI+2.6% and over a 10 year period CPI+1.8%.
- Rent increases capped at 7%: average rent increases over a 5 year catch up period CPI+1.8% and over a 10 year period CPI+1.4%.

It should be noted that we have engaged around 20% of local authorities during the course of this and other research and in not one authority did officers feel that members would have the appetite to increase rents above CPI+1% for existing tenants from 2024 in order to catch up to formula rents.

This contrasts with RPs where it is felt there would be much more of an appetite to catch up to formula rents over a set period, taking into account pressures on tenants' income.

9. Commentary on other government policy issues that might affect the assessment (e.g. Right to Buy)

It is understood that there are a number of issues that are informing DLUHC officials' thinking in setting out the consultation paper.

In overall terms, the Government remains focused on the growth of supply in affordable housing and are therefore likely to want to test the impact of a proposed cap on rent increases on future delivery. We have highlighted some examples of the potential impact above. The combined impact of intervention in future rent policy with uncertainties in the lending markets is likely to mean that providers will be cautious about committing to large programmes beyond the current Strategic Partnership round – and in the latter case there are likely to be additional impacts on delivery timeframes given the challenges around supply chains and contractors.

CHARTERED INSTITUTE OF HOUSING: SOCIAL RENTS ANALYSIS

A commitment to a longer-term rent increase policy at CPI+1% is felt to be particularly important to enabling continued investment by traditional non-profit RPs and new entrant For Profit RPs, particularly given the increased costs of finance which are likely to prevail for the medium-term (i.e. higher costs of borrowing).

Additional impacts under consideration might include:

- The impact on quality and standards in the light of extensive adverse publicity (around for example damp, mould and condensation); whether net loss of income might lead to reductions in planned maintenance programmes and in turn risk deterioration of standards, increased repairs costs and increased disrepair claims.
- The potential impact on households which pay some or all of the rent: in particular the high "marginal impact" on households on partial benefit where other elements of household bills are also increasing significantly above wages. CIH research during the summer highlighted that for one large London-based RP, 25% of residents regularly found their rent unaffordable, 35% are already finding that they have "nothing left" after meeting all essential outgoings. Our research suggest that cost of living pressures already play into the current (2022/23) financial year with an increased risk of arrears at up to 10-15% of rent across the whole sector.
- The impact of inflation on energy, food and transport costs for households is likely to mean that paying rent is subject to further "diversion" to other essential costs (assuming as it conventional that paying rent would be the first of the essential costs to be reduced)[10] even before any rent increase for 2023 is considered. Assuming a low-end forecast for inflation in other household essentials of c10% for food, 5% for transport and recent increases to the energy price cap (before September 2022), we estimate the impact on households in the lower quintile of incomes, is that up to 25% of rent may be at risk of being "diverted" in this way[11].
- The parallel increases in interest rates and mortgage costs coupled with no significant fall in house prices experienced since the pandemic tend towards there being no specific driver towards greater Right to Buy volumes as a result of rent increases at higher rates. Even if rents were to increase 11%, mortgage interest rates are likely to increase proportionately higher.

10. Consider any options for restraining rent increases that the sector might offer and their implications

Whilst this element of the work has formed the basis of initial discussions with providers, assuming that the government's consultation process will result in the imposition of a cap on rent increases at some level for April 2023, the room for manoeuvre for providers has reduced considerably.

There is no doubt that without a cap most (if not all) providers would have exercised restraint on increasing rents at the full CPI+1%.

[10] Savills research based on JRF quintile household spending analysis 2020

[11] Savills research and analysis drawing upon JRF household spending by income quintile: https://www.jrf.org.uk/data/household-spending

CHARTERED INSTITUTE OF HOUSING: SOCIAL RENTS ANALYSIS

There are two points to highlight:

1. Our feedback from local authority officers is overwhelmingly that a rent cap might afford them a better opportunity to achieve any form of rent increase, given that many members might otherwise want to restrain increases further than such a cap.

   Many have indicated that a rent increase at 5% is more likely to be deliverable with a government cap than if the process was left entirely voluntary.

   It is still felt that would be a small number of authorities, particularly those with impending contested elections next May, that would restrict rent increases to lower than 5%.

2. The Rent Standard locks in rent increases to a level lower than target/formula increases for existing tenants.

   Unless the Rent Standard allows some form of "catch up" to formula rent, the imposition of a cap or the voluntary restriction of rent increases would have the same effect.

   An appeal by providers for a cap not to be imposed but to offer voluntary restraint would still therefore require amendment to the Rent Standard in order to allow catch up to formula over time.

11. Considerations relating to service charges and service charge increases

Whilst the government's consultation paper makes brief reference to service charges, highlighting that these are not subject to the Rent Standard and therefore not able to be influenced by national policy, there is an implication that the government wishes providers to exercise restraint and for providers therefore to consider restricting increases in line with rents.

A large component of service costs relate to communal heating, lighting and electricity. Best practice offered by providers would recover service costs £ for £ usually through a mechanism in which a budgeted amount is charged in one year and the actual adjusted in the subsequent year.

The scale and amount of service charges varies enormously between providers.

However our research and engagement with providers highlight the following:

- Historically local authorities may not have levied separate service charges, pooling rent income across all tenants and all costs. The de-pooling of rents to separate service charges has proceeded for 20+ years, also driven by the need to recover costs from leaseholders, and we note is more or less complete for all RPs (although there are likely to be some continued local exceptions).
- Where there are high numbers of leaseholders, for example in London, rent pooling is not common.
- However in many cases, this process has not been completed by local authorities. Our estimate is that around 80% of authorities have not fully de-pooled service charges.

As a result of inflation in energy, repairs and housing management costs, it is likely that service cost inflation is running well above CPI. For those service charges with a high component of energy costs, we would expect these to be much higher. For example, if communal heating charges are (say) £5/week in 2022/23, a five-fold increase passed on directly would increase that component of the service charge to £25/week.

Notwithstanding the announcement of energy caps for providers (*details tbc*) increases at this rate are unlikely to be sustainable for providers and tenants.

There is therefore a risk of a mismatch between service costs and charges in turn risking a degree of "re-pooling" of rents.

RPs may take the view that a form of "catch up" on service charges would be appropriate over time. For many LAs, our research suggests that any re-pooling of rent income would likely stay in place for much longer periods of time.

12. Feedback as to how members and boards are viewing rent increases in the light of cost of living pressures on tenants

12.1 Cost of living mitigations

Up to two thirds of tenants are on some form of Housing Benefit/Universal Credit support for rents and benefitable service charges, with around three-fifths of income covered by benefits. Many providers have recognised that a full CPI+1% rent increase in April 2023 would be covered to this extent by benefits, focusing hardship on those required to pay their rent, particularly those on partial benefit.

One response has been to consider "rent relief" funds developed by charging the full rent increase and allocating funds to cover hardship for those unable to pay the full increase.

Our research and engagement with providers suggests that a significant minority of RPs (more rarely LAs) have such an approach under detailed consideration, but that a larger number consider the approach to be inappropriate.

It is understood that feedback from many tenants and residents groups is that the approach is unpopular, the key line being that unaffordable rents should not be charged in the first place.

The capping of rents will reduce options for providers to implement such measures in any case as net operating margins will reduce.

12.2 Shared ownership rents

This kind of approach has also been extensively discussed by RPs in the context of shared ownership rent increases where the RPI+0.5% annual indexation driver is likely to drive 10%+ increases, at a time when mortgage rates are also increasing. The approach is characterised by implementing the full increase to headline rent levels, but opting to charge a lower increase in the next year (or two) followed by a catch up thereafter. Legal advice has been received that suggests that such an approach is able to be implemented and therefore an option for boards to consider.

Savills Affordable Housing Consultancy
October 2022

Annex 1

Blended inflationary drivers from our research

	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28
General CPI		10.00%	6.00%	4.00%	2.00%	2.00%
Pay award LAs	5.00%	6.00%	4.50%	3.00%	3.00%	3.00%
Pay award RPs	5.00%	5.00%	5.00%	3.00%	3.00%	3.00%
Contractors	8.00%	10.00%	7.00%	4.00%	3.00%	3.00%
Supplies/materials	8.00%	10.00%	7.00%	4.00%	3.00%	3.00%
Utilities costs	30%	100%	50%	5%	3%	3%
Construction	7.00%	10.00%	10.00%	5.00%	3.00%	3.00%

** As set out above, these estimates are based on a blend of indices data (which vary monthly) and experience of feedback from RPs and LAs, set as an average across both sectors; we might usefully state that we would expect these to be a minimum for modelling purposes.*

Valuation assumptions September 2022 (Quarter 4)

Savills Assumptions September 2022 - CPI Base			Major Works Cost Growth		Maintenance Cost Growth	
	Annual CPI (general)	Q4 CPI (rents)	Nominal	Real	Nominal	Real
2022/23	8.50%	10.00%	9.05%	0.55%	8.35%	-0.15%
2023/24	5.10%	4.50%	4.10%	-1.00%	4.10%	-1.00%
2024/25	2.50%	2.50%	4.00%	1.50%	3.15%	0.65%
2025/26	2.50%	2.50%	3.50%	1.00%	2.95%	0.45%
2026+	2.00%	2.00%	2.50%	0.50%	3.00%	1.00%

Submission via email: Socialhousingrents@levellingup.gov.uk

Clarion Housing Group
6 More London Place
Tooley Street
London
SE1 2DA

12 October 2022

Social housing rents consultation

We welcome the opportunity to comment on this consultation. Clarion Housing Group manages 125,000 homes, housing 350,000 people across over 170 English local authorities. We exist to make a difference through providing homes to those who need them most.

Our mission has never been more important. In 2022 there are still not enough homes. Demand far outstrips supply; overcrowding is rife and many families who might benefit from a social tenancy are unable to get one. Many of the social homes we do have are getting older and more difficult to maintain. Costs are rising, squeezing people on low incomes even more.

The unfavourable market reception of the Chancellor's Emergency Budget on 23rd September and resultant increased interest rates has added pressure to HA business plans. This volatility means that initial financial analysis of impacts can only be provisional, and reinforces the need for individual Boards to have flexibility to respond as required over the coming years. These turbulent conditions have also fundamentally altered the opportunities Housing Associations had to deal with the cost of living pressures residents are facing without more significant impacts on delivery.

It is in this context that we respond to the Rent Cap consultation. Ultimately, we believe that Housing Association Boards should control rent setting so we can respond appropriately to current conditions, whilst taking a long term view in pursuit of our mission. Because of the close understanding we have of our residents, and the challenges they are facing, we are best placed to make these decisions. Before this consultation was announced we were actively planning for significantly below inflation rent increases.

As part of this consultation response, we will highlight the following concerns about the proposed cap:

- Resident support – we provide a huge range of support services to our residents and communities through Clarion HA and Clarion Futures. Our ability to continue with these will be constrained at the time when they are most needed
- Stock quality – if rents are further supressed the wider investment programme in our homes will be impacted
- House building – we will build fewer homes for people who need them
- Financial resilience – combined with increased inflation and interest costs a rent cap would require significant additional cost reductions at a time when we are being asked to deliver more

- Long-term impact - below inflation rent increases have serious long-term consequences unless mitigated through mechanisms to protect income in future years

The understanding we have of our customers informs our decision-making, including rent setting. It is why the average rent we charge is just 55% of LHA which demonstrates how low our rents are compared to the market. The affordability crisis in the context of rented housing will be most felt in the Private Rented sector, not affordable housing. Rent caps is a blunt tool to deal with a complex problem that is unlikely to save most of our residents any money.

In the event of a below-inflation rent settlement, the biggest beneficiary will be the public purse due to a reduction in associated housing benefit costs. There is an opportunity for government to reinvest this saving in improving the energy efficiency of the nation's housing stock, reducing costs, fuel poverty and carbon whilst giving a much needed boost to industry.

Impact of the proposed caps

On improving our existing homes
Whatever the outcome of this consultation, we will continue to prioritise our building safety programme. This saw us invest £40 million on our fire safety programme last year with an intention to make similar commitments over the next few years. We would also continue to prioritise our demand-led repairs service although any cut in investment programme will unavoidably increase the costs of running this service, further constraining the business.

The modelling we have done shows that any cap on rent will have an immediate and significant impact on the investment we make in our homes. This is the only place we can make savings of this magnitude in the short-term with reductions in new homes coming later. This comes at a time when the quality of social and affordable housing stock – caused by generations of under investment - is under scrutiny with the Housing Ombudsman, the Regulator of Social Housing and Clarion committed to driving up standards.

The impact on our investment programme could include:

- planned works programmes which improve the wellbeing and comfort of resident's homes – a 3% cap on rent increases would require a £55m reduction per annum in our programme for the next two years, with other impacts to follow
- scaling back efforts to decarbonise and retrofit existing homes hampering progress towards achieving EPC C rated homes by 2030, delaying residents benefitting from warmer homes and extending fuel poverty
- regeneration schemes will become unviable without significant other trade-offs, leaving residents in unfit accommodation, potentially for many years.

Linked to these factors, as homes become more difficult to invest in we would expect to see increased disposals of stock, where the cost to maintain and repair is too high. This risks pushing poorer performing stock into the PRS rather than improving it.

On the pipeline for new homes
A reduction in new home building programmes is inevitable. At the point where a contraction in the housing market is expected, and as S106 is being dismantled, Housing Associations are being called on to act counter-cyclically to increase development delivery. This call is at odds with a rent cap. A 3% rent cap would mean a reduction in our new build targets of around 700 homes per year. The collective reduction in house building across the sector will

decrease activity and investment in the construction sector, constraining growth as we potentially head into recession.

On the support we provide

Our charitable foundation Clarion Futures provides additional support to residents living in hardship. The years of experience we have positions us well to provide a range of support:

- referring residents to local crisis support (food banks, local assistance funds or holiday hunger programmes funded by Clarion Futures' community grant funds).
- signposting a comprehensive range of specialist support services to address underlying causes of poverty and provide lasting resolution.
- extended the remit of our existing Food Poverty working group to act as a Cost of Living Crisis working group to support practical implementation and development of Clarion's response.
- delivery of training, digital skills and employability coaching

Many in our sector provide similar levels of support. Yet the scale and depth of the current crisis is at such an extent that large scale, sustained Government action and assistance is required to ease the financial burden of soaring bills and below inflation income increases. The proposed rent cap risks the funds (currently £10m per annum) we have available to provide and extend support and as the need grows, our ability to support could reduce.

Government's £400 fuel rebate and the recent 1st October cap on energy prices are welcome, but further support is needed. It is essential that benefits are uplifted in line with inflation as previously promised to avoid subjecting thousands of our residents to even greater hardship. Uplifting benefits will support 90,000 Clarion households.

If a rent cap were to be applied, the savings to the Treasury in housing element of welfare benefits should be diverted to back to HA residents by funding investment in stock, regeneration and energy efficiency programmes which would provide immediate direct benefits by helping alleviate fuel poverty while also stimulating economic growth.

On financial resilience

As a not-for-profit organisation our surplus is reinvested entirely in our homes and services to residents. We already invest significantly more than our surplus each year through responsible borrowing to sustain our activities supporting residents – for example, in 2021/22 we made a surplus of £186m but invested £638m in new and existing affordable homes. We can only continue to do this from a position of financial security.

Credit rating agencies are publicly concerned about the impact on sector ratings. In recent years, individual Housing Associations have raised hundreds of millions via bond issues supported by our ESG credentials. However successful we have been at bringing in large-scale investment in the past, costly extra debt funding will not make up for lost income. As the risks of the whole sector's credit rating being downgraded increase, borrowing becomes harder and more expensive (on top of the recent significant increase in interest rates).

Combined these factors have a significant impact on the difference we can make to our residents and wider society: support services, investment in homes and building desperately needed new housing.

Longer-term impact and mitigation

Despite being framed as a temporary adjustment, even a single year rent reduction impacts on Housing Associations' business plans in perpetuity unless some clawback mechanism is in place for future years.

For example, the 2015 rent freeze consequences were deep and long lasting. After four years, our income was £86 m per annum less than what it would have been had we increased by CPI +1. Over 15 years, this scales up to £1.3 billion – the same as the investment we are making in the large-scale and much needed regeneration of three Merton estates. Income reductions of this scale can only be offset by reducing investment in our homes and reducing new build levels. The proposed rent caps here will be even more significant.

Both G15 and NHF have suggested a variety of mitigating measures; such as a catch-up rent convergence mechanisms or voluntary rent waivers, that might protect renters while minimising the long-term impact on HAs. We would strongly encourage government to consider these alternative actions. A blanket cap has apparent simplicity and transparency but it fails to recognise the diversity and complexity of our rents.

Wider impact

Working nationally across different housing markets and rental areas gives us a degree of financial resilience, meaning Clarion starts from a better position than many organisations, who will be struggling to maintain viability and compliance. We will however be making the same hard decisions - what services and investment can we cut? G15 has quantified the potential significant losses for its 12 members and it is reasonable to extrapolate this up to the whole sector, to the aggregate scale of impacts that CIH and NHF have been reporting. But the impacts across the country will not be felt evenly. The consultation document admits that small (>1,000 homes) HAs will be hit hardest, but all HAs will have capacity constrained, potentially undermining desired acceleration of delivery of additional housing.

Conclusions

Clarion will continue to work in pursuit of our mission. Our robust financial profile provides some limited headroom to maintain viability and compliance, but this is not the case for the whole sector already grappling with fire safety costs, cladding, decarbonisation and now high-levels of inflation.

We are in a time of significant economic uncertainty and volatility with many people struggling. The proposed rent caps undermine Housing Associations' ability to support our residents at a time when they need it most. These impacts will be felt for a long time with reduced investment in improving their homes or building new ones for those in need.

We target our resources to reach households on low incomes who need our help the most, keeping our residents interests at the centre of all the decisions that we make. This is why Housing Association Boards are best placed to make decisions around rent levels ensuring that competing demands are balanced to make the most difference to the people we are here to serve.

Our responses to the specific questions are below. We would welcome the opportunity to discuss these important issues further.

Yours sincerely

[redacted]

[redacted]

Question 1: *Do you agree that the maximum social housing rent increase from1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?*

We share Government's concerns about the impact of rapidly rising household costs, energy prices and food bills, on low-income families and the desire to help protect these households by providing certainty over their housing costs.

However, imposing a mandatory rent cap removes Housing Association Board autonomy to make rent decisions and fails to take into account that most Boards would have found a potential 11% rent increase unpalatable for their residents. As well regulated, not-for profit organisations, we feel the sector should continue to set rent levels independently within the existing framework, based on our understanding of our residents' financial circumstances.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

According to the financial forecast returns sent to the RSH, many RPs have already been modelling and seriously considering a far lower limit than the maximum of CPI+1%. As a business for social purpose Clarion would behave responsibly and strike a balance setting rents levels between what is affordable to residents and the funds needed for maintenance and investment in our existing stock, building new homes and providing wraparound support for residents. We already charge low rents and are actively considering limiting the rent increase to significantly below inflation.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling?*

Rent caps at the lower end of those being consulted upon are going to prove very challenging for the sector and require Housing Associations to make very difficult decisions. We strongly feel that decisions around rent levels should be for individual Boards to make, given the range of different circumstances and needs in the sector and experienced by the people we are here to serve. If Government is determined to introduce a cap it should be in the form of a direction to Boards to apply a ceiling but with an upper cap at the 7% level to give those HAs under financial pressures some margin. Any money saved by the Treasury from reduced benefit payments towards housing, should be ring-fenced to assist residents in the form of retrofit grants to pay for energy efficiency measures.

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment?

The lost income from reduced rents will affect all aspects of our activity. Primarily, the work we undertake to maintain and improve our existing homes and our new development pipeline will be significantly impacted. Alongside this, the services and support we can provide to our residents will be affected.

In a scenario that reflects a combination of the rent caps, cost inflation and interest rate increases, under a 3% rent cap scenario we would see the following potential financial impacts:

- Reduction in our investment in existing homes of £55m per annum over the first two years of the cap. This would restrict works to improve the homes of our residents, particularly those related to energy efficiency in the home to reduce exposure to fuel poverty
- Reduction in our new homes target of around 700 homes per year
- We recognise that these impacts would not be solely caused by the rent cap. We currently anticipate that rising inflation rate will cost us between £20m and £30m per

annum over our previous expectations, with the recent increase in interest rates also adding an additional cost of c. £20m.

- By applying a blanket restriction to the rent increase, we would lose flexibility to manage and optimise our investment programme both in existing and new homes
- A deep 3% cap would also risk seriously derailing large-scale regeneration projects, as well as delaying the delivery of more routine planned programmes. A 5% or 7% cap will require similarly challenging trade-offs.
- Each % of a rent cap reduces the rental income achieved to cover current and future obligations meaning more people will live in overcrowded conditions in declining quality homes.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

If a cap is to be applied, then it should be for a single year. The current economic volatility reinforces the importance of taking a cautious and step-by-step approach. The modelling exercises undertaken by the NHF, G15 and other HAs to assess the likely impacts can usefully be updated to inform the 2025 rent settlement consultation. Regardless, Government must provide the clarity that this is a temporary policy and does not replace the need for a 2025 rent settlement.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Yes. We agree that any proposed ceiling should not be applied to first letting and subsequent lettings of both Social Rents and Affordable Rent homes.

Clarion already voluntarily applies a LHA ceiling to our Affordable Rents. The pressure put on Affordable Rent is magnified by the unavoidable increases in the service charge element which is included in the rent amount. Some service charges, for example those containing communal heating charges will have doubled due to the fuel increases, yet the rents can only be increased by CPI+1 or less depending on the outcome of this consultation.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

We feel that supported housing should be exempt from any cap, not merely in recognition of the challenging viability of the supported funding model, but because of the consequences to this highly vulnerable client group. If, as is likely, HAs with supported or specialist housing reconsider their ability to provide a safe level of service, potentially handing back, or scaling down contracts with Local Authorities, those residents in most extreme and immediate need will be put at risk.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Community Gateway Association Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Harbour House, Port Way, Ashton-on-Ribble, Preston PR2 2DW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

While the Board of Community Gateway Association (CGA) understands the reasoning, it does not support the government directly intervening and setting a rent ceiling in addition to the existing CPI+1% limit. CGA believes that it is best placed to make decisions about rent increases, reflecting the nature and understanding of its tenants, homes, and business. This belief is supported by the strength of the governance arrangements at CGA, currently holding the highest regulatory grading from the Regulator, and the prominence of the tenant voice in our strategic decision making.

CGA would increase rents in April 2023 but this would be subject to the active consideration of several factors including:

- Affordability of our rents and knowledge of our tenant's ability to meet any rent increase. Affordability assessment would take into consideration a comparison of our rents with other registered providers of social housing locally alongside a reference to the Local Housing Allowance and Private Rented Sector rent levels, and other local salary/income data.
- Assessment of inflation levels generally and the impact on existing business costs, supply chain resilience and workforce pressures around recruitment, retention, and wage growth.
- Assessment of the impact of future funding for key activities/services such as maintaining standards of homes and improving building safety; building of new homes affordable housing and delivery of energy efficiency and longer-term carbon neutral requirements.

While we are not able at this stage to firmly state what the outcome of these deliberations would be nor what level of rent increase would have been set the Board of CGA are in agreement that taking into account the current challenges around cost of living it is very likely that a rent increase below CPI+1% would have been agreed.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

As stated in our response to question 1 we do not agree with the government imposing a ceiling and instead believe housing association boards are best placed to decide on rent increases after taking into consideration the factors mentioned previously.

Should a ceiling be introduced CGA feel that a 7% ceiling would be the most appropriate and provide the greatest discretion for the Board when making a decision on rents after considering the relevant local factors that impact any rent increase decision.

Given inflationary pressures on the business being in excess of the current rate of inflation, and the competing priorities that we have over the short and long term, any rent ceiling will have a detrimental impact on what we are able to deliver as a business. The introduction of a one-year 5% rent cap would see rental income reduced by c£11m over 5 years, and over the life of our business plan the amount of rental income available to re-invest would be reduced by £84m. With costs growing at a greater rate than income it will inevitably lead to some difficult choices and challenging trade-offs which need to balance the needs of our tenants and the viability of our business.

While seeking to improve the efficiency of our operations is always a focus, the impact of any cost savings will ultimately lead to a programme of cost savings being introduced in order for the financial viability of the organisation to remain at a tolerable level.

These costs savings will reduce our ability to build much need new affordable housing – and will lead to fewer homes being built, and the homes that are built being delivered over a longer period of time. The tenure mix is also likely to be impacted, with fewer affordable rented homes being delivered in total and a reduced focus on supported housing given the premium this costs to deliver and the increasing uncertainty that rental income will be sufficiently secure on this for long term strategic development.

Our ability to continue to invest in our tenant's homes to the same quality standard will be negatively impacted. We will continue to ensure that current quality and safety standards are adhered to however any capacity to meet any planned enhanced standards will be severely restricted, as will our ability to improve the energy efficiency of our tenants homes over the next few years. Zero carbon works will be pushed back and even more difficult to deliver.

Cost savings will also have to be found from day-to-day tenant services, with many services already stretched to capacity following Covid, and the challenges around inequalities and mental health that continue to increase. Our focus on wider community support services, such as financial advice and support, skills, employment and training, community cohesion, isolation and loneliness, youth engagement, homelessness, and the continued support of the voluntary sector through grants and other resources, will most likely be significantly reduced with a greater focus on landlord responsibilities rather than being a trusted, locally based provider of housing and community support services. This will come at a time when this type and range of advice and support services will be in real demand, and must form part of the government's framework to improve life chances, to level up, and to get the economy moving so that it is fairer for everyone.

Should the government determine that a rent ceiling is to be imposed then we ask that consideration be given to options to mitigate the impact that this would have on the important work of housing associations up and down the country. The loss of income from a one-year rent ceiling would be significant, and more so for a two-year cap, and so we encourage the government to actively consider how this 'lost income' could be recouped in future years when inflation levels are at or closer to the 2% target. The introduction of some form of rent waiver or catch up mechanism would provide some assurance that the impact from any rent ceiling would be limited to the short to medium term. In addition, the government should consider how best to ensure that the important work around developing more affordable homes and improving the energy efficiency of existing homes is not severely curtailed by the proposed rent cap. Additional grant funding to support the continued development of new homes or targeted funding to support energy efficiency measures would help offset some of the impact from any rent ceiling decision.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Should a rent ceiling be introduced we believe a one-year ceiling is most appropriate at this stage given the economic uncertainty currently. Should high levels of inflation persist into next year then we reiterate our belief that the decision on any rent increase for April 2024 should be determined by each housing association independently but in keeping with the existing policy that limits rent increases at CPI+1%.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:

As stated above, we do not agree with the government imposing a ceiling and instead believe that this should be subject to individual organisations' circumstances to decide. In keeping with this position, we agree that any ceiling should not apply to the maximum initial rent that may be charged on first lets and relets. This is not to say that the Board of CGA will charge a different rate on first lets or relets should a ceiling be imposed but it retains the flexibility to do so should local factors support this decision.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:

CGA would ask that supported housing be exempt from any rent ceiling given the specific financial challenges that this type of accommodation has. Of particular challenge to CGA is the impact rising costs are having in our purpose-built extra-care and homeless support facilities. With the total affordable rent chargeable being capped but service charges (e.g. for energy) rising considerably above the rate of inflation the net available rent effectively reduces and leads to viability challenges as rental income will not be sufficient to repay the debt borrowed to develop the schemes. Going forward much needed developments of this type would be determined too risky to progress should rent policy not provide adequate certainty that the significant capital investment required can be safely and effectively financed.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Crosby Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	10 Church Road Waterloo, Liverpool L225NB
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?

■ **No**

We are a small housing Association with 440 homes. We are community based and work closely with the Local Authority and the community voluntary and faith sector. Around 17% of our tenants have a severe and enduring mental illness. The key focus of our business plan is investment in our tenants' homes and growth through the provision of new homes. Our surpluses are small, so we have to manage resources very carefully.

Government intervention in relation to the 1% reduction imposed between 2016 and 2021 has already impacted on our income levels and for us this leads to delays in the plans we try so hard to achieve.

As a small community based provider, we work directly alongside our communities, and we are acutely aware of the impact the cost-of-living crisis is having on them and our tenants. We are committed to offering support where we can, and we already provide additional targeted interventions to support the most vulnerable.

We believe that finding the right balance of rent increases, support and the financial demands for individual small housing Associations should be left to the discretion of individual Boards. As only they have the knowledge and understanding to weigh up the complex issues involved in terms of investment demands and the needs of our tenants.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Rising costs are having a negative impact on everyone. The Government understands that the costs of providing services and investment in homes is rising rapidly, and that the economic climate is extremely uncertain. Cost and affordability pressures on our business plans already exist and imposed rent caps will only make it harder for us to deliver.

We ask government to recognise that we, a small community-based organisation, would not make decisions without considering very carefully the potential impact on our tenants.

We have yet to agree the details with the Board, but given our long-standing business approach to the welfare of tenants we would not look to maximise rental income for 2022/3 through applying a full CPI+1% increase.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling?**

■No

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

The compounded impact of rent restrictions is significant. Rents are our sole source of income and the rent cap is significantly below inflation. We are faced with a perfect storm, we face increased property investment requirements, ongoing inflationary pressures and increasing demands of regulation and the new Decent Homes standard.

To have income uncertainty at this same time presents a significant challenge not just in the short term but over the longer term and it will affect our ability to invest in our stock and to generate the surpluses necessary to build up funds to provide additional supported accommodation and to build the new homes that are desperately needed.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

■Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

Ultimately we believe that the ceiling should not be applied at all. If a ceiling is applied then it should be for April 23 – March 24 only. It is too early to be able to predict the inflationary rate for a second year. Rents beyond 2023/24 should be the subject of a much more informed debate

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒ **<u>Yes</u>**

Absolutely. Although we have low turnover, and this will have little or no impact on income generation. It is important to maintain target rent levels as these fell back during the 4 year period of rent reduction referred to earlier.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☒ **Yes**

We feel that supported housing could be exempted but much of the issue here relates to service charges which do not form part of this consultation.

Previous decisions involving the rent cut and the subsequent reintroduction of rent increases had a significant and negative impact on the secure rent regime. These rents are set through a different legal framework led by the Rent Officer from the Government's Valuation Office. We have around 40 tenancies still holding secure tenancy agreements.

We believe that, across Government, there is a gap in understanding of all the rent setting frameworks still in place. As a result, there are unintended consequences that emanate from Government decisions. We would ask that careful attention is placed on improving understanding of these circumstances before decisions are made.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	District Councils' Network
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	18 Smith Square, London, SW1P 3HZ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

We understand the government's motivation in proposing to limit the level of rent increase at a time when many social housing tenants are under significant financial pressure. However, we do not believe any limit should be centrally and universally imposed.
We believe it is best for individual councils to decide the level of social housing increase in their own areas. All councils will be very mindful of the pressures on their

tenants. They will also know that increasing rents too steeply in the current climate will likely lead to higher arrears and collection costs. Local councils (and other Registered Providers) are best placed to decide how best to strike the balance between protecting their tenants from unaffordable increases and collecting the rental income that will allow them to invest in maintaining and improving their social housing stock for the benefit of their tenants. This balance will differ between local areas. A centrally determined limit is a blunt instrument that is likely to have negative implications for at least some stockholding councils and their tenants. The elected leaders of local councils should be trusted to judge the right level of increase, taking into account local circumstances.
We do not have enough evidence to conclude how many councils would opt to increase rents by CPI+1% if no fixed ceiling were imposed. From a small sample survey of stock holding district councils conducted last month, only one council indicated that it would be very likely seek to increase rent by CPI+1% if that were permitted. One council indicated that it would face hard choices and that increasing rent by a lower amount would restrict its ability to invest in maintaining its housing stock – but this might be a choice that local councillors would take. The majority indicated that they would be unlikely to increase rent by CPI+1%.
Councils will typically opt for rent increases that allow them to cover the increase in the cost of running their HRA. On average, the councils in our small sample group currently expect the total running costs of their HRA to increase by 6-8% in 2023-24 (compared to 2022-23). This gives an indication of the level of increase that would be required if councils were to maintain the balance of their HRA budget and to stick to their current plans for maintaining their stock.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

X No

☐Maybe

Comment:

We do not agree with the principle of imposing a ceiling. However, if a ceiling is imposed, it should certainly be no lower than 5%.
Evidence from our sample survey suggests that a 3% ceiling would have a negative impact on maintaining housing services at their current levels. In some cases it would mean that essential maintenance would need to be delayed or it would force councils to increase borrowing. In many cases it would put at risk investment in upgrading social housing (for example to improve energy efficiency) and building new homes.
Some councils in our sample group indicated that they might be able to absorb a 5% ceiling without a significant impact on their existing HRA programmes and plans – assuming that inflation and pay pressures do not increase beyond current estimates and also assuming that the ceiling would only apply in the 2023-24 financial year. Others indicated that a 5% ceiling would be too low. It is likely that a 5% ceiling would

leave less in HRAs to invest in capital programmes to build new affordable homes. This would undermine the government's aim of delivering more affordable housing at a time when it is urgently needed.

If the government imposes a ceiling, 7% would be preferable to maximise the chances that few councils would have to make short-term and counter-productive cuts to HRA services and plans.

We have also considered how far HRA reserves could help councils bridge any funding gap caused by a rent ceiling. Around 70% of our sample group indicated that HRA reserves would help only to a small extent or not at all. At best this would be a short-term and partial solution.

If the Government goes ahead with imposing a ceiling, it should be prepared to look favourably on any request for compensatory funding from councils that can demonstrate a significant adverse impact on health and safety, day-to-day maintenance and upgrading works including energy efficiency improvements. For example, "significant adverse impact" could be demonstrated by a council needing to draw on reserves, over and above pre-existing plans, in order to undertake those functions.

Finally, we think it is important that policy on uprating benefits aligns with policy on rent increases for social housing. If a ceiling on rent increases is higher than the increase in benefits, it will increase non-payment of rent from social housing tenants who rely on benefits and hence rental arrears for stockholding councils. Taking all things into account, we think any rent ceiling should be higher than 5% and that increases to benefits should be no lower than the ceiling chosen.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No

☐Maybe

Comment:

Our firm view is that any ceiling should apply for a single year only.

The key point is that it is premature to make a decision now about rent levels in 2024-25. The justification for introducing a ceiling in 2023-24 is to tackle the acute cost-of-living pressures that are almost certain to affect social housing tenants during that year. We do not yet know how far inflation or other cost-of-living pressures will recede after that point. If inflation remains high beyond October 2023, the government should consult again at that point.

Some councils might be able to absorb the impact of a ceiling for a single year with minor implications for their HRA. Extending any limit for a further year is likely to have a long-term impact on investment in decent housing for many councils. It is also likely to cause councils to rely on using reserves (where they can). This would not be a sustainable funding strategy.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☓ Yes
☐No
☐Maybe

Comment:

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☓ Maybe

Comment:

In general, we think any ceiling should be simple and have few exceptions to ensure it is equitable. However there is a case for considering an exception for temporary housing held in an HRA.

[redacted]
Memorial House
Whitwick Business Park
Stenson Road
Coalville
Leicestershire
LE67 4JP

T 01530 276000
E enquiries@emh.co.uk
www.emh.co.uk

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Via email: Socialhousingrents@levellingup.gov.uk

12 October 2022

Dear Sir/Madam

Response to Rent Ceiling Consultation

I write on behalf of emh group to respond to the consultation document on the proposed rent caps. The responses below are made within the context of our overall concern about the impact of high inflation and increasing cost of living experienced by our residents and communities.

We believe the current rent policy of maximum rent increases within the CPI+1% formula provides a framework within which there is scope for sub-inflationary rent increases to be applied by social housing providers. The Boards of these organisations are best placed to make such decisions in consultation with their residents and stakeholders.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not believe that there should a specific ceiling over and above the existing CPI+1% formula. The decision to apply the rent increase within the overall constraint of the existing rent policy should be a matter for Boards to decide. We are all too aware of the cost of living pressures on our residents and for this reason our Board is not minded to apply the full rent increase allowable under the current CPI+1% formula. Our Board would make this decision in the context of our Business Plan objectives and in consultation with our residents and stakeholders. The Board is well placed to make the decision to increase rents with due regard to our customers' experience, as well as our objective to invest in new and existing homes. The latter includes investment to improve the energy efficiency of our existing homes to address fuel poverty.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

As mentioned above, we do not agree with the imposition of such a ceiling. The existing rent formula acts as an ultimate ceiling and, as mentioned above, our Board would want to apply an increase well within this policy. However, if a ceiling must apply, then this should be set at 7%, as this would minimise the reduction in the number of new homes built and investment in existing homes. By way of illustration, the loss of a 1% rent increase would lead to a loss of 545 new affordable homes, which represents around 20% of our target for the delivery of new homes over the next five years. Similarly, the loss of this rental income would mean that we would not be able to bring 450 of our existing homes up to an EPC level C over the next 10 years. This would mean fewer homes that are energy efficient and more people in fuel poverty. [redacted]

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Whilst we do not believe a ceiling would be appropriate, if any such ceiling were to be imposed, then it should under all circumstances remain for one year only.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

The proposed ceiling should not apply to initial rents or to relet properties. As an organisation with around 1,000 new lets and relets per year, the application of such a ceiling would add additional pressures on our rental income.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We believe that care and support housing should be exempt from any rent increase ceilings. Such services provide valuable support for the most vulnerable in society, including people who are homeless or those with learning difficulties. These services are largely funded by local authority commissioning income or through the welfare system and are run on much smaller margins and very often at a loss.

We have also submitted a response to the consultation through the online survey. If you have any questions or wish to discuss this further please feel free to contact me.

Yours sincerely

[redacted]

The Guinness Partnership: Response to Consultation

Department for Levelling Up, Housing and Communities
Consultation on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rents policy

October 2022

About the Guinness Partnership

The Guinness Partnership is a 64,000-home housing association delivering housing and care services to 140,000 residents across England. We were founded in 1890 to improve people's lives and create possibilities for them. That mission continues today.

Our vision is for Guinness to:

- be one of the best service providers in the housing and care sectors;
- provide as many high-quality homes as possible, and to play a significant part in tackling the country's housing crisis;
- be one of the best employers in the country; and
- be a strong and efficient business that does things well, and that people can trust and rely on.

We welcome the opportunity to respond to this important consultation.

1. **Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?**

No.

The cost-of-living crisis presents a huge challenge for households across the country. This is particularly the case for those of our residents who are on lower incomes. The rising cost of food, energy and other day-to-day essentials will mean that the coming months and potentially years will bring financial difficulty and anxiety. We understand therefore that the decisions we take around rents are significant, and it is right that both the Government and our sector give serious consideration to finding the right balance.

However, we do not believe that a specific ceiling on all social rent increases is the best approach to protecting residents from the cost of living crisis. Different social landlords face different challenges, and a one-size-fits-all approach risks creating significant difficulties, potentially even existential, for some organisations. For others, any ceiling will leave us having to make strategic choices about which elements of our housing offer to reduce, postpone, or even withdraw.

In our view, the boards of individual housing associations are best placed to make decisions about the level of rent increase next year, as they have the clearest and strongest understanding of the financial demands on their organisation and the cost of living pressures facing their residents and communities. While a rent increase significantly below inflation will bring short-term relief to some residents, the longer-term impact of the rent reduction is likely in many cases to be lower quality housing services and reduced investment in both existing and new homes, including in relation to the safety and energy efficiency of existing homes. We believe that this is not a desirable outcome for either existing or future social housing residents.

<u>Our rent setting policy and our support for residents</u>

Guinness has always set its rents according to a policy that takes affordability and local factors into account. We do this by comparing the uplifted rent with: one-third of local incomes using Office for National Statistics data; the Local Housing Allowance cap; and 80% of market rent. Where raising rents would mean a breach of our affordability measures we either restrict the increase to a level at which they would remain affordable according to our tests, or hold rents at their current level.

Beyond our affordability tests, we take further steps to support our residents on lower incomes through a wide range of both direct and partnership-based activity with the aim of helping to alleviate hardship, provide opportunities around education, employment and training, and build more inclusive communities. Last year we invested £2.3m in these activities enabling us to support 12,800 households to maximise their income to pay for rent and other living costs. We also supported a network of eight food pantries to provide access to good quality and affordable food for over 3,000 households in our communities. Alongside this we have significantly increased the size of our hardship fund to help residents in the most need to access food, fuel and furniture.

Importantly, this support is targeted towards households in higher need.

We think this targeted approach is the most effective way we, as a landlord, can help our residents through the cost of living crisis.

Notwithstanding our view on a specific ceiling, as a not-for-profit organisation that is very mindful of the impact of the cost of living crisis on our residents, Guinness would be extremely unlikely to apply the full uplift that the existing rent standard currently allows.

Analysis and impact

The precise level we would set our uplift at next year has not been decided at the point of submitting this response. This is in part due to the changing projections for inflation that we have seen over the last few months which make it harder to predict the length of time we can expect to be affected by high cost price inflation. The Bank of England's August 2022 Monetary Policy Report projected CPI at 13% in Q4 of 2022. However, since then the Government has introduced the Energy Price Guarantee and a range of tax changes for which the Office for Budget Responsibility is yet to publish its analysis.

Recent analysis by Cebr[1] of ONS data for the National Housing Federation has found that:

- materials for maintenance and repairs price growth peaked at 16.8% in April 2022, with growth at 14% in July 2022; and
- costs of construction of new homes increased to 12.3% in June 2022, and the annual rate grew to 11.1% overall. This is above June 2022 CPI at 9.4%.

For Guinness, our cost price inflation ranges from 8% to 30% across our construction projects, and 3% to 27% across repairs and maintenance, depending on the activity and materials involved. In addition, the cost of insuring our homes has increased by 150% over the last two years.

Finally, it is also important to contextualise a possible rent ceiling in terms of the existing challenges that housing associations are facing. Before the current inflation spike, we (and the sector more broadly) have seen lower operating margins (and therefore reduced financial capacity and resilience) as a result of:

- significant additional investment in Building Safety (for us >£30m over the last two years, and we plan to spend over £100m over five years);
- rapidly rising costs of delivering key services including building materials, repairs / trades labour costs and specifics such as property insurance (driven by insurers' views of building safety risks);
- rising costs associated with roles where there is a skills shortage, including technology / digital transformation roles, development and building safety roles; and
- significant increases in pension costs, including employer funded past service deficit payments running to several millions of pounds each year.

Our headline social housing cost per unit was £4,388 in 2021 / 22, compared with £3,159 in 2017 / 18, reflecting the increases in costs outlined above.

We have sought to manage this by continuously reviewing our cost base and taking significant cost out of the business. However, this means that there are limited further efficiencies that can be achieved without either significant investment (for example in technology) or without putting services or the quality of our homes at some risk.

[1] https://www.insidehousing.co.uk/news/new-homes-repair-and-maintenance-costs-all-rising-above-inflation-warns-nhf-77899

We have also invested significantly in building new homes, using our borrowing capacity, and whilst just over 80% of our borrowing is at fixed interest rates, rising interest costs impact £220 million of our debt which is at variable rates, and this too is taking financial capacity out of the business.

2. **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

In our view our Board, informed by consultation with our tenants, is best placed to decide on the extent to which our rents increase next year.

Table 1 below illustrates the financial impact of the proposed rent ceilings. The model assumes that after a one-year cap rents then increase again at CPI+1% until 2025 (the length of the current rent settlement), and then CPI after that.

If a ceiling is implemented, our preference is for it to be set at 7% to give organisations the flexibility to increase their rents up to that level, while allowing those that can to set a lower increase.

Table 1: cumulative rent loss

Cumulative loss (£) over:	5 Years	10 Years	30 Years
Rent capped at 3%	£159.9m	£360.4m	£1,445.9m
Rent capped at 5%	£127.1m	£287.1m	£1,157.0m
Rent capped at 7%	£94.3m	£213.9m	£868.1m

The table illustrates that a one-year rent reduction has a lasting and compound impact – the rent level foregone in the first year can never be recovered. For the sake of comparison, in 2021 / 22 Guinness invested £143m in our existing homes across. A one-year rent cap of 5% would reduce our income by £127m over five years – not far off that sum. A one-year rent cap at 5% would mean a loss of over £1.1bn in income over thirty years – currently this is roughly equivalent to what we plan to spend on Zero Carbon works over that period.

The precise impacts of the different rent ceilings would vary depending on their level, but in general any ceiling would mean that:

- **We would build fewer homes in the medium-term**. Guinness is currently committed to building 5,500 new homes by March 2025. A rent ceiling of 5% or less would mean that although we would make every effort to fulfil our current strategic partnership commitments with Homes England and the Greater London Authority, and at least those homes currently on site, beyond that out of necessity we would reduce our output to well below current levels in the medium and longer-term.
- **Current programmes of investment in and maintenance of our homes would be at risk and would need to be re-scheduled over a longer time period**. Indicatively a ceiling at 5% or lower would mean extending programmes from 10 years to 15 years. Delays in things like painting, window and door replacement could mean suboptimal living conditions for our residents. It could also mean a greater reliance on responsive repairs in a labour and contracting market which is already difficult – this would almost unavoidably mean a worse service for our residents.
- **We would likely need to defer Zero Carbon works at any scale**. In our current Financial Plan we plan to increase spending on Zero Carbon works in the latter part of this decade and beyond to enable us to meet the 2050 target. Foregone rental income would mean deferring plans for such works at any scale in the medium and longer-term. In the short-term it would mean reducing our current retrofit programme through which we improve the energy efficiency of hundreds of our homes each year. Indicatively a ceiling of 5% or less would mean a

reduction in retrofit works of up to 50% over the next five years, works which should reduce energy bills for residents.

- **We would make every effort to prioritise spending on building safety work**. The safety of our residents remains our top priority. We have spent over £30m on building safety over the last two years and plan to spend in excess of £100m over five years. While building safety would take priority over development, Zero Carbon and some planned maintenance programmes, a rent cap might, in extremis, leave us with no option but to extend the timeline of our building safety programme. There is no Government funding available for the remediation of social housing – it is a cost that the sector is bearing in its entirety.
- **There would inevitably be less available to support residents and communities including**:
    - o direct support for residents (general wellbeing, and financial support for those most in need through our Customer Support Team and hardship fund);
    - o support for communities (job skills, community-building, alleviation of poverty, and programmes to prevent and tackle anti-social behaviour);
    - o reducing the impact of cost inflation on service charges (which we typically subsidise through a voluntary cap on increases) leaving both tenants and homeowners more exposed to the full impact of cost inflation on service charges.
- **There is a risk that the sector becomes unattractive as an employer.** The combined pressures of pay increases significantly below inflation and a reduction in investment in homes and services may lead to the attrition of skilled and committed workforce from the sector and undermine our ability to deliver services. Certain professional disciplines are already hard to recruit to in the current employment market.
- **There is a risk of a deterioration in the creditworthiness of the social housing sector**. Fitch Ratings has advised that a temporary cap "could have a more severe impact on the sector's finances than the previous rent reductions [applied from 2016 to 2020]". Similarly, Moody's has warned that a rent cap, at any level, would constrain revenue growth for housing associations and affect credit scores.

Mitigations

If a rent ceiling were to be imposed, given the extent of the impacts set out above and the importance of the investment programmes in homes and services, we would welcome consideration by Government of mitigating action to reduce the impact.

1) **Re-introduction of a mechanism for rent convergence**. We would welcome the opportunity to discuss / consult with Government on how this might work either now, or as part of the new settlement which is due to be implemented from 2025. Under the previous rent convergence regime social landlords were able to add an additional £2 per week to rents that were lower than "Target Rent" to enable them to catch up. The system could be designed to ensure that the convergence mechanism would only be deployed when CPI was under a certain ceiling.
2) **Grant funding for vital works, in particular for building safety**. As stated above, Guinness is committing over £100m to building safety over five years. A rent ceiling of 5% or less means a loss of £127m over that time period. As such, a Building Safety Fund for social housing, mirroring funding available for leaseholders, would be welcome.

3. Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes. Notwithstanding our wider view on a rent ceiling given the uncertainty around the economic situation and the potential compound impact we believe it would be premature to make an announcement for rents in 2024/25.

The extension of any ceiling for a second year would almost certainly be punitive for many, if not most, social landlords.

Beyond this, discussions between the Government and the sector on the post-2025 rent settlement should begin as soon as possible. The settlement should be long-term and based on key principles that secure the financial future of the sector and affordability for residents.

4. **Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?**

Yes. Notwithstanding our general position on a rent ceiling, we agree that should this go ahead it should not apply to the maximum initial rent that may be charged on new lets.

5. **We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exemptions should apply and what are your arguments/evidence for this?**

Yes. Notwithstanding our general position on a rent ceiling, we do think there is a strong argument for excluding particular categories, most importantly supported housing.

Supported housing is a high cost product that has been underfunded for a number of years despite providing for many of the most vulnerable in society. Adding further financial challenges to the provision of supported housing risks exacerbating this situation and this type of accommodation may become unviable for some landlords.

Although not part of the consultation, shared ownership rent increases are also under consideration. While shared ownership households have, on average, higher incomes than tenants, they are still are by definition still living in subsidised housing. Nominal-terms rent increases combined with, in some cases, significant increases in service charges and mortgage costs, could present challenges for some.

Moreover, a far smaller share of shared owners than tenants are in receipt of benefits that cover housing costs. As such, they are likely to bear the full amount of any rent increases themselves.

In 2022 Guinness capped rent increases for shared owners, albeit with a catch up mechanism in place giving us the option to recoup rental losses in years to come, should inflation fall to a much lower level. We would be minded to repeat this in 2023, but any decision to do so would be dependent upon the extent to which our rent increases are constrained.

If you have any questions about this response or would like to discuss our views in more detail please contact [redacted]

HOMES FOR THE SOUTH WEST

Social housing rents consultation

Response from Homes for the South West

Homes for the South West (H4SW) is a group of Chief Executives from some of the largest Housing Associations in the South West.

We work together collectively to identify and tackle the barriers to new houses in our region and to act as a voice making the case for new housing at a local, regional and national level.

Our organisations own and manage 250,000 social rent and affordable homes, almost all of which may be affected by the proposed direction to the regulator in relation to rents.

We are making this submission to draw attention to the potential effects of a rent cap on the delivery of new housing. The National Housing Federation is submitting a response on behalf of the sector, to which most of us have contributed individually, and we support that submission.

Separately, we wish to emphasise the potential impact of the possible scenarios on the provision of new homes, and new affordable homes specifically, in the South West (Question 2).

Recent research, carried out for us by the University of the West of England, finds that 17,000 new affordable homes are needed annually in the South West. This finding is consistent with a 2018 study by Professor Glen Bramley for Crisis and the National Housing Federation, which suggested a need for 14,000 such homes annually. However, less than half that figure has been achieved, which is the reason why the number has increased.

This need will continue to increase for as long as we fail to meet it. And we are still failing: in 2020-21 only 4,159 new affordable homes were completed in the region, of which H4SW members contributed more than 2,500.

Our current planned development pipeline anticipates that we will deliver 25,000 new homes over the next 5 years, of which 22,000 will be affordable homes. However, a capping of our rental income will affect our ability to fund our development programmes.

Any modelling of the impact of the proposed caps is of course subject to the (currently unknown) differential between the cap and the actual level of inflation next year. Our modelling for the scenarios proposed in this consultation tells us that collectively our pipeline will reduce as follows:

- in the event of rents being capped at 7%: by 12%
- in the event of rents being capped at 5%: by 21%
- in the event of rents being capped at 3%: by 31%

This translates into real, new homes as follows:

- if rents are capped at 7% we will deliver 2,621 fewer affordable homes in the South West over the coming 5 years.
- if rents are capped at 5% we will deliver 4,708 fewer affordable homes in the South West over the coming 5 years.
- if rents are capped at 3% we will deliver 6,939 fewer affordable homes in the South West over the coming 5 years.

We know (DLUHC guidance) that building new housing has wider economic benefits, supporting employment and skills training. We estimate that reductions at the scale above will reduce the number of jobs and training opportunities we support by between 7,000 and 20,000.

These figures assume that any cap will apply for one year (April 2023) only.

We recognise the pressures on both individual and public finances at the moment, and the difficulty of finding the right balance. However, we suggest that the real impact on what is already a crisis of affordable housing provision should be considered as part of that decision, and how that impact could be ameliorated in the event that a rent cap at the above levels is imposed on registered providers of affordable housing.

[redacted]

[redacted]

[redacted]

Curo, The Maltings, River Place, Lower Bristol Road, Bath BA2 1EP

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	organisation
What is the name of your organisation (if applicable)?	Islington Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	222 Upper Street, London, N1 1XR
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☑ No
☐Maybe

Comment:

As a social landlord we want to make sure housing in the borough is affordable for our tenants, and that we as a landlord can plan ahead for vital services and investment in our homes. We want to see the government and regulator set long term frameworks for rent increases, which allow for local decision making within them, rather than impose new restrictions at short notice. Any imposed cap should come with compensation to councils and housing associations for the loss of income within their business plans.

The Savills research for all London Council's attached to this response clearly demonstrates the negative impact of the proposals on tenants and council's across London and we would ask you to review the attached document before making any decision. The council's response also appears to reflect the response from the largest Registered Social Landlords in London, who have also raised similar issues in responding to this important consultation exercise.

All council's in London will require the opportunity in coming years to help catch up the deficit caused by the outstripping of inflation against rent increases, which are restrained because of the current cost-of-living crisis. The rent settlement from 2024/25 financial year will need to recognise this and we also ask the Government to increase funding available to registered providers to support the journey to Net Zero Carbon and improved energy efficiency for social housing residents.

We are very concerned about the impact of on our essential new homes development programme and are therefore seeking greater flexibility to use Right to Buy receipts alongside Affordable Homes Programme grant funding to enable the continuation of new homes development during this period of significant inflation within the sector. Pressure within the development programme could also be lessened by a temporary suppression of borrowing rates set by the Public Works Loans Board, which have risen from 3.5% to 5%, which would lessen the revenue burden of investment in new homes.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

☑ No

☐Maybe

Comment:

It is clear from the Impact Assessment the clear winner from the proposals is central Government Public Expenditure budgets. Therefore, if the 5% rent increase threshold is applied then the Islington Council Housing Revenue Account Business Plan will suffer a £400 million negative impact over the 30 year business plan term which will reduce the capital expenditure on home improvements, day to day repairs, reducing the ability to meet the net zero carbon targets and impact the council's ability to provide the best possible service to tenants to meet the regulatory standards and expectations of the Regulator of Social Housing. It is clear tenant satisfaction may reduce given the financial impact of inflation and reduced funding to improve tenants homes.

Consequently, if the Government decides not to allow council's the flexibility to increase rents as viewed appropriately locally given the Localism Act and the Social Housing (Regulation) Bill currently at the report stage in the House of Lords, then the council would prefer a

7% rent increase for the 2023/2024 financial year, given the severe impact on the council's ability to modernise and improve the residents homes.

Islington Council would request freedoms to increase rents in future financial years above the current agreed formula to allow the council to reduce the financial loss and impact on the Housing Revenue Account, given the Social Housing (Regulation) Bill currently at the report stage in the House of Lords and the expectations placed on the council through this legislation.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Islington Council would prefer the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024 financial year and future rent increases are allowed to reduce the financial loss to the Housing Revenue Account. These financial losses will result in a reduced modernisation programme for all council tenants in Islington.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑ Yes
☐No
☐Maybe

Comment:

Islington Council fully supports this approach to allow the council to continue to develop and provide greatly needed new build accommodation for our local residents in central London.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No

☐Maybe

Comment:

As a social landlord we want to make sure housing in the borough is affordable for our tenants, and that we as a landlord can plan ahead for vital services and investment in our homes. We want to see the government and regulator set long term frameworks for rent increases, which allow for local decision making within them, rather than impose new restrictions at short notice.

Response template:
Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	The James Charities
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	James Memorial Homes Stuart Street Birmingham B7 5NW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☑No
☐Maybe

Comment:
Our costs, particularly gas, electricity and maintenance costs, are all rising faster than inflation. A real terms cut in income would damage our viability as a charity.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☑No
☐Maybe

Comment:

7% would be preferable to 5%, but better would be a ceiling that reflects our actual costs – such as CPI.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
We have little idea how high inflation may be in autumn 2023.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☑No
☐Maybe

Comment:
Charges for new and existing residents should be the same for reasons of fairness. Residents speak to one another and do not like it when they find a neighbour is paying less for an identical property.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☑Yes
☐No
☐Maybe

Comment:

[redacted]
London Borough of Redbridge
Lynton House, 255-259 High Road
Ilford
IG1 1NN
Tel: [redacted]
E-mail: [redacted]

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DP

Dear Sir

Consultation on Social Housing Rents

Thank you for the Consultation documents dated 31 August 2022. This is a response given by Officers of the Council in consultation with the Portfolio Holder for Housing and Homelessness.

The London Borough of Redbridge has 4160 social rented tenancies plus a further 286 affordable rents, 142 of which are London Affordable Rents set by the Mayor of London. It has an ambitious programme of new housing building financed through GLA Grant, capital receipts and mainly borrowing. It has been affected in recent months by the increasing cost of materials and labour feeding through to higher tender prices and borrowing costs. The dramatic increase in borrowing rates following the Chancellor's Mini Budget on 23 September is a cause for concern, emblematic of an unstable economy which threatens the viability of the future programme, notwithstanding the proposal to limit rent increases over one or possibly two years.

Officers do not agree with any proposal by Government to limit rent increases at any level other than CPI+1% for 2023/24, and 2024/25.

The proposals threaten the sustainability of the HRA Business Plan, and a cycle of borrowing to cover day-to-day activity which will become unaffordable.

If DLUHC's proposals prevail, this would create an unintended windfall to Government from a reduced welfare bill. Housing authorities should be compensated for the loss of income.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Officers do not agree that there should be a specific ceiling other than the existing CPI+1% limit. We believe that local Councils are best placed to identify local needs and that its Councillors should retain the freedom to set rents rather than have a limit imposed by Government.

Comment on high inflation

Officers do not accept DLUHC's assertion that a 5% rent increase is reasonable because it is higher than the Office for Budget Responsibility's forecast in October 2021 (para 24). During course of this calendar year the Bank of England's Monetary Policy Committee quarterly forecast has revised CPI upwards because of rising energy prices and the war in Ukraine.

DLUHC's suggestion that rent setting policy needs to change because it was not envisaged in February 2019 that CPI inflation (and for that matter any other inflationary indices) would be so very high (para 17) is a false premise because expenditure is also very high.

The blanket assertion that "incomes are unlikely to be rising as quickly" (para 18) for tenants is untrue because current Government policy intends to increase State Pension and many other benefits from April 2023. Using September 2022 projected CPI, used in DLUHC's illustrations, this would be 9.9% for this cohort.

'Cost of Living' crisis

The Council will proactively support those in need through Discretionary Housing Benefit. Tenants who need extra support towards heating costs would be supported through the Council's Household Support Fund.

The Council recognises the need to support those in arrears and will need to provide additional sums for writing off bad debts.

The Council appreciates that staffing costs are unlikely to rise annually by inflation and has taken account of this in the baseline model used to compare different rent increase scenarios.

Welfare Benefit Savings

DLUHC's data shows what appears to be an unintentional consequence that limiting rents will also reduce welfare benefit costs. A former Conservative administration deliberately legislated to decrease rents by 1% annually from 2016/17 to 2019/20 with the intention of reducing the welfare bill. This had a significant adverse and long-lasting effect on all housing authorities self-financed Housing Revenue Accounts.

If rents were limited by DLUHC's preferred option at 5%, Officers have calculated that the loss of income to Redbridge's HRA over the medium term would be approximately £10m, and over 30 years £90m.

About 27% of our tenants receive full Housing Benefit. These tenants will not benefit from the proposal neither would they, or others, benefit from any future investment in their homes due to the ongoing withdrawal of resources from the Housing Revenue Account. A further 16% receive partial Housing Benefit.

About 1100 of the Council's tenants are pensioners, 311 of whom are not on Housing Benefit and 281 on partial benefit. The Government's proposal to retain the "triple lock" means that State Pensions will rise by CPI in April 2023. Setting rents at a lower level than CPI+1% will unintentionally stimulate the economy by creating additional disposable income among this cohort.

Redbridge Council recognises the need for Zero Carbon homes by 2030. The Government should compensate Councils for the windfall saving it will receive from welfare savings resulting from lower rents.

Cost of Borrowing

The Council has a borrowing strategy to afford new build homes which is dependent on cashflow from dwellings income to support interest charges. The proposal to limit rent increases to 5% in 2023/24 reduces income and increases the need for borrowing.

Recent increases in projected PWLB rates, following the Government's Mini Budget of 23 September, show that over 30 years an additional £47m borrowing would be needed if rents rose by CPI+1% in 2023/24. This increases to £137m if rents rose by 5% in 2023/24 meaning that the Business Plan would need to borrow to support 'business as usual' activity.

The Council will need to make difficult choices. An ongoing lack of rent income and high interest costs will mean abandoning planned new build projects. Improvements to existing stock will also become an affordability issue.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

No. We believe that rent increases should be determined locally. There is preference for setting the rent increase for 2023/24 at CPI+1% in order to continue maintaining and improving the housing stock whilst being mindful to target and support those tenants in need.

Imposing a fixed percentage increase is not favoured because it creates ongoing losses to the Council's HRA. Across a 30-year time horizon the losses are £56m, £88m and £121m respectively if rents are limited to 7%, 5% and 3%.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Officers disagree with both a one- or two-year imposition of rent increases below CPI+1%.

DLUHC has deftly drafted a revised Rent Standard to limit increases to a fixed percentage in future years where CPI is high. Creating a situation which may depart from a CPI+1% increase in next or future years seriously threatens the viability of the housing service.

Officers have indicated that a one-year limit of 5% has a severe detrimental effect on delivery.

A two-year arrangement limiting rents to 5% per annum will move rents from a base of 100.00 to 110.25. This is similar to a 0% increase in 2023/24 followed by a CPI+1% (10.5%) increase in 2024/25.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Officers disagree with DLUHC's proposals.

The proposal is aimed at existing tenants prior to April 2023. Where new tenancies are granted then the rent charged may be equivalent to the Formula Rent which, the proposals state, will continue to increase by CPI+1%. This will be considerably higher than the transitional rent to existing tenants if DLUHC imposed a lower fixed percentage increase. We believe that Councils should have the freedom to set rents locally.

Rent Setting and the legacy of Rent Restructuring

Officers note DLUHC's intention to consult on social housing rent policy from 2025/26 onwards next year but are disappointed that no proposals have been made in this consultation. This creates further uncertainty.

It is incorrect of DLUHC to imply that tenancies on relet properties will eventually be set at Formula Rent. The turnover of tenancies in Redbridge is around 4% annually. Our Business Plan shows that even after 30 years transitional rents do not rise to Formula Rent levels. A rent increase limit of 5% in 2023/24 would mean an average actual rent in 2051/52 over £15 per week below the Formula Rent.

Rent restructuring was introduced in 2002/03 with the intention that social rents would converge with a nationally determined Formula Rent calculation. This was broken in the final year, 2015/16, by a uniform rent increase. The current proposal further undermines the principle of convergence.

To prevent the forever loss of rent income to Registered Providers, DLUHC should devise a scheme whereby over a maximum of five years either:

- transitional rents converged with the Formula Rent in a manner similar of the old rent restructuring calculation, or
- permit annual rent increases above CPI+1% to allow for transitional rents to catch up with Formula Rents.

Also, as stated above, if rents increases were limited – which we object to – there needs to be a scheme of compensation to local authorities as a consequence of central government windfall benefit from welfare savings.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Officers have no comments on this matter.

Yours faithfully

[redacted]

London Borough of Newham response to the proposal to apply a 'ceiling' to social rent increases in April 2023.

12th October 2022

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

We recognise the need to support social housing tenants from the significant financial pressures being experienced through the cost of living crisis. This is particularly important given the socio-economic profile of many social housing tenants, who tend to have low incomes. However, breaking the link between costs and rents (further to the previous 1% rent reduction policy in the Welfare Reform and Work Act) will put significant further pressure on Councils' Housing Revenue Accounts.

A ceiling on rents should be supported by other Government interventions to ensure that Councils can keep investing in housing in their boroughs. Newham has ambitious plans for building new social rent homes and have started on site with more than 1000 new homes. Further, we are delivering on long-held plans to regenerate existing estates, as well as programmes around building safety and decarbonisation of existing homes. The Government should give consideration to providing revenue support to Councils and providing further capital grants, particularly relating to investment in existing stock. In addition to much needed short-term energy efficiency measures, Government investment in retrofitting existing stock would have an enormous impact on residents' cost of living in the long term, and create green jobs and reduce the carbon footprint of the country's housing. The funds available for Councils to undertake this work are already limited and the proposed ceilings put these long-term investments under greater threat.

London Councils has set out in detail a wide range of interventions that the Government should consider in order that a ceiling on rents is sustainable and does not lead to long-term damage to local authority social housing, and Newham is supportive of the ask of Government to urgently consider these.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

A 3% ceiling would create such a gulf between income and expenditure that we do not consider this option \viable for any provider. A 7% ceiling should be supported by a rise in the housing element of Universal Credit to support tenants to cover their rents. This would allow Councils to increase rents by any rate up to 7%, based on their own evaluation of the financial impact on their residents and their financial parameters. We believe that giving Councils the ability to make local rent decisions is most consistent with the principles associated with the self-financing model.

Any increase that does not meet rising costs will place a strain on HRA resources and will require further actions from the Council to address. If a 5% ceiling is put in place, London Borough of Newham anticipates a budget gap in the HRA of £113m after the first five years, and £225m after ten years. This is due to a loss of rents, compounded by increases in expenditure due to the high level of inflation, increased borrowing and the high cost of borrowing at current interest rates.

We ask Government to consider what measures could be put in place after the two years of the ceiling to allow social landlords to “catch up” from the temporary reduction in rents and avoid Council HRA borrowing reaching unsustainable levels. This should include additional grant funding, which is flexible enough for councils to use to tackle their most pressing priorities, whether building new homes or improving building safety. As noted above, we are also in favour of the proposals set out in the London Councils response, which would allow Councils and social landlords to continue to deliver the new social housing London needs, and ensure that the existing stock is improved, and meet our programme of essential decarbonisation works.

The protection of tenants from unreasonable rent increases is a welcome step, but it is important that this is not at the cost of longer-term benefits. There is a real risk that Councils and housing associations will be forced to cease their housebuilding at a moment of acute housing crisis, when the cost of living crisis is pushing increasing numbers of households into a position of financial precarity. Newham has some of the most deprived neighbourhoods in the country: 67% of Newham’s households live in poverty with over a quarter of our residents being paid below London Living Wage. The private sector is failing to provide accommodation that meets the needs of our residents. A recent study by Capital Letters showed that there has been a 47% fall in total listings in Newham alone compared with the quarterly average between 2017 and 2019. The average rent in Newham represents 65% of the average income (compared to 30% across the UK), one in 22 people in the borough are members of a homeless household, and there are 34,000 households currently on our housing register. Demand for social housing is clearly much higher than the current supply, although our ambitious housebuilding programme seeks to go some way to meet this need, alongside the affordable homes delivered by Registered Providers.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

Although a one-year ceiling might initially appear to be most financially advantageous for the sector, this would only be the case if inflation has fallen by September next year. We therefore support application of the ceiling for two years, which will give providers the ability to plan further ahead, and protect them from the risk of inflation rising further over the next year. However, we again urge the Government to come forward with support measures to ensure the rent ceiling is financially sustainable for Councils and Registered Providers. This will ensure that they can keep investing in existing stock and build new homes.

We agree with the analysis from London Councils that emphasises the importance of a catch-up period following the two-year ceiling, in order to ensure that Councils are able to cover the costs of necessary building safety works, upgrades to kitchens and bathrooms, and improvements to energy efficiency of properties to meet climate targets. This would allow Councils to impose rent increases greater than CPI+1 following the two-year period, which may need to be implemented partially or over a long period of time to avoid significant annual rent increases in 2025 and protect residents. Alternatively, the Government could agree a programme of flexible grants with Councils to help to cover the costs of building new homes, undertake building safety works and improvements to properties.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Yes, the use of the existing calculation for Formula Rent is preferable, rather than applying the proposed ceiling. This will allow Registered Providers to maximise rental income on new properties and avoid further penalising Councils and social landlords who deliver much-needed new social rented homes. Charging formula rents on all re-lets will help mitigate a small proportion of the financial pressures created by the rent ceiling.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

We agree that specialist and supported housing should not be subject to the ceiling, in order to ensure the ongoing supply of this urgently-needed housing. Failing to exempt specialist and supported housing could provide an additional disincentive to the development of these homes, which are already more expensive to build.

LONDON
TENANTS
FEDERATION.

11.10.22

Response to the Government consultation Social Housing Rent Consultation

1. Information about London Tenants Federation (LTF)

We are a registered charity and a company limited by guarantee. We bring together borough and London-wide federations of tenants and leaseholders of social housing providers, the London Federation of Housing Co-operatives and the National Federation of Tenant Management Organisations.

Each of these organisations has its own membership comprising local (many estate-based) tenants and residents associations, tenant-managed organisations and co-ops

Our non-voting membership includes around 1,000 London-based tenant associations, tenant management organisations and co-operatives,

London Tenants Federation (LTF) focuses on promoting community capacity building and social inclusion amongst social housing tenants and social inclusion – particularly concerning housing policy.

Much of our work is focused on London-wide strategic policy, but also on national policy where there is a particular London-wide impact.

2. Summary of responses and proposals

(i) We agree that there should be a temporary amendment to the CPI +1% policy for social housing tenants for 2023/24 and potentially 2024/25 if CPI is still unusually high. **(Summary response to Q1 – under the consultation's 'Our proposed direction')**

(ii) We propose that rents should be frozen at 2022/23 levels for all social rented and affordable rent homes. This should include existing, new, relet and sheltered homes - without a 5% flexibility (or 10% in respect of supported housing) above the formula. Likewise, the freeze should cover currently exempted social PFI and temporary housing. **(Summary response to Q2, Q3, Q4, Q5 - under the consultation's 'Our proposed direction')**

(iii) There should be a full review of the policy in 2025. **(Summary response to Q2, Q3, Q4, Q5 - under the consultation's 'Our proposed direction')**

(iv) Social landlords should have sufficient funding to manage and maintain existing and develop new social-rented homes. **(Summary response to Q2, Q3, Q4, Q5 - under the consultation's 'Our proposed direction')**

The following LTF sections (3, 4, and 5) relate to your questions 2,3,4 and 5 – listed under the consultations 'Our proposed direction'.

3. Why a temporary amendment to the CPI + 1% policy and why freeze all social and affordable rent homes? This should include existing, new, relet and sheltered homes - without a 5% flexibility (or 10% in respect of supported housing) above the formula. Likewise, the freeze should cover currently exempted – PFI and temporary social housing.

It was expected that the four years of 1% annual rent decreases between 2016 and 2020 would benefit tenants by £700 a year (at 2015 prices). We have not seen evidence of this, and many social housing tenants report that even with rent decreases, many landlords increased service charges significantly. We would like the government or the social housing regulator to provide some investigation and analysis of this.

We are worried about the rent increases that have already occurred – particularly the 4.1 rent increases for 2022-23 which the Resolution Foundation observed as "the largest rise for a decade … inflating the average social renter family's rent by £202 per year."

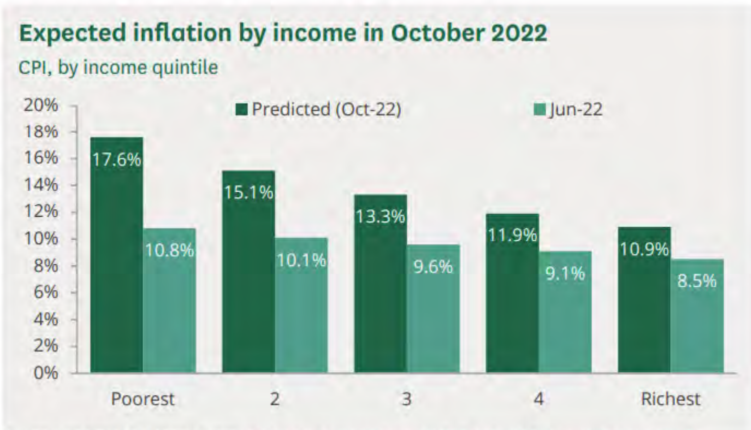
In one of their Housing Outlook briefings, the Foundation said that 'this increase comes on the back of a decade-long period in which social renters' housing costs have outpaced incomes and support from the benefits system has declined.

'Around 44% of social renters who were not in receipt of assistance through Housing Benefit or the housing element of Universal Credit were identified as "most exposed" to above inflation rent rises.'

The 2023/24 forecasted 11.1% rent increases are extreme. The risks relating to this include:

- the national benefit bill potentially reaching 2015 levels, before the 4-year levels or worse and more worrying the government reducing the money spent on welfare and making life even harsher for low-income and vulnerable households
- more low-income and vulnerable households being forced to claim benefits or to be dependent on them
- low-income households who are increasingly in short-term employment getting into debt as they move in and out of work;
- the delivery of more affordable rent, rather than the social rented homes that are so desperately needed in London, by private registered providers.

The IFS graph below shows how much more low-income households suffer than wealthier households with high and increasing inflation levels.



Source: Institute for Fiscal Studies, The long squeeze: rising inflation and the current government support package, 15 August 2022

According to the 2022 UK Housing Review, 48% of local authority tenants and 54% of private register provider tenants fall within the 3 lowest deciles of income boundaries. In addition, 43% of private rented tenants also fall within the three lowest income deciles – many of whom likely require social rented homes.

4. Why do we need a full review of the rent policy?

Without pushing tenants into benefit dependency and/or debt, rents cannot continue to increase at these levels.

It is neither good for tenants, their communities nor the taxpayer. Rents must be affordable in the sense that tenants can pay them and still have living standards that we, as a society, agree everyone in the UK should be able to have.

We are concerned about and don't support the rent flexibility level allowed in the policy statement on rents for social housing. There is seldom - if any - consultation with tenants on proposed flexibility to set rents up to 5% above the formula (section 2.14).

We are concerned about service charge increases – which have been reported to us as being much more than CPI +1% and would like clear guidance to be set out on service charges with caps and limits.

We disagree with the current list of accommodation not covered by the policy statement. We feel it unfair not to include PFI and temporary social housing when they live in the same types of homes as other social housing tenants.

We also feel there is some confusion around sections relating to supported housing – where included in sections 2.14, 2.39, 2.40 and excluded in 5.1 and whether social housing rental costs are treated in the same way or not.

5. Social landlords should have sufficient funding to manage and maintain existing and develop new social rented homes

In the current circumstances of high inflation already creating hardship and impoverishment, we have reasonably made our case for a rent freeze.

We also feel that where landlords would then experience resultant shortfalls - in covering the costs of maintaining our homes, preventing disrepair, deterioration or failures in terms of health and safety – government should provide funding directly to them.

Yours sincerely

[redacted]

L&Q consultation response: Social Housing Rents

October 2022

Introduction

L&Q is a regulated charitable housing association and one of the UK's most successful independent social businesses. L&Q Group houses around 250,000 people in more than 105,000 homes, primarily across London and the South-East. The 250,000 residents who make their homes with us are L&Q's priority and social purpose is central to everything we do.

We currently have a pipeline of 30,000 new homes over the next 10 years of which around 15,000 will be affordable homes; we are the largest single provider of Low-Cost Home Ownership properties in London. Although we are a large-scale property developer, we are a not-for-profit organisation. The activities of L&Q's wholly owned subsidiary companies, which include the development of market sale properties, are undertaken to cross-subsidise the provision of quality, affordable housing for those in greatest need.

L&Q welcomes the opportunity to contribute to this consultation on rent ceilings. L&Q are acutely aware of the impact the cost-of-living crisis is having on the communities we serve, especially as our core offer of affordable housing means we already help to mitigate one of its long-standing causes. Furthermore, in the past year alone, 5,000 residents have benefitted from the targeted support services provided through employment and tenancy sustainment programmes offered by L&Q Foundation, and our debt advice service has secured £10 million for residents. Many residents are already facing financial hardship, so are disproportionately affected by high inflation and have less financial resilience to cope with higher prices. Given this context, it would be extremely unlikely that L&Q would have sought to apply the maximum possible increase next year under the existing social rent standard had the decision been left to our independent board.

L&Q are concerned that a blanket approach of a rent rise ceiling will have far reaching implications for L&Q's ability to deliver all these priorities, on behalf of both current and future residents. The consequences of a ceiling lasting two years are much starker than only for 2023/24, so we strongly believe that this decision should only last a year. As an organisation we face a delicate balancing act of maximising affordability for our residents in a high inflation environment whilst ensuring a robust and sustainable rental income which will allow us to meet the objectives set out in our ambitious five-year corporate strategy. Our current strategy, launched last year, set out a step change in investment and reprioritisation towards building safety, quality homes and services. It also reaffirmed our commitment to tackling the housing crisis, providing vital care and support services through L&Q Living and enhancing our focus on environmental sustainability. We continue to remain fully supportive of government's ambitions to bring an end to unsafe cladding and its pathway towards net-zero, with our £2.7bn decarbonisation programme intended to improve the energy efficiency of residents' homes and lowering their energy bills.

A lower rent rise will not help the financial situation of the majority of social housing residents, because they are supported by the benefits system to pay their rent. Our records show that 64% of social renting L&Q tenants are in receipt of full or partial benefit. In light of this, L&Q are particularly concerned about the impact of any rent rise on benefit capped households and urge government to increase or scrap the benefit cap. Additionally, a failure to uprate benefits in line with inflation will force many households into further hardship.

Fundamentally, this means that regardless of the level of 2023/24's rent increase, to meet the investments in homes, services and housebuilding that are required by the people who make their homes with us, additional funding arrangements must be put in place. Our response concludes that a 5% ceiling on rent increase means greatly hampering our ability to deliver the number of new homes planned as well as substantially reducing our investment in existing homes. In practice, as we had already committed to a fully funded major works programme, the impact of a rent cap on our financial plan could mean 6,000 fewer new kitchens, 11,000 fewer new bathrooms and 13,000 fewer new boilers over 10 years.

1. **Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?**

L&Q welcomes the opportunity to engage with the government as it seeks views on a proposed percentage ceiling ahead of this year's 2023/24 rent rises. Rent setting has been at the forefront of discussions at L&Q since predictions of exceptional levels of inflation first emerged in March 2022. L&Q's board had already commissioned multiple streams of work to understand and quantify the scale of severity of this challenge for residents and for our key priorities. This process involved extensive engagement with residents, with our Resident Services Board front and centre of discussions. As a result, it would be extremely unlikely that L&Q would have sought to apply the maximum possible increase next year under the existing social rent standard had the decision been left to our independent board.

L&Q house around 250,000 people in more than 105,000 homes, primarily across London and the South-East but also now with a significant presence in the North-West following our merger with Trafford Housing Trust. By providing affordable and high-quality homes, our activities are helping to tackle the major problem of inadequate and expensive housing in this area – there are 544,630 households in London and a further 1,221,882 in the south of England in housing need*. Our activities are also actively expanding the pool of affordable housing in areas of high demand, with 4,157 new homes built last year alone (of which 61% were for affordable tenures). Our scale and financial capacity has meant that we can take on projects other organisations cannot, for example Barking Riverside, a major brownfield development which will unlock 18,000 new homes. Investment in activities such as this should be maintained because they alleviate poverty, promote diverse communities that people on lower incomes are not excluded from, and ultimately make a positive contribution to the wider economy.

As a charitable housing association, L&Q has historically relied on a cross-subsidy model to enable such activity, which means generating surpluses from market sale homes, properties held for private market rent and the provision of in-house Design & Build services for both affordable and market sale homes, with the sole intention of redistributing this across the organisation to subsidise the development of affordable housing. Social rent settlements (when combined with grant) have also been designed to create part of this surplus for reinvestment in existing homes, new development, or community services. However, due to rising costs stemming from increased fire safety regulation and remediation as well as ambitious decarbonisation targets, this intervention comes at a time

* National Housing Federation, People in Housing Need, December 2021

when the cross-subsidy model is already under increasing strain, meaning it is already increasingly difficult to fund affordable housebuilding without sustained investment.

Current economic circumstances have exacerbated this challenge. L&Q itself is not insulated from the impact of inflation; were rents to rise even by CPI+1%, we would not stand to benefit from a windfall sum. Some operational areas are facing substantially higher levels of inflation than headline CPI figures, such as construction work (up 24.1% year-on-year as of August 2022). Furthermore, the prospect of higher interest rates and the risk of the UK's credit rating deteriorating also means more expensive borrowing costs for L&Q. [redacted].

We are therefore extremely concerned that the disruption caused to priorities such as stock upgrading, decarbonisation and housebuilding caused by the additional shortfall from the ceiling could outweigh the overall benefits felt by some residents through lower rents. Difficult decisions will need to be taken across the board about which spending to prioritise, though we will always safeguard essential investment in building safety. There is however a risk that permanent remediation works could be delayed, leaving temporary mitigations in place for longer which while safe, affect leaseholders' ability to resell their home.

Modelling undertaken at L&Q shows that under the government's current proposals, L&Q would receive £434 million less rental income over a ten-year period with a 5% ceiling on rents compared to the previous CPI+1% policy. This model assumes that the ceiling lasts for one year, after which a maximum rent increase policy of CPI+1% is returned to. This figure rises to £559 million under a 3% ceiling, decreasing to £310 million under a 7% ceiling.[†]

Please refer to the table below for more details:

	2023/24	2024/25	2025/26	2026/27	2027/28	5 year total	10 year total
Expected rental income	*£562m*	*£623m*	*£648m*	*£668m*	*£688m*	***£256m***	***£559m***
3% ceiling	(£45m)	(£50m)	(£52m)	(£54m)	(£55m)	**(£256m)**	**(£559m)**

† All modelling was based on the following assumptions for CPI:

Date	Sept 2022	Sept 2023	Sept 2024	Sept 2025 onwards
CPI	11%	10%	3%	2%

5% ceiling	(£35m)	(£39m)	(£41m)	(£42m)	(£43m)	**(£199m)**	**(£434m)**
7% ceiling	(£25m)	(£28m)	(£29m)	(£30m)	(£31m)	**(£142m)**	**(£310m)**

L&Q recognises that one of the primary intentions of the rent increase ceiling is to protect residents from excessive rent hikes. A substantial number – 22,076 households, or 36% of our affordable rented stock – pay their rent without recourse to the benefits system, and so would benefit from a ceiling on rent increases. However, our data also shows that the majority of residents have their rental costs either partly or entirely covered by Housing Benefit or Universal Credit. Of L&Q's 61,237 affordable rent tenancies, 39,161 (64%) are in receipt of benefits – and were rents to increase, benefit payments would cover their costs (whether in receipt of full or partial benefits). The only exception to this is those who are affected by the benefits cap and removal of the spare room subsidy, which we estimate to be 1,527 households and know to be 3,134 households respectively.[‡]

We have therefore particularly welcomed recent government measures to help residents cope with the deteriorating economic situation, in particular the energy price cap, in place from 1 October onwards. This will benefit all L&Q residents. However, at £2,500 per year for the average household's bill, this is still nearly double the amount that residents would have paid this time last year, an increase that we know will be unaffordable for many residents. Therefore, we urge the government to uprate benefits in line with inflation, and either increase or scrap the benefit cap entirely, to help the most vulnerable households.

As an organisation, we continue to help residents facing financial hardship through our well-established services that provide additional support to residents who need it. The L&Q Foundation's Independent Lives service assists roughly 5,000 residents per year, providing emergency support to vulnerable residents during crises, helping them reduce debts and outgoings, and helping residents access paid work. We also have an emergency fund for essentials like furniture and we distribute food bank and fuel vouchers.

While we support any action to protect residents from current adverse economic circumstances, we would have favoured an alternative approach to a rent ceiling that did not threaten fundamental investment programmes designed to benefit residents. There are a number of options to achieve this. One option would be to waive the right to collect the full CPI+1% rent rise in 2023/24, but have rents continue to rise by CPI+1% in the background, with rents 'caught up' to this level over time by some other mechanism. Another would be to have the ceiling accompanied by a rent convergence policy, with

[‡] This estimate is based on the latest DWP figures of the proportion of households with universal credit capped in London where most of our stock is located (currently 4.9%). It is likely to be a slight overestimate, because this proportion includes LHA recipients, who have higher housing costs and are more likely to be capped.

L&Q

rents repaid over a number of years. This could be targeted at rents that are currently below regulatory formula rent, or to all social rents.

There are also a number of mitigations that the government could implement to help reduce L&Q's loss of income and thus prevent major reductions in investment into residents' homes and homebuilding projects. These include increasing the amount of Affordable Homes Programme grant funding per home, allowing Recycled Capital Grant Funding to be used to fund major repairs, and by permitting housing associations to recover input VAT.

Whatever the final decision, L&Q are ready to work closely with government on implementation. Given the economic situation and the need for government to get value for money for taxpayers, we ask that the government consider the wider social value unlocked through L&Q's core delivery service. We continue to remain fully supportive of the new and enhanced regulation of service delivery passing through Parliament and the increased role of the ombudsman which raises the bar of accountability for housing associations, but as our answer to question 2 will show, such prescribed standards must be enabled by the right amount of funding.

2. Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options?

L&Q's position is that a ceiling on rent increases within our current rent model without any increased grant funding would be detrimental to the financial sustainability of our planned development and would limit our ability to fulfil our planned commitments including home and service improvements, decarbonisation and homebuilding. Fundamentally, any reduction in rental income will directly impact upon our ability to invest in priorities that benefit both current and future residents.

Our regular engagement with residents living in social rented properties already shows us that many already struggle to meet their financial obligations, with 25% telling us in April that they mostly or never found paying rent affordable. A resident survey in April 2022 also found that 70% could not afford a one-off payment of £500 and 72% were not able to save any money per month. When analysed within the wider context of national statistics, we can see that this is likely to be distributed unequally across geographies and protected characteristics with 33% living in North-West England and 47% of black and black British people unable to afford a one-off £850 payment compared to 29% overall.[§]

Understanding this in the context of the rent regime and proposed ceilings is crucial as the current and forecast economic landscape will mean more residents are forced to cut essential spending, for instance on food or energy. 39% of social renting residents told us they were having to choose between heating and eating this April, and the economic environment has changed considerably since then. The adverse economic landscape will undoubtedly lead to a larger proportion of residents claiming partial or full benefits to help them with their housing costs, as well as a higher number of residents breaching the benefit cap. Whichever rent ceiling level the government decides to impose, the support through our Foundation given to those most vulnerable and struggling to meet rental payments will continue to be of value. This all points to the complexity behind the decisions and potential trade-offs that L&Q will be forced to take as part of this rent setting process to prioritise residents at such an economically vulnerable time.

L&Q's key concerns for each of the 3%, 5% and 7% rent ceilings are outlined below, including their implications for our investment plans.

If a 3% ceiling was imposed for in 2023/24, according to modelling undertaken by L&Q, the forecast financial impact would be a rental income loss of £45 million in 2023-2024. In this scenario we would strongly support a future rent convergence policy or other mitigation

[§] ONS, Opinions and Lifestyle Survey, March 2022 measures to catch up lost income, which would otherwise result in a cumulative loss of £256 million after 5 years and £559 million after 10 years.

3% ceiling	2023/24	2024/25	2025/26	2026/27	2027/28	5 year total	10 year total
Income	(£45m)	(£50m)	(£52m)	(£54m)	(£55m)	**(£256m)**	**(£559m)**

If a 5% ceiling was imposed in 2023/24, according to modelling undertaken at L&Q, the forecast financial impact would be a rental income loss of £35 million next year, rising to £199 million total after five years and £434 million total after ten years in the absence of a rent catch up mechanism.

5% ceiling	2023/24	2024/25	2025/26	2026/27	2027/28	5 year total	10 year total
Income	(£35m)	(£39m)	(£41m)	(£42m)	(£43m)	**(£199m)**	**(£434m)**

If a 7% ceiling was imposed in 2023/24, L&Q would lose £25 million next year, rising to £142 million total after five years and £310 million total after ten years in the absence of a rent catch up mechanism.

7% ceiling	2023/24	2024/25	2025/26	2026/27	2027/28	5 year total	10 year total
Income	(£25m)	(£28m)	(£29m)	(£30m)	(£31m)	**(£142m)**	**(£310m)**

In order to manage the loss of income under the scenario outlined above, we will have to make substantial cuts to planned spending to safeguard our ability to meet regulatory standards and fulfil urgent repairs. L&Q is fully in favour of the current drive from the regulator to prioritise customer satisfaction and reduce the level of complaints, however, substantially less funding will make it harder to achieve this.

Over a 10 year period, we expect a 5% ceiling to translate to 44,000 fewer scheduled decoration programmes, 11,000 fewer bathroom refurbishments, 6,000 fewer kitchen replacements, 13,000 fewer properties benefitting from window replacements, 13,000 fewer boiler replacements and 3,000 fewer roof replacements. There would be no funding for other programmes that we know residents value, such as estate and environmental works.

We would not implement these cuts lightly and understand the significant impact they would have on residents' lives, but they are necessary if we are to meet other essential commitments including £322 million towards fire remediation and energy efficiency upgrading to meet EPC C by 2030.

Under a 3% or 5% ceiling, the required cuts to service improvement also mean that meeting all decent home requirements in all homes is likely to become more challenging. While we will continue to meet all regulatory requirements, in order to maintain decency we will need to reactively pick up properties that are at risk of not meeting the required standard, which will be less efficient than the planned programme approach and means worse value for money for residents.

More broadly, cutting planned investment programmes is a false economy that will lead to poor value for money for residents. Preliminary modelling of repair demand suggests implementing our Major Works Investment Programme will prevent the need for 7,500 reactive repairs per year after two years – translating to a direct saving of at least £2.19 million each year. In reality, this figure may be higher, as it does not consider the effects of all our investment programmes. Any delays or reductions to major works investment will cancel out some of these savings.

We also know that failing to invest in many of these areas is a long-term concern for residents. If investment were reduced or cancelled, we would expect the level of resident complaints to rise and customer satisfaction to fall.

We would also have to implement a significant reduction in development capacity in the short and medium term. Under a 5% ceiling, our annual reduction in development capacity is forecast to be £1.2 billion, rising to £1.5 billion under a 3% ceiling, but only £900 million under a 7% ceiling. Under any of these scenarios, we will not be able to meet the homebuilding targets set out under our strategic plan. It's also likely that reducing investment in this area will lead to delays to the completion of homes where homebuilding is already underway. As a major provider of new, affordable homes in high-cost areas, a reduction in new home completions would exacerbate the housing crisis.

Energy and fire safety spending will be ringfenced even in the worst case scenario for reductions in income. However, the planned investment timescales to enable permanent remediation may have to be delayed, meaning that temporary fire safety mitigations could be in place for longer than anticipated. In these circumstances, leaseholders living in these properties will find it harder to resell their properties.

We support the government's aim of protecting residents who would struggle financially following a high rent increase. However, we suggest this aim might be better achieved by uprating benefits in line with inflation and removing the benefit cap, which affects residents who – according to our analysis – are currently facing the most financial hardship.

3. **Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?**

L&Q strongly believe that this decision on social housing rents should only last for one year. There is too much economic uncertainty to make a decision on rent-setting in 2024/25, even before considering the long-term financial implications of a two-year ceiling. There is however value in beginning to consider what a long-term and sustainable financial settlement might look like. We think that any future rent settlement policy, 2023-2024 or 2024-2025 cycle, or beyond 2025, should have affordability, long-term certainty and transparency to residents at its heart. How rents can catch up from this ceiling over future years, either through a regulatory change or mechanisms within existing rent regulation must also play a key part in the 2024/25 rent setting decision as well as the post-2025 rent settlement.

L&Q are concerned that if no attempt is made to catch up rents, their impact will compound indefinitely, directly impacting our core contribution to society and our shared priorities with the government including improving service delivery, tackling the housing crisis and contributing to the net zero agenda. The economic landscape should be carefully assessed in Autumn 2023, before any rent setting policy for 2024/25 is committed to. Additionally, we believe this would be a good opportunity for government to give further clarity on what outcomes can be expected from rent settlements or other sources of income from 2025 onwards, as otherwise the sector will be forced to reprioritise more of its key activities in the absence of other grant funding.

One option to avoid the ceiling's impacts compounding indefinitely would be a waiver approach, where we waive the right to collect increased rent in 2023/24 (and potentially 2024/25) above a set ceiling, thus avoiding a situation where residents face a sharp rent increase. We would then (at our own discretion) put into place catch up mechanisms to return annual rent paid to the level it would have been under a CPI+1% increase policy. This would be our preferred approach in the current circumstances because of the flexibility it offers.

Another alternative would be rent convergence, whether targeted to specific rents that are currently set below the regulatory formula rent (of which L&Q has a large number) or for all social rents. On the former, we think it would be fair to reintroduce convergence for these below-formula rent homes. On the latter, we think convergence for all social rents, or another similarly sustainable funding mechanism should be considered for the post-2025 rent settlement.

Whilst we remain strongly committed to the new and enhanced consumer regulation post-Grenfell including Decent Homes Standards, and support the government's wider policy aims for the sector including ambitious London net zero by 2030 targets recently set out by the Pathways to Net Zero Carbon, the modelling supports L&Q's position that these will need to be costed by government on the assumption that these will be over and above what rents will be able to cover, in the absence of any additional catch up mechanisms.

4. **Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?**

L&Q agree that first lets and re-lets should be exempted from the rent ceiling. When we first let or re-let a property, we have already invested a substantial amount of money into its construction or refurbishment. New lets are particularly expensive, as they are built to the highest modern standards. It would not be financially sustainable to let these properties out at below-inflation rates.

5. **We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?**

L&Q proposes that supported housing be exempted from the ceiling. Margins are already very slim, we provide a service that is essential in offloading pressure from the NHS, and the vast majority of supported housing residents have rental payments covered by benefits, so will not feel a rent increase. Our records show that 2,106 supported housing tenants are in receipt of benefits, compared to only 657 who are not. Most supported housing tenants will also be exempt from the benefits cap, due to the type of benefits they receive.

L&Q Living (LQL), our care and support subsidiary, had a surplus of £1 million last year against operating costs of £47 million. Supported housing is particularly sensitive to changes in the external environment because of all the extra services provided. We expect operating costs to rise substantially in line with inflation; if rent increases do not keep level, LQL will lose money. Were a ceiling on rent increases to be implemented, we would expect to have to reduce investment in Care and Support schemes, along with the rest of our homes. While L&Q as a large provider is able to cross-subsidise supported housing through other operations to ensure it remains viable, this may not be the case for other organisations. It is for this reason that we would therefore encourage government to introduce an exemption to maintain the financial viability of supported housing providers in the wider sector.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	Matrix Housing Partnership
Are you replying as an individual or organisation?	The Matrix Housing Partnership (Matrix) is a consortium of registered providers of social housing working together to increase and improve the supply of affordable housing. Members of the Matrix partnership include: Citizen, Rooftop, Watmos, Pioneer, Black Country Housing Group, Trident and GreenSquareAccord. The Matrix Housing Partnership has 3,755 homes, funded by a £212million grant.
What is the name of your organisation (if applicable)?	Matrix Housing Partnership
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	178 Birmingham Road, West Bromwich, B70 6QG
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
X☐**Maybe**

Comment:
Boards have responsibility for setting rents and across Matrix the eight Boards of the housing associations would set a rent level below the full CPI +1 formula to appropriately balance the impact on customers with ensuring financial viability and the continuing provision of vital services to the customers in our 100,000 homes. All Matrix partners would expect to set rent levels significantly below the full formula this year in the absence of a cap.

The housing associations across Matrix have set aside funds to support those most in need and mitigate the wider impact of the cost of living crisis by specifically targeting households who are struggling. This is a strategy of targeted support for where it is needed, rather than a blanket reduction of rental income which is needed to maintain services, investment in homes and financial viability.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐
X☐No
☐Maybe

Comment:
If a rent cap is deemed necessary, a level of 7% would require savings and potentially some reduction of development and investment across the Matrix partners. However, it would ensure financial viability and the ongoing provision of vital services to our customers. It is therefore our favoured approach if Government is minded to impose a rent cap.

Many costs across the partnership are increasing at rates significantly in excess of the cost inflation, most notably repairs and maintenance which is the largest proportion of expenditure for any housing association. While the exact increases vary across the individual members of the partnership and are subject to labour and materials market volatility, they are reported as high as 15% for some member organisations. A 5% rent cap would in this particular example therefore equate to a real-terms gap of around 10% in repairs and maintenance.

The associations across Matrix have indicated that the delivery of new homes will have to reduce to accommodate a 5% rent cap, within the context that development costs are running at or above inflation levels of 10%.

In addition, funding costs have significantly increased due to the movements in the underlying gilt rates following market reaction to the mini-budget. These impacts are material to business plans and have implications for covenant levels, borrowing costs and when future borrowing is needed.

Noting the worsening economic backdrop, we would not consider a ceiling lower than 5% to be viable for the sector as the cost to income inflation differential would be too great.

Customers have told us that whilst they understand the potential impact of lower than inflation increase to rents on the services they may receive they have made it clear they cannot accept a lower level of service when it comes to keeping their homes safe, and up to the minimum standard.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Partners across Matrix have indicated that the savings and financial implications of a rent cap could be accommodated for one year, but that a two-year limit would place both core financial viability and service provision under threat. The impact of a 2-year cap would be particularly acute if it was set at 5% (or lower). Government could of course again consider setting a cap for a second year in autumn 2023, if the cost of living crisis and inflation had not stabilised. The unprecedented volatility suggest that it would be best to review the need (or not) for a cap in 12 months time.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X☐Yes
☐No
☐Maybe

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment: Not applicable

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Peter Birtwistle Trust
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	14 Keighley Road, Colne, BB8 0JL
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☒No
☐Maybe

Comment:

As an almshouse association with 95 properties, trustees always consider how an increase in rent will impact on the residents. As a registered provider of supported accommodation for the elderly, it is most unlikely that an increase in excess of 5% would be considered at this time.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different**

options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

☐Yes, you agree with imposing a ceiling of 5%
☒No
☐Maybe

Comment:

no comment

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☒Maybe

Comment: If a rent cap is imposed then the duration must be made clear at the outset so that registered providers are able to plan for the medium term.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒Yes
☐No
☐Maybe

Comment: No Comment

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☒Yes
☐No
☐Maybe

Comment: Almshouses should be exempted from any rent cap.

A precident for this was set in 2016 when almshouse charities were exempted from the reduction in target rents by 1% over a 4 year period.

There are only 288 almshouse charities that are Registered Providers and of these, very few have more than 100 dwellings and the majority have far fewer.

The almshouse model typically provides supported accommodation for the elderly and vulnerable. The Regulator of Social Housing identifies this sector in its Global Accounts as more expensive per property than general needs housing.

A rent cap would therefore have a disproportionate effect on almshouses at a time when they are having to fund new measures under the Social Housing legislation and plan to meet the Government's decarbonisation requirements.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Reading Borough Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Civic Offices, Bridge Street, Reading, RG1 2LU
What is your email address?	[redacted]
What is your contact telephone number?	

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

The Council had already considered a rent increase below CPI + 1% in 2023/24 to ensure that rents remain affordable for tenants, given the inflationary pressures on other household expenditure.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

The Council view is that a 5% rent increase would have a detrimental effect on the Business Plan but would be manageable, a 7% rent increase would improve the HRA Business Plan viability. A 3% rent increase would have a catastrophic impact on the HRA Business Plan unless there is a potential reduction in the cost of services.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Current CPI forecasts suggest a reduction in the level of CPI in 2023/24, potentially bringing the rent increase for 2024/25 in line with the capped level for 2023/24. If CPI remains high up to Q2 2023, a further rent consultation exercise could be undertaken to assess the need for a rent cap for the 2024/25 rent increases.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

The proposed ceiling should only apply to existing tenants, however an internal policy decision would be made to determine whether letting the property at target rent level is appropriate.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

The Council accepts that a rent increase cap is necessary against all categories of rented social housing as this will ease the financial pressure on tenants when there is inflationary pressure on all household expenditure.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Red Kite Community Housing Ltd
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Windsor Court, Kingsmead Business Park, Frederick Place, High Wycombe, HP11 1JU
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☑Maybe

Comment:
We have concerns about the ability of our tenants to pay higher rentals at this time when they are under large inflationary pressures and we accept that one way of dealing with this is via a rent cap. However, whilst we want to see protection for tenants, reducing our income will impact on our ability to invest in tenants' homes and in new houses. As the biggest outcome of a rent cap is a saving for the government on housing benefit we would like to see some commitment to reinvest this savings back into Housing Associations for investment. If not, we would rather

put in place our own measures to support those tenants who need assistance and apply the current CPI + 1%.

It is difficult to say, if a rent cap is imposed, at what level this should apply as inflationary forecasts differ between forecasters and the range of forecasts has widened over time (in an ideal world we would not increase rents but, in order to fulfil our responsibilities to residents and to those seeking homes, we need our real income to keep pace with inflation).

Because a cap looks likely, we are already considering ways in which to make the necessary cost savings which would have the least impact on our tenants whilst retaining as much as possible of our business plan. Inevitably, however, the cap will impact on our investment plans as, at the levels of cap envisaged, we are unlikely to be able to make sufficient savings to offset the fall in income.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☑Maybe

Comment:
From the point of view of being able to deliver our plan, fulfil our responsibilities to residents, fulfil our commitments to continue development and have room in the plan to achieve zero carbon in our homes, any ceiling needs to be as high as possible. From that point of view, 7% would be preferable. However, that is still a very high increase for our tenants and might lead to greater arrears and even tenants losing their homes. Reluctantly we can see the logic of a 5% cap.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☑Maybe

Comment: It is probably too early to say for certain that a ceiling will be required next year and what that ceiling might be. Nevertheless, we believe that it would be prudent for business plans to model a differential between cost inflation and rent inflation for a two year period. Setting a two year ceiling now would potentially give certainty and drive assumptions in Business Planning (as well as giving a stronger message to our tenants).

Whilst not setting a ceiling now for the second year would have the benefit of waiting until the prospects of inflation in 2024-25 are clearer it would have significant disadvantages. The greatest of these is the uncertainty for forward planning and investment. Retaining the quality of our homes and investing in new homes requires a planning horizon beyond two years and is generally at least five years. If a rent cap were to continue beyond two years it would have a significant and incremental effect on our ability to invest. Thus, in our opinion, certainty about the duration of the cap is almost as important as the level of the cap.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑Yes
☐No
☐Maybe

Comment:
In the long term the formula for determining social rent needs to be linked to inflation. Whilst new tenants may have affordability issues these are addressed at the time of granting the tenancy. For this reason we support not applying the cap to initial tenancies and relets.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☑No
☐Maybe

Comment:

Salford City Council

Salford Civic Centre

Chorley Rd

Swinton

Salford

M27 5DA

Social Housing Rents

Floor 3 (Mailpoint B12)

Fry Building

2 Marsham Street

London

SW1P 4DF

By email: Socialhousingrents@levellingup.gov.uk

Dear Consultation Team

Social Housing Rents Consultation

Thank you for the opportunity to comment on the social housing rents consultation.

We have provided responses to the specific questions but are concerned that the narrow scope of the consultation prevents a wider discussion about housing finance. The City Council is very concerned about the impact that the cost of living crisis is having on its residents after 12 years of austerity and welfare reform, including cuts to discretionary housing payments, bedroom tax, the removal of council tax benefit and introduction of council tax reduction schemes and restrictions to local housing allowance rates. For context:

- Salford is the 18th most deprived local authority area in England with 30.4% of its residents residing in an area classed as within the most deprived 10% nationally.
- 22% of children in the City are in relative poverty – above the UK wide relative poverty rate of 19%.
- A City wide household mean income of £32,742 with a lower quartile income of £16,173. The City is a city of contrasts and in the most deprived wards of the City mean household income falls to approximately £23,000 with lower quartile incomes around £13,000 per household.

The City Council has continued to support its residents – including the use of discretionary housing payments, and Salford Assist a scheme that offers short term support to people who are in crisis, an emergency or major disaster situation. We are seeing increased demand for these services over time

We have also established a Hardship Fund for Salford City Council tenants. This includes funding to provide a dedicated 1:2:1 support to households experiencing hardship to maximise their income together with financial resources to reduce immediate hardship or debt including assistance with the payment of fuel bills. Our Registered Provider partners have also told us that they are introducing their own hardship support schemes as a result of the cost of living crisis.

There is considerable demand for social housing within the City - 5851 households were on the Council's housing register at March 2022 and in the year 2021/22 there were on average 108 bids per property advertised up from 51 bids per property in 2018/19. There is also a shortfall of 809 affordable homes per annum across the city. An increasing number of households are presenting to the City Council as homelessness. In 2021/22 4987 households presented as homeless with 493 households placed in temporary accommodation at 31st March 2022.

Affordability is worsening in market housing with an average affordability ratio of 6.8 in 2020/21. Rents in the private rented sector continue to outstrip inflation – (average PRS rents have risen 17% in the previous year from an average of £938 to £1100 in 2022). There are households wholly reliant on housing benefit / LHA who are unable to access private sector accommodation in Salford.

This is within a context of the City Council's annual budget being reduced by £240M a year by the end of 2022/23 as a result of austerity and local authorities having less resources to provide support to their residents.

We note from the impact assessment carried out that the proposal – whilst supporting residents to varying degrees - also generates significant savings for Government ranging from £6.1 bn to £3 bn of savings. We feel that these savings will have a disproportionate impact on poorer parts of the country including Salford -areas that need those resources the most to deliver services, repairs & maintenance, retrofit, and to respond to the new regulatory environment post-Grenfell.

We are concerned of the pressures that these proposals will cause for local authorities and registered providers and their ability to meet the new burdens and work created as a consequence of new building regulations, a new fire safety order and a new regulatory environment including an expanded role for the Regulator of Social Housing and the need to invest in building safety. The White Paper – The Charter for Social Housing - also set out an expectation that residents would have a good quality home and neighbourhood to live in and the broader role registered providers should be playing in terms of neighbourhood, public realm and environment. We are concerned how this will be financed. It will also impact on their ability to retrofit their existing homes helping to tackle fuel poverty and climate change and to build new homes for rent – particularly social rent homes already impacted by rising construction and borrowing costs and insufficient levels of social housing grant.

We appreciate that this consultation covers social housing but we are also concerned about the impact of the cost of living crisis on private sector tenants and shared owners whos rents are not covered by these proposals. Private sector tenants in Salford are experiencing significant increases in their rents and we want to ensure that sufficient protections are in place to support them to remain in their homes. This includes eviction prevention, increasing the Local Housing Allowance (LHA) rate in line with median rents and ensuring that welfare benefits are raised in line with inflation. The alternative will be increased homelessness presentations to local authorities and stays in temporary accommodation. Shared owners in addition to their rent will also have a mortgage to service which is likely to increase given recent interest rate rises.

1. **Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?**

Salford City Council wishes to protect its residents as much from the current cost of living crisis and supports a rent freeze for residents. It is not, however, acceptable for this to be funded through a rent roll reduction scenario for local authorities or Registered Providers. Salford City Council asks that central government fully funds these rent proposals ensuring that local authorities and Registered Providers receive the finance they would have received if rents had been increased by CPI + 1%. If rents aren't frozen we believe that measures should be implemented to protect the most vulnerable, i.e. those wholly and partially reliant on welfare support and those in low paid employment struggling to make ends meet.

This income is essential to ensure that local authorities and Registered Providers can still deliver on their priorities – including the building of new affordable homes at social rents and retrofitting existing homes together with meeting the new burdens and work created as a consequence of new building regulations and an enhanced regulatory environment.

We are concerned that whilst a ceiling protects existing residents any proposals also need to ensure that homes continue to be safe, well maintained and retrofitted and that new homes are built for existing and future residents.

We are not aware of any registered providers in Salford who are proposing to increase rents by CPI+1%. Our main Registered Provider partners all appreciate the impact of a CPI +1% rent rise on their tenants and the added cost of living pressures this would create whilst concerned about the impact of their ability to deliver services, meet the new burdens and build new homes.

2 Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Please see our response to question 1. We ask that that central government fully funds this rent freeze ensuring that local authorities and Registered Providers receive the finance they would have received if rents had been increased by CPI + 1%. %. If rents aren't frozen we believe that measures should be implemented to protect the most vulnerable, i.e. those wholly and partially reliant on welfare support and those in low paid employment struggling to make ends meet.

Discussions with our Registered Provider partners has also highlighted issues with a blanket ceiling as their business plans and financial capacity are all different. A number have reported that costs for them are increasing at well above CPI and that these increasing costs together with a 3% or 5% ceiling will mean that some services will have to be reduced or cut.

We also have evidence of some registered providers putting new housing schemes on hold as they model the impact of these proposals within the context of rising construction and borrowing costs.

3. **Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?**

The proposals should last for two years provided that government fully funds these rent proposals. Any of the proposals have a long term impact, as that income is foregone for all future years. The impact of two years will increase the impact of the proposals as a second year of additional income will be foregone. This will further impact on local authorities and registered providers business plans and their ability to meet their new burdens and address building safety and provide new affordable homes for rent if the proposals aren't fully funded by government.

4. **Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?**

Salford City Council does not support new lets and/or relets being exempt from any of these proposals, as those residents are likely to be as vulnerable (or even more so) than existing residents, and there does not seem to be any reason to withhold this protection from new tenants.

5. **We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?**

We are aware of the particular challenges of delivering and funding supported housing and are aware that these schemes are very costly to run, often on very tight margins. It is recognised that a high proportion of supported housing residents will be in receipt of housing welfare payments but one of the challenges is where residents are able to work, their high housing costs can be a barrier to getting into work. The exclusion of supported housing from these proposals has the potential to exacerbate this situation and as these tenants are amongst some of Salford's most vulnerable residents we would want to ensure that they were also covered by these proposals.

If you have any further queries or questions please do not hesitate to contact me.

With best wishes

[redacted]

[redacted]

Salford City Council

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Association of Green Councillors
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Town Hall, Pinstone St, Sheffield S1 2HH
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☒No
☐Maybe

Comment:

No.

At a local level, we are Green Party councillors who are acutely conscious of, and acting on, both the cost-of-living crisis and inflation in materials and labour. Our frustration is that we are yet to see a clear plan emerging from central government to do the same.

In our view, a government-imposed cap on social rents is not the way to address the cost of living without equivalent action on private rents. We are living through a housing crisis, with private sector rents becoming increasingly unaffordable in many parts of the country.

To cap social rents while taking no action in the private sector and failing to provide local authorities with additional funding would undermine local authorities' ability to build or purchase affordable homes, just when they are most needed to house those least able to afford inflated private sector rents. This would, we feel, also undermine the laudable work achieved through "Everyone In". The government's proposal means a massive real-terms cut in the resources so desperately needed for social housing, to the detriment of all council and housing association tenants.

You will be aware, of course, that the majority of social housing tenants - those in receipt of benefits - would not be any better off as a result of your proposal. Those not in receipt of benefits would see cuts in services and maintenance, less support available to those in serious hardship; and reductions in essential insulation work to reduce tenants' bills. The only real beneficiary of this move is central government, who we estimate will save about £4.3 billion over five years in housing benefit payments. Effectively, this cost will be borne by local councils and their tenants.

We welcome the consultation but would like to see a clear proposal on the support measures for local councils and their tenants. We are frankly disappointed that this consultation is only being run after the decision on the social rent cap has been announced.

Most significantly, we need to remind you that the effect of a below-inflation cap is to have ongoing effects year-on-year. Our request therefore is for central government to guarantee that councils will not be out of pocket either in this year or subsequently as a result of this hasty intervention.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☒No
☐Maybe

Comment:

No.

See above. The lower the percentage, the bigger the funding cut to social housing and the more decision-making is taken away from locally-elected representatives who are accountable to their residents

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☒No
☐Maybe

Comment:

No.
See response to the question above.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒Yes
☐No
☐Maybe

Comment:

Yes, a ceiling should not apply, for the reasons given above.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Karbon Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Number Five; Gosforth Park Avenue; Gosforth Business Park; Newcastle upon Tyne; NE12 8EG
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

X **No**

☐Maybe

Comment:

The current high-inflation environment presents a significant challenge for providers of affordable homes. The costs of repairs, new homes, components for decarbonisation investment and energy are all rising much faster than rents, with a significant detrimental impact on our capacity. At the same time, we are conscious of the serious impact of the cost of living crisis on our customers, and are determined to ensure that our rents remain affordable. This combination of factors presents some difficult choices for providers, and we firmly believe that boards are best placed to determine the level of rent increase that achieves the appropriate balance between these competing pressures.

We do not believe there should be a cap on any rent increase next year and believe that government should honour the existing rent settlement. This would preserve the principle of co-regulation. Any changes should be fit for purpose and reflect the complexity and risk profile of the organisation/sector. A specific ceiling will fail in that regard and therefore fail the principle of co-regulation. An imposed cap will represent a shift in our relationship with the government and regulators, even if it is temporary. Housing associations and their boards should be permitted to agree on any future rent increases in keeping with the Rent Standard 2020. The proposed ceiling will compromise our ability to deliver our strategy to deliver excellent service to our customers, to help us shape strong, sustainable communities and develop more high-quality homes, and upgrade and retrofit existing stock. In such a scenario, Karbon Homes will lose millions of pounds of potential revenue over the next 30 years, assuming CPI peaks at 5 or 6 per cent above the proposed cap, which in turn could mean reducing our support for customers and challenge our ability to meet the housing needs of our local areas.

This rent cap could also have a broad impact on the whole social housing sector. Recently S&P said the "widening gap" between rent levels and cost inflation in the current financial year poses "significant challenges" to social landlords. This could, therefore, lead to a lower credit rating for them. This in turn could see investors such as pension funds seeking to withdraw their investment from Registered Providers, and it will be more difficult to source alternative, low cost funding to replace that. Credit ratings for registered providers are important for enabling them to borrow at rates that support the delivery of new affordable homes, and if government reneges on its rent settlement for the second time, this will significantly undermine investor confidence in the sector.

Any cap will also have a long term negative impact on housing association finances. Without any mechanism to obtain future premiums over CPI, HAs will not be able to regain reduced income housing associations will not be able to regain reduced income, compared to CPI+1% returns, which will mean millions of lost revenues over that period. At the same time, Registered Providers will continue to face the same inflationary pressures as other businesses, and particularly acutely in their development operations. For example, inflation at 12% and income capped at 5%, will create a 7% real terms gap. Over a 30-year business plan, this could have large ramifications for our ability to invest and will inevitably lead to building less new homes and less investment in upgrading and decarbonising existing homes.

We currently invest considerable amounts in both refurbishing existing homes as well as building new ones. For Karbon Homes, the cumulative loss of income in the event of a one year 5% cap is equivalent to a) three years' worth of investment in existing homes or b) over 600 new homes or c) the retrofit investment required to take 4,800 homes to net zero carbon.

We will expect our own customers to find an increase of any more than half the forecast September 2022 CPI (14% in Q4 2022) unmanageable and therefore we would given the circumstances, create our own internal ceiling. It will be likely to be an increase in the rent for customers, but we will try and create a balanced approach by weighing up our internal budget concerns with ensuring a fair rate for our customers to pay. This will help our customers as well as allowing us to retain our independence. We will keep this rate below inflation as our priority is our customers' welfare.

We do not aim to maximise rents for the sake of it, but only to set a rent that is fair, that works for our customers and enables us to make the investments needed in good quality homes and service provision. We do not arbitrarily increase rents, but we calculate our short-term and long-term spending requirements such as retrofitting or expanding our housing stock. Our customers notice if we are withdrawing investment on environmental or smaller quality of life improvements. Our investment benefits customers in many ways. For example, our retrofitting programme will lead to reductions in their energy bills in the long term.

However, due to the scale of the cost-of-living crisis we understand the need to keep rents to a reasonable level. Therefore, there should be scope to review the current formula in 2025, as the current policy is fixed until then. It is certain that some form of catch-up is required for providers. This needs to be consulted on at the earliest opportunity to avoid long-term damage to some organisation's financial plans.

As a responsible landlord, recognising the challenges our customers face and within the existing co-regulatory model, we were considering what sustainable increase will meet the needs of all stakeholders including those who require homes in the future. We would therefore be looking to implement a rent increase of approximately CPI minus 4% as a balanced settlement that would preserve the affordability of our rents whilst enabling us to continue to deliver investment in new and existing homes. This could be delivered through a waiver mechanism that would enable rents to return to formula rent over a period of time when inflation returns to government targets

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

☐No

X Maybe

Comment:

As discussed in our answer to Question 1, we don't believe any ceiling should be imposed. This is due to our belief that any cap weakens the agreed upon rent standard and the principle of co-regulation. However, we recognise that responsible landlords will consider the impact on customers and that our own internal modelling would suggest that if any cap is to be imposed it should be 7%. Our current levels are spending are essential in the short and long term. This includes our retrofit programme, which will cost on average around £17-20k per homes - a total of over £500 million investment for us across our housing stock to bring it up to Net Zero levels. The cost of retrofitting the entire social housing sector to net zero is estimated to be £104 billion according to research by Inside Housing. Anything that makes us financially weaker creates more barriers to reaching a net zero economy and meeting the urgent housing need.

In short, all of the options presented are below the prevailing rate of inflation and will make it very difficult for housing associations like ours to continue to deliver their strategic priorities. This will inevitably result in less new affordable homes built and a slow down in the decarbonisation of existing housing stock. This is due to the impact of the Welfare Reform and Work Act 2016 which required social landlords to reduce their rents by 1% each year for four years (the 'social rent reduction') ending in April 2020. What would have been a £100 weekly rent in April 2015 became a rent of just £96.06 in April 2019. This was a 'real terms' cut in rents of 10.4% (reduction versus CPI), and the business plan impact of 14.8% (reduction versus CPI +1%). Therefore, we have seen severe reduction in our income from where they should be over the last decade, and this has negatively affected our organisation such as having less available funding for investment. There is little in the way of further efficiencies that can be increased to lower our costs.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No

☐Maybe

Comment: We do not believe a ceiling should be applied. Instead, we will apply our own reduced level of increase for one year only. The Bank of England forecast CPI inflation is expected to fall to 5.4% in 2023 Q3, levelling out to around 2% in the following years of 2024 and 2025, therefore returning to the realm of economic norms.

[redacted].
As a result, our ability to invest in existing and new homes will be extremely limited. A two-year cap will be a substantial burden for providers, there will be little new investment for the foreseeable future and will be dangerous for the financial wellbeing of the whole sector. It will take years for us to regain our current financial standing if we were to handicap ourselves for two years. Two years is not necessary to help customers and will actively harm the sector.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes

☐No

☐Maybe

Comment: Yes, this is because new customers are able to choose whether or not to rent a property based on a number of factors including the rent level. The property may also have been updated and refurbished after the previous tenants left meaning that the property is now of a higher standard and the new rent should reflect this. This could mean additional space or investment in renewable heating sources for example. Not imposing a ceiling for first let or relets is the only way to maintain a fair rent system as the ceiling could lead to someone paying well below market value.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes

☐No

☐Maybe

Comment: Certain types of social housing incur additional costs for housing associations. For example, accommodation for older or vulnerable residents may require additional maintenance or staff. Any categories of social housing which require higher standards of care and maintenance and therefore have higher costs associated should not be subject to a ceiling on rent increases.

There is also a significant difference between social and affordable rented homes. Affordable rents are inclusive of service charges. Therefore, any rise in the cost of providing services included within the service charge (such as communal electricity and heating) above the suggested cap will reduce the relative proportion of rent to service charge.

Example for clarification: FY23 affordable rent is £130 per week inclusive of £30 per week in service charges. In FY24 a capped rise of 5% limits the new year affordable rent to £136.50. As the service charge includes communal electricity and heating costs this could rise to £50 per week meaning that the remaining rent would be £86.50 per week – a significant fall from the £100 per week in core rental income in the current year. A social rent tenant in the same circumstances would see their service charge rise to £50 and their rent to £105 making a total charge of £155.These numbers are based upon an affordable rent sheltered housing scheme.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Somerset West and Taunton District Council – housing landlord service
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Deane House, Belvedere Road, Taunton, TA1 5LT
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment: This is a difficult question as on one hand the benefit of Government intervention may promote a more consistent approach across the sector. On the other, we (and our RP partners) are responsible social landlords capable of managing our budgets in the best interests of our tenants. Furthermore, during this current 'cost of living crisis' we believe that it would be extremely unlikely that any landlord would seek to impose the maximum rental increase. However, on balance in these difficult times it is felt a cap may have some benefits, it is of course the terms of such a cap that are the key factor.

Approximately 65% of our tenants are in receipt of housing support. We have relatively few tenants subject to the benefit cap and spare room subsidy. Furthermore, we believe that implementing CPI plus 1% (i.e. approx. 11% increase) would mean that more of our tenants are likely to receive help with their housing costs. Accordingly, a proposed cap will not directly help our tenants that currently receive housing support. A rent cap will only help our tenants with higher incomes.

If a cap is imposed and this is set below the rent the council would otherwise of imposed, it is certain that **all** our tenants will feel the impact of reduced service delivery – this could result in the reduced/delayed supply of new stock, worse housing conditions (although maintaining decent homes standards will remain a priority), and cuts to tenancy support services, particularly discretionary support directly to tenants who find themselves in hardship or via HRA funding to VCS partners.

However, we acknowledge that an 11% rise, in addition to other inflationary pressures, such as increased expenditure on energy, would have a devasting impact on those not in receipt of housing support . Arrears levels would undoubtedly increase. There is a need therefore to find a balance between this impact and the need to collect income at a level which enables the continued delivery of critical services.

So who are the winners and losers in this scenario? Some tenants will benefit from some protection yes, but all tenants will lose due to the need to reduce services and limit or curtail our ambitions. Clearly the Government will benefit financially by a reduction in the benefit bill, what will happen with this saving? Are Government proposing to provide support to landlords with for example increased grant funding for new build, carbon retrofit works or plug a huge gap that exists in funding for regeneration which is becoming more urgent as our stock profile continues to age.

Other examples include allowing greater retention of RTB receipts in particular permit receipts to be used for 1 for 1 replacement where affordable homes are being replaced by affordable homes due to regeneration/demolition. There may also be wider beneficial measures that could be imposed for example some protection from interest rate risk and refinancing costs by some form of allowance or provisions via PWLB (even when the Authority has pursued commercial investment).

Note: A Local Government Reorganisation is underway in Somerset which will result in a single authority, Somerset Council, emerging as a unitary council replacing 4 districts and 1 county council. This change comes into effect on 1st April 2023. Clearly any rent cap will create additional financial challenges for Somerset Council, who will replace SWT.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment: We are now asking our rents to do much more than was ever envisaged in 2012 at the point of self financing, where social landlords are trying to respond to the housing crisis, and deterioration of health and social care systems, in the context of escalating regulatory requirements.

Our evidence suggests that a figure of 7% (approx.) is thought to be a fairer balance than 5%, between the impact on the tenants versus the impact on the Housing Revenue Account. [redacted] At 7% our business plan remains very marginal but our interest cover metric would remain at target only. The difference in the two positions for us is stark.

It ultimately comes down to the degree of impact. [redacted] The exact impact of different scenarios is being worked through currently. It would be SWT preference for the impact of any cap on income levels collected to be recouped over time, say a period of 5 years. This is important to enable the baseline to be restored to a sustainable level. In business planning terms greater certainty on future years rent policy is essential, and we would strongly encourage government to undertake an immediate review of the rent standard to consider a position over the next 5 years.

The impact will be felt in the following areas:

- Less new build supply potential for moth balling of sites
- Less decarbonisation and insulation fabric first works
- Less community support
- Less discretionary support services and VCS funding
- Extension of capital investment lifecycles
- The potential for a downward spiral of dissatisfaction and complaint for example vie disrepair claims amongst our tenants.

In terms of total **income** to the HRA our current estimates suggest that whilst for every 1% increase on rents and services charges would provide us with an extra c£270k and would in effect ‘give’ us £1.35m at 5%, we are impacted by estimated stock changes reducing income by c£210k of which include RTB Sales of c35 units per year (c£166k pa) as well as other social housing development (end of life non traditional stock) demolitions that will remove rental income until the replacement new build is available to let. Notwithstanding some other minor adjustments of income estimates on other income streams this reduces our estimated **income inflationary growth to £1.1m.**

In terms of inflationary pressures on our expenditure our estimates suggest that this is in the **region of £1.7m** (not including depreciation or cost of borrowing). The most significant area of inflation is the pay award where the current proposal put forward by the National Employers and supported by our Union is £1925 per scale point for 2022.23 which is c5-6% increase – we only originally budgeted for 2% - plus another

5% proposed for 2023.24. This then impacts not only our core staff but our central support staff costs and heavily staff based contracts such as Grounds Maintenance. Other significant areas of inflationary cost that are over 7% includes the cost of materials, electricity (locally we have recently seen a 60% increase from last year to catch up on plus another 57% estimate for next year), gas (locally we have recently seen a 80% increase from last year to catch up on plus another 283% estimate for next year) and fuel (locally we have recently seen a 45% increase from last year to catch up on). This is before suppliers approach us with any price increases they will impose on other contracts in 2023.24 such as waste disposal which went up 5% from last year to 2022.23.

It is clear to see that the rent cap at 5% does not cover our inflation costs by a wide margin, and a rent cap at 7% would still leave us short. To emphasise again that this does NOT include annual depreciation inflation link to HPI or BCI, or the increase in the cost of borrowing to refinance debt falling due to finance the capital programme focused on new build and zero carbon retrofit which place further financial pressure on the business. Then there are growth items the business needs to manage in terms of addressing new regulatory requirements such as building safety issues.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment: The impact of a single years rent cap will be significant. To introduce a rent cap for a second year would compromise the ability of SWT to deliver key services going forward, and restrict any recovery plans in place. The financial environment seems so uncertain for the foreseeable future – and such uncertainly really stifles ambition. A more sensible approach would be to assess the situation in 12 months time rather than commit to a 2-year arrangement at this stage. A two year cap would compound the challenges for the Housing Revenue Account, our business as usual and capital projects. It is unknown when inflation will peak and if material and labour costs will put at risk the ability of landlords to create new supply, maintain high service standards, invest in decency and invest in thermal efficiency and low carbon measures. It should be noted that social landlords including SWT use private sector contractors to deliver capital programmes including decent homes, compliance, low carbon retrofit and new build. A cap, if set low, would put at risk some of the works delivered by the private sector with the obvious impact on the local labour market and potentially increasing the pressures on the benefits system.

If a 2 year cap is applied, we will have experienced Government interjection on rent policy for 6 of the last 9 years. Please see comments above regarding the critical need for greater certainty about rent policy for the next 5 years.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

We consider that the implementation of a cap will remove any discretion for landlords to implement rents that are reflective of local needs and circumstances. We have also set out the severe financial impact on our business of setting rent at below CPI+1% and the potential knock on negative impacts on all tenants. We do however consider that Government should allow landlords local flexibility to set rent levels for new tenants in line with local circumstances, and allow landlords to make responsible decisions in this regard. The additional income this may produce and positive impact on a small proportion of our tenancies cannot be underestimated as part of a longer term recovery plan from rent reduction and the positive impact this has on our base rents from a 30 year business plan perspective – it may just make the difference! This is particularly the case if a 5% cap is imposed.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

We agree that exemptions should be made for certain specialist supported accommodation, such as those set out below. Organisations that provide more expensive forms of accommodation, such as specialist supported housing will be more adversely affected. We feel that exceptions should apply, to ensure continued on-going viability. Placing additional pressure into these areas could compromise service provision for the most vulnerable. The provision of housing for domestic abuse victims and refuges should also be viewed as an exception. In its own impact assessment, the government says supported housing providers may be “less resilient” to financial pressures because of their business models or operating margins. If rent increases hold at 5% or 7%, that will leave massive deficits that providers of supported housing won't be able to get back through general needs housing.

• domestic violence refuges
• hostels for the homeless
• support for people with drug or alcohol problems
• support for people with mental health problems
• support for people with learning disabilities
• support for people with disabilities
• support for offenders and people at risk of offending

- support for young people leaving care
- support for teenage parents
- support for refugees

NB in this response we exclude general Supported and Extra Care stock which we consider should not be subject to an exemption and be treated in the same way General Needs stock.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	South Lakes Housing
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Bridge Mills, Stramongate, Kendal, Cumbria, LA9 4BD
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

~~☐Yes~~
☐No
~~☐Maybe~~

Comment:

- South Lakes Housing (SLH) is concerned about the impact of the cost-of-living crisis on our residents and understands the need for and supports rent increase restraint in 2023/24 but believes individual provider boards should make the decision that is right for their organisation, within the constraints of the existing Rent Standard.
- Prior to DLUHC rent consultation, SLH had begun modelling a range of below CPI increases to assess impact on customers and delivery of our strategic priorities, key

elements of which include energy efficiency improvements and the provision of much needed new homes.

- The proposed rent cap will have the effect of compounding (i.e. reducing) future rent increases for SLH and other registered providers. SLH will therefore have less money in future years to invest in providing new social housing and improving the quality and energy performance of their existing homes, an essential factor in assisting customers with affordable warmth.

- If it is to be imposed, there needs to be a mechanism for the shortfall in income to be met directly by Government grant or deferred to be recovered through future years rent settlement, when it is hoped inflation will be lower. There needs to be a convergence mechanism or direct grant to plug the shortfall if we are to address the supply of affordable homes and the energy efficiency of existing homes in the future.

- South Lakes Housing is committed to maintaining rents at affordable levels and approximately **45% of current rents are below target rent**. We propose that the ceiling does not apply to those tenancies below formula rent in 2022/23 so that they are at least brought up to the level of comparable properties.

- SLH provides additional support to customers, including a dedicated Financial Inclusion Specialist to help residents maximise their income, reduce costs, and access Government and Local Authority support. This includes signposting to local support, such as food banks, furniture & fuel support, CAB and Cumbria Action for Sustainability (CAFS).

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

~~☐Yes, you agree with imposing a ceiling of 5%~~
☐No
~~☐Maybe~~

Comment:

- The impact on SLH's 30-year Financial Plan in respect of income (turnover) forgone from the potential rent ceilings outlined in the consultation proposals is set out below:

Impact on SLH's 30-year Financial Plan of the proposals	2023/24 Impact		30 Year Impact	
	£m	%	£m	%
5% ceiling 2023/24 only	1.3	7%	55.5	7%
5% ceiling 2023/24 and 2024/25			85.0	10%
3% ceiling 2023/24 only	1.6	8%	70.3	8%
3% ceiling 2023/24 and 2024/25			112.9	13%
7% ceiling 2023/24 only	0.9	5%	40.7	5%
7% ceiling 2023/24 and 2024/25			56.6	7%

- The preferred consultation ceiling of 5% for the 2023/24 year (and return to CPI+1% ceiling for 2024/25) reduces South Lakes Housing income in 2024/25 by £1.3m, reduces income in the 5-year period 2023/24 to 2027/28 inclusive by £7.2m and over 30-years from 2023/24 by £55m.
- This is approximately 21% of the total provision within the Long Term Financial Plan for planned improvement works over next 30 years.
- Registered Providers have already had to absorb high inflation, well above rent increases for the last 18 months, with BCI running at approximately 20%, with inflation on building materials and labour significantly higher. As well as energy costs rising between 200-400% SLH is facing higher insurance premiums, due to increased flooding risk and inflated replacement costs.
- The level of income reduction above can only be afforded by reductions in investment in the services we provide to customers, in neighbourhood-built environment, in investment in existing homes, new homes and in investment to achieve net zero by 2050.
- The proposed ceiling will negatively impact security valuations. Private Registered Providers expect the ceiling will negatively impact confidence of funders to the sector – this would be the second intervention in an existing rent settlement in 6 years. The implementation of a ceiling therefore risks undermining funder confidence and the ability of the sector to lever in private finance. This will futrher increase funding costs.
- South Lakes Housing expects:
    - To prioritise and continue to deliver full compliance with Health and Safety legislation and compliance with the Decent Homes Standard.
    - To prioritise achievement of Energy Performance Certificate band C by 2030, as we see this as a vital commitment to support customers with the cost of domestic energy, living costs and health and wellbeing. Our original aim to achieve this earlier by 2025, is unlikely to be met.
    - Not to be able to deliver Net Zero across SLH housing stock by 2050. The loss of income, such as £55.5m turnover (5% cap for 1 year) from the 30-year Financial Plan will add considerable further strain to the plan. In order to also achieve net zero for the existing housing stock currently will only be achievable with Govenemrnt grants of circa 77% of the estimated cost.
    - Not to continue to develop any new homes after 2025.
- The adoption of a 7% ceiling for rent increases during the 2024/25 year reduces the impact of the ceiling and the reduction of income to the Association over 30-years is reduced to £40.7m. The effect of this lower reduction in income is to reduce the grant requirements to achieve net zero by 10%.
- A rent ceiling will erode the net rent of Affordable Rents as they are inclusive of services. This may lead to a reduction in services and impact our supply chain.

South Lakes Housing therefore requests:

- That if it is to be imposed, **the ceiling is set at 7%,** which would then allow us to target support for residents.

- The saving to HM Treasury of the reduction in rents should be ringfenced to be utilised as grant funding to further support social housing decarbonisation.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

~~☐No~~

~~☐Maybe~~

Comment:

- South Lakes Housing agrees that any ceiling should only apply to social housing increases for 2023/24 and that:
    - A ceiling for 2024/25 should not be prescribed at this time due to the uncertainty of the peak and duration of UK inflation, and that market forecasts have not yet digested the impact of the UK Government's intervention in the energy market for domestic consumers to 2024 and the 'mini budget'. Any such consideration next year should take place earlier than this consultation to allow time for PRP's to consider and plan appropriately.
    - The Registered Provider sector requires long term direction on the future Rent Standard effective from April 2025 to be set before it can commit to a ceiling for social rent increases for the 2024/25 year.
    - The sector would be able to plan for and implement a ceiling for the 2024/25 year at lower than current forecast CPI + 1% if the Rent Standard effective from 2025 continues with:
        - rent increases of up to a maximum of CPI+1% for a sustained period (to enable the sector to recover a proportion of the income forgone by the 2023/24 ceiling to invest in homes),
        - a mechanism to simplify rent setting and a more equitable rent outcome for customers, and
        - to permit providers discretion to make local decisions on rent levels for new tenancies.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes

~~☐No~~

~~☐Maybe~~

Comment:

- SLH agrees that the proposed ceiling should not apply to the maximum initial rental that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let.
- SLH has approximately 200 Social and Affordable Rent new homes in its development programme to 2025/26. The financial appraisal of these properties is based on the current Rent Standard, effective from April 2020. Any change to the Rent Standard for first lettings at this time of significantly increasing development / construction costs will result in reductions to the Association's uncommitted development programme as potential schemes will be uneconomic to develop due to the rising costs and the application of a ceiling to initial rents. This will have implications on the supply chain and would lead to a downturn in economic activity, at a time of critical sensitivity to the UK economy.
- Circa **45%** of SLH properties continue to let at rents less than the formula rent, and therefore the ability to utilise re-lets to address inequality of rents charged is a point of fairness to the Association's customers.
- SLH therefore strongly supports the continuing ability to adopt flexibility as prescribed in the current Rent Standard to increase rents on relet and requests that this flexibility continues in the Rent Standard effective from April 2025.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
~~☐No~~
~~☐Maybe~~

Comment:

- An exception should be applied to properties where rents are not at target rent in 2022/23 – an allowance to raise these above the cap to bring them in line is requested.
- An exception should be applied to sheltered housing, and whilst SLH does not provide supported housing we believe there should be a similar exception to enable the ongoing provision of housing related support to older and more vulnerable groups.
- On a related matter regarding Energy costs, we welcome the energy price support put in place by Government and further request:
    - That Government ensure that communal / district heating energy supplies, such as in sheltered housing, are included in the proposed energy price guarantee and energy bills support scheme, and
    - That consideration is given to removing the inequality of the higher standing charges imposed on residents with pre-payment meters. These customers tend to be on lower incomes and due to the set up are at greater risk of having no heating or hot water.

- Given the cost-of-living crisis we urge the Government to uprate benefits and pensions in line with inflation to support lower income households who are experiencing even higher levels of inflation.

We urge the Government to consider responses to this consultation swiftly.

A timely communication of any rent restraint figure is essential if the sector is to communicate and manage the impact on customers in a sensible way and amend financial plans and discussions with lenders in a timely manner ahead of the next financial year.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	South Tyneside Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Housing Strategy Team Regeneration and Environment South Tyneside Council Town Hall & Civic Offices Westoe Road South Shields, Tyne & Wear NE33 2RL
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

No, we do not agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit, for the following reasons:

- The current arrangements for rental increases being CPI+1% settlement was put in place to assist local authorities with an HRA to offset the impact of previously being required to reduce rents for a 4-year period, and to recognise the requirement of local authority social housing providers to meet the rent standard. The current deal of CPI+1% was agreed in 2017 to run for 5 years from 2020 to 2025 with then Housing Minister Kit Malthouse describing:
"The new rent deal will ensure that housing associations and councils have the certainty they need to manage, maintain and build more social housing – providing tenants with high-quality homes and helping to restore the dream of homeownership for a new generation."
- The proposed rent cap seems to ignore the reasoning for the deal to 2025 as the impact of a 5% rent cap in 2023/24 alone will cost South Tyneside Council £184.9m over a 30 year period in lost rental income. This income is needed to ensure adequate management, compliance, maintenance and improvement to our existing properties, and also build more social housing to meet the increasing housing needs of the borough.
- Our Housing Revenue Account is facing extreme inflationary pressures; [redacted].
- The imposition of a rent cap of less than CPI+1% will either mean the Council will need to reduce its programme of repairs, maintenance, improvement and building of new homes as costs are projected to increase by 10% and more due to the current economic inflationary environment. This is also exacerbated by increases in interest rates, making any borrowing to fund improvements to our housing stock more expensive. The Council is required to ensure good financial management by ensuring the HRA is self-financing, in that costs do not exceed its rental and other income. This will impact our ability to meet the required standards set by the Housing Regulator.
- From a tenant perspective the Council recognises the impact of a CPI+1% increase in rent for those that pay directly for their rent and the overall pressure on household income and increasing costs across the board, so will try to limit the level of increase levied to strike a balance between financial sustainability and tenancy sustainment.
- Although the cap would be set at a level of CPI+1% the council would need to consult on the level the rents are actually raised; however, with a cap of 5% or even 7% the flexibility would be greatly reduced.
- Some of these cost pressures directly relate to central government directives on compliance, decency and decarbonisation/ net zero with no significant direct funding to support this currently. If government was able to release significant new capital funding to help councils move towards this then this would increase the ability of this Council to limit the level of rent increases for tenants.
- In addition, if Councils were able to retain greater levels of right to buy receipts they would be able to invest this money directly back into the remaining housing stock. The current housing market will make recycling of RTB receipts more challenging however if our new build development programme is paused this is likely to exacerbate this challenge.

- Notwithstanding this, the authority has some serious concerns over this level of rent increase within the housing association sector. Rent levels are already significantly higher and access to this accommodation is becoming increasingly difficult and unaffordable. This would simply result in more pressure on the local authority to meet the housing needs of the borough.
- It is likely that all social landlords will need to raise rents, given the current financial market and the additional asset management pressures. However, by setting a rent increase cap this restricts local decisions and the inability for landlords to respond appropriately depending on their tenants and their stock.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

- No, we do not agree with imposing a ceiling of 5%; it would make the management of our current and future housing unviable and the standards in our maintenance programmes would be compromised.
- Any cap that is imposed lower than CPI+1% will mean a significant loss of income to the HRA over the next 30 years. The impact of the options set out are 3% (£248m loss), 5% (£185m loss) and 7% (£122m loss). If the decision was taken to impose a ceiling, it would be preferred if this ceiling was set at a higher level to minimise the impact on delivery plans and financial sustainability.
- Notwithstanding this, we recognise the need to protect and support our tenants at a time when households are struggling with a range of financial challenges. Approximately 75% of our tenants receive housing benefit and therefore additional support could be offered to those who will be disadvantaged due to any rise. However, if the cap was set low, we would not have the additional resource to allow this.
- If no financial compensation is offered to Councils to limit the level of increase to a ceiling, we would prefer it if the decision on rent increases was left to individual authorities, based on its own analysis of how much it can afford within the HRA business plan.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

- Given the current uncertainty it would be advisable that whatever cap is agreed for 23/24 is reviewed for the following year.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:
- Yes, as this is an unfair and inconsistent approach, which will have the effect of potentially penalising those who are moving either due to housing need or setting up their first home; these households are arguably more in need of support and may have lower levels of disposable income.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

The context at Southampton City Council is as an authority with a housing stock of 15,896 tenancies, which are predominantly social rented properties. Rental charges are significantly below average. Average rents in the South East for social landlords, in 2020/21 was £101pw, (before increases in 2022). In Southampton the average social rent in 2022/2023 is just £87.11. ([RP_statistic_2020-21_briefing_note_v1.0__FINAL_.pdf (publishing.service.gov.uk)])

The 1% rent reductions imposed by government between 2016/17 and 2019/20 has reduced income to the HRA by some £10.7m per annum from 2020/21, equivalent to £428m over the 40 year business plan. Significant savings were therefore required to achieve this, and has resulted in a backlog of investment works required to bring properties back up to standard, in addition to the investment required to achieve zero carbon objectives, and meet all statutory health & safety requirements.

During the pandemic, the Council saw various adverse impacts to the HRA. This included a significant increase in arrears, a significant backlog of maintenance and capital investment following the inability to access homes during the pandemic, and a subsequent knock on impact on void costs. None of the measures introduced by government for local authorities to support them during COVID, supported the Housing Revenue Account directly, and those measures that were introduced mainly benefited the Capital programme (e.g. RTB extensions) and were of limited benefit to SCC. Therefore, unexpected cost pressures have had to be absorbed within the existing resource envelope,

Following the pandemic, the Council took a decision to freeze rent in 2022/23, in order to support tenants during the post pandemic recovery, and prior to the current global situation of rising inflation and energy prices. This decision took a further over £145m out of the 40 year business plan and required the Council to build in a significant level of savings, averaging £2m per annum over 40 years. This was achieved largely by reducing direct delivery of new housing and taking a strategic decision to move to a partnership model with an RP led approach to deliver future affordable housing.

Since the beginning of the 2022/23 financial year, SCC, along with all other authorities, has been impacted by a number of cost pressures including (but not limited to) significantly increasing energy costs (increase of over 150%), wage inflation (approx. 5%), and above inflation increases in construction materials of between 12 and 20%.

Southampton's HRA does not have reserves beyond the £2m working balance, and therefore any impact has to be carefully managed in order to maintain a safe working balance.

In order to balance the books in 2022/23, SCC has had to deliver in year savings of over £3.5m. Mid-year increases in rents, service charges & Landlord Controlled heating charges were considered and discounted in order to protect tenants from further cost of living pressures.

With costs continuing to escalate, SCC is anticipating continuing high inflation in 2023/24, and is concerned about the future financial position on the HRA and the authority's long term ability to meet all of its statutory requirement.

The above outlines the context within which SCC has formed a view on proposed rent caps for 2022/23.

Southampton's view on rent capping is as follows.

There is consensus at Southampton that rent increases for 2023/24 need to be reasonable and carefully considered, in order to minimise increases to tenants, given the cost of living challenges experienced particularly by those on lower incomes. However, the SCC view is that applying a blanket ceiling to the cpi+1% formula is not desirable, and that local democratic processes and consultation with tenants forms the best mechanism for balancing the need to increase rents with minimising impact on tenants.

Southampton City Council wishes to make the following points in respect of the consultation:

1) The proposed rent cap effectively penalises those authorities, such as SCC, who have already acted to protect tenants and keep rent increases below CPI+1% in previous financial years. In particular, Southampton agreed to a zero percent increase in 2022/23, to aid tenants through post pandemic recovery, while most other authorities increased rents by 4.1%. This was prior to the current, and unpredictable cost of living crisis driven by global events. SCC is therefore impacted by a lower baseline rent than other authorities in the context of a ceiling on rent increase.

2) The impact of imposing a cap at 3% at Southampton would be catastrophic, both for 2023/24 and for the longer term sustainability of the HRA. Savings in excess of £5m per annum would be required over 40 years to maintain the planned working balance agreed in 2022/23 budget setting, over and above savings already identified mid year in 2023/24 and there is a very high risk that these could not be implemented by April 2023.

   In terms of the 40 year business plan, a 3% cap would curtail the capital programme, meaning only essential capital repairs and fire safety works would be undertaken. Projects to achieve zero carbon ambitions, of which some £30m+ investment in housing stock has so far been identified, would need to be cut from the capital programme, and £60m new build will be put on hold until such a time as the development becomes affordable.

3) Capping rent at 5% also puts the authority in a significantly difficult position, in year and over the course of the HRA business plan. Modelling at this level suggests that savings of approx. £3m per annum would be required after 3-4 years (with a need to make savings earlier in order to build resilience). Capital investment is the main area for making savings, and programmes for non essential investment, zero carbon and new builds would need to be cut back according to affordability.

4) Increasing rent under the existing legislation, allowing for CPI+1% would increase income to the HRA over and above the existing business plan assumption. Modelling undertaken in the Summer (when the assumed CPI+1 increase was 10% showed increased income to the HRA of some £310m over 40 years. This would mean that no savings would be required in year for 2023/24, allowing for inflationary pressures, would allow the capital programme to be expanded to mitigate against potential cost pressures arising from future fire safety inspection, housing condition surveys and planning for moribund stock, and would ensure financial sustainability for the medium and long term HRA

5) However, in the absence of a cap, SCC would not choose to increase by CPI+1%. The political ambition locally is to deliver fair and transparent rental increases and, after building in known cost pressures, could continue to deliver its existing business plan objectives after delivering achievable short to medium term savings with a rental increase of up to 8%.

6) Consultation with tenants; With a rent ceiling, the authority is effectively forced to impose cuts on services to tenants. Under the existing approach to rent setting, consultation with tenants over the balance between rent increases and service cuts is far more effective.

The table below illustrates the point that significant savings will be required. The preferred direction of travel is of an 8% increase in rent required to cover known cost pressures, in a scenario where no revenue contribution from the HRA is made to the capital programme.

[redacted]

In summary:

7) Cost increases being faced by authorities are well in excess of the proposed 5% cap, and there is a significant risk that costs will continue to escalate. For an authority that has already minimised costs to support below inflation increases, this presents a significant risk to the ongoing delivery of services, particularly putting at risk new burdens arising from landlord responsibility bills and legislation.

8) Risk of underinvestment – the rent cap, combined with increasing borrowing costs, will limit the scope to invest in the housing stock – putting at risk the delivery of, for example, major investment required to achieve zero carbon commitments, or impacting on the viability of new developments

9) Reasonable constraints on rent increases may be better delivered by political leaders locally in consultation with tenant groups

10) The timescale for implementing significant/radical cuts to HRA budgets to meet a 3% cap are far too short to be implemented by April 2023.

11) Imposing a cap will exclude the ability to set up a welfare fund within the HRA to support tenants in most need, as only essential spend will have to be prioritised.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

1) Southampton City Council does not agree with imposing a ceiling of 5%.
2) The percentage preferred by Southampton, should a cap be put in place, would be for a 7 to 8% ceiling.
3) As discussed in the response to question 1, under any of the proposed rent caps, savings would need to be made, and under a 3% option, the business plan is just not sustainable. The table below outlines the summary position over the 40 year business plan for various rent options.

	3% 2023/24	**5% 2023/24**	**7% 2023/24**	**8% 2023/24**	**10% 2023/24**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Management	1,563,883	1,563,883	1,563,883	1,563,883	1,563,883
Depreciation	1,661,841	1,661,841	1,661,841	1,661,841	1,661,841
Repairs & cyclical maintenance	1,498,703	1,498,703	1,498,703	1,498,703	1,498,703
Other	7,940	7,940	7,940	7,940	7,940
Capital charges	222,652	222,652	222,652	222,652	222,652
	4,955,019	**4,955,019**	**4,955,019**	**£4,955,019**	**4,955,019**
Rental, leaseholder, service charges income	4,140,000	4,244,000	4,323,000	4,363,000	4,450,000
Other income	646,000	646,000	646,000	646,000	646,000
RCCO	-				12,770
Unfunded Capital	10,928	5,000	-	-	-
Operating account Balance after 40 yr	**(179,947)**	**(70,019)**	**13,981**	**53,981**	**128,211**

4) If a cap were to be instated, SCC would request that the government look at measures to support authorities to reduce the pressures currently faced. Suggestions to mitigate the impact of rent capping may include:

   a) Freezing PWLB rates at July 2022 levels to maintain or improve viability of existing capital programme expenditure. Southampton's capital programme for 2022/23 to 2026/7 equates to £301.3m, of which £115m is to be funded via borrowing. For each 1% increase in borrowing cost, the additional cost per year to the HRA is £1.16m. Freezing borrowing rates will therefore be a substantial medium to long term benefit to ensure planned borrowing remains affordable.

   b) Greater flexibility around Right to Buy; for example, extending the period that authorities can retain RTB, while new build projects are reassessed to ensure affordability; or increasing the proportion of RTB above 40% to encourage use of RTB; or allowing RTB to be used for the replacement of moribund stock as well as additional development.

   c) Allowing greater flexibility around rental increases beyond 2023/24, including the ability to increase above CPI+1% if necessary in order to smooth the cost pressures currently being faced over a number of years. Currently, with no certainty on rent increases after 2024/25, SCC is assuming a maximum 2% per annum rent increases in line with historic inflation targets. Taking this approach increases the pressure to maximise rent increases in the short term.

   d) Ensuring that service charges are not subject to the proposed rent cap, so that costs incurred in delivering chargeable services can continue to be fully recovered.

   e) Providing further support in respect of energy costs. Currently the support given to authorities is short term and does not give any certainty beyond the next 6 months.

   f) Ensuring flexibility around convergence of formula rent.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

1) Given that the risk of continuing high inflation is significant, and in the absence of any government support, would risk the authority having to make further significant cuts if costs continue to escalate beyond 2023/24 in the context of frozen rent.

2) If costs stabilise, authorities may wish to have some flexibility over using rent to smooth the impact on tenants of current cost increases over a number of years. Individual circumstances will differ between authorities and a local approach to rent setting in consultation with tenants would be a fairer approach.

3) SCC's approach to this has been to assume high inflation continues in 2023/4, with sensitivity analysis being undertaken on various inflation rates between 5% (for staffing

inflation) and 10% for general inflation, plus significant uncertainty about energy costs beyond 2022, with an assumed rent increase of 2.5% for 2024/25, as a reasonable worst case scenario. Sensitivity analysis over the Autumn as business planning progresses but the initial output suggests that a rent increase of 7-8% may also be required in 2024/25, or potentially higher if rents are capped in 2023/24.

4) A potential risk is the possibility of deflation in 2023/24 as interest rates impact, spending falls etc. This could imply a negative rent increase if no cap is applied for 2024/25. Therefore, if no cap is applied in 2024/25, measures to allow rental increases in a deflationary situation are likely to be required. Clarity over this potential scenario would be welcomed.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

1) Complex needs and Extra Care accommodation
2) Sheltered accommodation
3) Other high needs accommodation

Our argument for exempting complex needs housing is due to the complex costs associated with running such properties. If complex needs properties were to become unviable, the Council could consider converting back to general needs housing or temporary accommodation. This would have a detrimental effect within the authority in terms of adult social care budgets, and an unquantified impact on partner organisations, such as the NHS.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Southend-on-Sea City Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS26ER
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

Southend-on-Sea City Council officers disagree that a maximum social housing rent increase should be subjected to a ceiling due to the impact on the ongoing viability of the Council's Housing Revenue Account (HRA). The Council is seeing unprece-dented inflationary increases in contracts relating to housing services (for example

13% uplift in Responsive Repairs and Void Refurbishment contract for next 2 years). Setting a specific ceiling to the maximum social rent able to be charged will put further pressure on the HRA which may result in a reduction in the quality or range of housing services that will be able to be provided. At this stage we have not had to propose particularly rationing decisions in preparation for any cap but will need to commence this imminently in order to reach political determination and allow sufficient time for consultation with tenants and the development of effective communications.

It is also notable following local research, that 73% of our Council tenants are on Universal Credit or in receipt of Housing Benefit and thus the impact on the majority of our tenants would be minimal.

If the Government did not impose a specific ceiling, Southend-on-Sea City Council Officers would be considering a rental increase to CPI+1% limit (subject to Member Agreement).

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

At this stage the Council has not had the opportunity to consider this proposal fully at the political leadership level, and would of course need to do so to provide a formal response. However, in order to inform the discussions we have held and any subsequent considerations, the Council has undertaken financial modelling of the anticipated impact of the levels being proposed for social housing rent increases, at 3%, 5% and 7%, together with a comparison against the existing CPI+1% limit. Against the existing CPI+1% rent deal (working on an assumption of 10.1% CPI + 1%)::

- *7% ceiling would represent a loss to the HRA of £1.175m*
- *5% ceiling would represent a loss to the HRA of £1.762m*
- *3% ceiling would represent a loss to the HRA of £2.349m*

Operational modelling on the impact of these losses to the Council's HRA is ongoing however the indications are they would necessarily result in a significant reduction in the quality or range of housing services that we would be able to be provide to our tenants. Equally, we recognise the difficulties associated with raising rents by double figures, particularly alongside service charge increases for many tenants. Whilst we are actively debating this with lead councillors, we have understandably not yet taken this through any council decision making processes as yet.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☓ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Southend-on-Sea City Council agrees that, if applied, the proposed ceiling should only take effect for 1 year from 1st April 23. A further review should be undertaken during the year in order to understand and assess the impact of the cap on the delivery of services to social tenants, and on HRA viability, along with analysis of the impact of any caps on tenant finances more directly.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☓ Yes
☐No
☐Maybe

Comment:

Southend-on-Sea City Council agrees that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐ Yes
☓ No
☐Maybe

Comment:

Southend-on-Sea City Council agrees with the proposal to not make exceptions.

Southwark Council
southwark.gov.uk

DLUHC Social Housing Rents - Open Consultation (31st August 2022)

[redacted]
Leader of Southwark Council
Camberwell Ward

Cabinet Office
Southwark Council
P.O Box 64529
London SE1P 5LX

By Email

[redacted]

Date: 10/10/2022
[redacted]

Dear DLUHC,

RE: London Borough of Southwark Response

The cost of living crisis is having a stark impact on Southwark residents, including our council tenants. Unprecedented stagnation in real wages and cuts to benefits over the last decade, combined with rapid inflation in fuel, food and many other costs over recent months are placing impossible burdens on many local people. Whilst Southwark Council has the eighth lowest social housing rents in London, we know that for many tenants even these low rents are now hard to afford.

In this context, the council agrees there is a strong case for the government taking action to support tenants with their rents this year and next. This could be achieved via a government funded rent rebate to social housing tenants or via a government funded rent cap.

The council is not opposed to a social housing rent cap with the proviso that the considerable loss of rental income is reimbursed by the government, either through direct funding or the cancelation of historic debt, so that services provided to our tenants will not be detrimentally affected. However we would have very serious concerns if any proposal to cap social housing rents was not fully funded by the government, as this would adversely impact on our ability to provide quality and well managed homes for our tenants for years to come.

The advent of HRA self-financing in April 2012 was intended to give local authorities the freedom to manage their own landlord accounts based on local circumstances. It was recognised that with this opportunity came risk and that councils had to ensure a robust business planning framework was in place to mitigate those potential risks.

However, there were a number of changes implemented by government subsequent to self-financing that have impacted on the council's business plan. For example, there has been a significant loss of rental income since April 2012 arising from the change in RTB policy and the increased discounts for tenants which substantially increased sales.

In 2014 the government issued the publication "Guidance on Rents for Social Housing" which stated that from 2015/16 social housing rents were to increase by CPI+1% rather than increasing as per the rent restructuring guidance. This significantly reduced projected income for the majority of authorities where convergence had not been reached including Southwark.

Southwark has the eighth lowest social housing rents in London with the average weekly rent being £108 in a prime London area.

The Welfare Reform & Work Act 2016 required social housing landlords to reduce rents by 1% a year for four years from April 2016 resulting in an income loss of £820m over the lifetime of the HRA business plan.

The government changes to rent setting has resulted in a huge loss of rental income since 2012. The self-financing model in 2012 was projecting net rental income of £274m by 2022 whereas the latest business plan projects it to be £226m, a reduction of £48m for 2022.

The proposal to cap social housing rents for all properties for 2023/24 will result in a significant decrease in anticipated income. If CPI is 9.9%, as per August's rate, then this will generate additional income to the HRA totalling £27m. A 7% cap will equate to an additional £17.8m, 5% will be £13.1m and 3% is £8.4m. Of course, a decrease in rent income in any year impacts on all future years too so there is a cumulative loss of income. A continuation of the rent cap into 2024/25 will decrease resources further.

The reduction in projected income arising from a rent cap has to be considered in the economic climate of rising costs which impacts on the management and maintenance obligations of the council. RPI for August is 12.3%. The council has an ambitious new build programme which has seen an increase of tender prices of approximately 30% compared to last year. Further significant cost price increases will be incurred in order to progress our net zero carbon policy by 2030. The Building Safety Act 2022 has presented the council with further financial and operational challenges. The council is landlord to around 52,000 properties, of which around 37,000 are tenanted, and 15,000 are leasehold properties. The stock under Southwark's control is unusually large and varied in its composition. The council owns 171 buildings which are 18 metres / 7 storeys and above which are defined as higher risk buildings. Resident safety is of the highest importance to the council therefore any reduction in income is of concern to the council.

There is recognition from the council that the current economic uncertainty will pose considerable financial problems for tenants and the wider resident population of the borough. The economic impact of the Ukraine conflict coupled with the cost of living crisis will mean that significant rent increases will impact on our tenants not paying rents through the benefits system. However, lower than anticipated rent increases coupled with considerable rising costs will necessitate cuts to important landlord services, a curtailment of the new build programme, and a reduction in any repair and improvement programmes for our existing stock. This will inevitably impact on all tenants to the detriment of their homes and services received through the HRA. Of particular concern is the safety of our tenants and residents and with 171 high rise social tenanted buildings there are significant cost implications associated with the Building Safety Act.

The self-financing model when introduced ten years ago had a stated intention of allowing councils to take a more tailored local approach to their finances and to deliver their stock condition requirements whilst delivering quality services. A series of government initiatives has eroded the resources available to deliver these services and the overall asset management programme, including new build. The proposal to cap rents will worsen the financial position and the services received by tenants as inevitably there will be cuts to programmes and services. Fundamentally, the self-financing model is unsustainable after many government interventions of which the proposed rent cap is just the latest.

As stated above, the council is not opposed to a social housing rent cap being set by the government with the proviso that the considerable loss of rental income is reimbursed by the government either through direct funding or the cancelation of historic debt, so that services provided to our tenants will not be detrimentally affected by the proposed rent cap.

The implementation of a rent cap if applied should also be for shared ownership properties as residents living in shared ownership properties will still be seeing their rents increase plus those on variable mortgage rates are going to see a sharp increase in their mortgage payments.

Kind regards,

[redacted]

[redacted]

Response Template: Social Housing Rents Consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Tamworth Borough Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Marmion House, Lichfield Street, Tamworth B79 7BZ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]
Date of completion	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

Comment:

- The housing sector is reporting widespread concerns to the proposed rent cap. Inside Housing reported a potential loss of £1.3bn from Social Housing budgets next year if the governments preferred 5% rent cap is imposed.

- [redacted] Northern Housing Consortium warns that there will be a detrimental impact to tenants if there is an imposed cap, as this will materially impact on key services that housing providers provide. This inevitably impacts on Councils who manage their own stock as they bear the brunt of changes to social policy.

- Research by the National Housing Federation, published at the end of last month, revealed how new homes, repair and maintenance costs are rising above inflation. Annual construction costs are rising between 16.8% for repairs and maintenance and 12.3% for new builds. Tamworth Borough Council estimates its costs at above 20%. Therefore, a further cap will compound this impact, meaning less money to invest against higher costs of investing.

- A rent cap is not required as the Rent Standard requires housing providers to set rents in accordance with government policy. The rent standard provides for practical and flexible measures to ensure rents remain affordable. The Governments policy statement on rents requires consideration local market conditions, so to impose a rent cap would be contradictory to the regulators assumptions around this.

- In Tamworth Brough Council's case, it would assume a full CPI (10.1% as at July 2022 / 9.9% as at August 2022) + 1% = 11.1%/10.9% rent increase respectively. The proposed rent cap prevents us from having full regard to the local market context and significantly detriments the HRA business plan.

- Tamworth will be adversely affected through the cumulative impacts of a) likelihood of rising bad debt (District Council Network are forecasting bad debt will increase by a minimum of +10%); b) increases in repairs and maintenance costs and c) reduction in income through the proposed cap – all of which will challenge the Councils ability to deliver housing services.

- Tamworth Borough Council feels that the disproportionate impact on its HRA business planning ambitions is not justified by the overall reduction in rent payments to tenants. Specifically, on the basis that those in the lowest incomes on housing benefit will not see the impact of the increase as 55-60% of Tamworth council tenants are on housing benefit.

- Whilst the numbers fluctuate between approximately 55-60% of Tamworth Borough Council tenants that are on housing benefit/universal credit, a rent cap would not impact this group anyway, which suggests this is an attempt by the Treasury to reduce the housing benefit bill rather than provide targeted support for its customers.

- The rent cap provides a 'rent conundrum' as clearly housing providers want to balance tenant affordability for its direct payers with fulfilling its landlord obligations and ability to invest.

    - Customers paying c£100pw – CPI (10.1% July 2022) +1% = £111/£112pw on average as opposed to 5% cap = c£105pw – customer would still see an increase, but just not as much.

- The provision of good quality housing services is key to improving lives and life chances to all (and part of the levelling up agenda), including supporting not only the HRA but also in providing additional housing and tackling homelessness. Reducing the level of income to the HRA will seriously impact on business plans and will mean less funding for new homes provision. There is a point around the impact on the private rented sector, which see rents far in excess of council rents and the proposal that resources should be focussed on supporting those in need rather than a blanket rent cap for already lower council housing rents.

- Tamworth has already incurred expense by seeking to model the impact in relation to the proposed rent capping. The following tables highlight the key findings

  Early impacts show the following combined impact on Tamworth Borough Council's HRA Business Plan over the next 30 years – is in excess of £42m based on a 5% cap, shown in the table below

Impact over 30 years (Compared with Baseline)	Movement in HRA Balance £000	Increase in HRA Debt £000	Combined Impact £000
5% Rent Cap	-£69	£42,195	£42,264
7% Rent Cap	-£53	£32,473	£32,527
3% Rent Cap	-£86	£52,716	£52,802

The table below illustrates the financial impact on the Council's HRA balance and debt levels if a rent cap is introduced over the next 5 years. This shows the HRA impact would be over £6.9m based on a 5% rent cap.

Impact by 2027/28 (Compared with Baseline)	Movement in HRA Balance £000	Increase in HRA Debt £000	Combined Impact £000
5% Rent Cap	-£6,975	£0	£6,975
7% Rent Cap	-£5,414	£0	£5,414
3% Rent Cap	-£7,222	£1,344	£8,566
Rent Freeze	-£7,240	£3,722	£10,961

(* all the above scenarios assume the rents are constrained in 23/24 and continue to allow for full rent increases in line with current policy in 24/25, followed by CPI increases thereafter).

The further table below illustrates the financial impact on the Council's cumulative rent loss over 5 and 30 years. This shows that based on 5% rent cap rent losses would be almost £5.5m over 5 years with over c£22m over 30years

[redacted]

- The direct consequence of managing this impact would put the HRA business planning ambitions at risk, including

  - £46.5m planned capital investment over its medium term (5yrs)
  - £188m planned capital investment over 30 years
  - £5m planned capital is unfunded and relies on borrowing to support zero carbon projects, total £7.5m over 5 years
  - [redacted]

  All of this capital investment is now at risk as the impact of a 5% cap would see HRA debt increase by c£42m over 30 years. Subject to policy considerations and tenant choice the high-level risks over the **medium term** (5 years) are: -

  - Acquisitions and New building ambitions will not be funded – resulting in c50 less homes
  - £750k Garage Investment – Future Garage project would have no onward spend unless efficiencies are found elsewhere
  - £2.5m in Neighbourhood Investment (£500k pa) would be removed
  - c1500 Kitchens & Bathrooms replacements programmed for the next 5 years would have to be revisited and the programme reduced &/or specification amended which may not meet decent home standards as 'modern facilities' current 15/20-year life cycles may have to be increased
  - Future Compliance work around the Regulators requirements on net zero; decent homes plus and fire safety may not be fundable. For example, match funding on the decarbonisation funding cannot be signed off without confidence that match funding and borrowing potential is available
  - Income will have to increase – meaning full cost recovery across all service charges
  - Management Costs and expenditure will have to reduce, limiting HRA cross subsidy to wider place-based initiatives

- If social rents are capped below 10.1% which appears very likely, then the gap between social rents and market rents will further widen and so even more likely that social rents will be lower than LHA levels. Further the gap between social and market rents in Tamworth is around 40% and therefore undermines the levelling up agenda and could impact homelessness.

- As Tamworth seeks to update its HRA baseline position; sensitivity analysis and scenario planning involving onward compliance under the Social Housing (Regulation) bill for retrofitting, additional compliance costs, EPC work will not be funded without significant income/expenditure reassessment elsewhere. This is likely to impact the Councils viability and compliance with Government's legislation going forward.

- Following self-financing in 2012 under Council Housing Finance Reform; Tamworth paid c.£45m which represented the Net present value of the net rent income over the next 30 years – this assumed annual rent increases and not the government rent reductions and/or proposed rent cap since.

- A settlement valuation was produced for Tamworth using a Price Waterhouse Coopers (PWC) model - based on assumed levels of income and expenditure over 30 years, using up-rated allowances. The aggregated assessed annual surpluses were then discounted back to the introduction date using a discount factor of 6.5%. In other words, the settlement valuation was deemed to be supportable over the life of the 30-year business plan with interest rates of 6.5%, which was demonstrated as sustainable by showing that debt could be fully repaid within the 30 years. This is undermined by continued Government intervention impacting rent levels being charged.

  However, since then:

- We had 4 years of rent reductions of -1 % during the austerity years from 2016, for which the HRA wasn't compensated.

- We've had Covid pressures including:
  - Over £1m in direct additional costs - responding to cleaning / disinfecting prior to & after each repair work
  - Increased costs arising from the inflationary cost pressures lost Covid - 10% pa increase in contract costs
  - No grant for HRA due to Covid but general fund did

- Increased Right to Buy sales following the government intervention – again reducing income / meaning the Council has had to find funds to build new housing to replace those lost through sales.

- The requirements from the building safety act – fire doors, sprinkler systems retro fit etc.

- o As well as facing increased costs and reduced rent income arising from the current economic situation.

- o Now rent cap at 3, 5 or 7 % which will further reduce the sustainability of the HRA.

<u>Tamworth recommends the following questions are answered by Government &/or taken in consideration at it makes its decision around the latest rent cap.</u>

- If the rent cap is imposed then similar to GF compensatory allowances we would expect the Government to support local councils.

- Should a national or local rent cap go ahead, we would suggest DLUHC make a debt repayment to PWLB for each Council, to compensate the HRA for the lost income. The PWC modelling from 2012 could be used to calculate the impact, this would seem a fair and equitable approach. Otherwise, we face HRA becoming unsustainable i.e., significant & detrimental impact on HRA Business Plan; reducing the Councils ability to meet its Capital & planned investment needs to sustain decent homes standards, building safety act requirements as well as prohibits investment in stock / carbon zero targets (including EPC 'C' requirements) /decency homes plus standards.

- The conversation is a difficult one given the current cost pressures but what could help is for DLUHC to communicate that a rent increase in-line with CPI plus 1% is in-line with the rent standard; with the recognition that for 55%-60% of people who receive housing benefit they shouldn't see an impact of such and for the remaining 40%-45%, targeted support will be given to those where it is needed most through a substantial increase in the discretionary housing payment budgets (which have reduced in recent years). Plus, local interventions round tenancy sustainability, financial inclusion (which the Council have heavily invested in and have significant support teams in place) and hardship funding allocations. This would direct resources to those who need it and not put the future viability and needed housing interventions around house building, net zero, decent homes and the regulatory agenda at significant risk.

- Another point would be for the restrictions around the formula rent cap to be lifted to allow convergence where rents are lower than the formula rent, as well as lifting the restrictions on right to buy receipts spending (including use of Home England funding, Section 106 funding etc.) to allow spending on areas most needed like decarbonisation and decent homes works.

- Equally important is that the Government confirm asap the position so that this can be built into the budget and rent setting processes. Tamworth attended the recent round table sessions hosted by DLuCH and it was suggested an announcement wouldn't be confirmed until December 2022. This is too late and will result in more assumptions being built into the process which is confusing for tenants.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

No

Comment:

- Answered in full above

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

No
Comment:

- This is impossible to model without knowing the proposed caps/restrictions for the two years. Tamworth Borough Council's baseline CPI for 2024/25 assumed CPI back to 6.5% so 5%cap or 3%cap would have relative impacts; whereas 7% no impact. It requires sensitivity analysis but a two-year freeze at 5 % would mean a further estimated HRA rent loss of c£20m – rising HRA debt levels to between £60-£70m.

- Provides greater uncertainty if national caps are ongoing and is detrimental to the HRA business plan, with an additional impact of c£20m on the HRA business plan if applied over two years.

- Currently Tamworth Borough Council's performance shows c99% of tenancies are sustained in the first year; disproportionate charging could impact this and put greater pressures on its homeless services as providers struggle to remain viable and there is a potential for indirect impacts on homelessness.

- Tenant choice and consultation is undermined locally by imposing a national cap when this should be part of the local decision making on rent choices. DLuCH know that Tamworth (as with all councils) budget consultation as already commenced in line with LA budget setting cycles. Why would a two-year decision be taken, when the rent cap is late for 2023/2024 and yet early for 2024/2025.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

No

Comment:

- Formula rent increases at maximum policy level – rent cap applies to those existing tenants with new rent charges as at 1st April – any **new tenants** after 1st April 2023 that would be at the rent formula level which CPI+1% (which would be at the higher CPI rate). Tamworth Borough Council agrees and does not support any capping to the formula rent, as capping the formula rent would seriously undermine its HRA business plan even beyond the rent cap impacts.

- Differential charges of either social/affordable rent levies (and different rent increases through CPI) could lead to community tensions if rent charges were different between neighbours – simply because the tenancy is newer. There are already case examples where we have affordable and social rents.

- Affordable rent levels – these should be based on a market re-valuation so Tamworth Borough Council does not know how it would apply a rent cap as this is driven by a market assessment regulated under the rent standard. Applying a cap seriously undermines and intervenes in this assessment of local market conditions.

- There could be legal challenges around the equitability of this – if it is not perceived to be fair resulting in judicial review and other litigious actions.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

YES

Comment:

- Local exemptions should apply for supported /specialist /sheltered housing where there is already an enhanced housing management charge and rents should be seen to be equitable, although stress testing would be required around this.

- Wider affordability impact needs to be reviewed in terms of hardship and targeted support rather than 1 size fits all approach. E.g., at some of Tamworth's sheltered housing scheme service charges are fixed based on predicted costs and have increased by £10 on average per week. Whilst a reduction in rent might offset this, the issue is more around the wider impact of utility costs and fuel poverty.

West Northamptonshire Council

Name [redacted]
Department Finance Directorate
West Northamptonshire Council
One Angel Square
Angel Square, Northampton
NN1 1ED
0300 126 7000
www.westnorthants.gov.uk | [redacted]

Sent by email to Socialhousingrents@levellingup.gov.uk

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

12 October 2022

Dear Colleague

PROPOSED CHANGES TO SOCIAL RENT POLICY - RESPONSE TO THE DLUHC CONSULTATION PAPER

West Northants Council welcomes the opportunity to participate in the DLUHC consultation on proposed changes to social rent policy. These are difficult times and any many of our tenants are experiencing unpresented increases in day to day living costs.

Whilst the Council wants to help its residents as much as it can, any capping of rent increases will have a have a considerable impact on the financial viability of the Housing Revenue Account (HRA) not just for 2023/24 but for the whole period of the 30-year business plan. The financial implications of the proposed changes to social rent policy are set out in the responses to the questions below.

Question 1

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI + 1% limit? To what extent would Registered providers be likely to increase rents in that year if the government did not impose a specific ceiling?

WNC Response

The implementation of a ceiling in addition to the CPI plus 1% limit will have a significant impact on our ability to invest in existing stock and to develop more, much needed homes. Our forecasts indicate that only a minority of tenants would be impacted by a rise in rents which would be offset by setting up a hardship fund to support those in difficulty. If a ceiling was not imposed we are likely to impose our own structured approach with a cap close to CPI inflation. Applying ceilings to actual increase will mean that actual rents will not keep pace with formula rents. Formula rents increased by CPI plus 1% underpin the 30-year business plan and It is estimated that for WNC just a cap1% below CPI plus 1% would reduce rental income by £500k in the 2023/24 and by it's compounding effect strip out £250 million over the 30-year life of the business plan.

The current inflationary pressures on the HRA are considerable, especially in respect of repairs and maintenance. In addition, there is an acute labour shortage, and it is increasingly difficult to retain and recruit staff. This is alongside the recent increase in interest rates which means that it is increasingly difficult to maintain a balanced HRA. Early estimates would indicate that for WNC rents would have to increase by 8% to maintain a balanced HRA.

Question 2

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our impact assessment?

WNC Response

Early estimates show that if the 5% ceiling was introduced in 2023/24 the Council would have difficulty in maintaining a balanced HRA.
To cover the current inflationary pressures, it is estimated the HRA would be unable to make a revenue contribution to fund the capital programme and thereby potentially increasing borrowing. Similarly, limited reserves would have to be used to make up the shortfall [redacted].
Early estimates indicate that the 8% cap would help the Council, protect services, and maintain a quality housing service for its tenants.
Assuming CPI is 9.0% (Sept estimate) plus 1% = 10%   a 5% cap would result in lower rents of 5%. This is estimated to forego rental income of £2.5m in 2023/24 alone, [redacted]

Question 3

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

WNC Response

It is difficult to predict what the CPI will be in 12 months' time. Some analysts predict that inflation will be a lot lower in 2023/24. Imposing any ceiling on rent increases does have a significant impact on the viability of the HRA business plan. The Council takes the view that, if implemented, the temporary relaxation of the Rent Standard should be for one year only and reviewed again in 2023/24 when the economic circumstances are better known.

Question 4

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let

WNC Response

Formula rents underpin the basis of the 30-year business plan and any curtailment of the formula rent calculation has a negative impact on the HRA. It is therefore the Councils view that the formula rent should be used when properties are first let or subsequently re-let to maximise income.

The only drawback to this policy is that there could be wide differences in the rents paid by new and existing tenants. This may cause some difficulties, but it is important for all tenants that the Council maximizes its income.

Question 5

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

WNC Response

When exceptions are made, the calculations become more complex, and it is harder to explain or justify to tenants. It is the view of the Council that exceptions should not apply because there are alternative ways in which tenants in difficult circumstance can be helped.

A final point to note is that the Council would encourage the Government to ensure that whatever is agreed regarding this year's rent increases that at least the same percentage applies to Welfare to limit the potential impact on those tenants in receipt of benefits and the likely consequence of a squeeze on rent payments and the impact on rent arrears.

Yours faithfully

[redacted]

Westminster City Council
Social Rent Consultation

<u>Question 1:</u> Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Westminster City Council (WCC) is not opposed to the principle of a rent ceiling for 2023/24 to provide support to tenants during the cost of living crisis, but only if Government is willing to provide alternative funding to compensate the HRA for the income that it would lose. Given that a rent cap would generate significant savings for central government in terms of the overall cost of benefits, it is only fair that this should be shared with local authorities to safeguard the resources available to provide the services and investment that social rent tenants deserve.

If Government is not willing to compensate providers in this way, then Westminster would not be able to support a rent cap for 2023/24 and would assert that discretion over rents should be maintained locally.

The outcome of a rent ceiling (without compensation) would be a significant reduction in the funds available to the HRA which are essential for repairing properties, delivering new affordable housing, and ensuring homes are energy efficient and meet building safety requirements. For most of our tenants, failure to combine a rent cap with additional funding would have a detrimental impact on standards of living as it would ultimately reduce the overall quality of their homes at a time of need. Providing alternative funding to support investment in social housing is the only way to ensure that tenants themselves aren't unfairly penalised by this proposal.

We also suggest that Government consider other ways of supporting tenants in a more targeted way to achieve the same aim during the cost of living crisis, while at the same time protecting the financial resilience of the HRA. A below inflation rent ceiling would not be an effective measure of support for the 70% of tenants in Westminster that receive Housing Benefit and who would be unlikely to see any direct financial benefit. For example, Government could support councils to administer financial support directly to those most at risk from increased rents.

<u>Question 2:</u> Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Westminster has undertaken preliminary modelling of its 30-Year HRA Business Plan, as it does each year, to provide the parameters for rent considerations. In order for the Council to deliver its existing revenue and capital commitments and absorb the impact of new requirements in relation to building safety, it would need a rent increase of 9%.

This is effectively the minimum uplift that would allow the Westminster HRA to absorb the full impact of cost inflation (with the Council's costs in 2022/23 already dramatically outstripping the rent uplift for the current financial year). Like other housing providers, we are experiencing particularly high inflation on repairs, major works and new build construction costs. These are sectors that are experiencing levels of inflation that are well in excess of CPI (given their reliance on materials).

If the proposed rent ceiling of 5% were imposed, the HRA would have a £77m shortfall on its 15-year capital programme. If a higher ceiling of 7% was imposed, the shortfall would still be £52m. This would inevitably result in a reduction in the level of planned investment for maintaining the condition of Council homes and a scaling back of the Council's new build programme.

Given the importance of these deliverables, it would be imperative for additional funding to be made available to the Council to cover the full extent of any capital shortfall caused by a statutory rent ceiling for 2023/24. The obvious areas to target additional capital support would be for the government to provide targeted funding for councils in relation to building and fire safety, retrofitting and affordable housing delivery.

The compounded impact of a 5% ceiling in 2023/24 (for one year only) is estimated to be a reduction in income of £114m over the life of the 30-year business plan. This means that a rent cap in 2023/24 would continue to constrain HRA resources well beyond the current 15-year capital programme.

In addition to a need for immediate compensation, it would also be essential for greater flexibility on rents beyond the current rent standard (i.e. from 2025/26 onwards) to be promised in order to allow providers to recover losses. This would help to minimise the impact of the compounded rent loss incurred in every subsequent year. This is the only option to properly protect long-term investment in social housing and ensure tenants get the services they deserve.

<u>Question 3:</u> Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Given the current economic volatility, we don't believe it would be useful to make decisions beyond the next 12-18 months. For the time being, any proposed rent ceiling should only be applied to 2023/24 so that all delivery bodies have time to monitor emerging trends and assess their likely impact on social housing provision over the medium-term.

The business plan modelling undertaken for the Westminster HRA (referenced in Question 2) did not factor in any rent ceiling for 2024/25. Any further rent ceiling would reduce HRA resources even further and would therefore require even larger reductions in service levels and capital delivery. The same principle applies to any potential extension of a rent ceiling into 2024/25: Westminster could only support this if it was coupled with additional funding so that investment in social housing does not decrease.

<u>Question 4:</u> Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes. Whilst there is a risk that this could create greater disparities in rent levels across the council's housing stock, it ultimately leaves discretion about starting rents in the hands of the Council. This would ultimately be beneficial and consistent with Westminster's general view that discretion on rents is best managed at a local level.

<u>Question 5:</u> We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We agree with this approach. The fairest way to manage social rents is to ensure that they are all subject to the same principles and this is consistent with how we manage our housing stock.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Your Housing Group Limited Your Housing Group is a registered provider of social housing with a large and diverse portfolio of over 28,000 homes across the North West, Yorkshire and the Midlands. These range from general properties for social and affordable rent, through to retirement living developments and innovative private rental offers.
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Youggle House, 130 Birchwood Boulevard, Birchwood, Warrington WA3 7QH
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☒No
☐Maybe

Comment:

Given the unique nature of each housing association (e.g. its size, homes, customer base and business plan), Your Housing Group (YHG) does not believe that a legally enforced cap on rents is appropriate. Housing association Boards are best placed to take responsibility for decisions on rent increases, accountable to the RSH.

YHG is committed to addressing the issues of affordability for residents and current cost of living pressures, and would be looking to implement rent increases below CPI+1% for FY23/24 if we retain this discretion. YHG would be much more likely to limit our increase to well below the permitted CPI +1% if rents can 'catch back up' over future years, either through a regulatory change or mechanisms within existing rent regulation.

There are also possible knock-on effects of government intervention that should be considered, for example reduced confidence amongst lenders and ratings agencies leading to higher borrowing costs, and lower EUV-SH valuations affecting gearing covenants and security values.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☒No
☐Maybe

Comment:

Any ceiling imposed will be challenging and measures will need to be put in place to protect viability. A ceiling will inevitably impact YHG's ability to deliver its business plan, which like the rest of the sector has previously had capacity stripped out of it by the four-year rent reduction.

There is a very real likelihood of the ceiling impacting on delivery of core services to YHG customers at a time when they face an unprecedented cost of living crisis. Crucially, it will also impact our ability to invest and deliver on our sector's key priorities and targets, a number of which we share with government. These could include:

- Investment in quality and safety of homes – e.g. meeting current/future Decent Home Standard; delivery of Building/ Fire Safety Act requirements. Both regulatory requirements that must be prioritised with reduced resources.

- Reduced investment in decarbonisation/retrofit – making it extremely unlikely that housing associations will meet government targets on carbon reduction.

Also impacts on fuel poverty and energy efficiency for our customers.

- Impact on delivery of new social and affordable housing. A growing number of housing associations are already pausing development plans due to inflation on construction costs etc. The rent cap will impact on viability of existing new build schemes already on site, as well as schemes coming for appraisal. Negative impact on construction sector and reduction in provision of much-needed social and affordable housing.

- Impact on our reputation and our credit rating with funders and investors. This will impact on the cost of debt available to the sector [redacted]

- Risk of housing associations reducing/exiting supported housing and other vital support services as they are no longer viable. This could place even greater pressures on things like adult social care.

- Impact on recruitment/headcount and ability to retain skilled staff.

- Purchasing and sub-contracting activity. A long term reduction in income means SMEs and local businesses suffer as well as tenants not getting the improvements originally proposed.

- Impact on sector outputs will ultimately lead to poorer outcomes for our customers. Potential reduction/ scaling back of other services and support to customers as housing associations look to make essential savings, at a time when customers are struggling with an unprecedented cost of living crisis and need these services more than ever.

This is a long term loss to YHG's business plan, not just a one year hit, and we are already subject to inflation as businesses on fuel, materials etc. Medium and longer term investments could be halted at the detriment to the business over the next 12/24 months.

The government's impact assessment captures the immediate financial impact of the different scenarios but it doesn't acknowledge the impact that will be felt over the medium to longer term by current and future tenants as a result of reduced investment in their homes and services. This is a crucial consideration for residents, housing associations and the government.

- A cap set at 3% would make the challenges almost unmanageable for many organisations [redacted].

- A cap set at 5% would present significant challenges for some organisations, and severely reduce investment in new and existing homes next year and for many years to come.

- A cap set at 7% is preferred (but it is important to note that this would still mean organisations having to take difficult decisions about what to prioritise and how to make savings).

Variance from Rent Settlement * Increase/(Decrease)		1 yr Total £m	5 yr Total £m	30 yr Total £m
Rental Income	3% rent cap	(13)	(57)	(625)
	5% rent cap	(11)	(47)	(511)
	7% rent cap	(8)	(36)	(397)

* Based on rent settlment of CPI + 1% with CPI assumed at 13%

We believe that there are a number of things that could help protect vulnerable customers, and also help mitigate the impact on housing associations' services and investment:

1. We believe there should be a return to rent restructuring which would allow the sector to catch up more quickly on costs incurred due to the rent cap. This would allow the sector to build and maintain existing homes and build new ones.

2. We believe by lifting the benefit cap it would be advantageous in mitigating some of the above.

3. We believe a lift LHA rates would also be advantageous for the organisation to get back to full investment more quickly.

4. We believe a reduction on major VAT on Capital works would also mitigate as above.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☒Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

We believe that the rent cap should only be for one year. A two-year cap reduces the ability for housing associations and the government to respond nimbly to a highly uncertain and likely rapidly changing situation next year. A one-year cap potentially leaves a similar period of uncertainty next summer, but would allow for a more nuanced and targeted response to the actual economic conditions faced next year.

It is also vital that the sector receives greater certainty on the government's future rent plans post FY23/24.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒Yes
☐No
☐Maybe

Comment:

We are broadly supportive of this; it is consistent with the consultation's stated aim of protecting existing residents from high nominal-terms rent increases.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☒Yes
☐No
☐Maybe

Comment:

We believe that supported housing should be exempt from any cap, given the challenges on margins and costs in this part of the sector.

Jones Lang LaSalle Ltd
30 Warwick Street, London, W1B 5NH
[redacted]

jll.co.uk

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

By email only to Socialhousingrents@levellingup.gov.uk

12th October 2022

Social Housing Rents – Consultation Response

This response has been prepared on behalf of JLL. The details requested are set out below:

Name:	[redacted]
Position	[redacted]
Organisation:	JLL
Address:	30 Warwick Street, London W1B 5NH
Email address:	[redacted]
Telephone:	[redacted]

Question 1

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI plus 1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not agree that the maximum social housing rent increase should be subject to any specific ceiling or cap, in addition to, or instead of, the existing CPI plus 1% limit. Our reasons for this, based on analysis of valuations in the sector, are set out below.

If no cap is imposed, and the existing policy is not varied, we believe that Registered Providers (RPs) would be highly likely to exercise considerable, voluntary restraint in determining the appropriate rent increases to apply in April 2023. Writing as both an experienced advisor to the sector and a current Board member of two RPs, I know that all RPs are very mindful at present of their social purpose, the financial pressures which their residents are currently experiencing and (for the vast majority) their 'not for profit' ethos.

However, 'not for profit' does not mean 'not for surplus'. Rather, RPs want and need to make a surplus to enable them to fulfil their social purpose. It is also essential to the long term financial viability of any organisation. For several months now, RPs have experienced significant increases in their operating costs, particularly the delivery of repair and maintenance services, and the cost of investing in their existing homes through component replacement and improvements, to raise the standards of those homes for customers, particularly in terms of energy efficiency, and environmental performance. Inflation in building materials and components has, in our experience, been running significantly ahead of the general rate of inflation in the economy.

Like all organisations, RPs have also experienced wage inflation, not yet through pay awards given to existing staff, but in the costs of hiring new and replacement staff, particularly where high rates of churn are being experienced in relatively low paid but critical, operational roles.

This means that operating surpluses have already been significantly squeezed, and we expect this to continue in 2023, and into 2024. Despite that, we do not believe that any RPs would seek to impose rent increases which would exacerbate the financial pressures on their residents, nor run the risk of increasing rent arrears, bad debts or voids. With September inflation due to be confirmed on 19 October, but likely to be around 10%, we do not believe there are any RPs which would raise your rents by 11% next April. To do so would be inconsistent with their values and unacceptable to those involved in governance and executive leadership.

Rather, we think there would be voluntary constraint, likely to fall in the range 5% to 7%, but possibly higher in a few cases where the financial capacity to weather a lower increase is lacking, particularly for reasons of compliance with financial covenants on existing loan facilities or where operating margins are under exceptional pressure. We would expect to see a range of voluntary constraint decisions, with some organisations perhaps below 5% but the sector average settling probably in a narrower band of 5% to 7%. In essence, individual Boards with the final responsibility for these decisions will impose the lowest increase they can, rather than the highest. They would respond well to the government placing trust in them to take decisions which are both socially and financially responsible.

Question 2

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

JLL carries out hundreds of valuations of social housing each year, acting both for lenders to RPs and directly for RPs. Those valuations are carried out principally for loan security purposes, including in support of loan facilities, bond issues and private placements; for accounts purposes; and of existing or proposed developments of new affordable homes. We work throughout the UK, including extensively in all regions of England; we value over one million homes each year and report aggregate, valuations in excess of £100 billion. We are, therefore, well placed to undertake analysis of the likely financial impact of the proposed rent caps.

For the purposes of this consultation response, we have identified eight actual loan security portfolios, charged to lenders to RPs in different regions of the country. Each is broadly representative of the types of portfolio we value for lenders, and made up of 'general needs' social rented housing. Each of the portfolios was last formally valued in or around April 2022, as security for debt, and will be revalued next year, in about April 2023.

There are two main, recognised approaches to assessing the value of tenanted social housing adopted in the sector and used to determine the value of properties as security for loans: Existing Use Value for Social Housing (EUV-SH); and Market Value, subject to the existing social tenancies (MV-T).

EUV-SH assumes a hypothetical sale of the charged properties to another RP, and the retention of the stock permanently within the regulated sector, with continued letting at restricted rents. In contrast, MV-T assumes a sale by a mortgagee to an unregulated, non-RP purchaser, which would then have the freedom both to raise rents to market levels and to sell any properties becoming void on the open market. Both types of valuation are normally calculated using a discounted cashflow (DCF) method.

For the most part, we have concentrated our analysis on valuations on the basis of EUV-SH. Our approach is to assume that we are carrying out revaluations in April 2023, against the backdrop of inflation in operating costs over the year preceding the valuation.

Compared to our actual assumptions made in April 2022, we have assumed that the costs of housing management have increased by 10%; and that the costs of repair and maintenance have increased by 18%. We believe both these assumptions to be reasonable in the light of our experience with clients at present. In other words, these assumptions reflect our understanding of actual rates of inflation in the sector, rather than worst case expectations.

Further, we have assumed that the cap is in place for one year only, in April 2023, and that in 2024 and beyond, rental increases revert to policy at CPI plus 1%. We have also assumed that, from 2024 onwards, all costs rise at 1% over inflation and therefore track rental growth. Our models are in real terms, and therefore reflect only the growth over inflation, without making any specific assumptions about inflation in the future.

Our modelling shows the following results, expressed as the percentage fall in valuations between April 2022 (actual) and April 2023 (projected):

Table 1

	10% Increase in Management Costs and 18% Increase in Maintenance Costs % Change in Valuation, 22-23		
Portfolio Location	**3% Rent Cap**	**5% Rent Cap**	**7% Rent Cap**
London (Central)	-2.4%	0.5%	3.4%
Greater London	-2.6%	0.5%	3.3%
South East	-5.0%	-1.4%	2.1%
South West	-7.1%	-3.3%	0.3%
Midlands	-6.7%	-3.2%	0.4%

	10% Increase in Management Costs and 18% Increase in Maintenance Costs % Change in Valuation, 22-23		
Portfolio Location	3% Rent Cap	5% Rent Cap	7% Rent Cap
Yorkshire & The Humber	-7.3%	-3.2%	1.0%
North East	-7.7%	-3.4%	0.9%
North West	-7.4%	-3.2%	1.0%

Our figures show that the imposition of a rent cap at 3% would cause year-on-year falls in all eight valuations; but that a 5% cap might, all other things being equal, show marginal growth in London but falls in value in all other regions; and that a 7% cap would show modest growth in all regions (again, assuming all things remain equal).

The principal reason for the regional differences is that, in areas of the country where social rents are lower, operating costs already form a higher proportion of gross rental income and therefore surpluses are disproportionately affected by current rates of inflation in those costs. Conversely, in London and the South East, where social rents are typically higher, operating costs make up a lower proportion of gross rental income and therefore leave a greater cushion to absorb the assumed inflation in those costs from one year to the next.

Our modelling therefore shows that the government's preferred option of a 5% cap would be damaging to both the value of existing, charged security for loans as well as the balance sheets of most RPs. A 7% cap would be a safer option, but our analysis shows that this would not, by any means, give RPs financial stability or security going forward, when factors other than the rent cap and cost inflation are taken into account.

This is, however, only part of the true picture. RPs face many other demands and cost pressures which are eroding or jeopardising their operating surpluses and exerting considerable financial strain on business plans. These include: a backlog of repair and maintenance works from the pandemic period, when access to customers' homes and the availability of contractors were severely curtailed; essential fire safety works; retrofitting costs to reduce carbon emissions and improve energy efficiency; exceptional rates of inflation in energy costs; and the Regulator's new consumer standard and tenant satisfaction measures (which quite properly seek to improve the quality of customers' homes and the standard to which they are managed).

We have therefore extended our modelling to take account of some - but not all – of these considerations. Work carried out by others and published through the National Housing Federation has indicated that the average spend on a social home to achieve net zero carbon would be in the order of £25,000 (calculated before current rates of inflation took hold).

If that additional spend is factored into all the same valuations on the basis of EUV-SH, assuming an even spread over the first three years of the cashflow period, then the resulting falls in value would be as follows:

Table 2

Region	10% Increase in Management and 18% Increase in Maintenance Costs £25,000 NZC Cost Spread over first 3 years; (£8K; £8K; £9K)		
	3% Rent Cap	5% Rent Cap	7% Rent Cap
London (Central)	-27.8%	-25.2%	-22.5%
Greater London	-24.7%	-22.2%	-19.6%
South East	-42.8%	-39.6%	-36.3%
South West	-46.2%	-42.9%	-39.5%
Midlands	-48.7%	-45.4%	-42.0%
Yorkshire & The Humber	-66.7%	-62.5%	-58.3%
North East	-69.3%	-65.0%	-60.8%
North West	-67.6%	-63.4%	-59.2%

It should be apparent that falls in value of this magnitude would be catastrophic for lenders and borrowers alike in terms of the required value of the security to underpin existing loans, the ability to secure future loans, and the capacity to service interest payments from net operating income. Falls in value on this scale have never occurred at any time, since private finance was introduced to the sector at significant scale in the early 1990s. I know this first hand, as I have been valuing in the sector for over 25 years. In fact, values on the basis of EUV-SH did not fall at all, even during the global financial crisis in 2008-2009. This is because social rents continued to increase in relation to inflation, and cost inflation was much lower than it is today.

The principal strain on property valuations at the time was experienced through falls in house prices, which have no bearing at all on EUV-SH valuations of rented social housing (in contrast to valuations of shared ownership homes, for which house prices do matter).

EUV-SH has always, hitherto rightly, been regarded as both resilient and predictable because of the nature of the rental income and the strong regulation and governance in the sector. Hence, its appeal to lenders as a basis of assessing the value of their security, and the generally low interest rates and advantageous asset cover requirements enjoyed by RPs for many years, which form an essential underpinning to their business plans. The current economic and financial situation, and the rent cap, threaten that reputation.

We said above that valuations for loan security in the sector are prepared using discounted cashflow (DCF) models, which are able to deal with the many different elements and variables of letting, managing and maintaining homes over the long term. The DCF method requires the use of a discount rate which has to reflect the notional return that an investor would require (including the cost of debt) as well as the risk represented by all the assumptions made by the valuer.

In our opinion, the risks in social housing valuations are rising at present and are likely to continue to do so. For example, there are greater risks around rent collection from tenants, cost inflation, and the government's rent policy, both short term intervention and long term. Higher risks mean a valuer adopts a higher discount rate, which in turn means that the valuation (the 'present value') of the future stream of net income is lower.

Therefore, we have also considered a third set of figures which contemplates the impact of an increase in the actual discount rates adopted in our sample valuations. We have modelled increases of both 50 bps (0.5%) and 100 bps (1.0%), in each case across the range of rent cap scenarios. Both are, in our view, perfectly reasonable and likely changes to discount rates.

In this set of figures, we have taken no account of the likely cost of environmental improvements but have simply shown the effect of an increase in the discount rate in addition to the assumed increases in management and maintenance costs. The resulting figures are as follows:

Table 3

	10% Increase in Management and 18% Increase in Maintenance Costs Discount Rate +50 bps		
Region	**3% Rent Cap**	**5% Rent Cap**	**7% Rent Cap**
London (Central)	-15.8%	-13.4%	-11.0%
Greater London	-15.6%	-13.3%	-10.9%
South East	-17.3%	-14.4%	-11.4%
South West	-17.5%	-14.5%	-11.4%
Midlands	-17.0%	-14.0%	-11.0%
Yorkshire & The Humber	-15.3%	-11.5%	-7.7%
North East	-15.6%	-11.7%	-7.9%
North West	-15.4%	-11.6%	-7.8%

Table 4

	10% Increase in Management and 18% Increase in Maintenance Costs Discount Rate +100 bps		
Region	**3% Rent Cap**	**5% Rent Cap**	**7% Rent Cap**
London (Central)	-23.0%	-20.8%	-18.7%
Greater London	-22.8%	-20.6%	-18.5%
South East	-24.4%	-21.7%	-19.0%
South West	-24.5%	-21.7%	-18.9%
Midlands	-23.7%	-21.0%	-18.2%
Yorkshire & The Humber	-22.0%	-18.5%	-15.1%
North East	-22.3%	-18.8%	-15.2%
North West	-22.1%	-18.6%	-15.1%

We believe that these figures show that RPs must be given latitude to make their own decisions on necessary and appropriate rent increases, in the current inflationary climate, in the light of a full and rounded understanding of the financial impact of their decision on their financial viability, on customers, and on other activities, especially development. It is impossible, in our view, for any specific cap to be correct and appropriate across the whole sector on a 'one size fits all' basis, given significant differences between the operating models, asset bases, geographies and the financial commitments of RPs across the full spectrum of sizes and business models.

Lastly, as mentioned above, an alternative basis of valuation known as MV-T is used extensively for loan security purposes in the sector. We estimate that this underpins at least 60% of the current debt which amounts to approximately £90 billion plus undrawn but committed facilities of a further £29 billion.

In some cases, legal, contractual or other restrictions mean that MV-T is not applicable to particular homes, and only EUV-SH can be used for. But, wherever possible, RPs prefer to use MV-T because it generally gives a higher value per unit and therefore greater borrowing capacity, even allowing for higher asset cover requirements imposed by lenders to reflect the greater risk inherent in the adopted approach. It is, therefore, a hugely significant basis of valuation in terms of the financial stability of the sector.

We have a contemplated the impact on MV-T valuations of the same eight portfolios, looking first at the isolated impact of the assumed increase in repairs and maintenance costs (18%, as described above); and, secondly, building in the effects of a 10% fall in house prices in 2023/24 coupled with a commensurate reduction in the number of assumed sales of void properties in the same period, with normal market conditions returning swiftly in 2024 onwards. Please note that this analysis does not include the same 10% increase in management costs, because they are calculated differently in an MV-T valuation, as a percentage of market rental income, as opposed to a fixed amount per unit.

The results of our analysis are set out in the table below:

Table 5

	18% Increase in Repair and Maintenance Costs	
	MV-T: Rent Caps applied to 2023 rents, Costs increased 18% on Repairs and Maintenance	MV-T: 10% fall in house prices; adjusted sales down 15% in year 2; stable year 3 onwards
Region	3%, 5% or 7% Proposed Rent Cap	
London (Central)	-1.3%	-6.8%
Greater London	-1.3%	-9.1%
South East	-1.6%	-6.6%
South West	-3.2%	-9.6%
Midlands	-2.9%	-7.8%
Yorkshire & The Humber	-3.4%	-7.6%
North East	-3.7%	-7.8%
North West	-3.3%	-8.0%

Our figures show that, for the imposition of any given rent cap at 3%, 5% or 7%, the overall impact is modestly negative, but more so in the North than in London and the South East. The choice of rent cap matters little in this analysis, because it affects only the starting point in our cashflow model, in terms of social rents in 2023, which are then assumed to grow fairly rapidly to market levels, which we assume will remain unaffected for the purposes of this analysis.

However, in contrast, introducing even a relatively modest and short-lived fall in house prices and a reduction in the number of sales (reflecting a more illiquid market as a result of lower consumer confidence and higher mortgage rates, together with reduced availability of mortgage finance) produces far greater falls in value.

To put these figures in some sort of context, in the global financial crisis period of 2008-09, we typically saw falls in MV-T valuations of around 10% to 15%, probably averaging about 12%, as a result of falls in house prices and market illiquidity; but mitigated by market rents which did not fall and in fact remained either stable or growing during that period as a result of heightened tenant demand.

Nevertheless, it would not take much for the figures shown above to dip by similar amounts, which would exert strain on many borrowers in terms of covenant compliance and would risk destabilising the sector.

Question 3

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (ie, up to 31 March 2025)?

On the basis that we do not agree that any ceiling should apply to social housing rent increases from 1 April 2023 to 31 March 2024, it follows that we also do not agree that any cap should apply for any longer period.

We have not explicitly modelled this scenario, because it would entail a further layer of assumptions about growth in underlying operating costs between April 2023 and March 2024 and we do not think at this stage we have any reasonable basis on which to make those assumptions.

However, it should be self-evident that a second year of a cap would make all the figures shown above in answer to Question 9 significantly worse (ie, greater falls in value) and therefore pose greater, systemic risks to the social housing sector and to the viability of private finance in the sector.

Question 4

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first left and subsequently re-let?

Yes, we agree that it would be both desirable and sensible to exempt new lettings at both Social Rents and Affordable Rents (and subsequent re-letting of those properties) so that any benefit resulting from rent caps or restraints is channelled through existing tenants.

However, that is not to say that we agree with the imposition of the cap, for the reasons set out in answer to previous questions. But, if a cap were to be imposed, then we agree with this proposition.

Question 5

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

As is clear from the answers to preceding questions, our starting point is that it is both financially damaging and unsustainable for the sector to impose a rent cap at any of the proposed levels, when the impact is considered in the round, alongside other essential financial commitments and government's desired policy outcomes more broadly.

In essence, we cannot achieve safer homes, greener homes and the building of more affordable homes – the three main things government wants RPs to deliver - in the face of high inflation squeezing operating surpluses from beneath, whilst rents are also capped from above. Something has to give.

In our opinion, the two most likely things in the short term are: RPs' development programmes, which are optional and can be stopped or deferred; and retrofitting for decarbonisation, which may not be optional, but can at least be delayed.

That said, if caps are to be imposed, then we suggest that a particularly strong case for an exception could be made for all forms of supported, rented social housing. The reason for this is that operating costs tend to be much higher, as a result of higher staffing levels, and rents often already lower than in general needs accommodation. This means that operating surpluses are generally slimmer and will be under particularly acute pressure at present, from such factors as rising wage costs and energy costs which may not fully without be passed on to residents through service charges.

The delivery and sustained operation of essential supported housing schemes is therefore in greater jeopardy, from both cost inflation and rent caps and, if any exceptions are to be made, we believe supported housing merits particularly close attention. As a general rule, we suggest that the more intensive the support, the higher the operating costs and therefore the greater the vulnerability to any imposed rent cap.

Lastly, we suggest that a strong case could also be made to exclude smaller RPs. They are, generally, less financially resilient than large providers, and lack both the financing options and the economies of scale in their operations which will help larger organisations to adapt to higher operating costs. The provision of supported housing is also particularly concentrated amongst smaller providers.

How 'smaller' is defined is a moot point, but of the roughly 1,400 private Registered Providers in England (ie, excluding local authorities), just 209 own or manage 1,000 homes or more, and these organisations represent 95% of the sector's total housing stock. We suggest, therefore, that all 'not for profit' RPs owning fewer than 1,000 homes could be made an exception to any rent cap to avoid the risk of financial or service failure.

[redacted]

12 October 2022

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	PlaceShapers
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	W4 1NN
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Key Messages from PlaceShapers

1. **We do not agree with government intervening by setting a new limit on an already agreed rent settlement. Boards, in consultation with tenants,** who can properly scrutinise the demands on their organisation within the confines of long-term government policy, is the most effective and accountable way of making **rent decisions.**
2. **The vast majority of PlaceShapers had no intention of charging CPI+1.** Decisions on rents are balanced between short term affordability with long term necessary investment.
3. **Community based housing associations are key to tackling the cost-of-living crisis in communities,** through a range of targeted support to those on the lowest incomes.
4. **Members face increasing costs – currently running higher the CPI** – which are already affecting plans for investment in homes, net zero work, building safety and community services.
5. **If a ceiling is imposed, there must be:**
    a. a degree of flexibility to apply exemptions to services which would be unviable, such as supported housing.
    b. A measure which allows housing providers to catch up on lost incomes so long-term investment and development are not reduced.

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐No

Comment:

PlaceShapers is a member's network of 116 place-based, not-for-profit housing providers. Our members manage over one million homes and provide housing for one in four households in social housing. We are responding to this consultation on behalf of them.

Our network have a set of shared values and approach to operating a housing association whether they own 400 or 40,000 homes. Community focus, commitment to place, tenant centred decision making, strong relationships with tenants and providing services beyond the core role of a housing provider are at the heart of the PlaceShapers identity. Tenants form part of the Board of the majority of our members, helping ensure accountability and a tenant focus is maintained.

This approach is central in the way our members make decisions about the rents they charge. Balancing the provision of high-quality homes, contribution to place and good service with the affordability of rents is the challenge for every social housing provider. With the cost of living rising and further pressures being placed on social housing tenants throughout the past year, PlaceShapers have been in active discussions with members on what action they can take to support tenants. As a result, we know that all members have been engaging in detail with tenants over potential rent increases and that nearly all members were preparing to cap rents below the CPI+1% limit before this consultation was published.

The cost-of-living crisis is the number one issue for members. They have been providing support for tenants and communities which includes:

- **Investing in hardship funds to help those struggling the most.** Mosscare St Vincent, a Manchester based housing provider with 7,000 homes have established a £500,000 hardship fund for residents to access.
- **Funding money management and social security advice programmes.** Warrington Housing Association, a small provider with 1,200 homes resources a money advice team that generates £300,000 of additional income per year for residents.
- In line with the **National Housing Federation**, pledging not to evict anyone who can't pay their rent, as long as they are engaging.
- **Accelerating retrofit** programmes to reduce bills
- **Covering additional costs on communal heating systems which are ineligible for the energy price cap.** Bolton at Home have up to 2,000 residents on communal heating systems. Rather than pass the additional £500,000 in energy bills onto residents, they are meeting this cost themselves.
- **Supporting local charities and foodbanks**
- **Improving tenants' employment opportunities** through apprenticeships and training programmes.
- **Tackling loneliness and isolation** through clubs, activities, and wellbeing phone calls.

PlaceShapers position is rent setting is the responsibility of Housing Association Boards who can properly scrutinise the demands placed on their organisation within the confines of long-term government policy. If given that autonomy this year, each of our members would set a rent which strikes the right balance between long term sustainability, quality of service and affordability for tenants.

For most of our members this would be below CPI+1% as they respond to the cost-of-living crisis. However, in some instances, particularly for members who have large building safety costs or provide a lot of supported housing the effect of applying a ceiling on all social housing rent with no exceptions would have extremely negative impacts.

Long-term certainty in rent setting is also critical in attracting private investment. In 2019, housing associations attracted £6 of private investment for every £1 of public funding, representing £13.5 billion pounds of new private finance. Housing associations attract this investment partly because of the long-term certainty on their main source of income – rents. If a ceiling is applied in 2023 it will be the second time the government has intervened within this ten-year rent settlement period. The implications of reducing reliability for investors should also be considered so we ensure that housing associations remain an attractive place for investment.

Whilst we agree that given the current CPI and rising cost of living in other areas it would be the wrong decision to increase rents at CPI+1 in most cases, we are concerned about the unintended consequences of government implementing an inflexible ceiling for all providers regardless of their circumstances. We would therefore urge any ceiling that is implemented to give organisations a degree of flexibility to apply exemptions to services which would be unviable under this cap.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

☐No

Comment:

While we do not agree with a ceiling, we have carried out extensive consultation with members, and we assess the least damaging ceiling is 7% with an exemption for supported housing.

If the ceiling is set at the highest of the three options, it will give those organisations with the financial stability to impose a further rent reduction where they deem it appropriate. We would expect some members to set their rent at 5% if given the freedom to do so, even if the ceiling was at 7%.

7% would also provide a much higher level of security for the majority. Whilst some of our members would have viability concerns at less than 7%, 7% would cause financial pressures but be significantly less damaging. Our members carry out detailed financial modelling each year. One member explained how last year they modelled several scenarios; the most difficult circumstance that they envisaged then is now their reality. They described adding high interest rates and a reduction in rental income to this as the 'perfect storm'.

Since a ceiling from 2023-2024 would mean a lower base for future rents the lost turnover will grow year on year. One of our members has told us that their income would be reduced this year by £1.8m if a rent cap was set at 3%, £1.3m at 4% and £0.8m at 7% in comparison to their original plan which assumed a 9% increase (still below CPI+1%). However, by 2032 the yearly loss would be £2.1m, £1.6m, and £0.9m per year respectively. For context, this organisation's anticipated yearly cash outlays for the next five years are between £12 - £15 million.

Another of our members, who manage around 30,000 homes in the North of England have calculated that the cumulative loss to income over 30 years would be £108m at 3%, £81m at 5% and £54m at 7%. If these funds were available to them, they would be spent on building new homes and retrofitting their existing stock.

Considering the high cost of long-term strategic goals such as net-zero, building safety and improvement works, any benefit to tenants felt in the first year of a rent ceiling will be negated by the loss of investment that will result in following years. We would strongly urge the government to consider measures to allow providers to ‘catch up’ any shortfall incurred by a rent ceiling in following years.

Rising interest rates are impacting housing associations. Cost of business is currently running higher than CPI. A Centre for Economics and Business Research report published earlier this year found that repair and maintenance costs had risen by 14% in the past year and the construction of new homes by 12.3%. This is alongside the significant rise in energy prices which housing associations incur in communal spaces, district heating and community facilities. Even without the further pressure of a rent ceiling, the above inflation increases the sector is seeing is having an impact on business plans. A rent ceiling on top would add further pressure.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

Comment:

As noted above, we do not believe the Government should set a rent ceiling in 2023-2024. If one is to be imposed, we strongly advise against setting a rent ceiling for 2023-2024 at a time when the economy is so volatile. The September 2021 CPI rate, used to set rents for 2022/23, was at 3%. By the time new rents were implemented, CPI was running at nearly 8%. This has meant that members have been operating with an effective income reduction this year. With interest rates and inflation currently fluctuating it would cause significant challenges to implement a rent ceiling to March 2025.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes

Comment:

We agree with this proposal on the basis that when our members are given the freedom to choose their own strategy, they will make the right decision for their business and tenants. The decision on what to charge on first and re-lets will be dependent on multiple factors, including affordability, so it is unlikely there would be a uniform approach across our members to this decision.

Although it is right to be looking at the impact that social rents play in the cost-of-living crisis, they are generally very low and affordable in comparison to the rest of the housing market. In high value areas, such as Bristol, many PlaceShapers rents are around 50% of what is available in the private rented sector. In low value areas, even with a CPI+1% uplift, most rents would fall below the LHA rates.

Housing associations and their Boards, who will have all relevant information at hand, are in the best position to decide whether it would be appropriate to charge a maximum initial rent on first and re-lets.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

Comment:

An exemption should apply to supported housing. Housing associations provide the majority of supported housing in England. As costs rise it is becoming increasingly difficult to provide existing and deliver new supported housing. Despite this, many of our members do offer significant levels of supported housing as a core part of their service because it is what the place they serve, and the people who live there, need.

Supported housing operates on very tight margins. One PlaceShaper member, whose supported accommodation comprises two thirds of their business, has seen costs associated with supported housing increase by a third. Another organisation has modelled that their supported housing will make a 3.5% loss on a 7% ceiling, 5.2% on 5% and 6.9% on 3%.

Supported housing could become unviable for some providers. A rent ceiling at any level will decrease the amount of supported housing available at an affordable cost. Supported housing is always crucial and especially now as we respond to the cost-of-living crisis. We urge the department to consider how a rent ceiling can be implemented without further reducing the provision of supported housing.

Social Housing Rents: Consultation Response

Summary

Riverside is deeply concerned about the livelihoods of our customers. We have a major focus on improving customer services as well as investing in our homes and communities to make better places to live. We have strong evidence about how tenants and residents are being affected by the cost-of-living crisis and have increased our investment to support livelihoods and sustain tenancies by an additional £2.5m per annum.

- **We do not believe that Government should introduce a specific ceiling to the 2023/4 rent increase in addition to the CPI + 1% rent limit.** As independent regulated providers of social housing, housing associations (the majority of whom are charitable) should be trusted to set rents for 2023/4, balancing the affordability pressures faced by many customers with the long-term need to invest in existing and new homes. Given the current cost-of-living crisis, the vast majority of landlords are unlikely to set rent increases at CPI + 1%.
- **Any intervention by Government would represent unwarranted additional regulation and undermine investor confidence in the sector.** In all likelihood many housing associations would face a credit rating downgrade, the availability of private finance would reduce, and the price of borrowing increase at a time when Government is trying to stimulate economic growth, including through housing supply. In addition, it would increase the risk of the ONS reclassifying housing association debt to the public sector balance sheet.
- **The introduction of a ceiling would have a significant financial impact reducing investment capacity.** For Riverside, this would result in a three-year reduction of surplus of between 17 and 27% for the three options presented – significantly more if the ceiling was extended for a further year. This impact would not be a one-off and would continue in the long-term, reducing capacity across the whole of our long-term financial plan.
- **The scale of the financial impact would require significant mitigation, which would increase across the three scenarios.** In all scenarios we would freeze uncommitted development and reduce our overall development plans. We would also reduce investment in our existing stock by between 15 and 25% per annum across the scenarios, impacting our ability to continue to meet the decent homes standard, and pushing out decarbonisation and building safety plans.
- **If a ceiling is implemented, this impact could be significantly offset by establishing a catch-up mechanism.** Permitting increases of CPI + 2% for 2 years (following the implementation of the ceiling) would reduce the 5-year impact by around half.
- **Supported housing should be exempt from any rent ceiling proposal.** As a financially marginal part of our business, supported housing would be particularly vulnerable to reductions in income and surplus, with around 9% of our schemes (+ 1000 bedspaces) becoming loss making in 2023/4 and vulnerable to closure. In addition, any financial benefits for Government arising from restricting increases to supported housing rents would be relatively small and short-lived, given levels of tenancy turnover for this type of social housing.

Introduction and context

1.1 This response is made on behalf of The Riverside Group Ltd, a charitable housing association and Private Registered Provider. Riverside is one of the UK's leading not-for-profit social housing and regeneration organisations, owning or managing around 75,000 homes in over 170 local authority areas. We operate in every English region.

1.2 In December 2021, we merged with London-based housing association One Housing Group. We are now working together to integrate our services and operations in order to drive out significant savings, which will enable us to invest more in our homes and services for the benefit of our customers and communities.

1.3 We are grateful for the opportunity to respond to this consultation, and our views are very much influenced by our strategic priorities.

- **We are deeply concerned about the livelihoods of our customers** and have a major focus on improving customer services. We have strong evidence about how tenants and residents are being affected by the cost-of-living crisis having recently conducted a survey of 3400 customers.[1] In response, we have increased our investment to support livelihoods and sustain tenancies, with an additional £2.5m per annum invested in services such as money advice, affordable warmth support and employment and training services.
- **We are delivering a significant programme to improve the building safety of our homes,** focussing on 76 buildings over 11m in height, with the total cost of remediation estimated to be around £250m.
- **We face a significant challenge in decarbonising our homes**, with a significant proportion of our homes built before 1945. We have a good understanding of the scale of our decarbonisation challenge, and have over 15,000 homes with an energy performance certificate rating below band C. We estimate the total cost of bringing our homes up to net zero will be c £1 billion.
- **We are a leading provider of supported housing services,** particularly for those affected by homelessness. We are the country's largest non-specialist housing association provider of supported housing, with over 11,000 bedspaces of supported housing and housing for older people. However, from a financial perspective this is one of the lowest margin parts of our operations, with many services barely covering their direct costs and share of organisational overheads. This has been exacerbated by the Covid pandemic as the cost of delivering services has increased, recruiting suitably qualified staff has become more challenging, whilst income has remained relatively static.
- **We are a major regeneration agency and housebuilder** with ambitions to do more. We build homes for rent, shared ownership, and outright sale, and much of this activity is aimed at regenerating existing communities and improving living conditions in areas as diverse as London. Liverpool and Runcorn. We are also helping tackle the housing crisis and over the past 3 years we have built over 3,000 homes, with plans to build over 15,000 over the next decade, two thirds of them affordable.

[1] In this survey, 72% of respondents responded that they will not be able to cope or will find it hard to cope with the cost-of-living crisis, with 86% indicating they have little or no savings. 37% indicated that they will cope with increasing energy bills by not using their heating at all this winter.

<u>Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?</u>

2.1 We do not agree with the proposal to set a specific rent increase ceiling in addition to the existing CPI + 1% limit.

2.2 It is highly unlikely that Riverside would increase its rents for social housing tenants by CPI + 1% if the Government did not impose a ceiling.

2.3 Housing associations are independent providers of social housing, operating within an outcomes-based regulatory framework. The vast majority (including Riverside) have charitable objectives.

2.4 We have a strong relationship with our customers, and a good understanding of the financial pressures they face. At Riverside we have customers on our Board and main operating committees, and regularly engage with customers through formal structures, surveys and focus groups. This is normal for most associations.

2.5 Given this context, it should be for providers to agree the level of rent increase applied each year, within broad regulatory parameters – as independent, regulated organisations we should be trusted to 'do the right thing' in good times and bad.

2.6 If the Government choses to intervene in applying a rent ceiling as proposed, it will be the second time it has done this in the past eight years, taking account of the rent reduction requirements introduced through the Welfare Reform and Work Act 2016. It will have acted to restrict rent increases beyond the broad approach set out in the Regulator of Social Housing's Rent Standard in five of the eight years to 2023/4.

2.7 In doing so, the Government would (again) override its own stated rent policy, most recently articulated in the (then) MHCLG's Policy Statement on Rents for Social Housing 2019. This states *"In October 2017, the government announced its intention to set a long-term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI plus 1 percentage point from 2020, for a period of at least five years …… The new policy recognises the need for a stable financial environment to support the delivery of new homes and to enable registered providers to plan ahead. The government is now looking to the social housing sector to make the best possible use of its resources to help provide the homes that this country needs, aimed at giving certainty to the sector."*

2.8 Changing this policy in such a fundamental way just over two years into its implementation will have a long-term and damaging effect, making any future rent settlement or policy practically worthless. Since the beginning of Q2 2020 nearly 70,000 new housing association homes have been started (and many more committed), with long term funding predicated on the assumptions set out in in the MHCLG Policy Statement. This represents nearly 20% of all housing starts in England[2].

[2] DLUHC Live Table213. Housebuilding: permanent homes started and completed, by tenure (quarterly).

2.9 This could have profound implications in two respects:

2.10 **Firstly,** by acting in this way, Government will be demonstrating that it **controls** the fine detail of the way providers manage their rents from year to year, rather than regulating them within a broad framework as set out in the Rent Standard. Clearly the Housing and Regeneration Act 2008 gives the Government powers to direct the regulator with respect to rent setting. However, this additional intervention would underline a significant change in the way the Government exercises these powers, introducing reactive, arbitrary changes at very short notice. This would contrast with the more considered approach of setting a rent policy (which informs the Rent Standard) in a way which ensures independent providers can operate within a relatively stable environment in which they can take investment decisions.

2.11 With Government now effectively controlling rather than regulating rents, we are concerned that this potentially increases the risk of the ONS reclassifying Registered Providers as Public Non-Financial Corporations for the purposes of the UK National Accounts, meaning that over £86bn of debt would be classified as public sector net debt at a time when the Government is trying to demonstrate fiscal discipline to the markets. This could repeat the well-understood reclassification event of 2015-17, where Government had to legislate in a carefully calibrated way to reduce the burden of regulation just sufficiently to enable the ONS to reverse its decision.

2.12 Whilst it is unclear how the ONS would react to this current proposal, the criterion it uses to form its judgement are based on the degree of control through regulation that the Government has over the policy of the body or sector under consideration. There seems to be an obvious risk that the rent ceiling proposal, if implemented, could be considered to represent a material change, particularly given previous actions to restrict rents. We would strongly recommend that this issue is discussed with the ONS before a final decision is made.

2.13 **Secondly,** would be the impact of any decision to cap rents on market confidence in the sector, given its reliance on private funding through the banks and bond markets. Lenders and investors make decisions based on the strength **and** credibility of the long-term financial plans of housing providers, and a rent ceiling would affect both. The credit ratings agency Moody's has already issued a warning note addressing the proposal, which it describes as 'credit negative' for housing associations.[3] This increases the likelihood of rating downgrades for individual providers, particularly those with lower operating margins and levels of interest cover, meaning the cost of borrowing could increase further and the number of associations able to borrow or raise funds through the markets could reduce.

2.14 This is likely to be further exacerbated by current market turmoil and the upward pressure on interest rates, with ratings agency Moody's observing that *"although we expect HAs to partially compensate for lower margins with debt to fund some of these works, particularly mandatory fire safety work, rising interest rates will reduce debt affordability…. It is unlikely that the sector will find it affordable to completely*

[3] Moody's Sector Comment: Planned social rent cap is credit negative for English housing associations, 1 September 2022.

compensate for lower net cash flows by increasing debt funding of development or retrofit costs."

2.15 Of course, the economic and fiscal climate has deteriorated significantly since Moody's September report, and more recently both S&P Global Ratings and Fitch Ratings have put UK Sovereign Ratings on a 'negative outlook' increasing the prospect of a Sovereign downgrade in the near future. With housing association ratings closely tied to Sovereign ratings, such a downgrade could have an immediate impact on housing association ratings across the sector, coming on top of any downgrades associated with the rent ceilings, which might be more selective.

2.16 Overall, the proposal seems at complete odds with the stated objectives of the newly led Government which is seeking to encourage growth (including housing growth), through deregulation and lower taxation. The introduction of a rent ceiling at whatever level would have the opposite effect, with increased regulation deterring investment and growth.

Increases without a ceiling

2.17 This question also seeks information on the extent to which providers would increase rents in 2023/4 if the Government does not impose a specific ceiling.

2.18 Whilst Riverside's Board has not made a firm decision on the level of increases for 2023/4 (which is contingent on the result of this consultation), it has considered a range of options. The following approach would be taken:

- The Board would carefully consider evidence relating to affordability of rent increases for customers and a range of strategic investment trade-offs. As indicated in the introduction, it has already commissioned a cost-of-living survey to provide additional information on the circumstances our tenants face, as well as modelling a range of scenarios relating to mitigating actions, primarily based on reducing investment in existing and new homes.
- It would retain its current approach to affordability first implemented in 2020, which caps outlier rents based on a Local Affordability Limit calculated as a proportion of typical local incomes.
- It would consult with tenants to seek their views.
- Finally, the Board would take a decision based on the evidence it has gathered and in line with its responsibilities as set out in the Governance and Financial Viability standard.

2.19 Early discussions suggest that it is highly unlikely that Board would impose a CPI + 1% increase, but is more likely to impose its own ceiling, potentially at the upper end of the range identified in the consultation document. However, so as not to permanently erode investment capacity, it would consider dealing with this (in whole or part) through a rebate mechanism, with a discount being offered on the level of rent actually charged, allowing rents to catch-up over a period of years, thereby managing the immediate price shock for customers whilst preserving the long-term rent base. We believe that there is a mechanism for doing this which is lawful and conforms with the Rent Standard.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

3.1 **As set out in our response to question 1, we do not agree with the principle of the Government (though the Regulator) imposing a ceiling at all**. However, it would be helpful to set out the potential impact of the options identified in the consultation document.

3.2 To understand the impact for our activities we have modelled a number of scenarios based upon rent ceilings at 3, 5, and 7% (for a single year).

3.3 In undertaking this modelling, it is important to point out that the financial impact on our long-term plans is not only determined by the rate at which our income varies over time. Cost inflation – which is not capped - is also critical, and the ultimate financial impact is determined by the difference between the two compared to our original business plan which is used as a baseline. For any business, if income and costs become out of step, financial viability is threatened.

3.4 Cost inflation is exceptionally high at the moment, and whilst September's CPI figure will not be published until later in October, it is likely to be around 10% (August's CPI was 9.9%). However, CPI is a blended rate calculated over a basket of goods and services and does not necessarily reveal the true cost inflation faced by any one sector. Recent research by CEBR for the NHF[4] has explored this in detail for the housing association sector, showing that whilst construction cost inflation has broadly mirrored increases in CPI over the time, the increase in the cost of new housing provision is now rising at a faster rate, with increases of 12.3% in the 12 months to June 2022. Building cost inflation is driven by both labour and material costs, with the latter playing a particularly significant role. The cost of materials for repairs and maintenance increased by 14.0% in the 12 months to July 2022.

3.5 These sharp cost increases are reflected in Riverside's direct experience, with the cost of building material being a particular driver of increased housebuilding and maintenance costs, which represent 52% of our projected capital and revenue expenditure in the period 2023 – 8. Our evidence suggests that the cost of some components, such as kitchens and bathrooms, has increased year on year by up to 20% in some areas, and the cost of steel by 15%. For our regional housebuilders we are seeing the cost of superstructures up by 11%, bricks by 13% and drainage by 28%. We are seeing particularly high maintenance cost increases in London, with the average cost of a repair increasing by 19% over the past year.

3.6 It is not only our building costs that are increasing. Our labour costs are climbing sharply with an annual pay award of 4.6% for the majority of colleagues (to spring 2023) and increases for those earning the living wage rising further still, 10.1% for those pegged to the Real Living Wage (predominantly Care and Support staff). This is exacerbated by increases to outsourced training costs, where we have seen an increase of 9.6% over the year. Of course, our energy costs have seen the greatest

[4] https://www.housing.org.uk/globalassets/files/resource-files/finance/cost-of-inflation-for-housing-associations.pdf

increases, and we have agreed uplifts for the 12 months to October 2023 of 132% for gas and 82% for electricity. Increases for the following year are expected to be far higher (subject to Government price capping policy) with quotations at unsustainable levels of increases of 509% for electricity and 647% for gas.

3.7 Turning to our modelling, the combined impact of the Government's one year rent ceiling proposal and a cautious forecast of cost inflation over a three-year period (without mitigation) is as follows[5]:

Rent ceiling at:	Reduction in 3yr surplus (£000)	Reduction in surplus (%)	Reduction in annual Operating Margin (%)
3%	£125,198	-27.4%	5.9 – 6.7%
5%	£102,222	-22.4%	5.0 – 5.9%
7%	£79,245	-17.3%	4.2 - 5.0%

3.8 The scale of the forecast reduction in surplus is huge [redacted]

3.9 Riverside's Board has considered the range of options open to it in a layered approach – the lower the ceiling, the deeper the reductions required. Whilst key investment obligations such as building safety and decarbonisation would be protected as much as possible, at a 3% ceiling both would be vulnerable to extension and rephasing. Whilst no firm decisions have been made, the potential strategy for achieving the required savings could be as follows:

Rent ceiling at:	Investment Priority	Mitigation
3%	Major repairs	25% reduction in major repairs, initially focused on lengthening component replacement cycles, with risk of increasing levels of non-decency. Long-term decarbonisation plans extended, although investment in early years of the plan (fabric-based improvements to help customers face cost of living crisis) protected. Timescales for completing three-year £250m building safety programme reviewed.
	Disposals	Accelerated programme of property disposals, especially of homes with low EPC ratings.
	Supported housing	Exit from loss making services and potential disposal/repurposing of assets (where accommodation based)

[5] Note: unlike the modelling set out in the DLUHC Impact Assessment, our assessment sets out to understand the true impact of the proposal by considering its effect on surplus, taking into account income and expenditure, and using our current approved business plan as a baseline. Similar to the approach taken by DLUHC we have ignored the small mitigating effect of new lets and re-lets.

		with c 9% of services becoming vulnerable.
	Regeneration/ Development	All uncommitted development frozen, representing around 40% of our planned programme. Assuming no catch-up mechanism, permanent reduction in development capacity, with plans to increase outputs from c1,000 homes pa to 1,500 permanently halted.
5%	Major repairs	20% reduction in major repairs programme, with impact on decent homes programme and long-term decarbonisation plans extended, although investment in early years of the plan (fabric-based improvements to help customers face cost of living crisis) protected.
	Disposals	As 3% scenario, though with lower numbers.
	Supported housing	As 3% scenario.
	Regeneration/ Development	As 3% scenario, with plans to increase outputs from c1000 homes per annum to 1,500 significantly reduced.
7%	Major repairs	15% reduction in our annual programme, initially focused on lengthening component replacement cycles, with risk of increasing levels of non-decency
	Disposals	As 3 and 5% scenarios, though fewer homes affected.
	Supported housing	As 3 and 5% scenarios.
	Regeneration/ Development	As 3 and 5% scenarios, with plans to increase outputs from c1000 homes per annum to 1,500 reduced.

3.10 It is important to emphasise that whilst the modelling outputs are expressed as a three-year impact on surplus, even if cost inflation returns to normal, the lost income (without a catch-up mechanism) will continue throughout the life of the business plan, meaning that the mitigations described will have a permanent impact on our capacity to invest to support our customers.

3.11 It is also worth noting that the above modelling does not factor in the impact of a potential sector downgrade, and consequences for interest costs. Whilst as an A2 rated association we would expect Riverside to be able to continue to borrow, albeit at higher margins, many lower rated associations may face real difficulties in accessing private funding to finance their operations. In addition, if there is a slump in the wider housing market – as currently forecast – the capacity of the sector to part fund the development of affordable housing through cross subsidy from open market sales would also be affected, creating a 'perfect storm' for the provision of affordable housing at a time when accelerated housing construction will need to continue to deal with the housing crisis and support the Government's growth agenda. At Riverside, development of this nature through our subsidiary Prospect and a number of JVs, currently represents 41% of our programme over the next six years. We are already reducing forecasts for 2023/4.

3.12 In the introduction we referred to our recent merger with One Housing Group, and any additional rent ceilings will inevitably accelerate our integration work as the imperative to drive out savings increases. One consequence of this is likely to be the suspension of any further merger and acquisition activity over the period of our forthcoming Corporate Plan. This will eliminate our ability to support any other organisations who may face viability issues as a result of rent restrictions, at a time when the Regulator of Social Housing may be looking to larger associations for assistance.

Catch-up mechanism

3.13 As we have set out, any ceiling imposed by Government, would have a profound impact on our ability to invest in new and improved homes. The lower the ceiling the greater the impact, and so if despite this evidence the Government does act, we would recommend it to set the ceiling at 7%. Further, the Government should introduce an accelerated catch-up mechanism to limit the impact, so that the ceiling is designed as a temporary measure to protect existing tenants at a time of immediate crisis.

3.14 Whilst this is already partly achieved by the proposal itself, in that homes can be re-let at a higher rent, introducing a faster catch-up mechanism for existing tenants would significantly reduce the impact of a ceiling. For example, permitting a CPI + 2% increase over a period of 2 years from 2024/5 (with formula rents increasing by CPI + 1%) would reduce the impact of the central 5% ceiling proposal by £11.7m over 3 years, but a much more significant £45.6m over 5 years (a reduction of 47% in lost surplus), powerfully illustrating the compound catch up effect over time. This could be implemented without prejudicing any future policy considerations for the post 2025 rent settlement, although in the long-term we would support the return to some sort of formal mechanism for rent convergence for all rents which are below formula.

<u>**Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?**</u>

4.1 If a ceiling is imposed, it should be for a period of one year only to deal with the immediate cost-of-living crisis.

4.2 The rationale for the proposed ceiling is to deal with the immediate pressure of the cost-of-living crisis on current tenants at this moment in time. The consultation document states that *"….this intervention is narrowly focused on protecting existing tenants from significant nominal-terms rent increases*" noting that we are living in "*exceptional times".*

4.3 The outlook for inflation in 2023 is highly uncertain, however it is widely expected to fall, with Government policy on energy capping having a material impact. In their work for the NHF (which preceded the September announcement on energy price caps), CEBR anticipate that inflation in the second half of 2023/4 will be 5%.

4.4 However if inflation does remains high, we believe there would be no justification for a prolonged ceiling to be imposed. This would potentially exacerbate the issues set out in section 2 of this response.

4.5 From a Riverside perspective, assuming high inflation persists for a second year, over a 5 year period we forecast that the impact of a two year ceiling at 5% would result in a reduction in surplus of £197.3m over 5 years, over double the £97.8m 5 year impact of a one year ceiling, representing a 23.2% reduction in overall surplus over this 5 year period compared to our base plan. This scale of reduced surplus eclipses the reductions set out in section 3 of this response (even with a 3% ceiling) and would inevitably further prejudice the delivery of our building safety programme.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

5.1 If a ceiling is applied, then we agree it should not apply to the maximum initial rent that is charged when social and affordable rent properties are first let and then re-let.

5.2 In the case of general needs housing (where tenancy turnover is on average between 6 – 7% pa) this would partially offset the financial impact of the reduced ceiling, although the recovery of rents to a higher level would be very slow. By preserving increases to formula rents, it would also recognise the true ‘economic’ rent for social housing.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

6.1 If Government proceeds with the proposed rent ceiling, then an exception should be made for supported housing.

6.2 There are two principal reasons for this:

- Re-let rates for supported housing are very high because much of it is short-term accommodation let for a period of less than 12 months. Whilst this varies from scheme to scheme and customer group to customer group, for Riverside in 2020/21 and 2021/2, tenancy turnover rates for supported housing (excluding housing for older people) were on average 69.4% and 69.2% respectively. This means that under the current proposals, the majority of supported housing tenancies would be re-let during the year at the full formula rent with a CPI + 1% increase[6]. With the vast majority customers in receipt of housing benefit and so seeing no personal benefit from a rent ceiling (+95% in the case of Riverside), any savings would only benefit the Government but would be very short-lived. With welfare savings related to Registered Providers (RP) estimated to be £800m in 2023/4 for the 5% ceiling option (DLUHC Impact Assessment), and supported housing accounting for around 12% of RP stock with similar average rents to general needs (SDR 2021), then the savings attributable to supported housing would be less than <£100m if rents were restricted for a full year, which wouldn't even be the case for perhaps 70% of stock. In the year following the imposition of the ceiling, the majority of supported rents would be back at formula rent level with the benefit of a CPI+1% increase for both years. In the meantime, providers would have had to administer a complex rent review process and explain significant rent differences to both tenants and housing benefit departments.

- Despite this temporary effect, in 2023/4 there would be a significant impact on the income and surpluses generated from supported housing. In addition, providers facing significant losses of surplus in other areas of their business and struggling with adverse economic conditions, are likely to look to trim the least profitable areas of their operations even if they are relatively well protected from the consequences of a rent ceiling. Supported housing would be vulnerable as a high cost, low margin form of housing. At Riverside the level of operating margin delivered by our care and support services is below the Group average and under half the budgeted operating margin for the rest of our social housing business (rent and shared ownership) - 25.5% lower based on this current year's budget. Whilst we remain highly committed to supported housing as a strategic priority, this cannot be at any price. Scheme by scheme modelling suggests that an implementation of a one-year rent ceiling would mean that around 9% of our services would become loss making at a 5% limit, representing more than 1000 bedspaces of accommodation. Given other pressures on our business plan, the likelihood is that we would seek to exit some of these services as contracts are renewed and dispose of the assets where services are accommodation based. This could lead to a permanent reduction in our capacity to support many groups of customers, including those at risk of becoming homeless, veterans and women fleeing domestic violence. We would anticipate a similar response across the sector.

6.3 We believe the arguments for a supported housing exemption are compelling. Supported housing provided by Registered Providers has a positive economic impact compared to the cost of having to provide alternative solutions either in the private rented sector (for example though exempt accommodation) or through more expensive forms of care. Any small-scale savings to the welfare budget would be quickly offset by the consequences of a reduction to the size of this important sector.

For further information, please contact [redacted]

[6] This would not be the case for certain types of supported housing where tenancy lengths tend to be much longer – for example housing for adults with learning disabilities. In this case the impact of a rent ceiling would be similar to that for general needs housing.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Savills
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	33 Margaret Street, London W1G 0JD
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Introduction

As the largest specialist advisor to the affordable housing sector, Savills has detailed professional insight into RPs' business planning, asset investment, stock condition, treasury management, corporate governance; as well as the requirements and practices of debt funders and equity investors. Our advisory services cover housing associations, local authorities and for-profit providers, as well as banks and other funders.

Our responses to this consultation seek to share our professional and technical insights into the likely impacts and consequences of the rent cap proposals.

Overall, we are concerned that application of a specific ceiling to annual rent increases, in addition to the existing CPI+1%, will restrict individual RPs' ability to develop optimal responses to economic and social pressures on their business, with a view to protecting capacity to pursue agreed strategic and business plan objectives.

We anticipate the following specific consequences of an additional ceiling:

- Net loss of resources in 2023-4 of £300-£700m for local authorities and £400m - £1.2bn for housing associations (primarily driven by inability to maintain alignment of income with increasing operating costs)
- A reduction in rent levels that is not fully recovered over the life of a 30 year business plan
- Increased pressure on debt interest cover, with need to reduce development, stock investment, staffing etc to protect this
- Cuts to front line services in some local authorities
- Rephasing and reprofiling of zero-carbon works, which can reduce energy costs for tenants once delivered
- Scaled back long term investment programmes, with a weakened response to the building safety agenda and some providers only able to meet statutory requirements
- Direct reduction in loan security valuation for properties valued on an EUV-SH basis, reducing capacity to support debt for investment in new and existing homes
- Indirect reduction in loan security valuation for properties valued on an MV-T basis, depending on provider responses to reduced resources
- An increase in the number of properties delivering poor and marginal financial performance over the long term, which indicates capacity being taken out of business plans over the longer term
- Reduction in ability to improve long term financial performance through active asset management, with the increase in scale of negative performance likely to be more than can be managed through active asset management
- Constraints on income available to support debt repayments at a time when the cost of debt has increased and continues to do so
- Changes to both management of debt, and cost of debt (arising directly from the additional ceiling on rent increases)
- Reduction in preparedness of funders to lend into the sector

- Reduction in FPRPs' potential to deliver £27bn of new private capital to help deliver more than 140,000 new affordable homes over the next 5 years
- Reduction in HAs' ability to raise £32bn in new finance to deliver building safety works, decarbonisation and 46,000 new homes per year at the Future Homes Standard over the next 10 years
- Depression in the development market, if the cap on rent increases is particularly low, calling into question the viability of s106 schemes for developers and causing planning delays and subsequent delivery delays; and requiring higher grant rates to support additionality on non s106 schemes
- Reduction in the number of participants in supported housing provision, and loss of capacity to fund new supported housing schemes.

Should an additional cap on rent increases be implemented, the following mitigations would offset some of the negative impacts:

- Setting the cap at the highest possible level, leaving discretion for RPs to work within this to optimise business plans and protect tenants
- A policy of convergence that enables providers to bring all rents back to target over a short fixed period
- Exemption for supported housing, to avoid disruption in existing provision and loss of capacity to deliver new properties

However overall we see RPs' contribution to economic growth being reduced by application of blanket constraints on rent increases beyond those already set by established regulatory requirements.

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
■No
☐Maybe

Comment:
<u>Application of a ceiling in addition to CPI+1%</u>
RPs must balance a range of factors when undertaking their annual business planning cycle. There are some differences in the factors, and in the weight given to them, between types of providers.

Fundamentally all are working with a long term business plan that is designed to support achievement of their strategic objectives. Providers will seek to sustain a course towards delivery of the long term plan, and they consider potential variances to income and expenditure in that light.

Rents (social rent, affordable rent, and shared ownership) are the largest component of most RPs' revenue. From this they manage and maintain rented homes, fund future development, cover staffing and office costs, and service debt.

These expenditure items are affected differently by inflationary pressures, and the extent to which their business plans are exposed to these components varies between RPs.

Applying a mandatory ceiling in addition to the existing CPI+1% limit constrains the ability of individual RPs to respond to inflationary pressures on their business with a view to protecting capacity to pursue agreed strategic and business plan objectives.

<u>Likely increases with no government-imposed ceiling</u>
Based on the support we give to RPs to prepare business plans; modelling undertaken for sector groups; and participation in discussion with decision makers in all types of RP, our sense is that a 2023-24 rent increase of 7-9% would be <u>required</u> for most providers to sustain current long-term business plans.

This would include planned levels of new property development, carbon reduction in existing stock, building and fire safety works, maintenance of the decent homes standard (and investment beyond that standard), community and tenant-support programmes, associated staffing and other running costs, servicing debt, and adherence to financial covenants.

Where providers had commenced internal discussions on potential 2023-24 rent increases before the cap was proposed, there was a widely held view that the maximum increase would not be taken if CPI was running high in September.

Work was underway in many organisations to explore business planning options, tenants' circumstances and rental affordability, preferences of board and elected members, and decision making parameters, in order that providers could make an informed decision about the 2023-24 rent increase that balanced the specific needs of their business/housing service and their tenants.

Current business plans tend to assume rental growth of around 2% or 3% at April 2023 and April 2024. A key challenge for delivery against these plans in 2022 has been that growth in costs has run ahead of assumptions across most key business areas. Employee costs, contractor costs, repairs and construction materials, and utility costs all ran ahead of assumed rental growth in current business plans this year. Inflationary pressures in these areas are set to be sustained (and indeed worsened) in the period 2023-2025.

Against a background of great uncertainty around official CPI forecasts in light of new government policies on energy costs assumptions in cost inflation, Savills' estimates for inflation drivers affecting RPs are stated below. There is consistency between these and up to date assumptions being utilised to inform security valuations for RP stock in charge to lenders.

	2022.23	2023.24	2024.25
Consolidated repairs inflation	7.40%	9.20%	6.40%
Consolidated management inflation	5.25%	16.40%	9.35%
Construction costs	7.00%	10.00%	7.00%

** All costs assumed to revert to CPI+1%; 3.5% pa increases from 2025 (aligned with rent increases)*

Therefore whilst a rent increase of above 3%, prescribed or otherwise, would increase cash income into business plans, at this level it would be far behind expenditure inflation which is overall running at or above CPI.

Looking at effects on income alone is insufficient for effective analysis of the impact of a potential cap on rent increases. It is the interplay between income and expenditure that affect the future financial viability of the business plan.

RPs are required to take local market context into account when determining annual rent increases, and consequently they have a focus on affordability to customers that is considered as a component part of determining capacity in the business plan to support strategic objectives.

Historically, elected members responsible for rent setting in local authorities are more likely than housing association boards to set an annual rent increase below the permitted maximum amount. Around 30% of authorities are understood to have increased rents by less than CPI+1% in April 2022. The consequence of increasing rent by less than the permitted maximum amount over time, combined with ongoing policy interruptions to in-tenancy convergence since 2005, is that around 80% of local authority rental portfolios are 'below target'. That means that rents are already below what could be charged for a social or affordable rent, with the consequent impacts on actual income and potential expenditure.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☒No
☐Maybe

Comment:

<u>Evidence of the potential impact of different % ceilings</u>
The Impact Assessment presents the rent increases "losses" arising from options for a ceiling as the difference between these and the projected level of CPI+1%.
As already stated, sector business plans have not been based on 10%+ rental inflation for 2023-24, and so this assessment is not illustrative of the impact on the sector position.

In addition, looking at the effects on income alone is insufficient for effective analysis of the impact of a potential ceiling on rent increases. It is the interplay between income and expenditure that affect the future financial viability of business plans.

We have undertaken extensive modelling looking at different types / groups of RP to explore the impact of the proposed cap on rent increases on their business plans and delivery of core services. We have also considered how below-inflation rent increases affect business practices that are central to operation of registered providers.

<u>Impact in the round</u>

The proposed cap on rent increases cannot be considered as a stand-alone factor. Its imposition at a time of rising operating costs, weakening housing market, highly pressured customer incomes, increasing cost of debt and financial instability contributes to challenging RP business planning in the round and sees significant capacity withdrawn from the sector.

Savills has assessed the net impact on business plans of increases in income (principally rents) at the rates set out in the consultation, alongside increases in expenditure as set out above.

This analysis establishes the net loss of resources for local authorities and private registered providers (HAs and FPRPs above 1000 homes). For local authorities it then expresses this as a percentage of all operating costs (management, maintenance and major repairs), and as a percentage of operating expenditure excluding major repairs. For PRPs it expresses this as a percentage of all operating costs and shows the resulting loss of interest cover.

Our overall assessment of the net impact of the proposed ceilings in the likely economic context of 2023-5 is as follows:

Cap level 2023-24	**Local authorities**			**HAs & FPRPs above 1000 units**		
	Net loss of resources	% of all operating costs	% of opex excl major repairs	Net loss of resources	% of all operating costs	Loss of interest cover (up to)
3%	£600-£700m	7-9%	10%+	£1-£1.2bn	9%	30bps
5%	£400-£500m	5-7%	7-9%	£750m-£1bn	7%	15-20bps
7%	Up to £300m	3-5%	5-7%	£400m	3-5%	5-10bps

When the net impact of a cap on rent increases at 5% is combined with increased financing costs, our estimate is that around 30% of all RPs may trigger “golden rule” reviews of their lending covenants and business plans. Programmes that combine revenue savings and reductions to capital investment are likely in response to such triggers.

Debt funding to the sector as a whole

Social housing properties are put into charge as security for debt funding, and the valuation of those properties affects the size of, and requirements for, that security pool. Where the valuation falls, more properties are required as security or alternatively other collateral must be provided. This reduces RPs' capacity to support debt.

The largest 250 RPs use around £86bn of debt to deliver their growing stock of 2.2 million homes; and both need and desire to take new debt to invest in new and existing homes is strong. Savills' 2020 analysis for the NHF showed that over the next 10 years HAs need to raise at least £32bn in new finance to deliver building safety works including sprinklers, decarbonisation and 46,000 new homes per year at the Future Homes Standard. Indeed, data from the Regulator of Social Housing's Sector Risk Profile shows that the sector's consolidated debt has increased rapidly over the last 5 years and is expected to reach £114bn in 2025-26.

Circa 40% of social housing against which debt is secured is valued using Existing Use Value for Social Housing (EUV-SH) methodology. This basis assumes the stock remains within the regulated sector in perpetuity, and consequently the variables affecting letting and management are central to the valuation. A rent increase cap implemented in a context of high increases in operating costs will have a direct negative impact on values derived using this methodology.

Savills valuation team has assessed likely regional impacts of the rent increase cap on EUV-SH valuations, and these have been agreed with other valuation houses. The table below illustrates the projected change in EUV-SH valuations, comparing April 2022 with April 2023 for different scenarios.

It shows that a cap on rent increases at 3% leads to a reduction in values in all areas other than London; and that a 5% cap leads to a reduction in values (albeit lower) in all areas other than London and the South East. A 7% cap supports positive change to values in all areas, although the upward movement is below 1% in the midlands, north west and north east. Actual valuation results will of course vary by RP and lender.

*indicative figures, actual valuation results will vary by RP and Lender

	April 2023 Rent Freeze	April 2023 3% Rent Cap	April 2023 5% Rent Cap	April 2023 7% Rent Cap
London	-1.50%	1.10%	2.30%	4.90%
South East	-3.60%	-1.32%	0.51%	3.70%
South West	-8.40%	-4.80%	-1.90%	1.20%
Midlands	-7.40%	-4.80%	-2.78%	0.10%
North West	-10.00%	-4.90%	-1.09%	0.33%
Yorkshire	-6.00%	-3.40%	-1.31%	2.50%
North East	-7.70%	-5.10%	-2.95%	0.90%

[redacted]

Around 60% of social housing is valued at 'Market Value Subject to Tenancy' (MV-T). Multiple factors have a bearing on loan security valuations conducted on this basis. There is no direct impact of a social rent increase cap on this type of valuation. What concerns us is the indirect impact if providers cut expenditure on stock, with underinvestment taken into account by a lender assessing future cashflows that would be associated with letting the stock in the open market. Alongside this, wider market conditions anticipated in the short term will have an impact, as vacant possession values and open market rents are expected to be under downward pressure as mortgage availability reduces and household incomes are squeezed.

Lenders take national rent policy into account when determining their appetite and practices for providing debt funding to private registered providers. Central to their appetite to lend to the sector are mortgagee in possession clauses applicable to MV-T valuations, which allow general needs rents to rise above regulated levels in the unlikely event that the funder calls in their security and becomes landlord of the properties. With this clause in place the rent increase cap does not impact on the rent levels that can be achieved in the event of a default, and therefore lenders' confidence is not affected in this regard. A government re-affirmation of the ability of lenders to apply and uphold mortgagee in possession clauses would be valuable to underpin lender confidence.

Where credit committees and credit rating agencies begin to lose confidence in the credit worthiness of the sector and/or a specific association, for example due to financial performance or concern about policy directions, the capital allocation required by lenders / investors will increase. This leads directly to an increase in the cost of debt for associations.

Current gradings of RPs by ratings agencies range from BBB to AA- (excluding Swan). On average the sector is rated at a low single A. If average ratings reduced to BBB+, the increase in debt costs would be in the region of 20-40bps.

<u>Long-term investment in housing stock</u>

When planning long-term asset management programmes and strategies, registered providers usually identify a hierarchy of investment to help them prioritise works and allocation of resources. First would be statutory requirements, then Decent Homes, and higher-up come discretionary works. Aspirational works described in the Social Housing White Paper, including investment in green spaces, neighbourhood design and energy efficiency, tend to fall into the discretionary tier. Where resources are squeezed, it is these higher tier items that are not delivered, with investment focused on health & safety requirements and basic components standards.

Providers have seen significant increases in levels of planned expenditure on stock condition in recent years, and anticipate these continuing in future. This has arisen from a combination of rising materials and labour costs; increased statutory standards on fire and building safety; and 2050 zero-carbon targets.

As a legacy of changes in the labour market, recruitment of permanent staff is challenging and there is upward cost pressure from short term contracts and recruitment/retention efforts. In the current year providers are facing challenges sustaining Decent Homes programmes due to third party risks, regardless of whether they deliver these programmes in house or contract out the work. Contractors facing rapid price increases are ceasing trading and requesting out-of-contract emergency price increases. Direct Labour Organisations are experiencing supply chain failure due to pressures on SMEs.

From January 2023, fire safety obligations commence and building safety cases have to be submitted to the regulator in 2023. There are costs associated with achieving compliance with these requirements, and these are strongly affected by current inflationary pressures.

Providers are anticipating an increase in Decent Homes standards following the ongoing government review; and are shaping large programmes to decarbonise their properties.

In the event of a rent increase significantly below inflation we would expect to see RPs scaling back long term investment programmes. Some will be able to meet statutory requirements only, with a weakened response to the building safety agenda. It also decreases the capacity of landlords to respond to short-notice policy announcements such as the recent requirements on carbon monoxide detectors.

It seems likely that phasing and profiling of zero carbon works would see changes as providers seek to respond to capped rental income and increased costs.

The figures involved – particularly for decarbonising the stock - are potentially very large compared to the scale of development programmes. At 2020 prices, Savills' detailed study of capacity for the NHF estimated that £20.0bn of investment would be required over the next ten-years to pay for building safety works from 2021-2026, and the initial phasing in of decarbonisation from 2026-2030. The cost of these works has been subject to significant inflationary pressure over the last year.

Our decarbonisation study, also completed for the NHF in 2020, indicated a base case cost of £35.8bn to achieve EPC-C by 2030 and then replace gas heating with heat pumps between 2030 and 2050. Expenditure on net zero impacts the ratio of EBITDA-MRI to interest costs, and even before inflationary pressures and the proposed rent increase cap, modelling showed that the sector would be unable to deliver a viable level of interest cover without policy and funding support if the required level of expenditure is deployed. Further pressure on business plans pushes zero-carbon capacity further out.

A fundamental point is that tenants benefit financially from zero-carbon works; with retrofitted properties much less costly to run than other homes. The gain on energy savings will be greater than the savings made on a capped rent.

Savills' illustrations showed clearly that development should not be substituted for investment in net zero, because it delivers income generating assets that support the business plan. We have already seen some providers pause on development while they assess their business plan position in the face of economic headwinds combined with the proposed rent increase cap. This is a sensible strategy that protects financial capacity at a time of uncertainty, but it is also one that delays delivery of much needed new homes. It also weakens the longer-term strength of the business plan.

Taking stock investment and new homes delivery together, our 2020 work showed that HAs would need to raise £32bn in new finance by 2030 to deliver building safety works including sprinklers, decarbonisation and 46,000 new homes per year at the Future Homes Standard.

Debt funding to individual providers

As described above, RPs have c.£86bn of debt and are on a trajectory to reach £114bn in 2025-26. This debt periodically needs re-financing, and additional funding needs to be raised. We anticipate that both management of debt, and cost of debt, will be affected by the proposed rent increase cap.

Debt is generally long term and around 80% is currently hedged i.e. at fixed rates, but providers will be exposed to rising costs when they need to refinance, and as they seek new funding. Savills estimates that 79% of funding will be hedged in 2023, as loans mature. The cost of funding has increased by 3-4% in the 12 months to October 2022. The significant shift in long-term interest rates as well as the volatility being experienced at presents means that the public debt capital markets have been effectively shut in recent months and so providers seeking new loans are increasingly seeking shorter-term liquidity solutions, which come with associated refinancing risks. Where providers are not well hedged against interest rate rises, they will face high debt pressures in the immediate term.

As already detailed, a rent increase cap combined with increased operating costs would constrain income available to support debt repayments; and this is being proposed at a time when the cost of debt has increased and continues to do so.

Housing associations are subject to covenants set by their lenders, and they apply their own treasury management policies to support good financial governance.

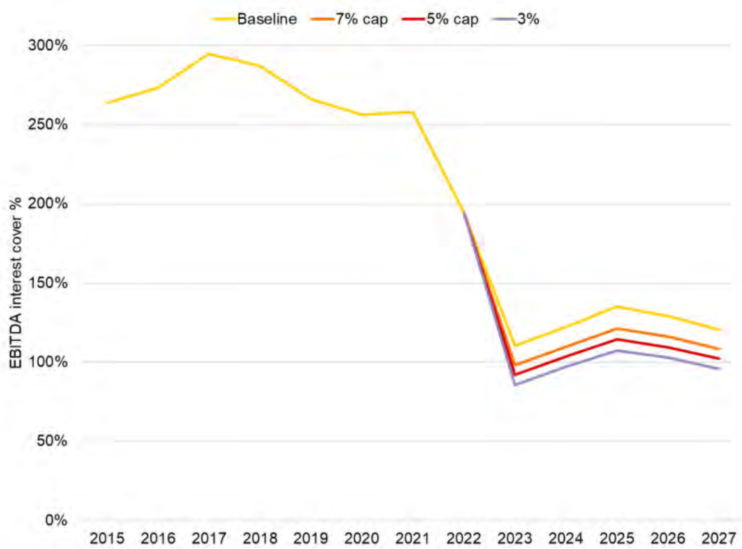
For housing associations robust financial governance, including adherence to their treasury management 'golden rules' and compliance with funder requirements i.e. performance against interest cover covenants, are key drivers in decision making around income and expenditure.

Housing Associations are in a mixed position in terms of funding requirements and exposure to interest cover pressures. Most had a balanced position where surpluses were generated to support future debt. However most HAs are now projecting that with the rent increase cap combined with increased costs they will get very close to (or in some cases breach) their treasury management golden rules relating to covenant risk in the next few years. These rules are a central tool in articulation of risk appetite and management of risk. To stay within these rules providers would need to pull back on development, repairs, zero carbon investment and staff costs. For zero carbon works this may mean delaying works, therefore putting 2050 targets at risk and delaying when tenants see the benefit of reduced living costs. Providers could also choose to amend their golden rules and take on more risk but lender and regulator views would have an important bearing on the acceptability of this approach, as would their capacity to manage the risk.

Our global projections show that the rent increase cap significantly weakens RPs interest cover, and that it will not be possible to continue with the planned trajectory of delivery whilst also complying with EBITDA-MRI covenants.

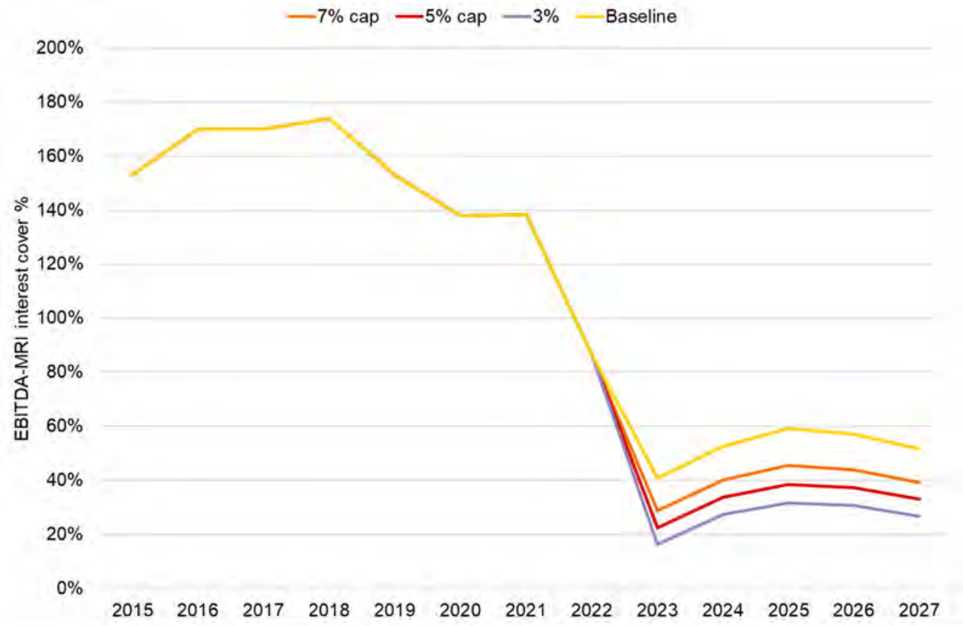
Our illustration starts from performance reported in the global accounts, and modelling capped rent increases along with higher interest rates and increasing operating costs alongside an output of 38,000 new homes and rent increases at CPI+1% from 2025

<u>Global EBITDA interest cover projected to 2027</u>



Source: Savills using Housing Association financial records, Oxford Economics

Global EBITDA-MRI interest cover projected to 2027



Source: Savills using Housing Association financial records, Oxford Economics

Fundamentally, individual providers' interest cover positions are key to how they do and can respond to the financial pressures faced. Flexibility around rent levels is an important tool to offset pressure on interest cover and thus sustain robust performance and strong delivery against business plan objectives.

We see continued negotiation with lenders for waivers on EBITDA MRI interest cover tests, linked to the high capital investment needs for building and fire safety and zero carbon works. In general lenders have been supportive these, as they see the value in these improvements to the condition of property against which their debt is secured. However agreement does depend on how strong the borrower is.

Waivers may be required if providers are pushed close to these covenants by a rent increase cap, but conversations about required waivers to address covenant pressures arising from a rent increase cap are more difficult – there is no positive impact to the stock and no social value to report to credit committees.

Across local authority providers, HRA business plans already showed insufficient revenue to meet investment requirements, and councils were arranging, or planning to arrange, borrowing to fund these works. They would arrange debt through the Public Works Loan Board usually over around 30 years on a maturity basis. Faced with a below-inflation rent increase and rising costs, together delivering £300-£700m less resources than had been included in business plans, local authority borrowing requirements increase further. However the cost of borrowing has increased rapidly over the past 10 months (50 year debt was at 1.66% in December 2021 and c5.7% on the morning of 12 October. As borrowing rates rise, the amount of revenue required to cover interest payments (usually half yearly) increases. Taken together, this reduces local authorities' capacity to use borrowing to cover revenue shortfalls.

Long-term financial performance of housing stock

RPs of all types seek to understand the long-term financial performance of their housing stock so that they can proactively manage their portfolios. Assessment takes into account rental income, management, routine maintenance costs, and capital investment requirements over a 30-40 year cycle; as well as various demand and efficiency factors.

Where projected long term financial performance is assessed as marginal or poor, we would expect providers to use asset management strategies to strengthen the financial performance of the portfolio. There are a range of approaches, including using investment, operational management, and disposal to improve performance. Providers carry out options appraisals on properties to assess which approaches are most suitable.

In the last 4 years Savills has modelled the performance of 620,000 properties; and we have applied a rent increase cap to this dataset to assess its impact.

The baseline (i.e. current position) is that c.25% of stock needs options appraisal attention to improve financial performance, due to 15% delivering a marginal Net Present Value over 30 years and 8% a poor NPV.

Working from this baseline we have modelled the effects of a 1 and 2 year rent increase cap at 3%, 5%, and 7%. Capping rent increases for one or two years at the start of this 30 year modelling period necessarily pulls properties out of the good performance categories and into marginal and poor.

A 1 year cap at 5% increases the share of stock delivering poor or marginal performance to about 33%. A 2 year cap at 3% drives that share up to c.44%.

An increase in the number of poorly performing properties indicates capacity being taken out of business plans over the longer term. In a steady economic climate this would mean more properties moving into options appraisal, with providers considering interventions that can improve performance or remove the drag on business plan capacity. However in the current market the tools to follow through proactively on options appraisal are less readily available.

If we apply these results to the current sector stock of 4.2 million homes, that would mean 186,000 additional homes needing options appraisal as a result of a 1 year 5% cap on rent increase. A 2 year cap at 3% rent increase would lead to 798,000 additional homes requiring options appraisal.

Trading of tenanted homes between RPs (stock rationalisation) is an established response to financial under-performance that facilitates improvement. The reduction of RPs' financial capacity for acquisition of tenanted stock arising from a cap on rent increases could hinder use of this tool.

In the current climate we may expect to see RPs making more void sales leading to loss of affordable stock from the sector due to the combination of an increase in the number of poorly performing homes and a reduction in tools to deal with these.

Alternatively we may see providers having to accept that a greater proportion of stock is not generating a surplus to support the business plan.

Overall the increase in scale of negative performance indicted by our modelling is more than can be managed through active asset management.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☒No
☐Maybe

Comment:

There has been much debate about the likely impact of recent government interventions on inflation. Our own modelling anticipates inflation on repairs, management and construction remaining high in 2023-25.

A two year cap simply compounds the impacts on stock investment, active asset management, and capacity to service debt outlined above. Together a cap and these impacts take further capacity out of the sector, putting pressure on delivery of core housing services and investment in existing and new properties that will benefit households financially in the future.

On this basis the need for mitigation of effects increases in line with the duration of any ceiling.

Whilst stating the policy position for two years would give certainty on the permitted decisions, current uncertainty in the markets hinders anticipation of the likely RP business operating context and assessment of the most robust tools to use in response. In that sense, constraint is likely to cause further concern.

Intervention in the framework that has attracted patient capital to the sector risks affecting the pricing and terms set by established funders to RPs, as well as the ability of lenders to raise funds to deploy. It could also undermine the “wall of capital” that has built up in recent years – new money that is beginning to increase availability of funding to RPs for development and investment activities. Our concerns about the effects of policy interventions on the availability of private finance are reflected in the BPF paper “Rent Policy and the Foundations of Private Capital in Affordable Housing”.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
■Maybe

Comment:

There are benefits in maintaining the ability to charge a rent for new stock that best reflects operating costs. However the benefits of ability to recover the rent level at relet of existing homes should not be overstated.

Some challenges do arise from introducing differential rent levels into property portfolios e.g. reputational risks of charging comparably higher rents to some tenants than others, possible operational risks of lower demand for these properties at relet, and the administrative risks of managing regulated rents incorrectly going forward when they do not all start from the same basis.

<u>New supply</u>
When determining bid levels, supported by assumptions about initial and subsequent rent levels, providers seek to balance competitive pressures with operational considerations.

Providers currently active in the acquisitions market form bids on the basis that rents will increase by less than CPI+1% in 2023-4 and 2024-5; with their reasoning being a desire to avoid reputational and operational challenges. In some areas Local Housing Allowance rates act as a cap on new build rents i.e. rents are set below what the Rent Standard would permit. LHA is not increasing at CPI, and so in some areas there will already be a limit preventing application of the policy exception proposed in the consultation.

The effect of both these factors is to depress prices somewhat. For providers, acquiring stock at lower value has a knock-on effect on the level of borrowing that can be secured against newly acquired property.

For developers, receipts are reduced. The effects of this on SME developers, who require site-by-site viability, will be felt more keenly than by volume developers who can spread variations in receipts across programmes.

Providers are already demonstrating that they wish to exercise restraint, without direction or a cap being in place, and are benefiting from ability to exercise discretion alongside their knowledge of the market.

Imposition of a mandatory ceiling for new build rents would cause difficulties. We anticipate that constraining maximum initial rents for new build properties at 3% above 2021-22 rates would have a significant negative effect on the market, calling into question the viability of s106 schemes for developers and causing planning delays and subsequent delivery delays; and requiring higher grant rates to support additionality on non s106 schemes.

Re-lets
Allowing rents to rise back to formula levels at relet has some benefit but does not enable RPs to capture the loss of net revenue even over the long term. Recovery of losses will be gradual and spread over decades.

We estimate that only around 75% of stock will be re-let in a 30 year business planning period. This is because a consolidated average of no more than 3-5% annual churn is experienced across the sector as a whole. In some cases, such as houses in London, rates of re-letting are considerably lower. Some properties will be re-let more than once in a 30 year business planning period, and some not at all.

A catch up process could be built into future rent regulation / rent settlement, allowing annual increases above CPI+1% for all tenanted properties for a fixed period. This assumes CPI returning to low single digits, and could be implemented in a context of cost of living pressures on households reducing. We have considered rent increase caps of 3%, 5% and 7%, and illustrated the associated catch up amounts and time periods required.

Assuming CPI+1% for April 2023 is 11%:

- Rent increases capped at 5%: average rent increases over a 5 year catch up period CPI+2.2% and over a 10 year period CPI+1.6%.
- Rent increases capped at 3%: average rent increases over a 5 year catch up period CPI+2.6% and over a 10 year period CPI+1.8%.
- Rent increases capped at 7%: average rent increases over a 5 year catch up period CPI+1.8% and over a 10 year period CPI+1.4%.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☒Yes
☐No
☐Maybe

Comment:
Supported housing is under particular pressure as the rent cap combines with increases in operating costs associated with running staffing-intensive services in often specialist buildings with communal spaces and facilities. There is little room to cut operating costs, as staff are often employed at minimum/living wage rates and it is not safe to reduce support service levels offered to vulnerable customers.

For smaller providers that specialise in supported housing, inability to align rental increases with cost increases looks likely to make their business unsustainable. We have already seen providers pause growth strategies (acquisition of tenanted stock) as they seek to manage balance sheet exposure to cost pressures.

General needs providers that have substantial supported portfolios have for some time committed to continue operation only as long as costs can be covered i.e. they are not prepared to internally subsidise their supported housing activities. Changes to revenue that push supported housing below a break-even position or moderate margin are likely to trigger withdrawal from provision.

Valuations for supported housing used as loan security will be negatively impacted by a rent increase cap, as the approach to valuation is different. Discount factors are higher for supported than general needs properties to reflect the higher risks to operating margin. Unlike with general needs properties, a lender would not expect to increase rents if they became a mortgagee in possession, and with limited capacity to reduce costs in this tenure values will come under downward pressure. This would require additional loan security to be provided where existing homes are in charge, and would affect ability to develop new supported housing.

Savills Affordable Housing Consultancy
October 2022

Rethink Mental Illness response to the Department of Levelling Up, Housing and Communities' consultation on social housing rents

October 2022

1. Introduction

1.1 - Rethink Mental Illness welcomes the opportunity to respond to the following consultation from the Department of Levelling Up, Housing and Communities.

1.2 - Rethink Mental Illness is the charity for people severely affected by mental illness. We provide expert information and services, and campaign to improve the lives of people living with mental illness, their families, friends and carers.

We are responding to this consultation primarily in our capacity as a provider of supported accommodation. Rethink Mental Illness operates 508 units of supported accommodation across the country. For 70% of these services, we act as a managing agent for properties owned by registered social housing providers.

1.3 – This response includes answers to questions two, three, four and five.

- Question 2: Section 2.2, 2.3 and 2.5
- Question 3: Section 2.2
- Question 4: Section 2.4
- Question 5: Section 3.1 and 3.3 (argument/evidence for this is detailed in response to earlier questions)

2. Key points

2.1 - We are pleased that the Department of Levelling Up, Housing and Communities is considering the impact of rising rents on social tenants, and considering options to support tenants during the current cost of living crisis. Mental Health UK's Mental Health and Money Advice Service report that many clients:

- have less cash to fund anything beyond necessities
- are increasingly scared to open their energy bills
- are presenting with complex financial challenges, such as being unable to afford basic necessities, that the service cannot offer long-term solutions for.

Those living with a mental health issue are one and a half times more likely to be renting than those without, and research by Mind[1] found that around one in three people living in social housing is living with poor mental health. For people severely affected by mental illness, increases in the cost of living will not only create new financial pressures but impact also on people's mental health. 86% of respondents to a Money and Mental Health Policy

[1] Mind (2018) 'One in three social housing tenants with mental health problems unhappy with home, making mental health worse'

Institute survey of nearly 5,500 people with experience of mental health problems said that their financial situation had made their mental health problems worse.[2]

2.2 - We are concerned, however, with regards to the potential impact of a rent cap at any level, and for any length of time, on the supported housing sector.

Our understanding is that the government's intention is for the cap to include the cost of service charges. In responses to **questions two and three,** the current soaring costs of utilities, we do not believe a cap that includes service charges within its remit is workable at any level or for any length of time for the supported housing sector, given the soaring cost of utilities. This has the potential to create significant knock-on impacts beyond those already identified within the consultation document, which are detailed throughout the rest of this section.

As well as the potential for registered social housing providers to have to find cost savings through things like reducing repairs and maintenance, there is also the risk that registered social housing providers will pass these cost savings on to the supported housing sector, who frequently act as managing agents for these properties for the purpose of providing supported housing.

2.3 - Moreover, the category of supported exempt accommodation was created with the acknowledgement that the costs of running such a service are higher than is the norm. We increasingly struggle as a provider to find suitable properties through which to provide our services, and are already observing registered social housing providers selling up their portfolios due to reduced financial viability. One registered social housing provider that Rethink Mental Illness acts as a managing agent for is selling all of their supported housing stock to focus on general needs housing only, while another offered the opportunity for Rethink to purchase two properties that we currently manage as they intend to sell. This creates instability in the market and for tenants.

2.4 - In response to **question four,** we agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let. A ceiling on maximum initial rent has the potential to stall the pipeline of provision of new supported housing. These were the impacts we observed following the implementation of the previous government's 'rent reduction' policy between 2016 and 2020.

2.5 - The availability of quality supported housing is essential for ensuring that people severely affected by mental illness are able to leave hospital when they are well enough to do so. This also frees up beds in inpatient mental health facilities, reducing the likelihood that the NHS will need to send people to a hospital outside of their local area. This not only supports people's recovery but saves the NHS money. According to NHS data, there were 65,050 days of delayed discharge attributable to individuals awaiting supported accommodation between July 2021 and June 2022.[3]

Established providers of quality supported housing already under pressure following the difficult financial environment created by policy changes over the past decade, such as the previous 'rent reduction' policy mentioned earlier in our response, and the removal of the ringfence for Supporting People funding in 2011 and the rolling of this funding into the local authorities' formula grant. Following the removal of this ringfence, funding for support and services previously provided through Supporting People fell by 69% between 2011 and

[2] Money and Mental Health Policy Institute (2022) The facts: what you need to know
[3] NHS Digital (2022) Mental Health Services Monthly Statistics – performance – June, provisional – July 2022

2016.[4] Pressure generated by a rent cap on the supply of quality supported housing also threatens to undermine commitments made in the 2021 Department of Health and Social Care white paper, ‘People at the heart of care’, to better join-up housing, health and care, and “boost the supply of supported housing.”[5]

3. Our recommendations

3.1 – In response to **question five,** we would support an exemption from any rent cap for properties that fall under the category of supported exempt accommodation. This should include all social housing properties that are leased from registered social housing providers for the purpose of providing supported housing, and those properties in which supported housing providers act as managing agents on behalf of a registered social housing provider.

3.2 - If this exemption is made, the Department of Work and Pensions must ensure that tenants living in supported exempt accommodation continue to be exempted from the benefit cap. The government must also uprate benefits in line with inflation.

3.3 - In making this call, we recognise that there has been increased scrutiny on supported exempt accommodation in recent years, due to the exploitation of this category of housing by unscrupulous landlords. As a well-recognised and respected provider of supported exempt accommodation for those severely affected by mental illness, we also broadly support the efforts of government and parliamentarians to introduce proportionate oversight by local authorities over supported exempt accommodation.

For more information regarding this response, please contact [redacted] – [redacted] at Rethink Mental Illness: [redacted]

[4] National Audit Office (2018), Financial sustainability of local authorities 2018
[5] Department of Health and Social Care (2021) People at the heart of care: adult social care reform white paper

Response to the Rent Consultation Paper

Deadline 12 October

Background

Doncaster Council has just less than 20,000 council houses, our rents are 9th lowest in the Country, a position we have pursued in order to protect as far as we are able the livelihoods and wellbeing of our tenants. We have very low operating costs and are a mid to high performing Authority. We have very low levels of Housing Revenue Account (HRA) balances and this is deliberate as we plan to spend our available resources for the benefit of our tenants, whether that is in day to day services or for investment in our stock.

Asks the following questions;

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Answer – Yes we agree that there should be a ceiling on rent increases for 2023/24 as these are very difficult economic times for our tenants. We want rents to remain as affordable as possible so that tenants are not at risk of losing their home or forced into extremely difficult choices between eating, heating or paying their rent.

The Council is considering carefully the level of rent increase for 2023/24 as this is also a difficult financial time for us as a landlord, with our average costs increasing overall by 10%. This includes pay inflation which averages at 7%, inflation on the cost of gas of 384% and increased contractor costs for maintenance and improvement works of 20%. All of our costs are currently increasing at rates higher than the increase in our income and at a time when we are trying to maximise and accelerate our investment programme.

We are targeting our investment programme on energy efficiency improvements for tenants as these will deliver savings in their utility bills, help more of them to pay their rent, sustain their tenancy and protect their wellbeing. Although there is a significant package of Government support towards utility costs at the current time, it is unlikely that this will be maintained indefinitely and therefore sustained year on year investment in energy efficiency measures should make tenancies more sustainable and affordable in the long term. The Council faces very significant costs to improve the energy efficiency of its 20,000 homes, and its investment programme could help more tenants more quickly if long term, secure Government grant funding was in place to complement our own substantial investment.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Answer – There is a very difficult balance to be struck on the rate at which the rent increase is capped, with competing financial pressures for both tenants' household budgets and our costs as a social landlord to maintain services and sustain the investment programme in our homes. Our preference would be for the rent increase to be as low as possible to keep rents as affordable as possible for tenants and that additional financial support should be available for social landlords to deal with their increasing inflationary costs and maintain investment which will protect tenant livelihoods in the future.

The impact of inflation in the current financial year of £2.5m has been met from Housing Revenue Account balances. Increased costs for 2023/24 are currently estimated at £8.0m (rent budget is £80m). If the rent increase is capped at 5% and costs are increasing by 10% then we will need to identify £4m of reductions in expenditure just to balance the budget for 2023/24. This has a long term impact on the HRA business plan, which is virtually impossible to quantify due to the economic uncertainty. Work undertaken for us by Savills has already identified that there is a £314m funding gap to complete the journey towards a net zero housing stock.

Without additional Government financial support for the inflationary cost pressures currently being experienced very difficult choices will have to be made on spending reductions on our homes and services

It is highly likely that one of the decisions we may have to take is to reduce capital expenditure. A significant element of our capital programme relates to thermal efficiency works; an issue that directly benefits tenants in terms of their energy bills and helps us address the carbon zero challenge. Reducing such investment will negatively impact tenants and undermine the government's intention to help residents with their energy bills.

The governments modelling of a 5% rent cap suggests that compared to following the normal rent formula tenants will benefit by £2.8bn over a five year period, the treasury will benefit by £4.6bn. Consideration should be given to allocating some of this potential treasury saving to social housing landlords for the purpose of thermal efficiency works, thereby addressing tenant poverty, the Country's energy dependency and the zero carbon challenge.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Answer - We think that the ceiling should apply for one year and that urgent action needs to be taken to review rents for future years including and beyond 2024/25 which takes into account the impact of the cost of living crisis for tenants and the impacts of inflationary cost increases for landlords. Medium and long term financial planning is crucial for us to be able to plan our future investments in delivering services, maintaining 100% decency, carrying out all essential fire safety work, improving the energy efficiency of our homes and investing in new Council homes to help meet the growing demand for affordable housing. This would also give more time to consult with tenants on their priorities and wider views.

Given the significant impact a rent cap (even one imposed for one year), will have on the HRA business plan, we would wish government to consider a variation to the formula in future years which enables the detrimental impact of a cap in 2023/24 to be addressed.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Answer – Yes we agree. Although there will be no impact of this for existing tenants, it does enable rents to increase for future tenants and goes some way towards addressing the financial gap within the long term business plan.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Answer – this question is not applicable to Doncaster Council as we only provide general needs accommodation.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Wrekin Housing Group Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Colliers Way, Old Park, Telford, TF3 4AW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

We believe that individual boards of Registered Providers are best placed to make decisions locally with regard to rent setting within the existing CPI plus 1% regulatory limit. Providers deliver a diverse range of services across different geographical areas, each with differing socio-economic characteristics and challenges (for example,16% of the areas we work in fall into the bottom 10% of the UK in terms of measures of deprivation), and we believe that a “one-size fits all” ceiling on rents is a potentially damaging tool. Whilst it may be seen as relieving short term pressures on households, it will have a significant negative long-term impact on current and future social housing customers in the form of reduced investment in existing stock (including on measures to improve the sustainability and heat efficiency of those homes) and reduced levels of development of new homes.

We believe that boards of Registered Providers will voluntarily set rents below the CPI plus1% limit, balancing the need to protect customers from potentially unaffordable increases with the need to maintain the viability of social housing businesses to enable them to carry on delivering high quality services. We believe that this approach is consistent with the co-regulation ethos adopted by the Regulator of Social Housing over recent years.

We have taken soundings from our customers with regard to future rent increases and potential rent ceilings and 52% of those responding agreed that rents were best set locally.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

If a rent ceiling is imposed we believe that 7% is the minimum level that would give Registered Providers the capacity to adapt their plans. Even at this level we will need to make savings and take difficult decisions about reductions in services for our customers, reducing investment in existing stock and the development of new homes.

It should be remembered that Registered Providers were allowed to increase rents by 4.1% for 2022/23 based on the September 2021 CPI figure of 3.1% under the existing agreed framework. However, CPI has been running at significantly higher rates than that ever since September 2021, meaning that Providers have already experienced a growing gap between income and costs.

We have already faced some cost increases that are higher than CPI (e.g. energy costs, the cost of materials for repairs and maintenance, construction costs on new developments) and there is also pressure on payroll costs both within our own organisation and those of suppliers and contractors (which feed through into higher costs for us).

At the same time, rising interest rates are making the cost of borrowing funds, to invest in existing stock and increase the supply of social housing through development, less affordable. The cost of borrowing, either via banks or via debt capital markets is at least double what it was just 12 months ago.

Any rent ceiling will be seen as "credit negative" by funders, reducing their confidence in the sector, making future borrowing more costly or more difficult to obtain, exacerbating the long term negative impact on the sector.

The potential impacts of ceilings set at either 3%, 5% or 7% on our business plan and therefore on our services to customers, before any mitigating actions are factored in, are:

<u>3%</u>

- Short term - [redacted]
- Long term – reduction in surplus of £69m by 2033 (equivalent of 500 fewer new homes developed, or 6 years' worth of expenditure on component replacements in existing stock, or 10 years' worth of expenditure on net zero carbon works) and £223m by 2050.
- The lost surplus by 2050 of £233m is more than the total predicted cost of the works needed to achieve net zero carbon

<u>5%</u>

- Short term - [redacted]
- Long term – reduction in surplus of £52m by 2033 (equivalent of 370 fewer new homes developed, or 5 years' worth of expenditure on component replacements in existing stock, or 8 years' worth of expenditure on net zero carbon works) and £168m by 2050
- The lost surplus by 2050 of £168m is virtually equivalent to the total predicted cost of works needed to achieve net zero carbon

<u>7%</u>

- Short term - [redacted]
- Long term – reduction in surplus of £27m by 2033 (equivalent of 250 fewer new homes developed, or 3 years' worth of expenditure on component replacements in existing stock, or 5 years' worth of expenditure on net zero carbon works) and £112m by 2050
- Even at this level of ceiling, the lost surplus by 2050 of £112m equates to 67% of the total predicted cost to achieve net zero carbon

Even after identifying a suite of mitigating actions (including delaying our development programme, significantly reshaping our care business, capping the staff pay award at sub-CPI levels and maximising shared ownership sales) there are still significant adverse impacts on the organisation's business plan and its ability to deliver services at current levels. These can be outlined as follows:

[redacted]

- Given the results above from the mitigations identified, any remaining shortfall will have to be made up by extending the useful lives of components (e.g. kitchens, bathrooms, windows etc.) within our existing stock, delaying investment in those properties by a number of years. This will no doubt create significant pressure in delivering against other regulatory requirements (e.g. Decent Homes) or regulatory reforms (Consumer Standards, TSM's) as well as delaying improvements that might otherwise ease pressure for tenants during this cost of living crisis, such as improved insulation or other affordable warmth measures.

- It should also be noted that whilst the above course of action resolves the immediate issues for 2023/24 and 2024/25, it does not address the compound effect of the lower base rent in future years. Even after the mitigating actions are taken, surpluses are reduced by between £27m and £63m over the period to 2033 (and between £96m and £207m by 2050), again calling into question the affordability of all or part of our net zero carbon programme.

Again, we have consulted with customers on alternative levels of rent ceiling. Unsurprisingly 62% of customers favoured a 3% ceiling. However, the fact that 38% did not indicates that, even amongst those customers that the ceiling is designed to help, there is a very real understanding of the impact that such a ceiling will have on services.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No

☐Maybe

Comment:

We do not believe that a ceiling should apply for two years to 31 March 2025. We have modelled the impact of a ceiling of 5% applied for two years through our business plan and the long-term impact on our viability under that scenario is more severe even than a ceiling of 3% for one year.

Whilst it is not likely that the September 2023 CPI figure will have returned to anything like the Bank of England long term target percentage, most forecasts are still suggesting that the inflation rate will drop quite quickly once it is past the peak, and so a CPI plus 1% increase for 2024/25 is not likely to be of the same magnitude as it would be in 2023/24. To impose a ceiling for 2024/25 rents at this stage would be premature.

Even if a rent ceiling is imposed for 2023/24, we would strongly urge that a new convergence mechanism is put in place to give Registered Providers the flexibility to make up some of the lost ground in 2023/24 by being allowed to increase rents by more than CPI plus 1% once inflation levels to return to long term norms, until such time as the gap is made good.

Given that the current agreed regulatory framework only runs until 2024/25, it would give the sector the ability to plan effectively for the long term if the framework for the period from 2025/26 onwards could be agreed as a matter of priority.

One further measure that would go some way to bridging the financing gap caused by a rent ceiling would be to implement a lower VAT rate on reinvestment works, particularly around the net zero carbon agenda.

73% of customers who responded to a recent survey feel that the ceiling should apply for two years, again unsurprisingly. However, 90% of customers have highlighted that our repairs service (and by extension our planned investment programme) is the one that is most important to them and a two year ceiling would severely constrain our ability to deliver that key service.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:

If the purpose of the proposed ceiling is to protect existing customers of Registered Providers from potentially unaffordable rent increases, especially as they are likely to have limited choice to move to other landlords, we do not believe that the same logic applies to new customers.

New customers, either when new properties are first let or when existing properties are relet, can make an informed choice about whether or not to accept a tenancy based on a rent that is either determined by an existing regulatory rent formula (social rents) or with reference to the current local rental market (affordable rents).

From a viability point of view, it is vital for us to be able to bridge some of the gap in our income, caused by the proposed ceiling, by retaining the ability to let new properties and relet existing properties at the rent levels they would have been let at under the existing regulatory framework before the impact of the ceiling.

86% of customers responding to our recent survey believed that the ceiling should apply to all properties, including those being relet or let for the first time. This was based on a feeling that this was fairer to all customers in that it would remove the possibility of neighbours paying different rents for similar properties. However, this situation arises already and would not be resolved by an “across the board” rent ceiling. Neighbours in affordable rent properties could be paying different rents depending on when they took on their tenancies and where the local rental market was at those points in time (against which affordable rents are set). Even neighbours in social rent properties could be paying different rents if one tenant was a long-standing customer whose property did not fully converge up to formula rent at the end of the convergence period and the other became a tenant on a relet, when the rent can be moved up to formula rent under the current rent standard.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:

We believe that supported and sheltered housing properties should be exempt from the ceiling, recognising that they already operate in a tight financial environment which already presents greater challenges to the viability of these services.

Organisation Name: Plymouth Community Homes, Plumer House, Tailyour Road, Plymouth, PL6 5DH

Response provided by: [redacted]

Contact details: [redacted]

Response to consultation on capping social rents for 2023-24

October 2022

Question 1: Do you agree that that maximum social housing rent increase from 01 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the Government did not impose a ceiling?

We agree that rents should stay affordable to tenants during these difficult times. If no ceiling were applied, we could cap the rent however when running a variety of scenarios through our business plan, this would impact our ability to carry out major works at the current standard (above the minimum decent homes standard) and have an impact on decarbonisation programmes. It would also have an impact on our development capacity, but to a lesser extent.

Our modelling shows that it is not the absolute level of rent that matters but the differential inflation between rent increases and cost increases. A 7% cap on rents would still be highly problematic if inflation were at 13%.

We would still give a below-inflation increase if there were no cap, probably around 2% below inflation which is our preference for a ceiling. This takes into consideration that our rents are some of the lowest in the country and even with an 11% increase only around 400 of our 14,000 rented homes would be above LHA. Thus, the rents would remain genuinely affordable.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Our preference is to impose a ceiling of CPI – 2% instead of a blunt ceiling as this considers the possibility that inflation may increase despite the Government's intervention with energy bills. With an imposed ceiling, when inflation increases this makes the gap between rents and expenditure ever wider and will eventually start to have an impact on services for residents. Most landlords' expenditure is on maintenance and development and inflation in this area is currently higher than 11% so this is already having an impact on budgets.

We have modelled 3, 5, 7% and 9% and 11% increases as stated in question one; it is not the absolute level but the differential inflation that matters. Its clear that a 3% cap would create a large gap to cost increases and obviously less-so with 5% and 7% but even an 11% cap will reduce investment capacity if inflation is 13% or higher.

Given the difficulty in judging where inflation is, we propose that the cap is CPI -2% which we believe would still allow us to maintain investment and have genuinely affordable rents for tenants.

This is what we have estimated as the reduction in investment spend:

	Cumulative Reduction on Investment							
	Lower Interest Rate & Lower Inflation					Higher Interest Rate & Higher Inflation		
		5 Years £m	10 Years £m	29 Years £m		5 Years £m	10 Years £m	29 Years £m
3% Rent Cap		0	0	0		-10,274	-41,068	-547,920
5% Rent Cap		0	0	0		-4,060	-25,661	-452,512
7% Rent Cap		0	0	0		0	-10,343	-357,338
9% Rent Cap		0	0	0		0	0	-267,902
11% Rent Cap		0	0	0		0	0	-179,678

We have evaluated the impact on our tenants given that rents will mostly be below LHA, then the rent should remain affordable for those on Universal Credit, however our analysis shows that single people working full time on minimum wage who are not eligible for Universal Credit will be hardest hit unless minimum wage also increases by the rate of inflation.

Case study 1 – a single person working 40 hours a week on minimum wage.

2022/23 – total income is £1,447.45 per month (take home pay after tax & NI deducted), there is no entitlement to Universal Credit. Their total minimum essential outgoings for the month are £1,321.92 which leaves them £125.23 per month for any non-essential spend e.g., repaying of debt.

2023/24 – total income will be £1,542.29 per month assuming that the minimum wage is increased to £10.32 per hour as expected but not confirmed. Their total minimum essential outgoings considering a rent increase of 5%, and other rises as detailed above will mean their outgoings increase to £1,385.24 per month which will leave them £157.05 per month for any non-essential spend. Although this is £31.82 more than this year, as we have only allowed increases across the board of no more than 5% and inflation was 8.6% in August, they are potentially going to be worse off than this year despite the increase in minimum wage.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 01 April 2023 to 31 March 2024 or do you think it should apply for two years (i.e., up to 31 March 2025)?

No, we do not believe that this should apply for two years. However, we do appreciate that there is responsibility on Boards to make sure rents are affordable as well as maintain levels of investment in their association's homes and so they will need to be mindful of inflationary increases in subsequent years should inflation remain high.

The Regulator must recognise that Registered Providers are subject to the same inflationary increases being imposed on the day to day running of our businesses as other private businesses, yet we cannot easily act to increase our turnover to cover these additional costs.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, but we believe this should go further. Over half of our homes are currently below the formula rent and due to the end of rent convergence, we can only bring our rents up to this level when a home is re-let. Most tenants stay in the same home for many years so this means that we cannot achieve full rent convergence at any point in the near future, unless the Regulator reintroduced the ability to increase the rents gradually on live tenancies. For PCH, whilst we can take steps to ensure viability with a rent cap, being able to achieve formula rents more quickly would mean that we could continue to deliver a large-scale major works and decarbonisation programme in addition to protecting the quality of services for residents in a more general sense.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments / evidence for this?

We feel that Supported and Sheltered Housing should be exempted from the rent cap due to the higher running costs of these operations.

Anthony Collins solicitors

RESPONSE BY ANTHONY COLLINS SOLICITORS LLP TO

THE SOCIAL HOUSING RENTS CONSULTATION PAPER ISSUED

BY THE DEPARTMENT FOR LEVELLING UP, HOUSING AND COMMUNITIES

This response is provided by [redacted] LLP (**ACS**), on behalf of ACS in our role as a nationally leading legal advisor to Private Registered Providers (**PRPs**) in England.

Address: 134 Edmund Street Birmingham B3 2ES

Email: [redacted]

[redacted] [redacted]

ACS acts for over 110 PRPs across England, several large local authority RPs and a number of arms' length management organisations. In the course of preparing this response, we have formally advised the National Housing Federation (**NHF**) on rent waivers and the proposed rent cap and discussed the rents consultation paper with over 20 PRPs with more than 500,000 homes in management (out of a total PRP sector of circa 2.8m homes).

We submit this response on our own behalf and not formally representing any of our clients, but with the insight we have developed through our work. The key objectives of our response are:-

1. Protecting existing social housing tenants from large one off rent increases at a time of major cost of living increases;
2. Delivering value for money for the taxpayer and public purse, acknowledging the public subsidy paid via social housing rents;
3. Supporting the need to provide safe, warm and affordable homes for future tenants that meet basic building & fire safety, Decent Homes and future EPC 'C' requirements; and
4. Preserving the confidence of private sector investment in the PRP sector, currently circa £120bn, to maintain long term sources of private finance at affordable rates

Consultation Responses

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not agree that there should be a maximum cap imposed in addition to the CPI+1% limit. With a long term rent settlement in place with government, it is PRPs and their Boards who are best placed to decide what future rent increases should be, balancing the needs of protecting existing tenants from one off high rent increases and future tenants who should expect safe, warm and affordable housing that have been appropriately maintained.

As set out below, based on our discussions over the last few months, if there was no specific ceiling then we consider many PRP clients would increase rents paid by tenants for 2023/24 by between 4% and 8% and use the rent waiver mechanism outlined below to 'catch up' on rent increases by 2% to 4% in future years. (This is subject to confirmation of the final CPI figure for September 2022). We consider this approach better meets the rent consultation paper's objectives as set out in more detail below.

Alternative Option: Rent Waivers

In June 2022, in anticipation of the likely high September 2022 CPI figure, we were asked to investigate a solution for RPs so they could limit the 2023 rent increase well below CPI+1% but not be restricted by the compounding effect on successive rent increases so that the rent increases could be smoothed over a few years. This needed to comply with the Government's Policy Statement on Rents for Social Housing 2019 (**Rent Policy Statement**).

In August 2022, we completed this initial work and, in the understandable absence of government proposals to revise the Rent Policy Statement, we consulted 20 PRP clients on introducing a rent waiver mechanism that protected tenants from very high one off rent increases but allowed catch up rent increases in future years and was legal and valid under the Rent Policy Statement. A rent waiver is a mechanism, widely used in the commercial property sector throughout the pandemic, where landlords and tenants agree a temporary discount to the rent until a future date when the full rent will then be charged. It fully delivers DLUHC's policy objective of protecting tenants from very high one off rent increases in a time of high inflation whilst not compounding the effect of a one off rent cap in future years.

Of the 20 PRP clients consulted (with 500,000 homes in management), 18 made it clear in principle they wanted to implement some level of rent waivers, thus protecting tenants and enabling rent increases to be smoothed over future years. Those few who did not want to progress the option indicated to us their rents charged were lower than other social housing rents in their geographic areas and so proposed to equalise social housing rents by taking the full rent increase.

As is true of an independent, charitable PRP sector, each organisation was considering how best to support their own charitable beneficiaries whilst safeguarding the long term viability of their organisations, as required by the RSH's Regulatory Standards. The (albeit anecdotal) feedback was that most RPs consulted, once they understood the use of rent waivers, were exploring headline rent increases of between CPI-2% and CPI and then proposing to give tenants additional 12 month rent discounts of a further 2% to 4%. The net result was, based on an estimated September 2022 CPI figure of 10%, the effective April 2023 rent increases paid by tenants would have ranged between 4% and 8% with rent waivers that enabled between 2% and 4% to be caught up in future years, depending on the PRP client. The rent waiver was also going to give PRPs an additional way of managing future inflation risks and an effective financial risk management hedge without being restricted to a "use it or lose it" annual rent increase of up to CPI+1%.

This is the approach we advocate for the government and the PRP sector in operating within the existing Rent Policy Statement and allowing individual PRPs to plan financially based on their own circumstances. PRPs are, by their very nature, organisations tasked with the long term stewardship of primarily charitable resources, maintained for the benefit of current and future social housing tenants.

We have formally advised the NHF on the implementation of rent waivers and their use by PRPs to smooth annual rent increases, including compliance with the Rent Policy Statement, charity law matters, welfare benefits, pre-existing funding terms and practical implementation matters. This advice is available to the government from the NHF or from us on demand to provide further detail.

Drawbacks of the Rent Cap – Compounding the Cap

The government should be extremely wary of the adverse impact of a rent cap imposed at such short notice on the long term financial stability of PRPs and the appetite of funders to continue to provide funding at affordable rates to the PRP sector. This is particularly the case bearing in mind DLUHC's own impact assessment that PRPs would lose £4.9bn income over 5 years due to the compounding nature of a 5% rent cap.

The rent waiver approach we have outlined above minimises such a compounding effect, likely reducing the loss of income over 5 years for PRPs to between £1bn and £2bn, subject to future inflation rates and decisions on how long the waivers should remain in place. Bearing in mind the not for profit status of the vast majority of the sector, the difference in this income would all be ploughed into investments in housing as part of the Government's domestic growth agenda, investing in the construction and green retrofit sectors in the UK.

Financial Situation of the PRP Sector

It is important to consider the financial situation of PRPs in the context of a proposed rent cap. The four years of negative 1% rent cuts from 2016 to 2020 have required significant costs savings and consolidation across the PRP sector with the RSH's own 2021 value for money analysis confirming that PRPs with more than 30,000 homes account for almost half (47%) of the sector's total social housing when, two years earlier in 2018, it was only just over one third (36%). Further financial constraints and pressures caused by increased investment need has resulted in further consolidation. Whilst we consider other responses to the rents consultation paper will provide more detailed financial analysis, we understand the current headline financial pressures on PRPs are:-

- the cost inflation we understand existing PRP clients are experiencing across their organisations are typically running at between 7% and 8% with development cost inflation running at higher levels. This is in the context of the April 2022 rent increases being capped at 4.1% so many are therefore already required to find 3% to 4% annual costs savings for 2022/23 to meet last year's shortfall;

- Building safety, fire safety and regulatory compliance matters are still major sources of required expenditure to address legacy issues that require material physical investment. The target for all homes being EPC 'C' compliant by 2030 is already putting further financial pressures on 30 year business plans; and

- Most recently since late September, forward interest rates for 2023 onwards means that most PRPs have been adversely impacted by the increased cost of borrowing. Our understanding from PRP clients generally is that, even with typically 85% of their borrowing at fixed rates, interest costs have increased for 2023/24, adding a further 3% to costs for a typical PRP.

If a rent cap is imposed then we expect major reductions in future spend on (1) achieving EPC 'C' standards across the PRP sector and (2) the development of future affordable housing as PRPs prioritise future financial viability. making the housing crisis in England even more challenging. The rent cap will reduce investment in housing infrastructure at a time when this could make material contributions to the growth agenda.

Bearing in mind the above factors, we consider the government has got the balance right in terms of proposing that target rents and initial rents should increase by CPI+1% and is consistent with the policy objectives of protecting existing tenants from high one off increases, maintaining the confidence of funders to the sector and investment needs in the interests of future tenants.

Conclusion

We consider the proposed rent cap imposes an inflexible limit on rent increases that many PRPs were already exploring in a much better and more nuanced way, some through the use of rent waivers in compliance with the existing Rent Policy Statement. By its very nature, the rent cap undermines the independence of PRPs, makes them more reliant on central government direction and destroys opportunities for smoothing rent increases across several years to converge back to underlying CPI+1% rent increases that PRPs rely on to underpin their financial investments. The government's own impact assessment shows the adverse compounding impact of the rent cap will undermine PRPs' abilities to maintain existing social housing and develop new affordable housing.

We consider the use of rent waivers provides a better solution under the current rent policy statement but, if the rent policy statement is to be revised with a rent cap, could be replicated by government explicitly providing for a convergence mechanism back up to overall CPI+1% increases after any one off rent restriction.

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We can only provide observations on this question based on conversations with clients so we expect more robust financial analysis to be provided by others.

We understand, prior to the movement in long term interest rates at the end of September, many PRPs were financially modelling the 5% rent cap and a small number were identifying core viability issues. With effectively an additional increase in long term interest costs of 3% pa in the last fortnight, we understand many more PRPs could be impacted by core viability issues to their organisations if a 5% rent cap was imposed. We understand anecdotally that more PRPs would survive with a 7% rent cap and it may give others the option to introduce a lower rent increase than 7%, whether or not a rent waiver is used.

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Bearing in mind the shortfall between the 4.1% rent in crease limit in 2022 and the costs inflation experienced by many PRPs in 2022 of 7% to 8%, we consider a two year rent cap may well undermine the long term confidence of lenders in the sector and result in materially higher interest costs. This could destroy financial capacity in the sector to meet future maintenance obligations and committed development spend and miss the opportunity for the social housing sector to contribute to the growth agenda.

In addition, the uncertainty of future inflation rates could result in a two year rent cap effectively stopping long term investment programmes until there is greater certainty over future costs inflation. This would be damaging to the general fabric of social housing and put future regulatory and building compliance at risk.

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Agreed. The policy objective to protect existing tenants from one off high rent increases is delivered. The requirement to address the future investment needs of homes to be safe, warm and affordable should be paramount for the social housing sector. This will allow tenants to "heat and eat": to live in their homes which they can afford to heat and have sufficient to meet their basic living needs. This approach also recognises the significant value for money delivered by the social housing sector compared with the much higher rents paid by tenants in the private rented sector, regularly for poorer quality of housing stock.

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Our understanding is that, if the rent cap applies to supported housing, many such schemes will not be able to remain open and supported housing contracts will be handed back to local authorities. There will be a greater detrimental impact on those who cannot live independently who will be required to move elsewhere and present as homeless, thus increasing likely overall public sector costs. We do not have direct evidence ourselves and refer DLUHC to other submissions.

Anthony Collins Solicitors LLP

12th October 2022

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	An organisation
What is the name of your organisation (if applicable)?	Homes for the North
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	NA
What is your email address?	[redacted]
What is your contact telephone number?	

Dear Sir/Madam,

The purpose of this letter is to provide a response to the current government consultation on social rent in England.

Homes for the North (H4N) is a coalition of 17 housebuilding social landlords in the North. Our 500,000 homes and many development sites are found in the heart of towns and cities from Bolton to Blyth and from Cumbria to the Humber. Our membership includes 11 Strategic Partners of Homes England. We are developers of significant scale, collectively building 6,000 homes a year. We boost the Northern economy by £2.5bn each year by investing in new homes, improving places and spending £1billion through local supply chains, supporting thousands of jobs.

Suppressing economic growth

The introduction of the proposed cap on social rents would be a new government intervention that would suppresses economic growth and make it harder for the social housing sector to secure private funding. Housing associations are adept at securing funding to invest in new and existing homes. Investors are attracted by our stable business model and steady rental income, backed by long-term government rent parameters. A decision to enforce a rent cap below the settlement agreed in 2019 would represent the second such decision in 10 years. Indeed, rents would have faced additional restriction in up to 8 years of the 10-year settlement period announced in the 2013 Spending Round. Our funding partners are telling us that this would materially impact the terms of lending to housing associations, significantly increasing the cost of future borrowing and deterring investment on favourable terms.

The record of much of the last 10 years is of government setting rents directly, rather than establishing an envelope within which housing associations can make decisions. There is a risk that extending this trend will prompt the Office for National Statistics to consider reclassifying social housing debt as public sector debt, with implications for the national balance sheet, debt-to-GDP ratio and market confidence.

Reduced capacity to build new homes and grow the economy

Social housing is countercyclical, unlike the rest of the housing sector. During a downturn we provide much needed capacity to continue investing in new homes whilst others reduce activity. Reducing this countercyclical capacity would risk prolonging any recession and delaying economic growth.

A rent cap, in addition to the agreed formula, will reduce capacity in our respective business plans. As proposed, the cap will not be a one-year cost reduction aimed at addressing the immediate cost of living pressures, but rather a deletion of capacity permanently across 30-year business plans.

Impact upon H4N member housing associations

Research among H4N member housing associations has shown that a cap of 7% would result in a 25% reduction in the development programmes of most. A rent cap of 3% would result in some members closing development programmes and most reducing them by 75%.

Most of our member associations are Strategic Partners of Homes England, collectively delivering almost the entire Affordable Homes Programme (AHP) 2021-2026 in the North. An additional rent cap as proposed would jeopardise the ability of Homes England and us, its partners, to deliver this key programme of investment, effectively cancelling or deferring a huge amount of economic activity due to take place in the North over the next two years.

In conclusion, any additional rent cap would deter private investment, defer new housing delivery and reduce tax-payer value from the Affordable Homes Programme.

Yours sincerely,

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	London Borough of Lambeth
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Lambeth Town Hall 1 Brixton Hill London SW2 1RD
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☒Maybe

Comment: We believe that a rent increase of CPI plus 1% would be unaffordable to our residents and we support the suggestion of a positive intervention from Government. We will always review a range of factors, including affordability, investment in our stock, services and borrowing requirements, when setting our annual rent rise within the rent formula. Included in previous years we have already had to absorb the full effects of the Covid pandemic as none of our additional costs in the HRA were refunded.

We believe that flexibility of how we apply a rent rise is important, as we would look at options to support and help our residents through these very difficult times. The effect of Brexit and then Covid on our supply chains and contractors labour and materials costs have had a marked effect on our cost base and our ability to absorb them to maintain services. All our costs are impacted by the rise in inflation and interest rates and are contractually linked to CPI. Our costs are rising but our income is reduced.

If a rent cap is applied uniformly, without flexibility and without additional funding from Government, this will have an instant and on-going effect on the HRA and our ability to fund services and borrow money to invest in our stock and to develop new homes.

Specifically, for example a 5% cap will reduce our 2023/24 revenue by £8.243m and £247.283m over the 30-year HRA. If that gap is not funded by Government, we will need to review our revenue and capital programmes for disrepair, building safety, investment in our aging stock and zero carbon retrofit programmes.

It is our view that the Government should apply additional Government support to bridge the gap and help maintain essential services and programmes. This can be done in several ways, but we would like to see a new “Decent Homes”programme particularly to address, fire compliance, building safety and net zero carbon retrofit. Other initiatives could include:

- **Revenue Funding Support** – to provide additional funding to cover the rent cap loss and protect future funding in the HRA
- **Capital Grant Support** – provide capital funding to support fire and building safety, zero carbon and fabric programmes for aging stock
- **Right to Buy receipts** – grater flexibility on use of that funding for grater use in the HRA
- **Public Works Loan Board (PWLB)** – reduced long term financing and re-financing loans to release funds via lower interest rates and allow investment
- **Catch-up Period** - funding solution over a period of years and mitigations for the effect on residents should rent increases apply and to mitigate the effects on the HRA.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☒Maybe

Comment: We are mindful that any increase in the current economic climate will be unaffordable to our residents. We also recognise, that without additional Government support, any increase below CPI+1% will have a detrimental effect on our HRA. We have highlighted the implications for 3, 5 and 7% caps below:

Impacts of Rent Cap on Rental Income (net of voids)			
Increase	Additional Income (£m)	Loss over CPI+1%	30-year impact of loss
CPI + 1% (11%)	15.497		
7%	10.002	-5.495	-164.855
5%	7.255	-8.243	-247.283
3%	4.507	-10.990	-329.710

We have particularly modelled the 5% cap as potentially being more acceptable (with additional gap funding from the Government) as a level that we can begin to mitigate our service delivery for residents. We would still need additional funds as outlined in question 1 to maintain all our commitments within the HRA.

Based on one year only and a 5% cap, this will reduce our 2023/24 revenue by £8.243m and have an on-going loss of revenue of £247.283m over the 30-year HRA. In order to meet the demands of our residents and the asset management of the stock, we would need additional funding and potentially a 10 year period of "catch-up" on annual rents alongside mitigations.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☒Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment: The suggestion of a one-year cap assumes that inflation should fall to lower levels by September 2023 and the rent formula should be more manageable at that time. However, if inflation should stay high and current predictions indicate that it will remain stubbornly high, we will need to re-examine the affordability for residents, the effect on the HRA and input from Government.

The two-year effect of a 5% cap for Lambeth would indicate a reduction in income of some £16m and a cumulative loss of £467m over the 30-year HRA. It is for that reason that we would not support a two-year cap but would reiterate that the measures outlined in question 1 would need to be deployed to allow these essential services to be delivered.

We would recommend that the Government looks at these measure to support and mitigate and includes a long term view on, at the very least, a potential 10 year catch up period for rent increases, supported by additional funding and mitigations for the effect on residents as outlined in question 1.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒Yes
☐No
☐Maybe

Comment: We agree that these categories should not be included in the proposed cap and the normal rent formular should be applied. This will mitigate the impact on next year costs and future effects on the HRA

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☒Yes
☐No
☐Maybe

Comment: We agree that other forms of rented housing, such as specialist and supported housing should not be subject to the proposed cap.

From:	[redacted]
To:	Social Housing Rents
Subject:	Social Housing Rent Consultation - Submission from Manchester Housing Providers Partnership
Date:	12 October 2022 14:52:15
Attachments:	0.png Rents_for_social_housing_response_template.odt

You don't often get email from [redacted]. Learn why this is important

To whom it may concern

Response to the consultation on a social housing rent cap

Please find below the response of the Manchester Housing Providers Partnership (MHPP) to the government proposals for a rent cap.

MHPP brings together 18 social landlords, who jointly own almost 70,000 Affordable homes within the city of Manchester boundary. This is the collective response of MHPP. The response is closely aligned to that of the GMHP which covers the wider greater Manchester area.

All the Social landlords in Manchester were already making a provision for a below the Rent Formula increase, with the understanding that it is our Boards that are responsible for the decision, with accountability to our tenants and the RSH.

We recognise the cost-of-living pressures for our customers of a CPI plus 1 rent increase and are proposing to decide that this would not be sustainable for the financial year 23/24.

We are not in favour of a legally forced cap as the implications for the businesses plans are different for each of us and across the sector, therefore each landlord should be responsible for their own decision.

Other general points we would like to make are that :-

- We agree that supported housing should be exempt from the rent cap as should service charges, as these need to reflect real cost.
- We also believe that the rent cap should only be for one year rather than two. This is particularly as the government believes changes in the economy will control inflation, and as such we should not need a cap in 24/25.

We are supportive of full rent being charged for re lettings or new lettings and believe this process could be speeded up by the return of rent restructuring.

MHPP also supports Manchester City Council in their response and shares concerns about the impact on the city as a whole and the delivery of city strategic priorities. In addition, the MCC ask that as the Treasury is the main beneficiary from a cap, with over 60% of the money saved reducing the benefit bill, that this saving should be made available to local authorities and Housing providers to mitigate the impact of the cap on business plans including grants towards zero carbon works.

Likely Impact

Any rent cap impacts on the issues below, the more severe the rent cap the greater the impact on business plans and government targets

1} Pressure to maintain decent homes standard, as Building Safety investment must be prioritised within reduced resources

2} It will make meeting targets on carbon reduction extremely difficult and the lower the cap almost impossible.

3} [redacted]

4} It impacts on our reputation and our credit rating with funders and investors which will impact on the cost of debt available to the sector
5} This will impact on the viability of existing new build schemes already on site which are already under strain due to inflation on construction costs. It will also impact on the viability for the schemes coming for appraisal
6} Retention of skilled staff will be more difficult
7} All housing providers in Manchester support their local area in purchasing and sub-contracting activity. A long-term reduction in income means SMEs and local businesses suffer as well as tenants not getting the improvements originally proposed.
This is a long-term loss to business plans , not just a one-year hit, and we are already subject to inflation as businesses on fuel, materials etc. [redacted]

Asks/mitigations
There are a number of things that could help protect vulnerable tenants, and also help mitigate the impact on the organisations and investment.
1} We believe there should be a Return to rent restructuring after 23/24 which would allow the sector to catch up more quickly on costs incurred due to the rent cap and to achieve strategic objectives around new homes and meeting demands of new requirements such as building safety.
2} We believe by lifting the benefit cap it would be advantageous in mitigating some of the above
3} We believe a lift in LHA rate would also be advantageous for the organisations to get back to full investment more quickly
4}We believe a reduction on VAT on major Capital works would also mitigate as above
We would therefore say any cap should be 7%, with Rent Restructuring returned and any of the mitigations above, to ensure minimal impact on Services and investment, but reflecting the current position facing tenants in terms of the cost of living.
Many of our members are submitting responses additionally in their own right.
Best Wishes
[redacted]

[redacted]
Manchester Housing Providers' Partnership
Mobile: 07826 946 086
[redacted]
Web: www.mhpp.info

Manchester Housing Providers' Partnership aims to bring together housing providers and Manchester City Council to work collectively integrating housing, transport, skills and education, health and social care. Our partners are responsible for approximately 70,000 homes in the local authority.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Innisfree Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	190 Iverson Road, London NW6 2HL
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

XNo

Comment:

A cap is not required as Registered Providers are best placed to make the judgement about rent increases and can best target the support tenants' need.

Innisfree would need to increase rents in that year, balancing the impact on tenants and the cost pressures within the services provided. Given the very high level of CPI, we would not apply a CPI +1% increase in that year.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
xNo

Comment:

As above, no ceiling should be imposed. However if a cap is imposed, it should be no lower than 7%. For Innisfree, any cap would reduce our ability to deliver services, including those to support tenants with the current cost of living crisis, our ability to invest in homes, including to achieve net zero targets, and our ability to develop new homes. It may increase our need to dispose of homes. There will be an impact on lender confidence and cost of borrowing that will further reduce our ability to develop new homes. The effect of the reduced new supply and possible disposals would be to increase welfare spending in the long term. The impact assessments show that the majority of savings would accrue as lower welfare spending and not to help tenants. These savings should be made available to landlords to reinvest in services, investment in existing homes and new supply. In addition, to limit the long-term impact on Business Plans and the ability to get back to reinvestment in existing homes and new supply, it is imperative that a convergence mechanism, such as CPI + 1% +£2, be introduced. The more certain and specific such a convergence mechanism is at this time, the better we will be able to plan to balance our obligations to tenants in both the short and long terms and the less severe will be the impact on our ability to borrow – in order to maintain our ambition to develop new homes.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
xNo
☐Maybe

Comment:

As above, no ceiling should be imposed and certainly not for two years

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

xNo

Comment:

As above no ceiling should be imposed but certainly should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent Homes are first let and re-let

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

xNo

Comment:

As above, no ceiling should be imposed. All forms of supported housing run on very low margins and would be disproportionately affected if not exempt from any cap.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Consortium of Associations in the South East*
What is your position in the organisation (if applicable)?	N/A
What is your address, including postcode?	1 Glory Park Avenue, Wooburn Green, Buckinghamshire, HP10 0DF
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

*About CASE

CASE is the Consortium of Associations in the South East. It is a group of large and medium sized housing associations with significant social housing activities in the South East of England. Our work is crucial in tackling the housing challenges in the South East region where house price affordability has declined at a greater rate in recent years than anywhere else in the UK.

CASE members own and manage over 500,000 homes predominantly in London and the South of England. Of these, around 165,000 are affordable homes in the South East, out of a total of just over 400,000 housing association homes in the region.

CASE members are also substantial developers, typically building over 4,000 new homes in the South East each year, of which the vast majority are affordable homes for rent or shared ownership.

CASE members are a major force for the provision of new affordable housing in the South East, and own and manage a third of the total of housing association homes in the region.
Collectively, we make significant investments which increase housing supply in the region, deliver safe and well-maintained homes for our residents and make

substantial contributions to local economic activity and employment through our work.

We all generate surplus which contributes to the funding of our affordable housing investment. We make long term financial projections based on this, including for the purpose of demonstrating to the Regulator of Social Housing and our funders our long term financial viability. The surplus we generate is not held as cash, other than to the limited extent of following good practice in maintaining sufficient liquidity for adequate periods to continue our business. It is reinvested in our housing activities, principally through the costs of building new homes and maintaining and upgrading our existing homes. This capital investment includes the costs of ensuring that our buildings meet safety requirements, and to make them more energy efficient.

CASE members are:
- Abri
- The Guinness Partnership
- The Hyde Group
- L&Q Group
- Moat Homes
- Metropolitan Thames Valley Housing
- Optivo
- Paradigm Housing Group
- Sovereign Housing Association
- Vivid Housing
- West Kent Housing Association

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

We agree that it would not be right to increase rents in line with what is likely to be an exceptionally high level of inflation in September 2022.

We think that the decision on the precise level of rent increases should be left to providers' Boards, who are better placed than the Government to determine the right balance between rent increases and investment requirements which will sustain our collective work to provide good affordable housing and services over the long term for more than half a million of the households in the region.

If the Government chose to leave Boards to set rents, we are clear that none of the providers in CASE would set rent at or near the maximum implied by the current formula. We are well aware of the cost-of-living pressures facing our residents, and the potential impact of rent increases for some of our customers. All of the organisations in the Group are providing substantial levels of additional support to vulnerable customers and those struggling to make ends meet.

We are also clear that setting a ceiling could reinforce the distortions in the current pattern of rents. For example, it could result in rents that are well below target rent levels increasing by less in nominal terms than rents set at target levels.

The absence of a means for rents to catch up over time with the level implied by the underlying formula (except for when properties become void) greatly compounds these problems. If the Government does decide to cap rent increases this year we would urge that it also introduces a mechanism that allows convergence over time. Options include reintroduction of the flexibility available before 2015 to “catch up” at rate capped at £2/week, or to introduce a system which allowed providers to set rents within a range (for example between 0% and 7%) up to the level implied by the relevant formula.

A mechanism along these lines would greatly reduce the long-term loss of income and consequential loss in investment implied by the proposals in the consultation.

We also note that a cap would not help most of our least well off residents who rely on welfare benefits. Instead, by reducing investment in measures to improve energy efficiency it could aggravate cost-of-living pressures for these customers.

Similarly, a cap, and in particular a cap without flexibility to converge back to the underlying formulae, will reduce providers’ ability to take steps to offset sharp inflationary increases in service charges and shared ownership rents.

Finally, we would observe that a cap will have wider ramifications for the economy. For example, it would mean providers reducing investment in new homes at a point in the economic cycle when housebuilders may also decide to slow down or stop development owing to unfavourable market conditions. This could have serious negative implications in terms of economic growth and the long-term capacity of housebuilding sector.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

Our view is that, as expressed in response to question 1, a cap should not be applied in the way proposed. If it is to be applied, 7% is a preferable alternative, because it will give providers more flexibility to respond in line with their circumstances and the needs of their residents.

CASE members have assessed the combined impact on their rental income from the proposed options, and the table below summarises that impact.

We want to emphasise that the impact of a cap, whether for one or two years, is a permanent effect on our long term financial capacity unless there are other mitigating measures, as rents would be permanently lower. This effect has already been applied to housing associations recently through the 4 years of rent reductions under the Welfare Reform and Work Act 2016. Many of our residents are paying rents which only returned to the nominal levels of 2016 with rent increases applied in 2021.

Estimated cumulative loss over:	**5 Years**	**10 Years**	**30 Years**
	£'000	**£'000**	**£'000**
Rent capped at 3%	1,245,389	2,823,800	11,281,508
Rent capped at 5%	961,842	2,061,270	7,647,645
Rent capped at 7%	674,142	1,477,348	5,193,267

It is inevitable that the removal of rental income at this scale from our long term financial plans will have an impact on our individual and collective financial capacity.

Our costs, both for the provision of services, and investing in new and existing homes, are increasing at or above headline inflation levels, with particular pressures on energy, construction, insurance and maintenance costs. The National Housing Federation's analysis of inflationary pressures, provided by CEBR, to inform responses to this consultation confirms the extent of inflationary pressures in excess of CPI in those areas of expenditure. It is inevitable that setting rents at a level below inflation will result in significantly reduced operating margin and less long term investment by housing associations.

Each of these scenarios has a different level of impact on individual CASE members' financial capacity dependent on their current position, but the impacts have the following common elements

Capping rents, given the wider inflationary pressures, will reduce operating margin and interest cover. This is the surplus which we apply to investing in building new homes and maintaining and improving the condition of our existing homes. Interest cover is a measure used by us and lenders to show the extent to which our operating surplus meets levels which cover the interest payments on our long term borrowing.

This also has an effect on the value of our homes. Some members use the value of future cashflows as the basis for balance sheet valuations. Reductions in the real term value of rents will reduce these values, and this will in turn increase the level of gearing (debt as a percentage of property value). Because our loan agreements generally specify a maximum level of gearing, this will reduce our future capacity to borrow. Similarly, rent caps are likely to lead to reductions in values used for loan security purposes, which could also introduce additional constraints around future borrowing.

Lenders and credit rating agencies will modify their views on our creditworthiness for the effect of the proposed cap, further aggravating the significant upward pressure on the costs of borrowing which have gone up very sharply already owing to wider market pressures. These risks would be compounded if increases in mortgage costs reduced the cashflows providers receive from the sales of property, including new build homes.

Inevitably the members of CASE will need to respond to a rent cap according to their circumstances. Examples of the likely impact of a 5% cap include:

- One CASE member has assessed that to remain within its required level of long term financial performance, it would build 200 fewer new affordable homes in a year (40% of its current programme), and another CASE member also indicated a comparable reduction in the size of their development programme of 26%-50% for the range of scenarios between 7% (lower impact) and 3% (higher impact) This would not affect developments which are currently on site, but would have a medium to longer run effect by reducing the number of new developments that are started once a cap is imposed.

- One CASE member estimates that it would reduce its interest cover by 5%, which would require it to reduce its revenue expenditure by approximately £6m/annum for which it would look to slow down the rate of investment in its existing homes and its programme to reach its net zero carbon targets, which would include works to bring existing properties up to EPC by 2030, absent grant funding to cover this cost

- For another CASE member, the difference in rental income compared with the CPI+1% formula is equivalent to the financial resources which it would use to build 560 homes over a 5 year period

- Deferral of fire remediation works, which could mean some leaseholders effectively stuck in homes that they will struggle to sell or re-mortage

- Increased sales of existing properties, particularly those properties that will be most expensive to bring up to a level consistent with the ambition to achieve carbon neutrality by 2050

The extent to which we reduce the number of new homes we build has a wider economic impact in the region. Housebuilding, in particular, is an economic activity for which economic benefits are greater than the overall cost of the houses built, and the additional value generated is, by its nature, retained in local and regional economies to a relatively high degree.

We analysed the impact of our investment in new homes in 2018. Whilst the precise figures will now be different, the scale of the growth benefits of our housebuilding plans remain at a similar scale. These growth benefits will be reduced by the effects of a rent cap, by a level equivalent to any reduction in our programme to build new affordable homes.

Across the area where we work, planned investment (in 2018) of £2bn in new homes was estimated to have the effect of generating additional value within the South East equivalent to a further £1.4bn.

Over a three year period, that level of investment activity adds over 23,000 jobs in the South East and generates income for employees in the South East of over £780k.

The additional jobs and earnings are significant benefits from our development programmes. This is over and above the extensive economic benefits that arise from the long term ownership and management of over 165,000 homes in the region.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

The cap should apply for one year only.

A two-year cap would compound the many problems outlined in response to questions 1 and 2.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☓ Yes
☐No
☐Maybe

Comment:

We agree but we would also observe that the underlying logic of this position also applies to the case for rent convergence.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓ Yes
☐No
☐Maybe

Comment:

We believe rents on supported housing schemes should be outside any cap. Many of the residents of these schemes rely on welfare support, so would not benefit from any cap. They are much more likely to suffer detrimental effects owing to risks around the viability of some schemes, and cuts to services in others.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Connexus Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Gateway Auction Yard Craven Arms SY7 9BW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Maybe

Comment:

Whilst, as an RP we take the affordability of our customers' homes seriously, we offer significant support to help our customers mitigate financial hardship through the deployment of specialist tenancy support / prevention teams, through the use of a hardship fund and through active partnerships with outside agencies to support, for example, with fuel poverty issues. To this end, whilst we accept that a CPI+1% increase could be hard for our customers, anything less than this could have a detrimental affect on our long-term plans to invest in our properties, particularly in relation to the SAP C agenda, and also on our ability to keep certain homes in our portfolio rather than dispose of them.

Nevertheless, our Board were already considering whether or not to apply the maximum increase, balancing our customers' economic circumstances with the business constraints and long term demands of the organisation. It is unlikely that Connexus would have imposed the maximum increase if the government did not impose a specific ceiling.

In addition, the government should consider the likely outcomes of this if no further support is provided to the sector:

- Reduced development in new homes
- Delays to SAP C and Net carbon zero work
- Reduced/delayed planned investment.
- Disposal of social housing to fund shortfall

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Maybe

Comment:

We have modelled a 5% cap as part of our business plan. Such a cap would take circa £2m out of our LTFF in the first year and circa £10m for the first 4 years (if cumulative) and cause us to:

- Delay SAP C works until 2023
- Dispose of up to 80 properties which will no longer be available to the social housing market
- Consider where we invest our resources – e.g. making changes to repairs expenditure or other services to customers
- Deliver on Decent Home Standard and not a better standard

We need income not only to invest in existing properties, build more homes and provide much needed services to customers, but also because we are having to manage the consequences of inflation and cost rises on our own business without, seemingly, the ability to pass on some of the costs. This will lead to a deterioration of our operating margin and make the organisation less attractive for funders to lend to us to develop homes.

Critical though is the cumulative effect of a reduction in the cap over the lifetime of the plan, so to reduce the impact for social housing providers a mechanism to catch up the difference between the rent cap and the CPI+1% could be agreed from 24/25 over a period of 5 years (for example).

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Maybe

Comment:

If rents are to be regulated by government, the most important aspect is for social housing providers to have as much certainty in income as possible to allow long term planning. Any potential ceiling for financial year 23/24 or 24/25 is breaking a commitment to a CPI+1% increase that social housing providers have already factored in, in the belief that it was a commitment from government. Therefore if a 2 year ceiling is applied, it is important to state that now, so that providers can plan for that situation.

However, a more sensible approach would be to offer a voluntary cap to social housing providers in 24/25.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

Comment:

Supported housing should be exempt as the cost of running this is more expensive due to the high staff to client ratio and the costs of staff recruitment and retention.

In addition, whilst there is an argument that the cap can apply to the *rent* element of affordable rents it should not apply to the *service charge* element.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Eastlight Community Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Eastlight House, Charter Way, Braintree, CM77 8FG
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

■**No**

☐Maybe

Comment:

We believe that our Board is best placed to decide what level of increase is sustainable for Eastlight's tenants. We have carried out affordability analysis to understand better how our tenants might be affected by increases at different levels. This puts us in a good position to target our resources to make tenancies sustainable, while continuing to invest in the long-term growth and sustainability of the homes and services that we provide, which ultimately benefits both current and future tenants. We are still assessing the level to which we would raise rents if no cap is applied – the variables to consider continue to change as we learn more about government policy (e.g. household energy bill caps) and wider market indicators (e.g. cost inflation and interest rates).

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

■**No**

☐Maybe

Comment:

No. We expect double-digit inflation for our cost base. Any option that imposes a cap on rents that is lower than inflation will lead to a weakening of our operating margins and this will have a knock-on impact on the quality and quantity of affordable homes and sustainable tenancies that we can provide. If there is to be a cap, then we would prefer it to be set high. We can live with 7% but would prefer either no cap or a higher cap.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

■**No**

☐Maybe

Comment:
If a cap is applied, we believe it should be for one year and that we should have the ability to catch up the lost revenue to reduce the long-term impact on the quality and quantity of affordable homes and sustainable tenancies. While we disagree with a cap in principle, the economic forecast is so volatile, complex and uncertain that it is too early for us to say what interventions, if any, might be appropriate for the year starting 1 April 2024. We are also mindful that the current rent regime of CPI+1% ends in 2025 and we do not yet know what will come afterwards. It is critical, both for our own investment plans and for the confidence of our external investors, that we have as much certainty as possible that the future rental income generated by our assets will maintain at least as strong a link to inflation. Otherwise, this will risk making our

investment plans riskier and less viable, and risks seriously damaging the attractiveness of Eastlight and the wider sector to the investor community.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes

■**No**

☐Maybe

Comment:
On balance we agree with this. However, we would like to point out that the current system is complicated, lacks transparency and this proposal adds further complexity and complication. Explaining to neighbours in the same street why their rent is different for seemingly the same home is very difficult to do with credibility. We would strongly support the Government to simplify rent policy for the post 2025 period and stand ready to work alongside you on this.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

■**No**

☐Maybe

Comment:

We feel supported housing should fall outside of any cap due to the greater day to day costs of sustaining tenancies for people with care or support needs and the importance of being able to retain front line colleagues providing care and support services. The viability of supported housing is already under considerable pressure with many providers being reluctant to build new supported housing, and we feel a cap on rents would make this situation worse.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Stockport Council and Stockport Homes Group
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Cornerstone, 2 Edward Street, Stockport, SK1 3 NQ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:
Stockport Council and Stockport Homes Group (SHG) have always put the wellbeing and needs of tenants at the heart of our decision making. In previous years, when opportunities existed to raise rents to maximum limits, this was not always the default position in the Stockport approach – it has always considered carefully the balance of tenant affordability versus financial investment needs into the stock. This demonstrates an approach that considers social impacts as well as financial. In this vein, the Council and SHG do agree that there should be consideration to the

impacts of cost-of-living and inflationary pressures on social housing tenants, and the need for some protective measures is understood. Our tenants are facing cost increases that are outside of their control, and that are unlikely to be matched by corresponding income increases. However, imposing a cap that is "one size fits all" presents other consequences that should be considered. Rent levels vary, quite considerably, across different authorities. HRA Business Plans and RP Business Plans are all unique, in terms of where they previously were under the old rent restructuring regime, what debt levels they have, and how much stock they have, as well as the archetype/age/demographic of that stock. In monetary terms, a 5% cap will vary in £'s and pence to individuals in different areas across the country. Landlords know their tenant base the best, and can link decision making to investment outcomes in their business plans. We therefore feel a "one size fits all" rule, whilst we acknowledge some controls are required, could be more detrimental to some than others. Another option would be to allow authorities and RPs to continue to set rent levels locally, within a wider tolerance. In Stockport there are well-established democratic and consultation processes in place. In this scenario, the 7% cap would offer more scope to apply those local decisions more meaningfully, for example some low rents may have 7%, higher rents 3%, with the monetary impact taken into account. One further option would be for the Government to apply a cap directly to the formula rent, thereby allowing some flexibility considerations for those rents not at target, whilst ensuring an overall cap for those already at target rent. If the government did not impose a specific ceiling it would be highly unlikely, politically or ethically, that rents would increase by the predicted CPI. A local cap would in all likelihood be set, possibly around the 5 – 7% range.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

As mentioned above, a 7% ceiling would offer more scope for applying some local decision making. Given the inflationary impacts of costs with the Business Plan, the impacts of the rent caps are significant. A 3% cap equates to £36.9m lost out of the 30 year BP, 5% equates to £21.1m, and 7% equates to £8m of lost investment capacity. We would not be supportive of a 3% cap, clearly due to the amount of investment lost and the fact that this would leave rents with a further jump needed to ever catch up. [redacted]. A cap, with no plans to "catch-up", will severely limit aspirations and deliverability for meeting targets on carbon reduction and will risk the ability to maintain the decent homes standard as health and safety obligations will naturally be the priority. Budgets for security and other estate investments will be lost.

New build schemes will become unviable as we are already seeing some schemes becoming potentially undeliverable due to significant increases in construction costs. All these pressures are against a backdrop of pressures in other areas, there are unprecedented pressures and rising costs around homelessness, managing voids, and the need to support and accommodate refugees for example. Wider consequences include the impact of credit ratings on the sector as a whole and the corresponding impact of debt costs and debt availability as a result. It is also highly likely that the sector will see a marked increase in arrears, given the cost of living crisis and soaring energy costs, which adds more pressure and potential lost income to the HRA. As the impacts of a rent cap are compound and have long term consequences, Stockport would welcome some assurances about how the lost rental income could be made up over time, by way of a number of "asks". We ask that consideration is given to allowing future rent increases to catch up to recoup the income lost as a result of a rent cap, such as the re-implementation of rent restructuring post 2024. Other options would be to lift the benefit cap and LHA rates, reduce VAT on capital investment works, and, more immediately, ensure service charges remain outside of any caps and can reflect the real cost. We also ask that consideration is given to establishing a mechanism for providing compensation for the loss of income and therefore investment capacity for the assets contained within the HRA without which ambitions for the maintenance of decent homes will be put at risk.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Given the significant impacts on HRA Business Plans and the continued uncertainty and volatility in the economy generally, our view would be that it would seem too pre-emptive at this stage to make a decision that has such significant consequences, when there is still so much uncertainty. The two year impacts for Stockport are increasingly significant from the one-year cap – a 5% cap for two years would equate to £64.6m lost investment availability (3% at two years is £97.6m lost; 7% at two years is £30.9m lost). Other measures/external factors may change the landscape again and it would seem sensible for a decision on any further rent caps to be kept under timely review. It would also allow time for more consideration of allowing landlords to retain local rent setting and how this could work, enabling a more equitable approach across all tenants, rather than a blanket approach that penalises some more than others in terms of lost investment to their homes and estates. It would also allow time for consideration to be given to some of the "asks" listed in question 2 above to be considered.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

Yes we agree with and welcome this approach.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:
The Council and SHG feel that supported accommodation should be exempt from the rent cap. Over recent years there has been a reduction in supported accommodation and therefore much needed provision nationally, due to other changes to funding systems. Those projects remaining in Stockport operate on tight margins and a cap would impose severe strain and potentially make them unviable, in either the short, medium or long term, leading to hardship for individuals in increased costs for the authority in seeking to meet needs. This is at a time of unprecedented demand and costs around homelessness such as; with the exit from the Covid pandemic measures (around halting evictions) leading to a backlog of section 21 cases, duties to various refugee groups, and to rough sleepers, amongst others.

By definition, residents in supported housing schemes have greater support needs and the vast majority are in receipt of benefits that meet their housing costs and so would in the majority of cases not be negatively impacted by an appropriate rent rise. These rents are also already tightly regulated.

With rising homelessness (17% increase in households presenting in just one year in Stockport), an increasingly aging population and greater numbers of refugees accommodated, the demand for supported accommodation continues to increase in our borough, a cap would impact on current provision, and certainly the ability to increase supply. Additionally, new schemes for care leavers and other groups to whom the local authority has responsibilities, would be at risk.

Many of our supported and sheltered accommodation schemes offer long-term, low level support to residents which ensures they sustain their tenancy successfully and prevents tenancy breakdown and homelessness. The costs of homelessness to the public purse and to the individual life chances of the person or family involved are well documented. For a fairly modest investment in supported accommodation supported by a commitment to not applying a rent cap to this important form of provision, providers will be able to continue to deliver specialist schemes which are an essential part of a diverse economy of accommodation. The preventative value of supported accommodation schemes is also well documented, for example reducing or delaying the need to access statutory services including Adult Social Care and Health – by imposing a cap which threatens the sustainability of such schemes, there is a risk that much higher costs will be incurred elsewhere within the system such as through increased presentations at A & E, longer and more frequent hospital stays, higher numbers requiring care either at home or in residential and care homes etc.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Tendring District Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Town Hall, Station Road, Clacton, CO15 1SE
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

Comment: We were looking at a 7% increase as being the optimum, enabling continued investment in the stock whilst not imposing a full CPI increase on our tenants. With all this we must be mindful that as a landlord our costs are increasing in line with inflation and any cap on rents will negatively impact on our ability to run the Housing Revenue and Account and investment in our existing housing stock to maintain standards.

We are now looking at whether to withdraw from any new build or property acquisitions for the next few years or until the position settles down.

Could a method to smooth out the need to increase rents be introduced, giving housing providers the flexibility to increase rents above CPI + 1% once the ceiling period has ended?

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐**No**
☐Maybe

Comment: Whilst a ceiling of 5% is workable and just about keeps us in balance with anticipated inflationary pressures on salaries and maintenance contracts, etc. a ceiling of 7% is preferred providing some leeway in the Housing Revenue Account to continue with investment in the stock.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐**Maybe**

Comment: Perhaps a view needs to be taken on the broader fiscal position at this point next year. That said, certainty around the level of cap or ceiling to be applied will support advance budget setting, etc..

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐**Yes**

☐No
☐Maybe

Comment: We agree that this should be the case, the rationale being that an existing tenant is not impacted and an incoming tenant can make a decision on whether the rent is affordable for them.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐**No**
☐Maybe

Comment: Exceptions could cause more operational difficulties for teams administering rents, etc..

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	A collective organisation
What is the name of your organisation (if applicable)?	Community Housing North West CHANW
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Gateway, 89 Sankey St, Warrington WA1 1SR
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?

☐Yes
■**No**
☐Maybe

CHANW represents 19 of the North West small housing associations, who between them own and manage around 15,000 properties. The consensus amongst CHANW members is that rents should continue to be left to the discretion of Boards. Housing associations are disparate businesses, those with development programmes for new build and specialist providers of supported housing and those who have a high concentration of demands due to stock profiles and safety are especially affected by the proposals. A significant number of CHANW members fit into some or all of these categories. Only individual Boards have the knowledge and understanding to weigh up the complex issues involved in terms of investment demands and the needs of their customers and should be allowed the discretion to make their own decisions.

The Government needs to recognise that the costs of providing services and investment in homes is rising rapidly, and that the economic climate is extremely uncertain. Cost and affordability pressures on our business plans already exist without additional draconian rent caps. However, the Government should also recognise that small community-based organisations like ourselves would not make decisions without considering very carefully the potential impact for our customers.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

A number of our members have yet to agree the details with their respective Boards in terms of cost and impact. However, the overwhelming response is that the small housing sector would **NOT** look maximise rental income for 2022/3 through applying a full CPI+1% increase.

As small RPs, working directly alongside the communities we serve, we are fully aware of the impact the cost-of-living crisis is having on our customers. We are committed to supporting this agenda and most of us already provide additional targeted interventions to support the most vulnerable. It is for this reason why we strongly believe that finding the right balance of rent increases, support for customers and the financial demands for individual small RPs should be left to the discretion of individual organisations.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling?**

☐Yes, you agree with imposing a ceiling of 5%
■**No**
☐Maybe

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

The evidence is clear that the compounded impact of any rent restrictions for the small housing sector would be significant. Rents are our primary source of income and for some of us our only source of income. Set this alongside ongoing inflationary pressures and the increasing demands and expectation of regulation, this is a significant challenge, particularly over the long-term life of our respective business plans. By way of example:-

- FHA would lose over £141,000 from its current business plan if a 3% cap was applied, and £105,000 at 5%.
- Based on a 5% cap, Warrington Housing Association would lose £350,000 over the life of its current 5 year Business Plan. Next year alone this would reduce WHA's surplus by 20.52%. It will also potentially impact on our capacity to deliver our planned 100 new homes.
- One of our members has estimated that if the cap was set at 5% they would have to make approximately £500k savings and this wound need to be made directly from their existing development pipeline, and for each 1% a further efficiency saving of circa £120k would have to be found.
- As a specialist older persons housing provider, Alpha Living have estimated that over the life of their 30-year Business Plan, a 5% rent cap would reduce their income by £10 million. –Next year alone this would reduce their surplus by 21.4%.

Members of CHANW are consistent in their views that over the long term, an imposed rent cap would affect the sectors ability to continue to build new homes and invest appropriately in existing stock.

Those whose focus is on their existing stock have noted that any rent cap would significantly affect future surpluses which are necessary to build up funds to deliver capital works. This work is much needed, not only in terms of affordable warmth and our move to net zero, but also from a safety perspective. Further to this, the introduction of the new Decent Homes standard will already be very challenging and further compounded by a rent cap that is significantly below inflation.

If a ceiling is to be applied it should be set as high as possible to give individual Boards the discretion and responsibility to find the right balance of increases relative to service impacts and growth demands.

Further to this, if a ceiling is applied, the specific impact on the small housing sector needs to be considered and further financial support offered by Government in respect of supporting our agenda's linked to growth, decarbonisation and health and safety.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

■**Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024**
☐No
☐Maybe

First and foremost, we believe that the ceiling should not be applied at all. Individual RPs should be trusted to manage their own businesses and balance business demands with the needs and expectations of their customers. However, if a ceiling is to be applied then it should be for April 23 – March 24 only. It is too early to be able to predict the inflationary rate for a second year, so any agreed ceiling for April 2023 may no longer be appropriate. Rents beyond 2023/24 should be the subject of a much more informed and nuanced debate which takes into account the investment needs of social housing.

We are disappointed that the consultation paper only addresses the potential treatment of rents for the next 2 years. It would be extremely helpful to at least have some indication of the likely direction of rent levels beyond this timeframe. Our assessment of new build developments typically appraises over a payback period of 30 or 40 years. Rental income is a key component of our appraisal model. If the intention is to restore rents over time to their real-terms 2022 levels, this makes the appraisal of development much more straightforward and reduces risk for the provider.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

■**Yes**
☐No
☐Maybe

At least this will assist in maintaining the income on lettings that we complete within the year. Also, differential rents already exist across our properties so it will not cause any new challenges or issues. However, it needs to be acknowledged that this will not make a significant impact across the small housing sector. The majority of our properties are well looked after and well maintained and for most of us, void turnover in any given year is low.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

■ **Yes**
☐ No
☐ Maybe

We feel that supported housing should be exempted. While the majority of CHANW members do not directly provide supported housing, we are aware that it operates to much tighter margins principally because of the intensive nature of housing management services and the additional facilities needed in buildings and a rent ceiling could have a much greater impact resulting in potential viability issues for individual projects and potential closure. To compound this further a significant number of employees will be paid at the Living Wage level which is due to increase by 10.1%.

There is some argument to suggest that affordable rents should be exempted, given that they are inclusive of service charges and therefore result in a compounded impact for RPs

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Westmoreland Support Housing Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Cumbria House, 147 Trent Boulevard, West Bridgford, Nottingham. NG2 5BX
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☓ No
☐Maybe

Comment: Several aspects: (1) During a cost-of-living crisis, it is essential that an individual's home – their place of safety – is itself kept safe, secure and well maintained. Within 'Rent' is included all costs required to ensure this, costs which are inflating significantly and quickly. Landlords responses are already challenged due to supply chain availability and cost pressures created following Brexit and utilities costs due to the wholesale markets response to the Ukraine war; a top-down forced reduction in income to support these inflating costs is likely to result in – at least – a delay in non-safety related property investment and – at worst – landlords being unable to fund essential safety works, or health and safety remedial activities. Inability to fund such works also impacts the supply chain availability and efficiency. To illustrate, WSHLs repair and maintenance costs have doubled over the last 12 months, energy costs have increased by 86%, insurance by 10%. Smaller cost lines have increased by 5-16%. (2) A period of constrained income, whether one or two years, creates a forward finance gap that cannot be recovered without a specific convergence mechanism (e.g., an ability to derogate upwards from the CPI+1% policy at a later stage). This impacts longer term property investment, business results and long-term financing costs. (3) A blanket rent cap is a blunt tool, impacting the less resilient housing associations disproportionately and threatening sustainability. (4) In supported housing, the primary impact of a rent cap is not to reduce cost of living for tenants, but to reduce the cost of Housing Benefit to the government. The combination of risks created increases the likelihood of a deterioration in services provided by (largely) not-for-profit institutions supporting the more vulnerable people in society. The proposed level (5%) is likely to require early intervention from housing associations' leadership to identify and deliver early and significant (deep) cost savings across their organisations. The lower of the proposed caps (3%) is likely to result in a significant rise in organisational failure, especially for the less resilient entities such as supported housing.

WSHL is a lease-based provider of social housing for vulnerable adults. As is standard across this mini-sector, WSHL's superior leases are CPI-linked. Our lease costs will increase by CPI. Superior lease costs equate to approximately 65% of WSHL's overall operating costs; the sector norm is 60-75%. Should WSHL superior lease rents escalate by CPI, WSHL will have no realistic option but to increase tenant rents similarly; to do otherwise would be financially unsustainable. WSHL is currently exempt from the rent standard as it provided Specialised Supported Housing (SSH). Should SSH be brought within the proposed rent cap, or DWP guidance to Housing Benefit teams be given to seek to limit Housing Benefit claims during this time, the outcome is likely to be organisation-threatening to WSHL and similar providers. To summarise:

- Lease-based providers operate very thin margins (0-5%) and comparatively weak balance sheets (very low fixed assets). Hence, income and costs for these organisations are tightly linked and each has a relatively low capacity to respond to income / costs variance, should either increase significantly without the other moving in parallel.
- [redacted]

It is WSHL's view that a more efficient method - with fewer adverse risks - for delivering support to vulnerable tenants would be temporary direct funding through the benefits systems.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different**

options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment: WSHL does not agree with imposition of a rent cap for reasons described in our answer to Question 1, above.

If a rent cap was enforced onto SSH / exempt accommodation providers:

- WSHL would seek the highest possible cap to ensure that (1) WSHL could continue to fund services to support vulnerable customers (2) WSHL could continue to operate
- All lease-based providers would be required to hold negotiations with all superior landlords to enable derogation from CPI rent review provisions. No superior landlord is bound to follow any imposed rent cap, so any derogation would be entirely based upon the superior landlords' goodwill. As the investments underpinning these leases are sold as index-linked products, the superior landlord would have a significant risk should they agree to widespread derogation from inflationary rises. Where a provider has multiple superior landlords, failure of any one negotiation has the opportunity to be enterprise threatening for the provider.

Whether SSH / exempt accommodation is within any DLUHC-imposed rent cap or excluded from it, it is essential that any updated guidance issued for Housing Benefit Teams by DWP is fully aligned with the principles / rule sets of the rent cap. Any misalignment or regional variation in how Housing Benefit Teams respond to claims during this period could create significant income and cash flow risks for lease-based providers.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
X Maybe

Comment: WSHL does not agree that a rent cap should be imposed. If a rent cap was imposed, the ceiling should only apply for 12 months.

Further, such a rent cap would create a long-term shortfall in future expected earnings for all impacted housing associations unless an agreed convergence mechanism was in force for subsequent years. This risk is significantly exacerbated for lease-based providers, as a single 12-month period of restricted income would place the majority of these providers into a loss-making position for the long term. With limited available funds and insufficient risk capacity to absorb the loss, and no near-term mechanism to realign future earnings to original plans, this would be highly likely to result in forced closure of these entities. Forward-looking Boards would be likely to seek a controlled closure early in this process to use remaining cash to protect vulnerable customers in any transition to other providers or sources of accommodation.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
X No
☐Maybe

Comment: This creates a number of issues and would be self-defeating in the case of shared accommodation / HMOs.

Managing a single property with multiple rent levels is not practicable. Other than the tenant 'fairness' argument and the argument that such a mechanism would create significant additional complexity for Housing Associations, their Landlords, Housing Benefit Teams, tenants and their appointees, those providers of SSH / exempt accommodation whose tenants have their rent paid by Housing Benefit have a further obstacle. Housing Benefit rent claims are subject to the reasonable 'suitable alternative' test where, should a suitable alternative home be available for a claimant at a lower rent level, the Housing Benefit team can restrict any claim submitted to that level. Should a new tenant be offered a rent at a higher level than other tenants within the same property, The Housing Benefit team would be provided with evidence of a suitable alternative cheaper let in the same building. Either by design, or through finding a natural balance, each tenant should pay the same rent to live in the same property or a similar one within the same area.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment: As a result of the government social housing funding and grant systems, some of the most vulnerable tenants in society are housed and supported by Housing Associations such as WSHL, that operate with small margins and / or operate a lease-based model. These areas must be excluded from any rent cap. The argument is clear – these associations do not have sufficient financial or risk capacity to absorb a significant drop in income simultaneous to ongoing significant increases in cost lines. To include these organisations would risk their financial failure or a material deterioration in safety, security and comfort of their tenants homes. The latter outcome is unacceptable to the leadership of most of these organisations, so the former becomes the most likely.

All areas where a large proportion of Housing Association income is provided by Housing Benefit should be excluded from any rent cap, as the restriction in rent would reduce the Housing Benefit burden rather than the individual tenants direct incurred costs, and therefore would benefit the state, not the individual.

Ipswich Borough Council

Social Housing Rents Consultation on a Rent Cap

1.0 ***Question 1:*** *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

Response

1.2 Ipswich Borough Council recognises the existing CPI +1% limit increase for the year 2023/24 would pose significant additional financial burden on tenants. The increase of potentially more than 11% would on average raise weekly rents by £8.38 and could cause some tenants in receipt of low incomes significant financial hardship due to the current cost of living crisis and inflationary pressures faced by households in relation to food and fuel costs.

1.3 The rents charged by the Council are the lowest in our area and typically 40% of market rent levels. The average current rent is £363 p.c.m. compared to a local market rent, in September, for a 2 bed of £885 p.c.m. and £1,100 p.c.m. for a 3 bed home. The Council rent is also under 60% of the Local Housing Allowance of £606 p.c.m. for a 2 bed and £710 p.c.m. for a 3 bed home. The HRA has minimal balances and Ipswich Borough Council would be seeking to apply a realistic rent increase based on balancing the business and tenant needs. A 9.5% rent increase is needed to maintain the level of balances in our current MTFP. Any rate below 7% would not be viable and would require service cuts to be made.

1.4 ***Question 2:*** *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Response

1.5 Ipswich Borough Council can understand that imposing a ceiling of 5% would be welcomed by tenants. However, the rents charged by the Council are the lowest in our area and typically 40% of market rent levels. The average current rent is £363 p.c.m. compared to a local market rent, in September, for a 2 bed of £885 p.c.m. and

£1,100 p.c.m. for a 3 bed home. The Council rent is also under 60% of the Local Housing Allowance of £606 p.c.m. for a 2 bed and £710 p.c.m. for a 3 bed home. The HRA has minimal balances and Ipswich Borough Council would be seeking to apply a realistic rent increase based on balancing the business and tenant needs. A 9.5% rent increase is needed to maintain the level of balances in our current MTFP. Any rate below 7% would not be viable and would require service cuts to be made.

1.6 ***Question 3****: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?*

Response

1.7 Due to the natural uncertainty that the whole country faces with predicting inflation the Council would have concerns on setting rent levels for up to two years without being able to guarantee what levels of CPI will be in 12 months' time. If parameters were set out in advance, the Council would be open to a setting a limit/cap on rents for more than 1 year, providing they are at viable levels. This would enable a range of certainty to better manage and predict its income and expenditure. This would need to be subject to some guarantees or assurances that the limit in 2024/25 could flex if we saw significant fluctuations in CPI (Both up and down) during the next 12 months.

1.8 ***Question 4:*** *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Response

1.9 Yes, we agree the ceiling should apply to existing tenants. Continuing to permit the maximum initial rent when homes are first let and subsequently re-let would support our business plans and the Council's investment in new homes. We would continue to consider affordability when letting homes and ensure tenants are not at heightened risk of falling into arrears or being unable to afford the accommodation.

1.10 ***Question 5:*** *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

Response

1.11 We do not identify any exceptions that should apply to any categories of rented social housing.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Nottingham City Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Loxley House Station Street, Nottingham NG2 3NG
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

X Yes
☐No
☐Maybe

Comment:
Nottingham City Council would have been reviewing its level of rent increases even if Government was not considering setting a limit. We are acutely aware that the cost of living crisis, the cost of energy and other financial pressures have placed a great burden on many members of the community including our tenants. We are reviewing our HRA Business plan and evaluating our ability to limit the impact of any rent increase. We are aware that we have spiralling costs that we will have to bear as part of service delivery and would have to factor that into any assessment of a limited rent increase.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☓ Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:
We are modelling the impacts and attempting to project the cost increases in energy, wages, supply chain and attempting to reconcile these costs pressures with a fair and affordable increase.

We consider 7% to be too high regardless of the cost pressures that we face. 5% may be a reasonable compromise position and is not excessively above last year's increase at an average of 4.1%.

A 3% increase cap would result in reduced services to tenants and an inability to maintain homes to a decent level and reduce essential energy efficiency works.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☓ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Dependant upon the CPI in the coming year there may need to be a further consultation in 2023.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☓ No
☐Maybe

Comment:
We believe that the affordability challenge will affect everyone, and so would not draw that distinction.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓ Yes
☐No
☐Maybe

Comment:
We would make the case for tenancies that are still not paying target formula rent to have a higher increase. We would ask for dispensation to increase by up to 7% or to target formula rent (suggested) where a rent charged is still below. Nottingham has 49% of properties paying below target formula rent at a loss to the HRA of £3m per annum.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Individual
What is the name of your organisation (if applicable)?	N/A
What is your position in the organisation (if applicable)?	N/A
What is your address, including postcode?	[redacted]
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

X Yes
☐No
☐Maybe

Comment:

It is very likely that registered providers would increase rents by the full amount which based on the CPI figure for September and formula would be 11%. This would provide hardship for many tenants especially those who pay their full rents and are not eligible for benefits. Where tenants are on benefits then such an increase would have a huge impact on the benefits bill for 2023/24. There has to be intervention in these exceptional circumstances and a rent cap will protect tenants and others who rent from housing associations with inflation topping 10% already.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

Increasing rents by 3% would be more than was anticipated 12 months ago and still leave RP's with a higher income level than was forecast. There are already significant cost of living implications for tenants particularly those who are not entitled to benefits. In instances where benefits are paid these increased rents by 11% if the current formula was used would result in increased expenditure.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
X No
☐Maybe

Comment:

The rent ceiling should remain in place for two years to ensure consistency and that way registered providers can plan for the following year and tenants can be reassured they will be protected from above inflation rent increases.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
X No
☐Maybe

Comment:

All housing association properties including shared ownership and relets for social rent and affordable rent should be covered by the rent ceiling. There needs to be consistency in rent setting by RP's throughout their stock. Funding used from all rents taken tends to be used for building properties where they can currently charge higher rents and make profits.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
X No
☐Maybe

Comment:

For the purposes of consistency and planning the proposed rent ceiling should cover all types of housing provided by RP's as the likelihood of high inflationary rent increases will cause hardship otherwise and lead to increases in homelessness and reliance on benefits

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Yes
What is the name of your organisation (if applicable)?	N/A
What is your position in the organisation (if applicable)?	N/A
What is your address, including postcode?	[redacted]
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

Comment:

If the rent was not subject to a ceiling it would go up by CPI + 1% which could mean a rise of up to 12% which is unacceptable at this time of a cost of living crisis. As somebody who does not get any assistance from Housing Support (ie Housing Benefits and suchlike), I support the proposed ceiling of 5%. It should not be allowed to go up by CPI + 1% as is usual.

My local authority may well increase rents by up to 12% if no ceiling were imposed.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

Comment:

I think the 5% ceiling would be a balance between protecting social housing tenants from a high rent increase, especially those who do not get help with their housing costs and also ensuring that my local authority can carry on investing in their stock.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐No

Comment:

As the cost of living crisis will be with us for a few years to come I think the ceiling should apply from 2003-2004 and 2004-2005.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐No

Comment:

All tenants should be treated the same and the ceiling should apply when properties are first let and subsequently re-let.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐No

Comment:

Sovereign Housing Association

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No. Instead, we support the principle that housing associations should have maximum flexibility to set rents so that we can continue to invest in our customers' homes, improving our services and building new affordable homes.

Our number one priority is our customers. We know that many of them will face a very challenging winter as they deal with rising prices and high energy bills. At Sovereign we are offering additional support to our customers through increased hardship funds and advice and guidance. Although we recognise that customers will always want rents to be as affordable as possible, any fall in revenue for housing associations will also mean less provision for customers, whether that's in terms of upgrading existing homes or building new ones.

For that reason, we would not introduce excessive rent increases even if the government chose not to impose a cap and we would think very carefully before increasing rent that much. While lower rents mean lost revenue, higher rents could lead to an increase in arrears which would cancel out the increase.

Like any business, housing associations benefit from having a degree of certainty over their income – recognising that this is not always possible. We, therefore, welcomed the of the ten-year rent settlement imposed by the government in 2013 and regretted its reversal in 2015. Along with others in the sector, we supported a return to an inflation-linked settlement to apply from 2020. We also regretted the end of rent convergence.

Imposing any rent cap has a significant cumulative effect on our income, as there is no mechanism to apply a lower rent rise at a time when our customers' incomes are under real pressure – such as at present – and then to gradually recoup the money lost. Instead, a capped rent rise one year, means lost revenue over time.

Capping social housing rent increases in addition to the CPI+1% limit without providing a mechanism to increase rents over subsequent years is too inflexible.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

As set out in our answer to question one, we do not favour the imposition of a cap in principle.

We understand the need to ensure that rents remain affordable for our customers. We also need to balance the short-term need to keep rents as low as possible in the current cost-of-living crisis. But, we need to be able to plan for the long-term and to be able to continue to invest in stock and in new homes. Any provision that allow us to recoup funds lost at a modest rate over time would, therefore, be welcome.

If a cap were imposed, we would favour a cap of 7%. The table below shows the impact on our revenue of the respective caps.

Lost revenue - 1 year caps	Yr1	Yr2	10 yr total
	£m	£m	£m
3%	23.4	24.6	234.6
5%	17.6	18.5	178.4
7%	11.7	12.3	123.2

A one-year cap of 3% would cost us £23m in revenue in 2023 and £25m in 2024. Over ten years the cost to us would be £235m.

A one-year cap of 5% would cost us £18m in revenue in 2023 and £19m in 2024. Over ten years the cost to us would be £178m.

A one-year cap of 7% would cost us £12m in revenue in 2023 and £13m in 2024. Over ten years the cost to us would be £123m.

The caps would also have a marked effect on our ability to borrow because of the impact on lender gearing covenants. To maintain gearing on a sustainable footing we would either have to reduce the number of new social homes we build or reduce our expenditure on existing properties including decarbonisation, or a mixture of both Gearing deteriorates because of both higher debt due to lower rental streams under a cap and lower EUV-SH values (see below). We estimate the impact on the number of new affordable homes we would be able to build over the next 10 years as a result of the cap as follows:

3% cap for 1 year	2,340 fewer affordable homes
5% cap for 1 year	1,520 fewer affordable homes
7% cap for 1 year	540 fewer affordable homes

A cap on rents will also affect the Existing Use Value (EUV-SH) of our properties which is used for both security cover for our funding and for the calculation of our gearing covenants with lenders. EUV-SH valuations are based on the present value of net rental streams, and breaking the link between rent increases and costs will have a negative impact on values.

Our valuers have provided us with indicative impacts on our EUV-SH valuations of different levels of rent cap. A 3% single year cap would see EUV-SH values fall by 6.4% at 31 March 2023. A 5% cap would see them fall by 3%. Of the options only a 7% cap would avoid a fall in values with a small rise of 0.5%. In normal times where the link between rents and costs is maintained we would expect to see an increase in values of around 3%.

The impact of lower EUV-SH values on capacity is incorporated in the table above. The other impact would be on the value of our properties charged to lenders as security against our loans. Whilst we always maintain headroom against minimum requirements, any reduction in values from a 3% or 5% rent cap would start to erode the headroom and further reduce our capacity to borrow.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes. If a cap is imposed, it should be for one year only so that it can be reviewed next year. We do not see how a further cap can be decided now with so much uncertainty in the environment.

We have nonetheless modelled a 2nd year of caps based on CPI inflation remaining at around 10% for a 2nd year as per the latest Bank of England Forecasts. The cumulative impacts on our rent loss and capacity are shown below:

Lost revenue - 10 year total impact		
	1 yr cap	**2 yr cap**
	£m	**£m**
3%	234.6	420.3
5%	178.4	320.6
7%	123.2	220.8

New affordable homes - capacity loss		
	1 yr cap	**2 yr cap**
3%	2,340	5,307
5%	1,520	3,501
7%	540	1,229

Our EUV-SH valuations would also be expected to see falls significantly in excess of those provide earlier.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes. Allowing housing associations to increase rents to the maximum initial rent when they re-let homes provides a mechanism to compensate them for the revenue lost via a rent cap. Imposing a cap on new lets would further reduce our income. Again, we encourage the government to consider mechanisms which would also us to recover rent in the future. In this case that would mean that we might not choose to charge the maximum initial rent if we knew that we had the option to increase rents in the future.

Our modelling outputs above have been calculated on the basis that the proposed caps do not apply to new properties when they are first let, or to re-lets. Although it takes some time for the benefits to accrue, if we were to exclude these carve-outs, the impact on our rent loss and capacity would be significantly worse than the numbers provided above by the 10 year mark.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

If the government were to impose a cap we recognise that to apply it universally would be simpler than to create exceptions. The costs to housing associations who provide supported housing, which will incur additional staff and material costs, will have risen more than in standard homes. It may be the case, therefore, that those providers need additional support to maintain services if their rent is capped.

St Albans

Rent Cap Consultation

Question 1

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI plus 1% limit?

Answer
Yes we agree that there should be a specific ceiling introduced to cover the maximum rent increase from 1 April 2023 to 31 March 2024. This would mean a consistent approach across all social landlords. If no action was taken our tenants would face an increase of 10%/11% on top of other inflationary and energy pressures. However will there be additional government funding for next year and the years after to safeguard services and delivery of new homes. Could this be considered alongside Homes England to renegotiate grant allocations for partners.

Question 1 cont'd

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Answer
A significant rent increase is more likely to push more tenants into fuel poverty, increase rent arrears , impact on tenancy sustainment. Increasing rents above inflation would be difficult. It is most likely that a lower than inflation rent increase would be recommended to our Council whilst being mindful that the expenditure will also be subject to inflationary pressures

Question 2

Do you agree with imposing a ceiling of 5% or are there alternative percentages that would be preferable, such as 3% or 7% ceiling?

Answer
A 5% ceiling would be consistent with the figures we proposed in our HRA BP when estimating rent increases for 2023/24 and 2024/25. As recently as October 2021 OBR was forecasting 3.9% CPI for 3rd quarter of 2022. The cap of 5% is similar to the current year's rent increase of 4.1%.

Question 2 cont'd

Do you have any comments or evidence about the potential impact of different options, 3%, 5% and 75 options as assessed in our Impact Assessment (Annex D).

Answer
The Council along with all social landlords is seeing significant increases in material, utility and new build costs in particular. Most of the income to our HRA comes from rents. Therefore there are likely to be some compromises we will have to consider when it comes to delivering new homes, repairs and maintenance and decarbonisation. A 3% ceiling would be extremely difficult to manage as this is also

below the assumptions in our BP for rental income for 2023/24. Our HRA BP has been significantly impacted by changes in rent policy over the last 5 to 10 years. Additional borrowing is needed and this has implications for revenue costs given current interest rates which have increased as well. Without a cap the rental income would contribute to offset inflationary costs albeit it was not anticipated we would get to double figures when the current rent policy was formulated. With a 3% cap our HRA would lose £2.3m, a 5% uplift would lose £1.7m and a 7% uplift £1.1m.

Question 3

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024 or do you think it should apply for 2 years i.e. up to 31 March 2025?

Answer

Registered providers need to have certainty on their rental income streams in order to effectively plan delivery of services/new build. The proposed ceiling creates a yet another change to rent policy in recent years. A two year rent cap would increase certainty over rent increases in 2024. This would take us through to 31 March 2025 when a new rent increase policy would commence. We note a separate consultation is to commence next year on a new rent policy post 2025. It is important that we do move towards a sustainable rent policy going forward that can create certainty over a longer term.

Question 4

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when social rent and affordable rent properties are first let and subsequently relet?

Answer

Whilst we do move to target/formula rent on relets , we are not supportive that they would come under the CPI plus 1% formula as well and not be covered by the cap. We are concerned that this would also impact future tenants negatively many of whom are homeless in temporary accommodation or on our housing register with low incomes. Secondly, our rents do vary between properties as a result of rent restructuring. Our concern is that a same sized property that is then relet in the same block would have a significantly higher rent than neighbouring ones that have not been relet. This would be confusing for new tenants moving in and as we know from our own experience rents are discussed between tenants. Although those in receipt of HB/UC would not be impacted, there would still be some tenants working and not in receipt of benefits that would be. We feel the cap should not just protect existing tenants but our future tenants as well.

Question 5

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments for this?

Answer

Supported housing could be most impacted as it is more expensive. Although we do not provide supported/care housing we are aware of RPs who provide this accommodation in our District. Their operating margins are different and we are aware of pressures in the sector around the recruitment of staff and cost of providing care and support.

12 October 2016

[redacted]

From: [redacted] <[redacted]>
Sent: 03 October 2022 12:09
To: Social Housing Rents
Subject: Consultation on Social Housing Rent Increase

Importance: High

[redacted]

Dear Sir/Madam

I have been asked to forward on, answers to your consultation on social housing rent increases on behalf of one our [redacted]esidents.

This response is from an individual.

[redacted]

There is no email address
Home Telephone No. [redacted]

Response:

Q1 - It is highly likely that providers would increase rents to CPI rates, as they have Business Plans that dictate the decision.

Q2 – With 60% of tenants on benefit, a 3% increase would help tenants, however 5% would be more helpful to Councils and Landlords. The need for 5% is solely based on evidence of cost of materials used to keep homes in decent standard.

Q3 – This should be a long term plan as prices that are affecting costs are unlikely to change in just a year.

Q4 – No, do not agree that any properties should be left out the cap. People will not rent the higher price properties and will need existing properties and the people in need of these is a large number already.

Q5 – The only exceptions should be ever lower increases to properties that are heated by District Heating Systems as these residents are usually paying more for heating then others as Councils are not large enough to buy fuel in the same way as a large conglomerate.

[redacted]

[redacted])

[redacted]

From: [redacted]>
Sent: 30 September 2022 09:23
To: Social Housing Rents
Subject: Consultation

You don't often get email from [redacted]

Hi

I found the survey very confusing so will just respond here.

I am a shared ownership tenant , increasing the rent with inflation would put the flat out of our affordability especially coinciding with the mortgage rate increase too. The flat was bought on an affordability basis but increasing the rent by 11% or so , with all the previous years increases would put us in a financially dire situation.

Please accept these as my comments for consultation.

[redacted] shared ownership tenant

Sent from Outlook for iOS

From: [redacted]
To: Social Housing Rents
Subject: Fw: Response received - [redacted]
Date: 01 September 2022 09:30:51

Hi

In the response below I have ticked no q 12 when I meant to tick yes. I found the wording of the question confusing. I wanted to make the point that the rent portion on shared ownership properties should also be capped as we are also struggling with cost of living rises. The fact that we are shared ownership residents means that we cannot afford to buy properties on the open market and most us are on low salaries.

Kind regards

[redacted]

Sent from Yahoo Mail for iPhone

Begin forwarded message:

On Wednesday, August 31, 2022, 11:18 pm, Site Administrator <dluhc@mail1.citizenspace.com> wrote:

> Thank you for your response. Please send any additional evidence you may have to Socialhousingrents@levellingup.gov.uk, quoting your response ID in the email subject line.
>
> [redacted] Please have this ID available if you need to contact us about your response. If you would like to download a PDF copy of your responses, please click the link below, or copy and paste it into your browser's address bar.
>
> [redacted]
>
> [redacted]

Thirteen Group

From: [redacted]
[redacted]
Subject: Social housing rents consultation response
Date: 12 October 2022 10:56:58

You don't often get email from [redacted]

Classification: **Secure by Default**

Good morning
Please find our response to the consultation questions below.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

Comment:

The suggested cap would be going against the previous direction on the Rent Standard, which was set out in 2019 and has formed the basis of housing associations' strategies and plans.

The previous rent cap imposed on the sector also had a severe impact on the delivery of new homes and building safety works. Any new cap imposed would be a more significant decrease in real terms, given the higher interest rates currently in place.

Housing providers need to have sufficient funds to comply with legislation and maintain an expected level of service to customers. Our decisions around rent increases are always made operating within current legislative guidelines, while taking into account our own ambitions set out in our five-year strategic plan.

Whilst it is very unlikely that our board would have decided to increase rents by the maximum CPI+1% level, we would have been looking to strike a careful balance to ensure we could continue to invest in new and existing homes, and deliver enhanced services for communities we serve, providing crucial support and advice. The position has been made more challenging with the recent rise in funding costs, but our increases would potentially have been around 7 to 8%, subject to a detailed discussion with our board, based on our strategic plan.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

No

Comment:

We are not in favour of a blanket cap on rents. All register providers are in distinct positions, with different stock, different customer bases, different support services and different new homes delivery programmes. We believe that housing association boards are best placed to make these decisions for their own organisation.

We would like the opportunity to work through our own rent increases based on our plans and where we think our customers will benefit the most, with more discretion over how to support different cohorts of customers. In line with the spirit of the 2020 Social Housing White Paper, we place a lot of importance on listening to our customers and understanding the ways in which we can best support them.

Differences in impact

Given the low rent levels in our operating area, the size of potential increases would be of a very different scale from those in other areas of the country, and therefore have a different impact on our self-funding tenants. Providers in the North East have a weaker rent base than those in the South whilst costs are increasing at a similar rate, therefore compounding the impact of any cap.

The tables below show potential increases based on our average rents.

2 bed house in Middlesbrough

Average rent	3% increase	5% increase	7% increase
£91.31	+£2.74	+£4.57	+£6.39

3 bed house in Hartlepool

Average rent	3% increase	5% increase	7% increase
£95.63	+£2.87	+£4.78	+£6.69

Homes let at an Affordable Rent and, where service charges are payable, have these charges included within the overall rent balance. Service charges include, utilities, emergency doors and lighting, lifts, intensive housing management, technology enabled care, building safety checks and fixes, etc. Any cap on rent is therefore a cap on service charges, meaning that providers will be unable to pass on increasing costs for services. The extent of this issue will vary between providers.

Impact on customers

As set out in the impact assessment, the main impact of a cap would be welfare savings.

Around 75% of our customers receive housing benefit or the housing element of universal credit and therefore will not benefit from the proposed cap. In our operating areas across the North East and Yorkshire & Humber, there are particularly elevated levels of deprivation, unemployment, economic inactivity, and low paid work, more people with disabilities and suffering from ill health and more widespread and heightened support needs. Therefore, a considerable proportion of our customers would benefit from increased rent income being diverted to other means of support, for example:

- We have increased our funding to support customers to around £1m this year, given the current economic climate. Our funding includes; support for tenants who currently pay the 'spare room subsidy' (which is particularly important given that discretionary housing funds have been cut from many local authority budgets); a hardship fund to support customers where there is no other recourse to funds; and, supporting partner and voluntary organisations such as credit unions and energy advice services.
- We also know that people in low paid work are often the group that struggle the most to make ends meet, particularly those with zero-hour or varying contracts and the self-employed. Our tenancy support teams support these customers with budgeting and maximising their income, and even securing better paying jobs.
- Regardless of energy bill support being put in place, charges have increased, and this will impact our customers' service charges and amenity charges. We would like the opportunity to consider how we could reduce the impact of this for customers by limiting the costs we pass on where this impacts affordability.

In relation to shared ownership rents, we would like the ability to take a measured approach to increases to ensure affordability for customers, but this would be limited by the requirement to balance the need for income if a rent cap were implemented.

Existing pressures

Housing association finances are already under a considerable amount of pressure. There are examples of specific costs increasing at a much faster rate than inflation; our electricity costs have increased by 38%, gas costs by 50%, vehicle fuel by 16% and repairs costs increased by 13%, having peaked at 17%.

Any registered providers borrowing in capital markets is at risk of a credit rating downgrade due to the current inflation gap as costs are increasing more quickly than rents, this will further compound the situation by making new borrowing more expensive.

The recent volatility with interest rates following the mini budget has escalated the challenges around financial capacity. Under updated interest rate assumptions, ignoring the different rent cap scenarios, there has been an increase of £23m in forecast borrowing costs over the next 5 years alone for Thirteen

[redacted]

Given the current economic pressures and operating environment, as a business we have begun to consider a stripped back operating model, with reduced support services and a different approach to other areas of business, impacting both our existing homes and customers and the delivery of our Homes England development partnership programme. This would not be desirable but may be necessary if our income is restricted. A cap on Affordable Rents would severely impact the viability of developing new homes of this tenure.

We have consulted with our involved customer group and our board, and they agree that the safety and standard of our existing homes is of the highest importance. If we need to begin to make savings, our decarbonisation work and new homes development would be the first to be areas to be cut back.

Mitigations

Given the current economic picture it is evident that additional grant funding is needed to enable the delivery of new homes, and this could be funded from savings made as a result of any imposed cap. The scale of work needed to improve the energy efficiency of existing homes is considerable and therefore adequate funding must also be allocated to investment works, this cannot be accommodated by the reduced Social Housing Decarbonisation Fund. Another way of supporting providers to continue with these programmes would be a different approach to charging VAT on major investment works.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Maybe

Comment:

We do not believe that there is a need for a cap. A two-year cap would magnify the impact detailed above. If a longer-term cap were to be considered, we would expect notification now so that it could be planned for. Consideration for a cap, or an extended cap, should be supported with a review of the post 2025 Rent Settlement, whereby longer-term certainty could offset some of the short-term trade-offs to be made and housing associations could plan for the recovery of these additional services in their financial plans. Any settlement should be set at a reasonable level and should be based on evidence provided by, and conversations with, the sector. To support this, consideration should be given to a longer rent settlement.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

Relets – By excluding relets from a potential cap it mitigates impact on services to an extent. However, we acknowledge that this would cause an issue with consistency and fairness

and the customers we spoke to about this were particularly concerned about this inequality.
New development - It is particularly important that providers are able to maximise rents for new build homes, given the other restrictions on income and increases in costs of development. As affordable rents are inclusive of service charges a cap on these would make new development of affordable rent homes completely unviable.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes

Comment:

Supported housing services often operate on very tight margins and in some cases make a deficit. The rent element for these services are crucial in maintaining the broad break-even position.
A number of services we are currently commissioned to provide by local authorities have had no inflationary uplift for a number of years, one example has been delivered with the same level of funding since 2016. In order to continue to deliver this service and extend the contract we would be looking to negotiate an uplift going forward. Any rent cap would need to be considered when negotiating the extension, putting further pressure on already stretched local authority budgets.
As rents are comparably low in the North East, this means there is less headroom to be able to fund housing management, particularly where more intensive support is needed. We have a number of supported housing services in place which are not funded by commissioners. Our move on accommodation for prison leavers and rough sleepers requires intensive housing management and therefore it is critical that rent increases cover the increase in costs of supporting residents.
As a large and financially robust organisation, Thirteen has the ability to support these less viable schemes, given the impact they have on communities, in line with our strategic aims. However, a cap on rent increases would mean that we would need to look more forensically at how they perform financially and our ability to continue to invest in them.
Furthermore, a cap on supported housing rents does not align with the Government's vision for delivering innovative models of housing and care through supported accommodation in a community setting, as set out in recent policy papers. It is important that both revenue and capital funding continues to be prioritised to meet the housing needs of people requiring additional support and to support our NHS and care sectors.

Best regards

[redacted]

[redacted]

[redacted]

W www thirteengroup co.uk

Thirteen is the trading name for Thirteen Housing Group, 2 Hudson Quay, Windward Way, Middlesbrough, TS2 1QG, a charitable Community Benefit Society registered under the Co-operative and Community Benefits Societies Act 2014 with registered number 7522 and registered with the Regulator of Social Housing as a Registered Provider number L4522 VAT Reg No. 918548295

Thirteen does not accept responsibility for any errors or omissions that are present in this message, or any attachment, that have arisen as a result of e-mail transmission. If verification is required, please request a hard-copy version.

Internet communications cannot be guaranteed to be secure or error-free. Information could be intercepted, corrupted, lost, destroyed, arrive late, be incomplete, or contain viruses. Thirteen has taken every reasonable precaution to minimise the risk or virus infection and does not accept liability for any loss or damage sustained as a result of software viruses attached to the e-mail during transmission and advise you to carry out your own virus checks.

[redacted]

From: [redacted]
Sent: 12 October 2022 14:55
To: Social Housing Rents
Subject: Social Housing Rents Consultation

You don't often get email from [redacted] Learn why this is important

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Alpha RSL Ltd, (trading as Alpha Living)
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Poppyfields, Woodpecker Close, Upton, Wirral, CH49 4AA
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Thank you for the opportunity to comment on the proposals to cap rents. This is a crucial issue for Alpha Living. We have debated the balance between the needs of residents as a result of the cost-of-living crisis and the longer term aims of organisations such as ours to make a difference to people's lives.

Our fundamental view is that housing association boards should determine rent increases. Ours is a disparate sector. Some providers, such as Alpha provide housing which is low margin and meets high needs. For us, the blunt instrument of a rent cap means we will need to reduce new build and capital improvements to the detriment of current and future residents. The central 5% proposal removes £207,000 from our business in 2023/24 and a further £221,000 in 2024/25. Over the course of our 30-year business plan, a potential £10.2m is removed from the business, which translates into approximately 140 much-need extra care apartments let on affordable rents.

By way of background, Alpha is an award-winning landlord which provides housing and services to older people. It makes a huge difference to people's lives by enabling them to live independently for longer, be part of a thriving community and reduce their use of other services including primary care. Last year we completed an outstanding extra care development of 78 apartments at a cost of £13.2m, funded by grant and private sector borrowing. Our charges are 33-40% the costs of residential care.

Our ability to build more developments like this is severely restricted, firstly by the impact of the rent cap, but just as importantly by the absence of any long-term rent settlement. To fund new development, we typically project a 30+ year payback. With no certainty over the medium-term future of rents, and as we already stretch our business plan to support growth, [redacted]. We urge you to give clear steer on the future direction of rent levels so that we and other providers like us can invest in the long-term future of the communities we serve.

We are acutely aware of the difficulties our tenants face. Most are on low and fixed incomes. Their ability to meet energy and other costs is severely restricted, and as a result it is likely our board would have made a decision to raise rents at less than the current CPI + 1% rent formula. The core 5% proposal sets the cap too low. Low-margin providers of supported housing should, we believe, have the discretion to raise rents at a level above the core cap. This could be achieved by lifting the discretionary element of the formula rent for supported housing from 10%. Any provider doing this, in the spirit of co-production, should justify this to residents and target the additional discretionary rent to investment or the preservation of existing services. They should give an account of this, possibly in their value for money statement and be open to scrutiny. To illustrate, most of our costs will increase by well above 5%. Most of our colleagues are paid at the Living Wage level, which will increase by 10.1%. Electricity costs for most of our developments increased by 288% in October 2022. Building cost inflation is currently 14.1% and our costs of borrowing are growing in line with the increase in interest rates.

We will need to make savings. As a business which has been encouraged to develop new housing, we have stretched our business plan. While further savings are always possible, the 5% rent cap will drive us into cutting back on new building and on capital investment. As a non-profit making organisation, all of our surpluses go towards investment in capital improvements such as new kitchens or level access bathrooms, building safety and decarbonisation works. All of this investment makes a dramatic difference to our residents and makes our properties attractive, cost-effective and safe whilst adhering to current and emerging legislation and Government's 2050 carbon neutral target This cannot be a race to the bottom. If rent caps make social housing less attractive, this will be to the detriment of us all.

We have answered specific questions raised in the consultation below. Our answers repeat some of the background information given here.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not agree with the principle of a cap on rents. Housing associations are disparate businesses. Those with development programmes for new build and specialist providers of supported housing are especially affected by the proposals. Alpha fits into both categories.

Rent increases should be at the discretion of individual boards. Only boards are able to weigh up the complex issues of the needs of tenants and accountability to taxpayers on one hand, with the ability of the housing associations to continue to invest in new and existing homes on the other. The blunt instrument of a rent cap makes this impossible.

While Alpha's board has not debated the rent levels it would charge for 2023/24, it is unlikely from a moral or a reputational viewpoint that it would seek to levy the full CPI + 1% increase allowed by the current rent formula.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We have run business plan projections against the 3 proposed rent cap levels and the results are summarised below. In these projections we assume rent caps are in place for the next 2 years and thereafter that rents increase at CPI. September 2022 CPI is assumed at 9.8%.

Reduction in surplus						
	2023/24	2024/25	2025/26	2026/27	2027/28	30-year total
3% rent cap	£310,300	£331,600	£366,200	£408,600	£461,900	£17,382,330
5% rent cap	£206,900	£220,700	£243,500	£265,000	£300,000	£10,192,800
7% rent cap	£103,900	£103,400	£109,900	£121,400	£139,700	£4,732,000

We do not breach any of our loan covenants, but each rent cap has a severe impact on our business. Our surplus in 2021/22 was £965k. Using this as a base, the central 5% cap reduces our surplus by 21.4% in 2023/24. This is a significant impact. Over lifetime of the business plan, the surplus is reduced by £10.2m.

Notwithstanding our view that rent increases should be determined locally, the impact of a 7% cap is much less severe.

The outcome of a 5% rent cap is likely to mean that while we could technically service further debt, this becomes a much greater risk, and is likely to be something the board rejects. In practical terms this means we will shelve plans to build an 83-apartment extra care development which is due to start on site in autumn 2023. We will also need to smooth our capital investment programme meaning decarbonisation works and kitchen and bathroom replacements are delayed. The impact of the former will be felt by residents who will face higher fuel costs. The latter will impact on the quality of life of residents and will make apartments less attractive. This could potentially impact on our ability to let properties which will ultimately impact negatively on rental income.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

We are disappointed that the consultation paper only addresses the potential treatment of rents for the next 2 years. It would be extremely helpful to at least have some indication of the likely direction of rent levels beyond this timeframe. Our assessment of new build developments typically appraises over a payback period of 30 or 40 years. Rental income is a key component of our appraisal model. If the intention is to restore rents over time to their real-terms 2022 levels, this makes the appraisal of development much more straightforward and reduces risk for the provider. We suggest that the question is incorrectly framed and should seek views over rent level across a much longer timeframe.

We do not agree with the capping of rents for a further year beyond 2023/24. Any rent cap should be seen as a temporary measure which addresses the concerns of high inflation highlighted in the consultation paper. Rents beyond 2023/24 should be the subject of a much more informed and nuanced debate which considers the investment needs of social housing. We support the notion that social housing providers should be held to account over the outcomes and size of that investment.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes.

This gives providers some flexibility on rent levels.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We would argue that supported housing should be exempt and that providers are given the flexibility to increase rents up to the existing formula rent or that the current 10% tolerance on formula rents is increased.

Supported housing is a low-margin activity compared to general needs housing, principally because of the intensive nature of housing management services and the additional facilities needed in buildings.

Staffing costs are a key component of ours and most supported housing provider costs. Most are paid at the Living Wage level which is due to increase by 10.1%. Some of this will be met by service charges, but the rent cap places pressure on already stretched business models.

New build supported housing is also difficult to stack up from a financial appraisal standpoint. We understand Homes England grant levels will not increase to take account of reduced rent levels, which will frustrate new developments which were already marginal.

We are happy to provide any further detailed evidence you might need to exempt supported and sheltered housing from these proposals.

[redacted]
Chief Executive

[redacted]

Alpha (RSL) Limited trading as Alpha Living
Poppyfields, Woodpecker Close, Upton, Wirral, CH49 4AA
www.alpha-living.co.uk

Shaped around you

This e-mail and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you
have received this e-mail in error please notify the system manager. Please note that any views or opinions presented in this e-mail are solely those of the
author and do not necessarily represent those of the company. Finally, the recipient should check this e-mail and any attachments for the presence of
viruses. The company accepts no liability for any damage caused by any virus transmitted by this e-mail.

Registered Office: Alpha (RSL) Limited trading as Alpha Living, Management Office, Poppyfields, Woodpecker Close, Upton, Wirral, CH49 4AA.
A charitable community benefit society registered in England & Wales number 16317R.
Also regulated by regulator of social housing (Number L1033).

Disclaimer

The information contained in this communication from the sender is confidential. It is intended solely for use by the recipient and others authorized to receive it. If you are not the recipient, you are hereby notified that any disclosure, copying, distribution or taking action in relation of the contents of this information is strictly prohibited and may be unlawful.

This email has been scanned for viruses and malware, and may have been automatically archived by **Mimecast Ltd**, an innovator in Software as a Service (SaaS) for business. Providing a **safer** and **more useful** place for your human generated data. Specializing in; Security, archiving and compliance. To find out more [Click Here](#).

[redacted]

From: [redacted]
Sent: 31 August 2022 10:27
To: Social Housing Rents
Subject: [redacted]

Now quoting my response ID in the subject line.

Hi,

I am emailing in response to the social housing rent consultation - https://www.gov.uk/government/news/rent-cap-on-social-housing-to-protect-millions-of-tenants-from-rising-cost-of-living

I would like to point out that shared owners must be included in the ceiling for social rent. Shared owners also pay rent to Housing Associations for the social housing they occupy, which is subject to yearly increases and linked to RPI inflation, so it would be wrong for shared owners to not be included.

Kind regards,
[redacted]

[redacted] Yahoo Mail on Android

On Wed, 31 Aug 2022 at 10:02, [redacted]:

Hi,

I am emailing in response to the social housing rent consultation - https://www.gov.uk/government/news/rent-cap-on-social-housing-to-protect-millions-of-tenants-from-rising-cost-of-living

I would like to point out that shared owners must be included in the ceiling for social rent. Shared owners also pay rent to Housing Associations for the social housing they occupy, which is subject to yearly increases and linked to RPI inflation, so it would be wrong for shared owners to not be included.

Kind regards,
[redacted]

Sent from Yahoo Mail on Android

[redacted]

From: [redacted] <[redacted]>
Sent: 12 October 2022 14:21
To: Social Housing Rents
Subject: Consultation on capping rents on social housing

You don't often get email from [redacted] Learn why this is important

First, I must apologise for responding to this consultation at the last minute. Whilst I was vaguely aware of proposals to cap rents in social housing, I didn't know until yesterday where to find the proposals. Now I've found them I find I've hit the deadline, so I will confine my response to one issue.

I am not completely sure, reading the consultation document, whether the proposed cap covers shared ownership properties belonging to Housing Associations. My daughter lives in a flat in [redacted] under a lease from a Housing Association. The lease states that for the rented part of her property she must pay increased rent from next April based on the RPI of the previous September plus half a percent. I am worried that this will be too much for her on top of the likely increase in her mortgage and energy costs given her relatively low income. Others in her block are in a less fortunate position than my daughter.

As I understand it some people in shared ownership may only "own" 10% of the property and pay rent on the remaining 90%. I think shared ownership in social housing should be covered by the cap. I also think 3% is a preferred level for the cap.

My daughter is in the invidious position of having a 99-year lease, which is now down to 83 years. Her Housing Association has agreed to let the leaseholders in the block extend the lease to 999 years and this will be an additional expense in the next few months, especially as they quote their legal costs as £850 +VAT.

I trust you will give my comments serious consideration.

Yours

[redacted]

Social Housing Rents – South Yorkshire Housing Association's Response to the Consultation Document issued on 31st August 2022

1. <u>SYHA's Context</u>

   South Yorkshire Housing Association is the only housing association of any size headquartered in the Sheffield City Region. We manage 6,000 homes, provide services for 25,000 people and employ 600 members of staff. One-third of our stock, and two-thirds of our people, provide some form of care and support for people with additional needs. This includes people with mental health problems, refugees, frail elderly people and people with learning disabilities. We also provide employment support for several thousand people with mental health problems. We work closely with local health and social care services and we are the biggest provider of services locally using Supporting People grants. We work mainly in inner city areas, and have a particular focus on providing services for BME and other disadvantaged communities.

   For the last five years SYHA has been rated V2 by our Regulator. This is a compliant grade but indicates that the association is more financially exposed than many other organisations. As our financial climate has toughened, we have implemented many value for money and cost saving efficiencies.

2. <u>Our Responses to the Questions</u>

   Question 1

   Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

   No, we don't agree that further Government intervention is the right thing to do in these circumstances. This will be the second occasion in just a few years that the Government has u-turned on a medium-term commitment given to the sector on rent increases. This is extremely damaging. It undermines the confidence of private lenders and jeopardises social landlords' Business Plans. SYHA, in common with many other housing associations, has embarked on ambitious development programmes to provide new homes for homeless people, and have committed to extensive retrofitting works to decarbonise our stock. The proposed change to the maximum rent increase is adding to the difficulties the sector is already facing with respect to rapidly increasing inflation and high interest rates with respect to rapidly increasing inflation (particularly in relation to building materials and labour costs) and high interest rates. The consultation paper says the impact of inflation on tenants could not have been foreseen in 2017, when the agreement was made. The same comment applies equally to social landlords' costs.

The proposal for the Government to intervene once again also undermines the role of Boards and our tenants. These decisions should be a matter of discussion and agreement between our customers and our governing bodies.

The repeated interventions of Government on social housing rent levels over several decades now have left us with a chaotic rent setting system which makes no sense to our tenants. There are other ways of ensuring that social landlords do not profiteer without imposing further restrictions on our ability to set our own plans. At a time that the Government is looking to deregulate in many other sectors, it is unfortunate that social housing is being singled out for yet more intervention.

SYHA is an active member of both the National Housing Federation and the PlaceShapers' Group. We are also actively engaged with Local Authorities' Strategic Plans in our area. In discussing plans for rent setting, prior to the launch of this Consultation paper, it seems clear that landlords were considering increases of between 5% and 9%. We are not aware of any social landlord that was considering a double-digit increase.

Question 2

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

If the Government persists with its proposal of applying a ceiling, we recommend that this should be set at 7%. In common with many other providers of supported housing, [redacted]

Question 3

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

If it is to be applied, it should only relate to the 2023/2024 financial year.

Question 4

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, we agree with this.

Question 5

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

It is essential that, if a cap is to be applied, it does not extend to care, supported or sheltered housing. The financial framework for these sectors has deteriorated rapidly over the last ten years or so. The impact has been so great that, according to a recent NHF survey, 80% of housing associations are now refusing to develop new care and supported housing schemes. This is disastrous for the country, as we struggle to get on top of homelessness and rough sleeping, and as we prepare to provide new forms of housing for the tens of thousands of Ukrainian and Afghan refugees with a right to live in this country. Research has repeatedly shown that supported housing plays a significant role in reducing expenditure that would otherwise fall to the NHS and the social care system.

Cost of living increases provided by Local Authority and NHS commissioners for our supported housing schemes have been effectively frozen or, in some cases, grant has been reduced in recent years. If a cap is now applied to rents and service charges in these schemes, the recent trend of scheme closures will continue.

3. <u>In Conclusion</u>

We are, of course, extremely concerned about the impact of the cost-of-living crisis on our tenants and customers. We have taken many steps to provide additional support to people in these circumstances. However, the consultation paper and, in particular, the Impact Assessment in Annex D, take no account of the impact on homeless people, the contribution that supported housing makes to the NHS and social care, nor on our organisations' attempts to address the climate crisis. All the social housing organisations we have spoken to, including Local Authorities, are expecting to cut their new building programmes substantially. In the case of Sheffield City Council, the cut will be one-third of their new building programme.

Similarly, our responsibility to reduce the carbon footprints of our homes is already extremely demanding. Inside Housing Magazine estimates that the cost of bringing our stock to net zero carbon is £104bn [redacted]

A 5% rent cap will materially damage our abilities to provide new homes, continue existing services in supported housing and decarbonise our stock. We believe it should not be applied. If the Government disagrees, we suggest that the cap is 7%, lasts for one year only and that it is not applied to supported or sheltered housing.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Salix Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	2 Peel Cross Road M5 4DT
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

Registered providers all operate in different environments both financially and geographically. Salix Homes operates in one of the highest areas of deprivation in the North West with c75% of our rents below target /formula levels due to being a relatively new stock transfer, rents not being increased by the local authority prior to transfer, and the 4 year rent cut that came into place soon after transfer without a mechanism to incrementally increase rents to target levels after the reductions.

The Board of Salix Homes are very conscious of the impact that the cost of living crisis is having on our tenants and the need to balance, supporting tenants and delivering services, and investing in properties and communities.

Prior to the publication of the rent consultation, our Board had already considered the impact of a potential CPI+ 1% increase and the impact on our customers and as a result we reviewed our rising costs to assess a more realistic 2023/24 increase both in terms of customer affordability and organisational viability. A figure of 7% was calculated to maintain viability and covenant compliance whilst continuing to ensure tenancy sustainment and support for customers, service delivery, investment, building safety requirements and the carbon reduction measures required to our aging stock.

As a result of previous austerity measures resulting in cuts to public services, the pandemic and the current economic environment, we are increasingly having to support customers with complex needs to sustain their tenancies and need to offer a package of support measures to our tenants to include wellbeing, tenancy sustainment and financial inclusion. As a place-based organisation, operating in one geographical and Local Authority area, our tenants see us as the anchor organisation often providing a lifeline in supporting key essential services which is an increasingly essential part of social housing provision. These services will be at risk if our income is capped below our escalating costs, compounded by our rents being significantly below target/formula levels and no mechanism to increase rents in line with our peers in future years.

A rent cap of 5% or below would mean a reduction in front line housing officers of c15% and would severely impact our ability to support tenants and communities which would have a significant impact on the public purse and referrals to health & social care and other public services.

In addition, as a new stock transfer organisation, in 2015, our transferring business plan was severely impacted by the 1% reduction in social housing rents for the period 2016-2020.

Income is such that any change in the year has a cumulative impact the following year and throughout the life of the business plan if no mechanism is in place to recover rents to target/formula levels in future years. Therefore, the cumulative difference from 2019/2020 represented an impact of the policy change in every subsequent year. To put this previous change in policy into perspective, Salix Homes needed to make a £2.4m annual saving from 2020 to balance our position from that previously agreed. This resulted in a reduction of 54 employees from across the business, with the majority of that reduction being across our front-line customer and community services.

A balanced rent increase of c7% would ensure financial viability and the ability to be able to support customers and invest in properties including; ensuring EPC C by

2030; any potential building safety EWS 1 related works or, costs associated with the new building safety regulatory framework.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☓ No
☐Maybe
Comment:

As previously stated, all registered providers are different, and it is important to take account of individual providers' operating environments. Salix Homes operates in an area with high levels of deprivation. Currently c21% of our stock are tall buildings and a further 25% low rise buildings, which incur additional maintenance costs and building safety measures with only 54% traditional house types. In addition, the uncertainty around rising interest rates, and gas and electric increases on heat networks will also impact on any headroom in our business plan which may require further adjustments as we fully understand the impact, following the recent market volatility.

A 5% ceiling would have a significant impact on our business plan.

To maintain financial viability at 5% we would have to;

- Reduce / delay our development and investment programmes to accommodate works to reach EPC C
- Pause our Older Person's Housing new build offer – 130 new properties
- Reduce revenue costs to aim to mitigate escalating inflationary costs and capped rents, this will impact on front line services, repairs delivery, housing management services and property investment. In turn any reduction in spend in these areas of the business will have an impact on the local unemployment figures and deprivation (repairs, investment and housing management services all employ a high level of local people)
- Reduce front line housing officers of c15% which would severely impact our ability to support tenants and communities
- Consider the impact of additional costs relating to building safety that may not be service chargeable over the next few years– and the impact on customers if they were service chargeable
- Consider the impact of the outcome of our EWS1 assessments - should remedial work be required we will have to revisit the business plan and further reduce costs. All properties currently meet building safety requirements against the new regulations
- Consider our ability to deliver the priorities detailed in the social Housing White Paper in particular the impact of the place on health and wellbeing

We are confident that with a 7% increase we would be able to meet these costs, but this will be difficult to maintain with rent caps and increasing costs across our portfolio.

The 3 rent scenarios have the following impact on the Salix business plan assuming a rent increase of 3.5% for 2024/25 (Minus numbers are a reduction in rental income).

£000's	**Cumulative impact years 1 to**		
	5 years	**10 years**	**30 years**
rent cap impact - inflated 3.5% - 24/25 all scenarios			
3% - 23/24	-4,661	-9,230	-24,572
5% - 23/24	-977	-1,492	2,630
7% - 23/24	2,706	6,245	29,832

Inflationary cost increases in the first 5 years of the plan are £6.2m – far in excess of any rent cap.

In addition, £6.3m of investment is required by 2025 to ensure all of our tall buildings buildings meet EPC C targets and to ensure their long-term viability and provide safe, warm, affordable and efficient homes for local people.

If rent is capped at 5% and to ensure financial viability and compliance with funders loan covenants, a series of interventions have been included within our revised draft 30 year business plan as summarised below.

These interventions will impact on

- The delivery of front-line services
- The support we provide to our customers, communities and estates – currently plugging the gap created by a decade of austerity measures
- The level of investment in properties
- Our plans to introduce additional resources into our building safety team, to support vulnerable residents who live in our high-rise buildings and the new fire safety legislation requirements, with a reduction in staffing resources
- Our ability to deliver the new mandatory fire safety legislation requirements without further efficiencies from within our business plan to meet the associated costs i.e. a reduction in property investment / development / net zero commitments.

Cost reductions	**23-24**	**24-25**	**25-26**	**26-27**	**27-28**	**5 years**
Revenue						
Repairs - staffing	- 80	- 80	- 80	- 80	- 80	- 400
Build safety – staffing		- 116	- 116	- 116	- 116	- 464
Building Safety Director	- 91	- 91	- 91	- 91	- 91	- 455
Management costs – front line services	- 275	- 300	- 300	- 300	- 300	- 1,475

Capital						
Investment programme – capital	- 1,000	- 2,000				- 3,000
Total						**- 5,794m**

The 3% rent cap significantly impacts on our ability to deliver and maintain financial viability without extreme interventions.

A rent cap of 7% will enable us to maintain services and work towards EPC C and decarbonisation by 2050 and our statutory building and fire safety obligations, without any detriment or reduction in our front line customer and neighbourhood services.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No
☐Maybe

Comment:

If a ceiling is applied to social housing rent increases, it should only applied for 1 year from April 2023 to March 2024, unless a 2 year cap is agreed to cover 2 years inflation and cost increases to put us back in position at year 3 with rental income covering costs.

If this was not the case, the compounding effect of reduced rent in a high inflationary period is not sustainable unless there is an exemption from future rent caps to enable rents to recover in future years at least to target/formula levels. This would be particularly important to Salix Homes due to the high % of rents that are currently below target/formula rents and can only be reset to target rent at relet – taking c 17 years assuming all properties relet at some point which is an unrealistic assumption.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:

This would assist the financial viability of new developments in light of increasing costs and support a level of catch up with existing stock, albeit on a relatively small number of properties i.e. annual c350 lets (low tenancy turnover due to lack of supply and increased demand).

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓ Yes
☐No
☐Maybe

Comment:

We believe that exemptions should be made for supported housing whose costs are often higher than general needs properties, and specifically for landlords like Salix Homes (who were a 2015 stock transfer) where rents are currently below target/formula rents. We feel that exceptions should be made to allow rents to increase to target/formula levels over a number of years – particularly early years as the cumulative effect of capping rents significantly below inflation has a compounding effect on the business plan where there is little headroom over Covenants and significant investment required.

Our rents are one of the lowest in the region in which we operate. Currently c 75% of rents are below target rent levels reducing our rental income by c£375kpa. We can only increase our rents to target level at relet and, therefore, it would take us c17 years to reach formula levels if all properties relet in this period.

Our current average weekly rents are detailed below

1BED	76.63
2BED	85.47
3BED	95.43
4BED	103.42
5BED	113.89

Being able to bring rents in line with our peers, either by a 7% increase in 2023/24 or by allowing increases over rent cap levels in future years, to reach target/formula rents, will enable us to continue to invest in our homes and develop new affordable homes which are in scarce supply**.**

In addition, we believe service charge increases should also be exempt from any capped increases. Service charges should reflect actual costs to avoid any subsidy by tenants who do not receive the services.

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

12th October 2022

Re: Response to the Government Rent Cap Consultation Paper issued 31st August 2022.

Dear Sir/Madam,

We are responding to the Government's open consultation regarding Social Housing Rents published on the 31st August 2022.

In essence, the view of our two councils is that local authorities should not be subject to any national rent cap and that rents should be determined in the context of the local HRA's, taking account of local needs and pressures and the views of tenants.

Our response is set out below in two parts, namely:

- some general observations about issues not specifically covered in the contextual information in the consultation paper; and
- specific answers to the four questions posed by the consultation.

In responding to this consultation both councils acknowledge the challenges in determining increases in rent levels at a time when the cost-of-living crisis is exerting significant pressures on family budgets.

General Observations and Considerations

Under the context section of the 'Scope of Consultation' it is noted that some prominence is given to the following two issues:

- Background to the regulation of social housing; and
- Background to social housing rent and welfare policy.

However, it is disappointing to note that no prominence or recognition is given to the issues of how finance and the ability of registered providers has been impacted by the biggest events to occur in recent times. These are:

- The Covid pandemic and the impacts that occurred following the national lockdowns, which created a backlog of repairs, maintenance and development program activity. The effects are still being managed by landlords and the negative consequences continue to be felt within business plans today.

- The supply chain impacts that have resulted as the pandemic has begun to decline. These have caused specific challenges in respect of building costs, management of timelines in projects and significant upward inflation pressures well in excess of the general CPI rises over the last two financial years.

These are still being managed through revising funding assumptions downwards within HRA business plans. Transformation initiatives are also underway in many organisations, including both Babergh and Mid Suffolk, to drive out further efficiencies to improve funding usage for priority investment.

Within the context of any national framework for setting rents, we believe it is important that these factors are also considered if nationally and locally Registered Providers are to be able to continue with sustainable investment planning and have some assurance as to how possible alternative funding (outside the mechanisms associated with extra revenue derived from annual rent increases within the HRA) might assist.

These other funding options might include, for example, additional capital grants from Homes England for specific initiatives associated with the elemental improvement items for existing stock, the further flexible use of Right to Buy receipts or the reinvestment of housing benefit or Universal Credit savings which will arise through implementing any rent cap approach. These options would enable additional reinvestment funds to be generated for directly improving stock or supporting capital investment aimed at accelerating the move towards decarbonisation objectives.

These examples are clearly not exhaustive but illustrative of how newly generated funding outside the HRA environment could help replace and support resources constrained by rent cap policies.
Our response to the specific questions posed within the consultation paper are as follows:

Question 1: **Do you agree that the maximum social housing rent from the 1st April 2023 to the 31st March 2024 should be subject to a specific ceiling in addition to the existing CPI+1%? To what extent would Registered Providers be likely to increase rents in that year if the Government did not impose a specific ceiling?**

Response: It is recognised at both Councils that additional rent increase requirements would require very careful consideration and should also be subject to a local consultation process before determining what level of increase would be necessary.

It is further recognised that in setting a relevant level of rent increase there would be benefits' protection for most social housing tenants. It is, however, acknowledged that such protection is not universal and those not fully protected by the benefit system, or those who do not qualify for full uprated protection, would still be vulnerable.

We are surprised that the Government is seeking to impose a further rent cap as this approach seems at odds with the wider Government position that landlords, through the revised social housing regulator role (Housing White Paper requirements), should be encouraged and indeed measured in performance terms, to engage and ensure tenant involvement and then react accordingly to tenant influence and choices when considering policy and service implications.

We therefore conclude that it is incompatible if on the one hand landlords should work within this new framework of consultation and tenant influence, but then have prescribed limits for national rent increases, which constrain options in setting the most appropriate rent policy which should be tested and finally adopted through the necessary local democratic process.

We therefore believe that the national policy framework on rent setting should be removed, and landlords be allowed to consult and engage with tenants without nationally imposed constraints, enabling locally set rent policies that reflect investment and service quality objectives.

Question 2: **Do you agree with imposing a ceiling of 5% or are there alternative percentages that would be preferred, such as 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options including of the 3%, 5%, and 7% options as assessed in our Impact Assessment (Annex D)**

Response: As indicated above, we believe the imposition of a ceiling for rents to be inappropriate and contrary to the wider government policy objectives to engage and allow tenant influence around significant service and housing policy issues, which reflect local priorities and circumstances.
The Council has not done any economic assessment of the various options which would provide additional wider macroeconomic adjustments to the assumptions made in Annex D. However, some economic appraisals might be undertaken by government in relation to covid impacts still affecting business plans, and similarly supply chain and building cost analysis, to estimate how these constraints could further impact on estimated income reductions to business plans nationally.

Question 3: **Do you agree that the ceiling should only apply to social housing rent increases from 1st April 2023 to 31st March 2024, or do you think it should apply for two years (ie. Up to 31st March 2025)?**

Response: Contrary to our own preference, if the government decided to go ahead and introduce any rent cap, we believe it should be for a limited period only to address the exceptional circumstances impacting on national economic policy imperatives. We believe that the wider, planned and additional review of HRA's should then take place and the outcome of this work should provide the proposed longer term sustainable approach to HRA financing. This should also include a detailed analysis of the potential to allow Registered Providers the flexibility to set local rents in consultation with their tenants without national constraints, taking account of tenant views and service objectives.

Question 4**: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently relet?**

Response: If the ceiling is imposed, we believe that the provisions already in place should be left unchanged. These provisions allow a degree of flexibility to Registered Providers especially in the context of Affordable rents when a new valuation may be required prior to relet. Applying a rent cap would potentially impact further on rental income and have additional consequences for business plan stability and sustainability.

Question 5**: We are not proposing to make exemptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?**

Response: We do not believe that an exemption policy is necessary within any rent cap regime. Normal application of rent rises through the standard rent formula are not set for different categories locally and to introduce such arrangements would increase the administrative burden and could confuse tenants living in different categories of accommodation, and sometimes these could be near each other. Further, this approach may have yet unidentified impacts on the HRA which could exacerbate the financial challenges to be managed within the current HRA regime. Where there are differential charging policies applied these would normally reflect the different services provided to specific housing categories such as sheltered or other specialist housing and this is best dealt with using accurate service charge impositions. Finally, given a more fundamental review of the HRA is to be undertaken from 2025 onwards, we believe these property exemption questions are best addressed in this context.

This concludes our response to the rent cap consultation paper, which we hope you will find helpful.

Yours sincerely,

[redacted]

[redacted]

Babergh and Mid Suffolk District Councils
Endeavour House, 8 Russell Road, Ipswich IP1 2BX
Telephone: (0300) 1234 000

Enfield – Social Housing Rent Cap Consultation

Enfield is a growth led borough and the provision of more and better council homes is core to our priorities alongside, an ambition to 'invest in and be proud of our council homes'. With a backlog of Decent Homes work requiring significant capital investment and an aging stock profile, regeneration is central to the borough's programme to deliver quality and decent homes across the borough. The Council has launched its ambitious direct delivery programme to deliver 3,500 homes by 2035. This, alongside the ambition to deliver the Retrofit London mission of achieving an average EPC B rating by 2030, where part-funding is required, means the council's business plan must support significant capital investment.

Good quality services are also vital with repairs being the most important service to residents. This service has been brought in-house in the last couple of years and is experiencing significant material and labour price inflation and increased costs which reflect the fact that significant investment works are required on the stock. Ensuring on-going compliance with the Regulator for Social Housing's Consumer Standards means continued focus on investment in standards of service delivery including management of Anti-Social behaviour, grounds and communal services and tenant engagement along with other vital support necessary to help older and vulnerable residents and to assist residents with the cost of living crisis.

This consultation comes at a time when significant financial pressures are already bearing down on local authority HRAs. The impact of the COVID-19 pandemic on income which was not supported by Covid government reliefs, rising inflation and increased costs of borrowing alongside additional building safety requirements and decarbonisation works impacting on the HRA cost-base. Capacity has also been significantly reduced as a result of the four-year rent reduction.

The Council's development programme already includes assumptions around income from sales of private homes and shared ownership but house price growth[1] is not keeping up with inflation running on average at 20% this year which puts pressure on the existing programme and reduces our ability to draw in cross subsidy to mitigate income shortfalls.

In addition, implementing a rent ceiling in 2023/24 represents another occasion where central government has intervened in local rent decisions. Not only does this run counter to the principles set out at the time of self-financing (i.e. local decision making) it is also a consequential intervention that impacts on the deliverability of HRA business plans.

For these reasons, sustaining income into the Housing Revenue Account is vital and on this basis without compensation from Government, the 7% rent ceiling will have the least negative impact. Informal consultation with a group of our tenants who make up our Customer Voice engagement group indicates that residents understand the need for rent increases in order to address issues that are important to them.

[1] UK House Price Index data indicates that on average, prices have increased by 6.54% in the past year for all property types within the London Borough of Enfield. In April 2021 the average value of all property types was £420,527, increasing to £449,967 in April 2022.

Enfield – Social Housing Rent Cap Consultation

There are ways in which the Government could and should provide interventions to support for the HRA to help maintain essential services and strategic priorities which also contribute to the economy. DLUHC should consider bringing forward the following options to support local authorities and mitigate the impacts of the rent ceiling:

- Greater flexibility around the use of Right to Buy receipts including for improvements to existing stock to increase life span and reduce obsoletion
- Rent catch-up: The social housing sector should be enabled to implement a catch-up period following the rent ceiling period so that rents can gradually rise to the position they would have been under CPI+1% position.
- Temporary revenue support: Government could provide short-term HRA revenue relief (for at least two-years) to support local authorities in keeping rents below the CPI+1% formula.
- Public Works Loan Board (PWLB) borrowing rates: Government could consider reducing PWLB rates for long-term debt, which have increased to 6% from our business plan assumption of 3.5% taking £66m capacity out of the business plan.
- Expand Discretionary Housing Payment (DHP) allocations: The cuts experienced in this fund have seen a reduction of 30% at a time of increased demand especially for residents in the private rented sector. Further funding is needed to address the impact for self-paying social housing tenants.

The following savings would be required in order to deliver a balanced budget in 2023/24 and the impact this has on our 30-year business plan, this is in addition to our annual requirement of £1m savings through efficiencies:

Proposed Rent cap	2023-24 impact	30-year impact
	£m	£m
3%	3.14	183.79
5%	1.99	66.28
7%	0.83	(56.41)

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

It is unlikely that Enfield Council would implement the maximum possible rent increase that currently looks possible under the CPI+1 approach (up to around 14%) based on affordability grounds.

The impact assessment only considered the options of various caps. It did not consider options like "maximum of CPI +1% and 5%" or a mechanism that would allow rents to catch up over time. The future rents will be part of a separate consultation, but there is no indication in these documents of a 'catch-up' over time in the future once inflation comes down.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Of the options consulted on, the 7% rent ceiling has the least negative impact on vital services to residents. This is on the basis that to deliver on the council's existing capital programme and revenue services a rent increase of 9% would be required in 2023/24 and a ceiling on rent increases (either mandatory or voluntary) will result in a funding gap. Based on the current business plan, if the cost of revenue services were to continue to increase by estimated CPI and rent increases were capped, the net impact would be a £327 million loss over the 30-year business plan.

The loss of revenue would impact the ability of the council to deliver the capital programme as c.£100 million is supported by revenue contributions over the 30-year period. The HRA's capacity over the medium-term to invest in capital projects would not be enough to deliver all the proposed projects in the pipeline whilst also investing in the existing stock to the full requirement.

Interest rates have increased over the past month which has significantly impacted the revenue account. The increase in borrowing costs will reduce revenue reserves by c. £125m over the 30-year business plan.

The stock profile of social housing in London which is reflected in Enfield, includes a greater proportion of high-rise and flatted properties, making it more challenging to maintain an adequate standard of accommodation. The introduction of a rent ceiling will leave less funding to properly invest in addressing property deficiencies.

Over the next 10 years the investment programme will require works costs of c. £270m, however the current budget allocation is £225m. This shortfall is compounded by the loss of rental income that could contribute to support the investment in our existing homes.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

The primary concerns for London local authorities are that appropriate cost-of-living support is in place for tenants (including ensuring accommodation remains affordable) and that local authority HRAs are sufficiently resourced to deliver basic services.

Analysis by London Councils shows that HRA rental income was only expected to return to 2015/16 level this financial year (2022/23), this loss of income has a significant impact for

Enfield's ability to invest in our housing stock and maintain standards. This has the potential to impact on our residents significantly given the backlog of Decent Homes requirements in the borough.

At this stage we believe it is more important to agree the principles for support that would be made available to social housing providers to help maintain service investment while a rent ceiling is in place. This package of support could then be repeated if the rent ceiling is extended for a further year into 2024/25.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree that new lets and re-lets should not be subject to the cap, and that the formula rent policy should apply to these properties. Enabling councils to apply the formula rent to re-lets may therefore enable councils to limit at least some of the financial impact of a rent ceiling.

Projecting formula rents into the future (tracking CPI+1%), we estimate that new and re-let council properties would be charged at a rent of £122.34 per week by 2024/25, which compares to Local Housing Allowance rates in London that currently range from £253.15 to £365.92.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Enfield Council agrees that other forms of rented housing, such as specialist and supported housing, should not be subject to the cap.

There has been a persistent shortage of specialist and supported housing, with viability challenges and other barriers discouraging the social housing sector from bringing forward new supply and a longer-term trend of decommissioning. We fear that adding restrictions on such sites would further reduce the viability of projects and reduce the incentive to develop new schemes. It is vitally important that the financial assistance is always available to cover the full costs of such schemes, including through the benefits system and social care budgets.

From: [redacted]
To: [redacted]
Subject: Portsmouth City Council Response to Social rent Consultation
Date: 12 October 2022 09:30:49
Attachments: image001.png
image002.jpg
Housing Revenue Account 30 Year Business Plan.pptx

You don't often get email from [redacted]. Learn why this is important

Please find below a Corporate response to the Departments request for feedback on Capping increases to Social rent from Portsmouth City Council.
This response has been written and agreed with:

[redacted]

Please see responses below

8. Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

The Council as landlord has a duty to provide Council Housing to it's tenant, this means that all of the financial risk associated with the costs of providing these services rests with it. [redacted] The idea of a cap on rent increases is good in principle as a means of controlling the spend on benefits but isn't effective as a cost-of-living measure and impacts on HRA business plans.

Formula rents for social rented properties represent the value, size and location of a property and provide a consistent (Government defined) rent level for any social rented property. A consequence of applying ceilings to actual rent increases but retaining the existing approach to formula rents is that significant variances will occur between actual rents and the formula rents with which they were anticipated to converge.

Undoubtedly local authorities have and would continue to consider the level of rent increase for 2023/24. The Government have previously emphasised that setting rents (within the regulatory framework set out in the Rent Standard) remains a decision for each local authority. However, imposing additional ceilings on rent increases undermines the local decision-making process.

9. Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

No

As with question 8 we don't agree from a financial perspective.

[redacted]

At Portsmouth we have modelled each of the rent consulted scenarios over a 30 year period. The attached presentation sets out the impact on the current revenue reserve. It shows that:

[redacted]

The scenario that sees rents capped at 5% for two years is a real concern a [redacted] It is also worth noting that this current financial year we set rents in January 2022, before the war in the Ukraine and the cost of living crisis, so we have in effect already had a cap on our rents this current year.

[redacted].

According to consultants we work with it is evident from their impact assessment that the cost of imposing a ceiling on the HRA is significant. Over 5 years, the cost to local authorities in England (compared to a CPI + 1% increase of 10.9%) is £3.4bn at 3%, £2.5bn at 5% and £1.7bn at 7%. For HRA business planning, which we would expect to be measured over a longer time period (than 5 years) the cost would be dramatically more.

10. Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

No

We don't agree with a Cap for one year, there is a real danger that a further cap is implemented that covers two years this will compound the financial impact on the Council's business plan without Central Government compensation.

When self-financing was introduced for local authorities in 2012, the debt settlement was based on a 30-year net present value calculation, which assumed that rent increases would continue until convergence was achieved with formula rents subject to a limit of 0.5% + £2 above inflation (as defined by the Retail Price Index). After self-financing, the additional rent above inflation was effectively removed by the limit of CPI + 1% imposed from 2015/16, rent reductions were imposed for the period 2016/17 to 2019/20 and a further ceiling is proposed 2023/24 (and possibly 2024/25). There is no indication in the consultation that the Government plan to provide any support to compensate local authorities for the ceiling on rents, so effectively local authorities will be expected to meet inflationary pressure on expenditure budgets from existing resources wherever this is more than the ceiling on rents. Any extension to the ceiling will impose further pressure on the HRA. The Government could (although it would be expected to resist any pressure to do so) reopen the self- financing settlements and support the ceiling on rents through a reduction in debt.

In the event that the ceiling applies to 2023/24 only, it is unclear whether the Rent Standard 2023 would be revoked and the Rent Standard 2020 would be applied to 2024/25 or whether a new Rent Standard 2024 will be introduced.

11. Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

We don't agree a cap should be applied without Central Government compensation.

Under existing arrangements there is an expectation, although not a requirement, to apply formula rent (or the cap if lower) to re-let properties.

A consequence of not applying the ceiling to rent increases for re-lets would be increasingly significant differences in the rent charged to existing and new tenants, in some cases making the rents of neighbouring properties quite different.

12. We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

No

The proposal is misleading as there are categories of accommodation that are not covered by the draft policy statement and are therefore not subject to the ceiling. The categories included are consistent with those excepted from the rent reduction requirements of the Welfare Reform and Work Act 2016. There was also a further exception in 2016/17 only, for supported housing including hostels, so it could be argued that these warrant separate consideration.

If you have any questions or would like further responses please do not hesitate to contact us.

[redacted]

Portsmouth City Council
Floor 2, Core 3
Civic Offices
Portsmouth
PO1 2AL
[redacted]
W : www.portsmouth.gov.uk
[redacted]

Rent it Right email signature banner

This email is for the intended recipient(s) only.

If you have received this email due to an error in addressing, transmission or for any other reason, please reply to it and let the author know. If you are not the intended recipient, you must not use, disclose, distribute, copy or print it.

This email may be monitored, read, recorded and/or kept by Portsmouth City Council. Email monitoring and blocking software may be used.

Housing, Neighbourhood and Building Services Directorate

Housing Revenue Account 30 Year Business Plan

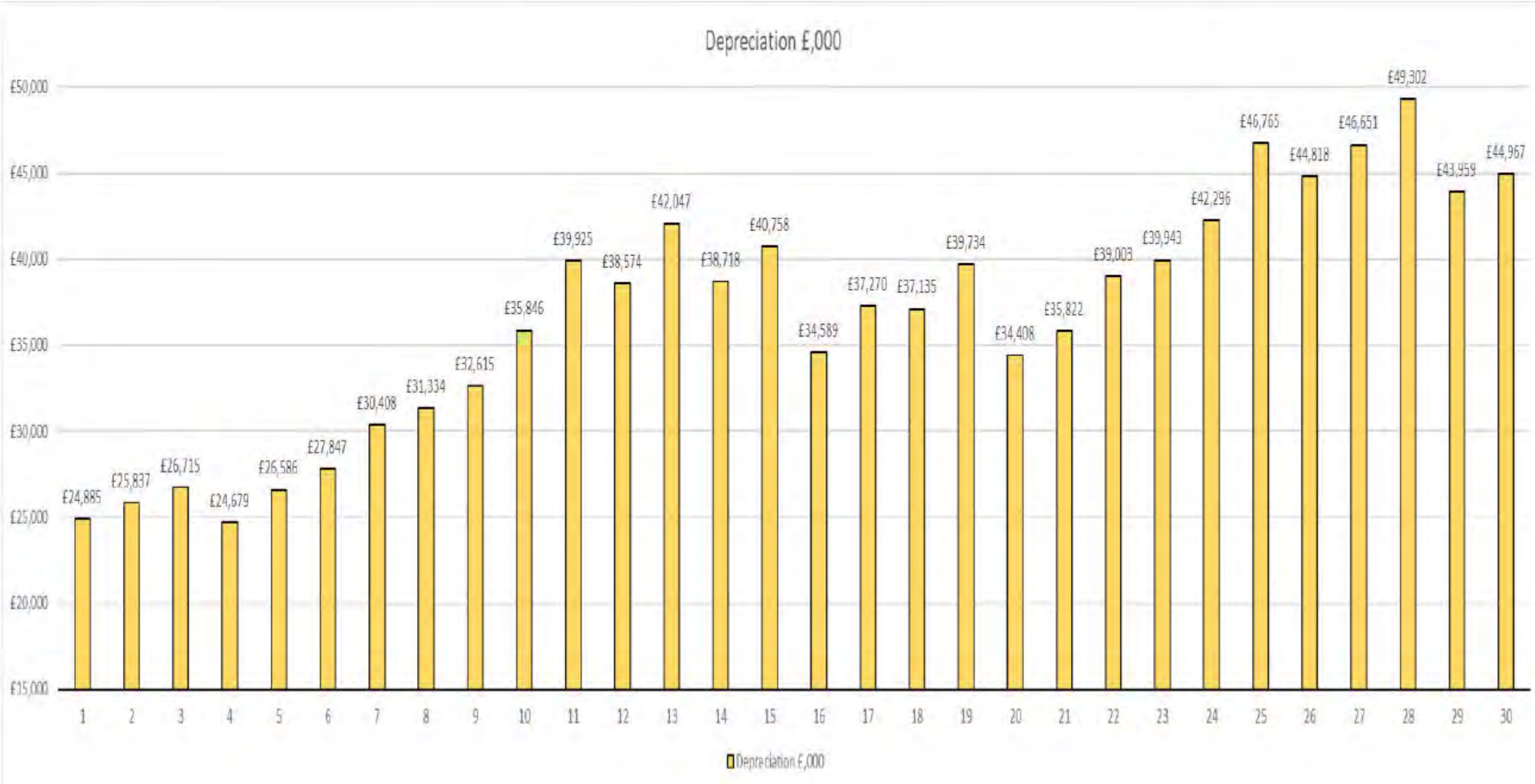
Assumptions in the 30 Year Model

Table 4 - Recommended Forecast

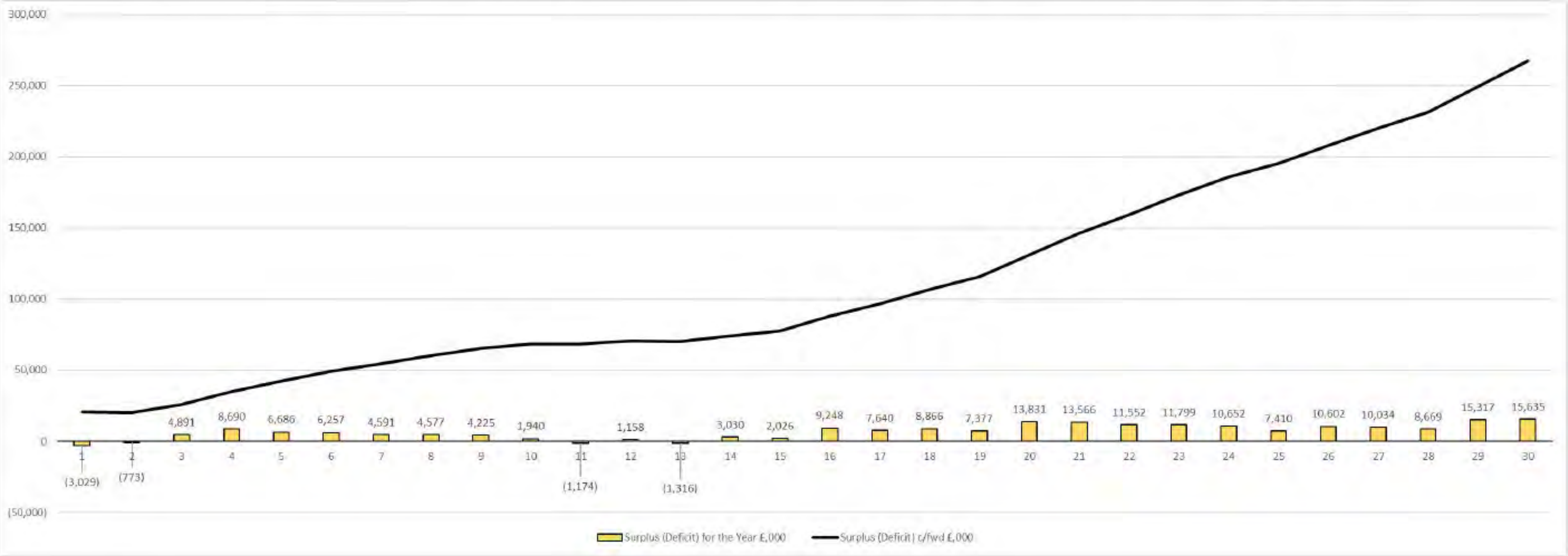
	2022 Q3	2023 Q3	2024 Q3	2025 Q3
CPI	9.90%	9.50%	2.00%	0.80%
RPI Premium	2.27%	1.91%	0.83%	0.83%
RPI	**12.17%**	**11.41%**	**2.83%**	**1.63%**

1. CPI will revert to the government target of 2.00% in 2026 Q3 and subsequent years.
2. Inflation on non-pay costs (RPI) will continue to track at 0.83% above CPI.
3. Pay award for 2023/24 of 3.5% on top of the £1,925 offer for 2022/23.
4. Blended inflation rate of 6.0% for Supervision and Management in 2023/24 based on 68% staff costs at 3.5% and 32% other costs at 11.41%.
5. Blended inflation rate of 5.2% for Special Management in 2023/24 based on 79% staff costs at 3.5% and 21% other costs at 11.41%.
6. All costs linked to RPI from 2024/25 onwards.
7. All appropriate costs will be covered by an increase in 2023/24 service charge income based on the 5.2% blended rate of inflation for Special Management.
8. Income from garages, shops, land rents and other miscellaneous income inflated at 5% in 2023/24.

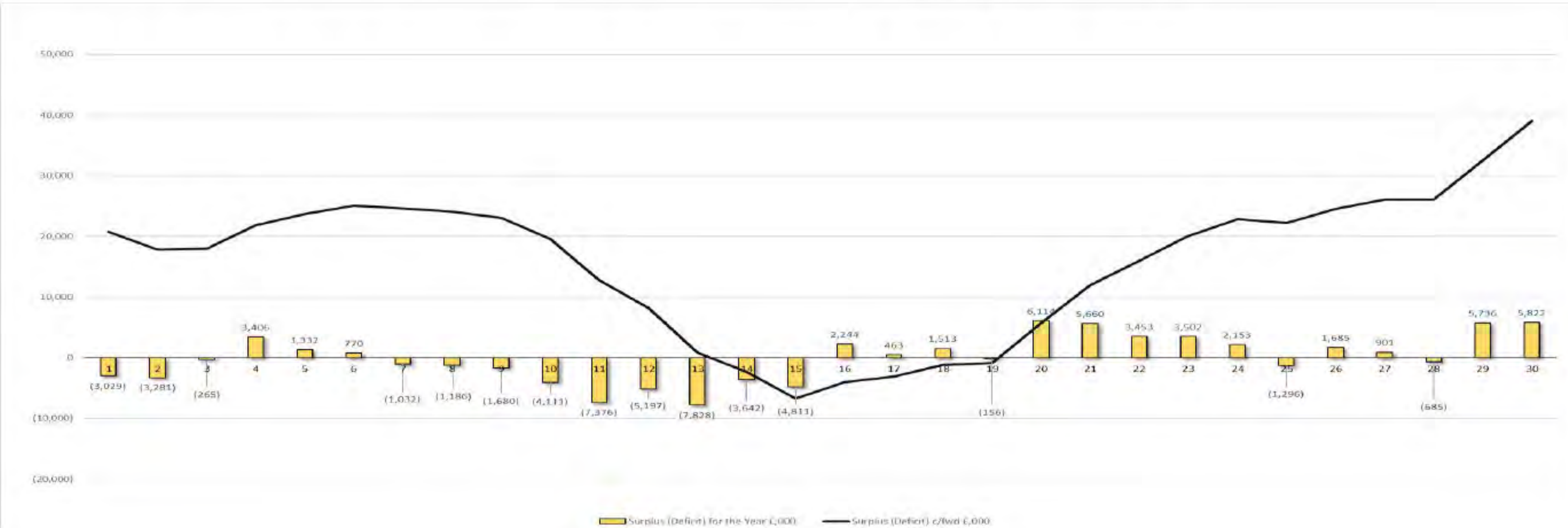
Contribution to capital reserve



Model based on CPI+1% for all 30 years



Model based on 7% cap for 2 years, then CPI+1% for all remaining years.



Rent and Service Charges

Rents and service charges 23/24	Current Year	0% increase	3% Increase	5% Increase	7% Increase	CPI + 1%
	£	£	£	£	£	£
Social Rent	90.39	90.39	93.10	94.91	96.72	100.24
Average service charge	11.76	12.37	12.37	12.37	12.37	12.37
Total rent and service charge	**102.15**	**102.76**	**105.47**	**107.28**	**109.09**	**112.61**
Average LHA Rate	171.56	171.56	171.56	171.56	171.56	171.56
Headroom	**69.41**	**68.80**	**66.09**	**64.28**	**62.48**	**58.95**

Places for People

Social housing rents

Department for Levelling Up, Housing & Communities

October 2022

About Places for People

Places for People is an award-winning placemaking and regeneration company, with over 50 years of experience creating places that work for everyone. With a long-term commitment to the sustainability of places, we have the capability and expertise to create and manage entire places. We currently own or manage over 217,000 homes across 377 local authority areas, providing valued services to more than half a million people each year. In 2021/22 we built and acquired 1,775 new homes and have plans to deliver a further 20,000 new homes in the coming years.

Our Group companies are market leaders in their fields, providing relevant and high quality services to our customers at every stage of their lives, from students to first-time buyers, through to retirement. By taking a commercial approach to sustainable placemaking, we also deliver a strong and positive impact on our communities. Through our active asset management and investment strategy, we maintain a well-managed and profitable portfolio, which has enabled us to withstand short-term shocks in the economy and build our capability to deliver our long-term strategy. We invest in quality developments that will stand the test of time. Our purpose is to create places that work for everyone – this sums up our long-term ambition to change the way places are designed, built and managed to create housing choices that improve the lives of the people who live there.

Thanks to our scale and diversity, our portfolio of complementary companies has found creative ways to collaborate to tackle the big issues affecting the sector, and create places and assets in a way that few organisations can match. We have recently focused on finding new and better ways to deliver high quality services to satisfy the ambitions and demands of our customers. We work with partners and local communities to inspire the creation of places that offer opportunity and choice for people that live and work there. Across the Places for People Group, we put people first. We treat everybody honestly, courteously and fairly. The Group works with a broad range of customers and clients and applies a unique mix of skills and capabilities to meet and exceed their needs.

Any queries with regards to our representation should be addressed to:

[redacted]

[redacted] [redacted]
[redacted] [redacted]

Social housing rents

Department for Levelling Up, Housing & Communities

This consultation seeks views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. It focuses on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year

Places for People Group Response

Questions

Question 1:

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No.

Registered Providers should be trusted to make responsible decisions, guided by their knowledge of their customers, homes and communities. We are already exploring how best to balance affordability for customers with viability and investment responsibilities and, regardless of government intervention, would expect to exercise restraint. We are best placed to balance affordability with investing in homes and communities - to improve building safety, the quality of homes for our customers and energy efficiency.

We should also continue to invest in meeting the needs of future generations by continuing to invest in the new homes communities need. Increasing our affordable housing stock and maintaining the housing supply pipeline will be especially important if the housing market is impacted by recent interest rate rises.

Before Government act, we believe a detailed assessment of the economic impact is required, including that on building safety works, activity to improve the quality and energy efficiency of homes for customers and the loss of new development.

Around 50% of our customers, many of whom are our most vulnerable, have their housing costs met by housing benefit or universal credit. They will see no benefit from a rent cap unless the Government's savings are reinvested for their benefit, for example in energy efficiency measures for homes. In fact, a rent cap is likely to lead to reductions in investment to their detriment. To ensure customers are the beneficiary of the savings Government would make from a rent cap (which we understand could be in the region of £4.6bn) we would expect savings to be directed towards additional investment such as grant to support energy efficiency measures to save customers money on the long term, additional grant for the development of new homes and removing VAT on housing provider activity. Given the pressures outlined and the savings to Government, we believe that mitigations should be announced alongside any rent cap to prevent significant reduction in investment in existing and new homes.

We would also highlight that since the consultation was published the environment in which housing providers operate has changed significantly. As set out below, a cap would have significant impact on social landlord's budgets, be credit negative, constrain revenue growth and weaken margins and interest coverage metrics.

Question 2:

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

No.

Registered Providers face different challenges and should be able to decide on the right rent level for their customers and circumstances.

Since the consultation was published, the operating environment for providers has become more challenging. Inflation of the cost of supplies and services continues to trend above 10%, while the increase in interest rates means that borrowing has also become more expensive. Ratings agencies have already indicated that a rent cap, at any level, would constrain revenue growth and would therefore impact on credit scores. There are also concerns that the very act of intervention by Government could impact on the view of affordable housing revenue as a stable source of income.

If Government go ahead with introducing a cap, we would like to see a higher percentage (e.g.7%). This could sit alongside a commitment from housing providers to ringfence a set amount (i.e.2%) to support those in greatest need over the coming year through additional landlord support. This could take the form or landlord contributions to rent or service charges, or specific hardship grants.

[redacted]

[redacted]

[redacted]

Question 3:

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes.

In recent months we have seen dramatic changes to the rate of inflation and to interest rates. This volatility does not provide a sound basis for long term changes with dramatic impacts on financial planning. Any cap should be reviewed at the earliest possible opportunity and regularly thereafter, as every additional month represents lost investment in existing homes and lost new homes.

Question 4:

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes.

Savills' analysis for the Chartered Institute of Housing (CIH) sets out that re-let rates across the social housing stock vary widely but a consolidated average of no more than 3-5% annual churn is experienced across the sector, and in some cases considerably lower. With stock turning over at such a low rate the impact of the ceiling on rent setting is that the loss of net revenue is never fully recovered, and to the extent that there is any recovery, it is gradual and extends over decades.

Question 5:

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes.

Given the higher costs associated with supported housing, due to the nature of the accommodation and services provided, we believe that supported housing should be exempt from a cap. A cap would be especially likely to place pressures on net operating budgets in these services, potentially leading to reductions in services or essential asset investment. We do believe that an exemption does not necessarily mean that supported housing providers would increase rents by CPI+1%.

[redacted]

[redacted] [redacted]
[redacted] [redacted]

Places for People

Places for People
305 Gray's Inn Road
London
WC1X 8QR

www.placesforpeople.co.uk

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Orbit Group Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Orbit Group Garden Court Binley Business Park Harry Weston Road Coventry CV3 2SU
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐ Yes
☒ No
☐ Maybe

Comment:

No, we do not agree there should be a specific ceiling on rent in addition to the CPI+1% limit, unless there is government support to counterbalance the investment impact or a catch-up mechanism to recover the impact of any lost revenue. We recognise it is a challenging economic environment which is impacting businesses and individuals alike. We believe Housing Associations themselves are best placed to balance the decision regarding rent affordability with the need for investment in both new and existing homes and services we provide to support our customers.

Without a ceiling or mitigation measures, we are likely to self-regulate to a single-digit rent increase below the permitted CPI+1% and apply this across current and new customers, including re-lets. As above we would balance this decision considering the various investments and actions we take to support our customers and maintain our property portfolios.

Financial impact

Housing associations manage long-term investment plans taking into account rental income. These investment levels are maintained subject to ratings agency and investor confidence in Orbit as a business and the Social Housing sector more generally. With ageing housing stock that needs continued and increasing maintenance, any elongation of our investment programmes is not in the interest of our customers. It will also impact the work we do in helping to solve the nationwide shortage of homes, especially affordable homes for rent.

Even at the current rent formula CPI+1%, our rent revenue increases would not match the supply cost increases as a result of current inflationary pressure. Our maintenance supply chains are impacted by the worldwide situation affecting costs and supply and are currently asking for an average increase of at least 10 percentage points in their charges to us.

During this challenging economic period, the need to support our customers is greater than ever. We provide substantial help to individuals who are often in the most need. Any ceiling on our rental income will reduce our ability to provide these services and will have a detrimental impact on our customers.

A 5% ceiling will have a cumulative impact over the life of our 30-year investment plan when compared to the normal assumption of CPI+1% and normal inflation levels.

The financial impact of a 5% ceiling is that we will have no choice but to reduce our new homes build programme for the next five years, specifically impacting our programme of supplying social homes.

It would substantially reduce our current investment intention into our 46,500 existing homes including for investment decarbonisation. This is not in the medium to long term interests of our current and future customers and the environment.

These significant amounts have an ongoing impact on our ability to decarbonise our homes through investing in EPC and net zero carbon activities, at the same time as funding our building safety programmes (which will of course remain our priority).

Our continued investment into both new homes and our existing properties supports economic growth in the areas we work in contributing jobs and opportunity through direct employment and also in the wider supply chains. This would be undermined by the policy as proposed.

Each of the priorities described above are ambitions shared between the government and housing associations to improve the quality of our affordable housing in the UK. With a rent cap, we will simply be unable to deliver across of all these commitments at substantially reduced incomes.

Government mitigating actions

If the government imposes a ceiling lower than the current formula allows for, there are mitigating actions government could take to enable our business and the wider sector to continue to invest in our customers and communities whilst meeting the country’s future housing needs.

We would strongly encourage the government, if it imposes a ceiling, to provide a settlement that includes a formula that allows housing associations to return to Business Plan assumptions post ceiling in future years. This way, financial plans and programmes such as decarbonisation and building safety can be phased accordingly, not stopped and then restarted.

We note that significant support has been put into energy companies to ensure that they are able to support customers. Providing support to help customers who require social housing would be consistent with this approach. We would welcome the opportunity to work with government on how this could work.

Customer-focused decision making

As a responsible business, our Board looks to keep our rent increases to a minimum, balancing customers' ability to pay, investment into our current properties (including building safety and decarbonisation), delivery of support services for our customers and continuing to build new affordable homes.

Customers are part of our direct decision making and sit on the Orbit Housing Association Board. We work closely with many engaged customers who help the Board take decisions on an ongoing basis about all the strategic plans we make, and we would of course fully involve them in the decisions regarding rent increases. We have discussed our proposed response with members of our Customer Engagement Strategic Committee.

We strongly believe that our Board, our executive team, and our engaged customers are best placed to balance, in consultation with our engaged customers, these competing demands in a way that is fair to our customers now and protecting our customers in the future.

In conjunction with our customers, we are carefully considering our approach to next year's rents and will do all that we can to keep increases low where possible, to protect our customers from hardship and targeting help to our residents who are facing the most complex and acute challenges. We always look to keep our rent increases to a minimum.

We jointly balance this with the need to invest in both our customers' homes (building safety, planned maintenance, decarbonisation), our services plus customer support programmes and of course building new homes for those in need. A new ceiling on social housing rent increases will significantly impact on our ability to provide critical services for residents and invest in new and existing homes.

We understand well that increasing rents at this time places additional pressure on our customers' financial position and a rent increase which is too high becomes counterproductive. Orbit and our engaged customers are best placed to strike the right balance between rent levels and the pressure we see on our support services, bad debt levels, legal costs and the increase in the number of people exiting our properties, thus adding to our void and lettings costs.

We already provide a range of support services for our customers including mental health and wellbeing, money advice, digital inclusion and employment and skills. These programmes provide vital support to our customers and, as is to be expected in the current context, we are planning for an increase in demand. Ceilings on our rent levels would see us reducing the support available, thereby putting pressure on other organisaitons and authorities.

We are currently rolling out energy support packages in partnership with National Energy Action including face-to-face specialist advice to our customers and a ‘warm and well package’ (including radiator reflectors, LED lighting and blankets) for this winter to help customers manage their consumption. We are also piloting providing new customers with furnished homes with carpets and blinds as a minimum along with the opportunity to select from certain white goods and furniture items. Again, with reduced rental income these programmes would be cut.

We take into account changes to wages and benefits of our customers. The National Living Wage is increasing by 10%, pensions are locked into significant increases through the triple lock mechanism, and we are seeing wage settlements in the 5% plus range. Any decisions on rent increases are made following discussions and consultation with our engaged customers.

We are also likely to limit shared ownership rent increases under the increases that could be imposed under their contracts. Further work on the legal implications of applying a ceiling to shared-ownership rents needs to be completed to ensure that we do not prejudice Orbit’s longer-term position.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐ Yes, you agree with imposing a ceiling of 5%
☒ No
☐ Maybe

Comment:

If the government decides to impose a ceiling, the 7% scenario enables us, albeit slightly scaled back, to continue to deliver our customer-focused services and limits the extent to which we would need to reduce our build programmes. It also enables us to put in targeted support for customers least able to sustain additional cost of living increases.

The impacts can be summarised as follows:

	Impact at different ceiling levels		
	3%	5%	7%
New builds over the next five years	Most substantial reduction in new builds	Substantial reduction in new builds	Least substantial reduction in new builds
Building safety	Would prioritise therefore continue to plan	Would prioritise therefore continue to plan	Would prioritise therefore continue to plan
EPC C by 2030	May need to extend beyond 2032	Would prioritise therefore continue to plan	Would prioritise therefore continue to plan
Net zero to 2050	Puts at risk current plans	Reduces investment	Continues to plan

	Impact at different ceiling levels		
	3%	5%	7%
Regeneration of poor-quality sites	Likely to dispose of sites and not redevelop – reducing homes in the sector	Likely to dispose of sites and not redevelop – reducing homes in the sector	Even here we expect to see significant delays in redevelopment of sites without grant funding
Repairs and maintenance	Substantial reduced investment and delays to planned works. Unable to meet any revisions to Decent Homes Standard	Reduction in investment and delays to planned works.	Continues to plan
Mental health, wellbeing, money advice, digital inclusion and employment and skills services	Withdrawal of most support services	Consider service by service what can be scaled back.	Continue at current level though unable to increase capacity if needed

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☒ No
☐ Maybe

Comment:

If imposed, we strongly believe the ceiling should only be for one year. This allows flexibility and the potential for a catch-up mechanism if CPI falls quickly in 2023 as currently projected. Even from a single year ceiling, the significance of the financial impact means that any further restrictions on income will be detrimental to the sector and its customers. All of the issues raised above will increase in magnitude and it would put significant pressure on our decarbonisation and building safety programmes if a second year were imposed

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐ Yes
☐ No
☒ Maybe

Comment:

We would wish to ensure parity for our customers and would apply any rent increases across existing and new customers.

Allowing housing associations to increase the level of rent when re-lets occur would assist them to reset rents to a level that allows for further investment in stock and services. However, allowing this to happen does not help make social housing affordable for new customers and, as customers move in and out, it would mean that any benefit given as a result of the rent ceiling will be lost.

Approximately 10% of our customers move to another Orbit home each year, usually because they need to resize their accommodation due to a change in family circumstances. Others move from one registered provider to another. Applying an uplift on relet is penalising any customer that needs to move. The sector's housing is provided for those who are really in need and can't afford their own housing options.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐ Yes
☐ No
☒ Maybe

Comment:

We have no comment on this question.

Date: 12th October 2022
[redacted]3

Oldham Council

Department for Levelling Up, Housing and Communities
2nd Floor, Fry Building
2 Marsham Street
London, SW1P 4DF
SW1P 4D

Corporate Finance Team
Civic Centre
West Street, Oldham OL1 1XJ

Dear Sir/Madam

Re: Social Housing Rents Cap

Please find enclosed Oldham Council's response to the consultation entitled 'Social Housing Rents Consultation Cap".

Should you have any queries regarding our response, please contact my colleague [redacted] by email at [redacted]

Yours Faithfully

[redacted]

Enc.

Social Housing Rents Cap Consultation

Oldham Council Consultation Response

No	Question	Response
1	**Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?**	At Oldham Council we are always conscious of the impact on its residents of any increases to its rents, fees, and charges. With specific reference to rents and given the current economic climate and the continuing cost of living crisis, it is unlikely that the Council would choose to increase its rents in 2023/24 by the maximum of CPI +1%. The August 2022 CPI rate was 9.9% (September 2022 rate is pending at the time of replying) meaning that the potential rent increases for 2023/24 could amount to as much as 10.9%. Given that any imposition of a ceiling will limit the HRA rental and service charge income in 2023/24, would it be possible to raise the possibility of recouping this lost income by increasing potential rent increases in future years to CPI+2% maybe? Or maybe have a ceiling cash figure alongside the % ceiling, e.g., either a 5% or £5 limit?
2	**Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**	Oldham Council currently has a relatively small HRA estate of 2,100 properties. 2,058 of these properties are contained within 2 separate PFI contracts and are therefore exempt from the social rent cap thus allowing rent increases of up to CPI+1%. The Council pays a unitary charge for these properties; however, these costs are linked to RPI rates. The RPI rate for August 2022 was 12.3%. Based on the scenario above the Council will be adversely affected even if it chose to increase rents by the maximum of CPI+1% given the difference between RPI and CPI rates.

No	Question	Response
		Any imposition of a ceiling would lead to reduced income levels for HRA's simultaneously limiting the ability of HRA's to spend on areas such as repairs and maintenance of its stock. Aspirations for more eco-friendly, greener stock may have to be scaled down or in some instances shelved. The consultation also suggests that LA's/RPs should "endeavour" to maintain service charge increases within the same restrictions as rent setting. Assuming any of the potential rent increase ceilings be it 3%, 5%, 7% or even CPI+1%, inflation in areas such as building materials and utilities are far above any of the offered rates. With specific regards to utilities, we are currently looking at inflation rates of over 200%. This again assumes subsidised costs to the resident from the Council with zero financial support.
3	**Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?**	We think, if implemented, the social housing rent cap would be best applied to 2023/24 rents only given the detrimental impact that this will have on Council's 30-year Budget Plans. It is unknown what CPI rates will look like in September 2023, so it wouldn't make any sense to make a binding policy impacting rent setting for 2024/25 without having all the detail to hand. It would make more sense to consult again next year with a better understanding of all the relevant data.
4	**Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?**	Whilst this will allow an element of safeguarding to the HRA and its budget plan, there will be growing anomalies across housing estates with neighbours paying differing amounts for the same home depending on length of tenancy. Is this equitable/fair?
5	**We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?**	The policy statement already makes exceptions for the following – • Shared ownership low-cost rental accommodation • Intermediate rent accommodation • Specialised supported housing

No	Question	Response
		• Relevant local authority accommodation • Student accommodation **• PFI social housing** • Temporary social housing • Care homes Whilst Oldham holds the majority of its HRA stock in exempt PFI social housing, there maybe instances nationally where this policy will lead to dire financial circumstances for HRA budget plans, [redacted]. Therefore, we believe it would always be prudent to allow some avenue for challenge, where budgets could be reviewed centrally, and a proposed solution drawn up.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Homes In Sedgemoor (HiS) – Arm's Length Management Organisation owned by Sedgemoor District Council (SDC)
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Bridgwater House, Kind Square, Bridgwater Somerset TA6 3AR
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment: A Local Government Reorganisation is underway in Somerset which will result in a single authority, Somerset Council, emerging as a unitary council replacing 4 districts and 1 county council. This change comes into effect on 1st April 2023.

HiS believes that a rent cap is sensible and necessary from 1st April 2023. A rent increase of circa 11%, following the current government policy, would create a significant financial impact on many of the tenants who live in the properties we manage. This would be felt most acutely by the 'self-payers' as opposed to those on housing benefit (34%) and/ or universal credit. The impact of a 11% rise in addition to other inflationary pressures, most notably the increased expenditure on energy, would have a devasting impact. Arrears levels would undoubtedly increase. The need to therefore find a balance between this impact and the need to collect income at a level which enables the continued delivery of critical services needs to be struck.

HiS is facing significant inflationary pressure. The costs we incur, particularly in relation to repairs and maintenance and capital works, have increased significantly, by as much as 25%. We are also impacted by the increase in energy supplies. Even with a rent increase of circa 11% our budgets would be under significant pressure. However, on balance it is felt that a rent cap is appropriate to protect where possible the tenants we serve, during the next 12 months.

Even without government intervention we have no doubt that SDC would have decided to introduce a rent cap given the significant challenges that a 11% rent increase would create for tenants.

Clearly any rent cap will create additional financial challenges for Somerset Council, who will replace SDC. Although Somerset Council won't legally exist until 1st April it is very likely that they would view the situation in the same way as SDC do.

A rent cap will impact on the services we are able to provide tenants on the behalf of SDC. There is a risk that Decent Homes Standards may not be met, though maintaining this will be a priority for us. Our ability to progress works to meet net zero standards will be compromised. Reduced funding for the development and build of new homes will result in projects being delayed or slowed.

HiS have agreed to allocated £200k of its reserves to support a hardship scheme which will be in place for the remainder of 22/23. Proposals in the scheme include the provision of emergency payments to support energy costs and the installation of components to help reduce energy consumption.

HiS, and no doubt SDC, would welcome an expansion of government grants to help support net zero initiatives. A review of Public Works Loan Board (PWLB) arrangements would also be helpful.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No = 7%
☐Maybe

Comment: A 7% cap is thought to be a fairer balance than 5%, between the impact on the tenants versus the impact on the Housing Revenue Account. It ultimately comes down to degree of impact. As mentioned previously, with even a 11% increase there would be pressures to manage. The exact impact of different scenarios is being worked through currently. It would be HiS' preference for the impact of any cap on income levels to be recovered through a 'catch-up' mechanism, allowing higher rent rises over a five or even 10 year period following the initial limitation period. This is important to enable the baseline to be restored to a sustainable level.

For Sedgemoor District Council the difference between a 11% rent increase and the three options referenced in the consultation are, in terms of projected income in 2023/24 are;

3% £1.385m
5% £1.040m
7% £695k

Our capital programme requirement for 23/24 has been identified as £8.068m. It can therefore be seen that the impacts above could require a 17.16%, 12.89% and 8.6% reduction respectively if managed against the capital programme exclusively. Our capital programme is developed primarily to ensure that properties remain as 'decent homes'.

Another way of understanding the potential impact is to consider it alongside on-going development. Using an average cost of housing development of £150k net of grant, the number of homes that couldn't be delivered could be 9, 7 and 4 respectively.

Over the duration of the refreshed 30 year business plan, the impact of the three options, if in place for 23/24 and 24/25 are (along with housing development in brackets);

3% in years 1 & 2 and then back to CPI only thereafter £83.368m (556)
5% in years 1 & 2 and then back to CPI only thereafter £54.625m (364)
7% in years 1 & 2 and then back to CPI only thereafter £25.354m (169)

By way of context it has been estimated that moving all properties that we manage to net zero would cost £75m. This shows the impact that any rent cap would have on significant investment requirements in the future and as such provides weight to our desire for any rent cap to be recovered in futured years to bring the HRA back to needed levels.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment: The impact of a single years rent cap will be significant. To introduce a rent cap for a second year would compromise HiS' ability to deliver key services going forward. The financial environment seems so uncertain for the foreseeable future and no doubt a more sensible approach would be to assess the situation in 12 months rather than commit to a 2-year arrangement at this stage.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment: The government's proposal to apply the cap only to existing social housing tenancies, rather than any new tenancies means if a person is a new social housing tenant, they could still have their rent set under the CPI+1% formula. It could therefore be seen to be unfair on future tenants, who themselves will be facing many of the current and future cost of living challenges, to face increases in rent that are greater than our current tenants. This will be particularly acute amongst those who are 'self-funding'. It could also become complicated to operate with a legacy of variations to manage.

However, the ability to retain local decision making in this regard, particularly if the rent cap is at the lower end (closer to 3%) the ability to recover some of this shortfall through first let an re-let properties would be necessary. Expenditure pressures across our services are in some instances far greater than even the 11%.

There is potential impact on the cost of borrowing, with knock-on effects for the economy, and costs for services for instance through continued occupation of temporary accommodation if those in temporary accommodation find they cannot afford the new rent.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

Those organisations that provide more expensive forms of accommodation, such as supported housing will be more adversely affected. We feel that exceptions should apply, particularly in extra care/ supported housing settings to ensure continued on-going viability. Placing additional pressure into these arrears could compromise service provision. The provision of housing for domestic abuse victims and refuges should also be viewed as an exception. In its own impact assessment, the government says supported housing providers may be "less resilient" to financial pressures because of their business models or operating margins. If rent increases hold at 5% or 7%, that will leave massive deficits that providers of supported housing won't be able to get back through general needs housing. We have a large co-hort of our customers in care homes/ specialist provision. Shared ownership and temporary accommodation provision have high management costs, necessary to ensure that they wash their own face. The ability to review these areas of provisions separate from the rent cap would be necessary to ensure on-going viability. Our position is based on an understanding that sheltered housing is included in the rent cap proposal.

Social housing rent increases in 2023

Consultation response

12 October 2022

Summary

- **Housing associations are committed to supporting residents** who are struggling with the cost of living, and have put extensive help in place for this winter.
- **Housing association rents are set well below market rates** and save tenants £9bn a year compared to the rents they would be paying in the private rented sector.
- **Housing association rents are all reinvested to provide high quality services and homes for residents.** Housing associations are committed to keeping homes safe and well maintained, improving energy efficiency to lower bills, and building new social homes.
- **The cost of investing in homes and services for residents is increasing rapidly**, with construction costs increasing by 12% over the last year and repairs materials increasing by 14%.
- **The economic environment is challenging** with rising interest rates alone potentially costing housing associations an additional £0.5bn in interest costs next year, affecting their ability to invest in much-needed homes and services.
- **Housing associations are diverse organisations**, which vary widely by size, geography, type of provision, resident profile and financial metrics.
- For all these reasons, **housing association boards are best placed to decide on rent increases in 2023 for their own organisations**, within the existing CPI+1% regulatory limit. They will balance affordability for their residents, with their organisation's capacity for investment in their residents' homes and services.
- If government does not intervene, **we expect most housing associations to increase rents by significantly less than CPI+1%** alongside extensive targeted support for those who struggle to pay their rent.
- While we think housing associations boards should have discretion to make decisions on the rent increase and they will prioritise affordability for residents,

Registered office: Lion Court, 25 Procter St, Holborn, London WC1V 6NY
020 7067 1010 | housing.org.uk | National Housing Federation Limited, trading as National Housing Federation. A company with limited liability.
Registered in England No. 302132

this would still mean organisations would have to reduce investment in homes and services, without additional government support and mitigation.

- Because of the way rent regulation works, **the effect of holding back rent increases next year (either voluntarily, or via a cap) is compounded in future years** – so that a temporary intervention aiming to protect residents next year will lead to year-on-year reduced investment in social homes and services for residents for decades to come
- **Government intervention via a rent ceiling would be credit negative for housing associations,** worsen financial metrics, undermine lender confidence and – combined with wider economic conditions – reduce liquidity and increase borrowing costs.
- **A cap set at 3% would make the challenges almost unmanageable for many housing associations** and require substantial support to safeguard viability. 90% of organisations would have to substantially reduce investment in development, repairs and maintenance and retrofit of homes. A third would reduce development by more than 75% over the next five years. Many would breach lender covenants without mitigating action or carve-outs, and some would have to sell homes. A third of housing associations providing supported housing would have to reduce or cease provision.
- **A cap set at 5% would present significant challenges for some organisations, and severely reduce investment in new and existing homes** next year and for many years to come. Around 80% of organisations would have to reduce investment in development, repairs and maintenance and decarbonisation. Half would have to reduce frontline services to tenants
- **A cap set at 7% would mean organisations having to take difficult decisions about what to prioritise and how to make savings**, but for some organisations this may be manageable without significant upheaval to their work. 60% of organisations would have to make some reduction in investment in homes and services.
- **If the government does apply a ceiling on rent increases in 2023 it should be set as high as possible** to give boards discretion to target support below the ceiling. We believe that 7% is the minimum level which would give boards discretion to adapt increases to their context and target support for residents struggling to afford their rents. We would expect most increases to be between 5% and 7% in this case. Organisations would still have to make difficult decisions about how to manage a below inflation increase and what to prioritise, delay or cut without government support.
- **Supported and sheltered housing should be exempt from any cap**, reflecting its vulnerable financial position and viability risks. Providers would

still seek to keep rent increases as low as possible and many would increase rents by significantly less than CPI+1%.

- Any cap should be for one year, given the level of economic uncertainty
- Without mitigating action from the government, a temporary intervention aiming to protect residents next year will lead to year-on-year reduced investment in social homes and services for residents, for decades to come. In order to maintain investment in services and homes for residents, while keeping rents affordable next year, the government should:
  - Provide **grant to support investment in homes and services,** to at least the level of the benefit savings resulting from any cap
  - **Commit now to reintroducing a mechanism to allow rents to gradually return to their real terms level** once inflation has fallen back. This will preserve critical long-term investment in homes and services for residents and confidence for lenders, and mean decisions to delay or cancel investment over the next few years could be avoided.

.

Introduction

The National Housing Federation is the voice of housing associations in England. Housing associations are not-for-profit organisations who provide 2.8 million homes for six million people, with homes in every council area of England.

This response represents the views of our 570 member housing associations. It is based on direct engagement with over 500 people in roundtable discussions, and responses to our member survey from 140 organisations, who collectively own 1.28m homes.

This response sets out our view on the government's proposal to apply a ceiling to social housing rent increases for existing tenants in 2023. It explains the background to this decision and housing associations' overall approach to rent setting. It then answers the questions set out in the consultation.

Background

Support for residents in the cost of living crisis

Housing associations are acutely aware of the cost of living pressures that residents are facing, and are rapidly extending the support they provide to residents, this year and next.

They are setting up or bolstering hardship and support funds, delivering benefits and money advice and employment support, reducing residents' bills through energy efficiency works, and partnering with local charities and public agencies to deliver help.

Housing associations have pledged not to evict any resident for financial hardship, as long as they are engaging with their landlord to get their payments back on track.

Housing association rents

Housing associations exist to provide homes that are affordable for residents, and charge rents that are significantly below market levels, often around 50% below. In real terms, housing association rents fell by 8.5% between 2015 and 2021.

In total, housing associations save their tenants £9bn each year, compared to the amount residents would pay if they were renting in the private rented sector. This also delivers a saving of £6bn per year to the government, through lower benefit payments, since 73% of housing association tenants receive support via Universal credit or Housing Benefit, to help pay their rent.

Annual increases in housing association rents are decided by individual boards, and limited by regulation to a maximum of CPI+1%.

Investment in homes and services for tenants

As not-for-profit organisations, housing associations reinvest all their income in services and homes for their residents. They are committed to ensuring all homes are safe, good quality, and well-insulated. Housing association homes are more energy efficient than any other tenure, and more likely to meet the Decent Homes Standard. But ongoing investment is required to maintain and improve safety, quality, and energy efficiency.

Housing associations invested £5.4bn in repair and maintenance of their homes in 2020/21[1], and plan to invest more each year to continue improving residents' homes. We estimate that:

- Total investment needed to ensure all buildings are safe will reach £10bn by 2030.
- Total additional investment needed to decarbonise all housing association homes will be a minimum of £36bn by 2050 on top of the £70bn already planned for investment.

Housing associations also build a quarter of all new homes each year, including the vast majority of all new social housing, to tackle homelessness and provide homes for those in greatest need. In 2021/22 housing associations invested £12.7bn in new homes[2], and in 2020/21 completed 38,000 new homes, adding £2.1bn to the national economy, supporting more than 36,000 jobs.

A challenging economic environment

Housing associations' ability to invest in homes and services for residents depends on wider economic conditions.

---

[1] Global Accounts 2021
[2] RSH Quarterly Survey Jan-March 2022

The cost of investing in homes is rising rapidly: In August this year the cost of repairs materials and building new homes had risen by 14% and 12.3% respectively, compared to the previous year[3]. Members report that costs have continued to increase since then, exerting further pressure on their budgets. Energy costs have also risen, although we welcome government intervention which will cap these rises in the short term. Staff costs are also rising rapidly, and expected to rise further as recruitment and retention become significant issues.

Rising interest rates increase the costs of borrowing: Housing associations leverage substantial private investment in order to invest in new and existing social homes. They are able to borrow cheaply in part due to the certainty provided by government-backed index-linked rents.

Housing associations have agreed borrowing facilities worth almost £120bn, of which £89bn is drawn down[4]. £19bn of this is variable rate debt or fixed for less than a year. With interest rates currently expected to be about 3 percentage points higher next year than previously, this could mean an additional £0.5bn in interest costs alone, and reduced interest cover in the medium term. If the UK sovereign is downgraded, that could affect housing associations' own ratings, which would increase borrowing costs and reduce liquidity. This would in turn reduce the amount housing associations can invest in homes and services for residents.

Housing market uncertainty poses additional risks: 40% of housing association development is for shared ownership or market sale, the profits from which are reinvested in social homes and services. This leaves housing associations exposed to housing market fluctuations and rising residential mortgage rates. Historically, housing associations have been able to play a counter-cyclical role in the event of a housing market downturn, working with the government to convert market homes to rented tenures.

Housing association approach to setting rents in 2023

[3] https://www.housing.org.uk/resources/cost-inflation-for-housing-associations/
[4] Quarterly Survey April-June 2022

Housing associations are conscious of the cost of living pressures facing residents and take affordability for residents very seriously.

Before the government signalled its intention to intervene, housing association boards were considering options for applying significantly less than the maximum permissible increase in 2023, in order to protect residents. In doing so, they were considering affordability for tenants, alongside their organisation's capacity to maintain and invest in homes and services, both next year and in future.

These decisions on how to balance affordability for tenants with capacity to invest look different for different organisations, reflecting the circumstances of their residents and the nature of their homes and business plans.

For example, housing associations with higher rents and homes that need less investment might be able to increase rents less in 2023. Those that already have lower rents, a higher proportion of tenants whose rent increases will be covered by benefits, or less financial capacity might decide to increase rents more to ensure they can deliver the services and investment that residents expect and deserve.

Housing associations have also explored different ways to target support at those who need help, for example by:

- Capping all their rent increases significantly below CPI+1%, with most planning for somewhere between 5% and 9% rises.
- Applying different rent increases across their portfolio, depending on existing rent levels and affordability metrics, providing greater protection to households paying higher rents at present
- Providing rent waivers to cover some or all of next year's increase for certain residents, protecting tenants who need help next year while retaining real terms rent levels in subsequent years, to allow for continued investment.

All were considering how to provide more targeted support to those residents struggling most to make ends meet via hardship or support funds, additional benefits and money advice, and partnerships with other charities locally.

Voluntarily holding rent increases below inflation and prioritising affordability for residents will still mean reduced investment in homes and services next year and in future. Therefore the mitigations outlined below – particularly a convergence mechanism - will be vital in ensuring that housing associations can support residents through an exceptional year next year while continuing to invest in their homes and services in future.

The government's proposal to apply a ceiling to rent increases in 2023

The government is proposing to apply a ceiling to rent increases for existing tenants in 2023 in order to provide a 'backstop of certainty' for tenants.

If the government does impose a ceiling on rent increases in 2023, it will impact housing associations' ability to invest in services and homes for residents, and in some cases could threaten organisational viability.

The effect of a one year ceiling will compound in future years, because there is no mechanism in rent regulation for rents to catch back up to their real terms level.

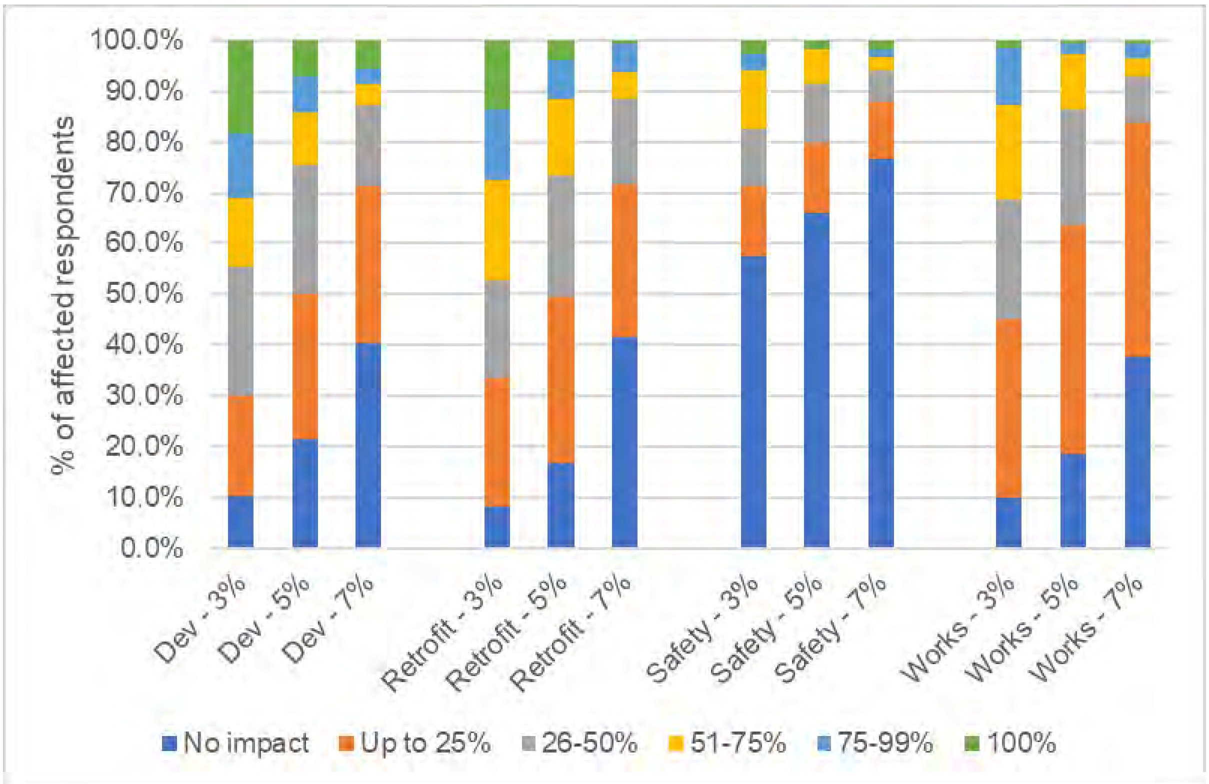
Compared to increasing rents by the full CPI+1% next year, the government's proposed caps on rents for one year could see the following levels of lost rental income for housing associations.

	In 2023/24	Over 5 years	Over 10 years
3% cap	£1.1bn	£6.1bn	£13.3bn
5% cap	£850m	£4.6bn	£10bn
7% cap	£560m	£3.1bn	£6.6bn

In practice, since housing associations would not increase rents by the full CPI+1%, the total impact would be less.

The direct impact of lower rental income would be a reduction in investment in homes and services for tenants. In response to our survey, housing associations indicated the likely impact of the different levels of cap, compared to their current investment plans:

Fig 1: the % reduction in investment over the next five years across development of new homes, retrofit of existing homes, investment in building safety, and repairs and planned works, for each proposed level of rent ceiling.



With a cap set at 3%:

- 90% of respondents from developing associations would have to reduce development activity, with nearly a third anticipating a reduction of more than 75%.
- Nearly 80% of respondents estimated it would take longer to carry out essential energy efficiency works to improve warmth and reduce bills for residents, by bringing all homes up to EPC C.
- 41% of respondents would need to slow down building safety works, even though this is the area of spend they would prioritise above other investment

With a cap set at 5%:

- 83% of respondents planning retrofit works anticipate having to reduce activity.
- Over half of respondents would have to make cuts to their workforce.
- 81% of respondents said that planned repairs and maintenance works would be impacted, in particular through a scaling back of ambition, with

‘discretionary’ investment postponed and a focus on delivering just what is required to ensure compliance.

Respondents reported that rent ceilings would mean:

- Having to hold back staff pay rises, with knock-on impacts for staff wellbeing, recruitment and retention.
- Being forced to cut back on the support made available for residents, with knock-on costs for the public sector. For example, reductions in funding for the police to tackle anti-social behaviour, provision of adaptations and community alarm services for tenants, and partnerships with health and other local agencies.

Other impacts of a rent ceiling

The application of a rent ceiling would have knock-on impacts on organisations’ financial metrics and lender confidence. Housing associations borrow to invest in new and existing social homes, and are able to do so cheaply in part due to the government-backed, index linked rent formula. A reduction in lender confidence could lead to higher borrowing costs, reduced access to funding, and ultimately lower future investment in homes and services for residents.

Irrespective of the level of any ceiling, its imposition would represent the second recent and unexpected government intervention on social housing rents, covering five years out of eight. This would undermine lender confidence in the stability of the sectors’ long term rental income.

The lower any ceiling is set, the more significant the impact on key financial metrics, particularly margins and interest cover. Some members report that rent ceilings could affect valuations, reducing gearing. Weaker business plans could lead to higher costs of borrowing and reduced liquidity.

Ratings agencies have warned publicly that government intervention in itself will be credit-negative. After the consultation was published, Moody’s said that the proposed rent ceiling will ‘constrain revenue growth and weaken margins and interest cover metrics’. Fitch said that the sector faces ‘potential deterioration in credit quality when the government imposes caps on social rents’. And S&P have said that the sector “displays a more pronounced negative bias in its creditworthiness” partly as a result of the government consultation.

Housing associations who were seeking to refinance in recent weeks reported potential investors pulling out of roadshows and broad lender nervousness, suggesting possible future impacts on liquidity as well as cost of funds.

Given the diversity of the housing association sector and its residents, and the challenging economic environment, housing association boards are best placed to take decisions about rent increases in 2023, within the maximum increase of CPI+1% allowed by existing regulation.

Boards would take their responsibility seriously. Most housing associations would increase rents by significantly less than CPI+1%, with the majority of rent increases between 5% and 9%, alongside extensive targeted support for those struggling to pay their rent.

If the government does impose a ceiling on rent increases, this ceiling should be set as high as possible, to allow boards the maximum discretion to take decisions about rent increases beneath that level, to balance affordability for residents with future investment. We believe that 7% is the minimum level this ceiling should be set.

The impact of a rent ceiling on supported and sheltered housing

If a ceiling is applied to rent increases in 2023, we believe there should be an exemption for supported and sheltered housing provision.

In many supported housing schemes, our members report that 95% or more tenants will receive housing benefit to pay their rent. A rent increase at any level will be covered in full by their benefits, so they would not feel any benefit from a rent ceiling. They would, however, be affected by a rent ceiling causing lower investment in the homes and services they rely on.

The Government's landmark Rough Sleeping Strategy envisages expanding supported housing for people with complex needs. Working through housing associations managing homes let on social rent is the most cost effective way of meeting this need but the foundations of this investment need to be firm.

If a rent ceiling is applied to supported housing, there will be a significant risk to organisational viability and future provision. Much supported housing is delivered by specialist organisations who bring expertise and strong track record in working with particular groups of people. Many supported housing providers would simply be no longer be able to provide these desperately needed homes and services.

Supported and sheltered housing provision is under financial strain, with rising costs for energy, staff, repairs, security, buildings insurance, safety checks, materials and constructions, and reductions in support funding from local authorities. The specialised nature of the buildings and the needs and circumstances of tenants means that supported and sheltered schemes are costly to maintain, much more so than general needs properties because of the high turnover and greater wear and tear on the building. Given the needs of residents and the specialist nature of many buildings it is very difficult for housing providers to find savings in costs covered by rent: for example 24 hour CCTV surveillance may be key to the security of a city centre scheme providing homes for people with chaotic lifestyles.

Operating margins for supported and sheltered housing schemes are tight and are on average 8% lower than social housing lettings. Many small, specialist providers operate at margins close to zero, while larger general needs providers will cross-subsidise their supported housing provision from general rental income, which is becoming increasingly difficult. Some supported housing providers lease homes at rates linked to CPI, which poses additional risks if rent increases are significantly below-CPI.

Members have told us that in any rent ceiling scenario,

- Schemes will become unviable across the sector, meaning there will be a greater need for public spending to cover the gaps left in provision.
- High costs and thin margins would mean care and support contracts would have to be reviewed or renegotiated

With a cap set at 3%,

- Nearly a third of survey respondents who provide supported housing said they would need to assess whether they can carry on doing so as schemes would become unviable.
- A significant proportion of respondents would also stop or reduce new development of supported housing

Rent regulation already differentiates supported and sheltered housing from general needs housing, by allowing for an additional 5% tolerance above formula rent, on top of the 5% allowed for general needs homes. The need for high standards and the additional costs experienced are also acknowledged in the government's National Statement of Expectations. We believe that an exemption from any rent ceiling should be applied, using the same definition of supported housing as exists in current regulation.

An exemption would give housing associations the discretion to apply rent increases below CPI+1%. We know that some of the largest providers of sheltered housing for older people are planning to keep rent increases considerably lower than CPI+1%, mirroring any ceiling applied to general needs rents where possible.

Support to maintain future investment

Prioritising affordability for residents and holding down rent increases below inflation will mean less investment in homes and services next year, with the effect compounding in future years.

Therefore government support will be critical in ensuring that housing associations can deliver for residents and keep developing. This will be particularly important if the government imposes a ceiling, even more so a low ceiling, which allows organisations little or no flexibility to adapt or target help.

There are two important mitigations that would help preserve future investment in homes and services for tenants.

The government should provide additional grant funding to protect investment in existing and new homes, compensating for lost rental income. At a minimum this should equal the savings government would make in housing benefit as a result of any ceiling, as set out in the impact assessment. This funding could be made available through a combination of existing schemes such as the Social Housing Decarbonisation Fund, the Affordable Homes Programme, and the Building Safety Fund, or distributed directly to housing associations via a new mechanism explicitly aimed at revenue support to provide services for residents.

The government should commit to reintroducing a 'convergence' or 'catch up' mechanism into rent regulation to mitigate the impact of any ceiling on long term investment.

The consultation is clear that the government's policy intent is to limit high nominal-terms rent increases for existing tenants next year. It is not to impose a real terms rent cut in the long term. Consistent with this objective, the consultation says that that CPI+1 increases would still be applied to new lets, relets and formula rent itself, which we agree with.

However, without a catch up mechanism for existing tenancies in future years, the cap goes much further than its stated aim, by cutting real terms rents until social homes have been relet to new tenants. This will take several decades, with most business plans assuming that some homes are not relet, even after 30 years.

The effect of this is that a temporary intervention aiming to protect residents next year will lead to year-on-year reduced investment in social homes and services for residents, for decades to come.

A catch up mechanism would allow for rents to slowly catch back up with their current real terms level, once inflation had returned near to target in future years and rises would be affordable for residents.

It would significantly reduce the impact of a rent ceiling in 2023 on investor confidence, long term certainty and housing association investment plans.

It would also allow for historically below-target rents to catch up with formula rent, adding additional capacity without breaching well-established affordability limits. Below-target rents represent £123m per year in foregone rental income, disproportionately concentrated in some housing associations.

We suggest that any catch-up mechanism for social rent must:

- Be gradual, so that existing residents are not exposed to high nominal-terms rent increases in any year (consistent with the government's aim for 2023).
- Be relatively simple to explain and administer, so that residents understand how their rents are changing, and systems can cope.
- Be consistent across all social rent homes – with the aim that all homes have a clear trajectory to reaching formula rent.

We and our members are keen to work with the government on the details of how a catch up mechanism could be reintroduced into rent policy over the coming months.

Finally, we welcome the government's confirmation that it will consult next year on rent policy from 2025 onwards. The detail of long term rent policy will be important in delivering affordable rents for residents and securing future investment in homes and services. We look forward to working with the government and our members on the detail of this consultation.

Responses to questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not agree that social housing rent increases for existing tenants should be subject to a ceiling below the current CPI+1% limit.

Housing associations are acutely aware of the cost of living pressures that residents are facing, and are putting in place extensive support for this year and next. They are also recommitting to our sector pledge not to evict anyone for financial hardship.

Housing associations are also committed to providing high quality homes and services for tenants. Costs to provide these are rising, in some cases above headline inflation. Housing associations borrow to fund these investments, and any increases in borrowing costs reduce investment capacity in future.

Housing association boards are best placed to take decisions about next year's rent increases, taking into account the specific circumstances of their own tenants and organisations, and reflecting the diversity of the housing association sector. They will be able to take decisions which better target support towards residents who need it, while protecting future investment in homes and services.

Boards would take this responsibility seriously and before the consultation launched, were actively considering options for applying significantly less than the maximum permissible increase in 2023, in order to protect residents.

We would expect most housing associations to increase rents by significantly less than CPI+1% with the majority of rent increases between 5% and 9%. Housing associations would also set aside significant funds to help those struggling to afford their rent.

Rent increases of this level would still mean service cutbacks and reduced investment, without additional government support via the mitigations outlined below.

But without a ceiling in place, providers would be able to manage these trade-offs in the best possible way for their own residents.

If the government did impose a ceiling on rent increases below CPI+1%, this one-size fits all approach could reduce lender confidence, increase borrowing costs, and significantly reduce housing associations' capacity to invest in homes and services for tenants. In some cases, and depending on the level of any cap, it could also threaten organisational viability, particularly for supported housing providers.

Rising costs

Housing association rents are reinvested in homes and services for tenants. The costs of providing this are rising rapidly, which is already putting pressure on business plans, before the impact of any rent ceiling. Members shared with us some examples of the cost increases they are seeing at present:

- One small provider of housing for older people told us that material shortages are having knock-on impacts on major repairs works which have gone up by 40%. Compliance works to ensure safety have also gone up by the same amount.
- One small supported housing provider told us that quoted costs for window replacements increased 200% from £100k to £300k between 2021 and 2022. On average, they have seen an increase in 25-45% in the cost of cyclical works.
- One large, national provider of all tenures told us that the uplift in the price of timber has resulted in a marked impact on component spend, for example kitchens and bathrooms, with some areas up 20% from last year. They commented that if inflation continues as expected, they will not be able to meet the levels of investment currently in their business plan.
- One medium sized, national provider of all tenures has told us that the impact of materials price increases on routine repairs and maintenance has been a 17% increase. External contractor costs for these works have also increased by 20%.
- One small, exclusively supported housing provider told us that they have already stopped their development programme due to high land costs and capital development costs being 40% higher than they had expected.
- One small supported housing provider told us that they recently abandoned a scheme in early 2022 due to construction cost inflation.
- One medium sized provider of all tenures has seen a 12.5% increase in costs associated with partnership management and new contracts for construction projects.

- One small supported housing provider told us that there has been a significant increase in both new build and refurbishment development costs due to the increased cost to build (approximately 11.9%) and the increased cost to purchase a property for refurbishment and develop (approximately 28%).

Service charges

We also note that paragraph 2.37 of the draft Policy Statement for Rents on Social Housing proposes including reference to a ceiling, in the general statement about service charge increases.

The affordability of service charge increases is extremely important for residents, and housing associations will be working hard to minimise service charge increases, through renegotiating contracts, securing efficiencies, and – in agreement with residents – considering reducing service provision in some areas.

However, service charge increases should reflect the actual costs incurred in providing a service, and service charges are not covered by rent regulation. The rent policy statement makes this clear. Therefore we suggest that even if a ceiling is introduced on rent increases, there is no change to the policy statement with regard to service charges.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We do not agree with imposing a ceiling on rent increases, below the CPI+1% limit.

We surveyed our members on the impact of the proposed caps on their ability to invest in homes and services for tenants, and their organisational viability. We had 140 respondents, representing just under half of housing associations' 2.7 million homes. We also gathered feedback from 500 attendees at roundtable discussions.

A cap set at 3% would make the challenges almost unmanageable for many organisations and require substantial intervention to safeguard viability. 90% of organisations would substantially reduce investment in development, repairs and maintenance and retrofit of homes. Many would breach lender covenants without mitigating action or carve-outs.

A cap set at 5% would present significant challenges for some organisations, and severely reduce investment in new and existing homes next year and for many years to come. Around 80% of organisations would reduce investment in development, repairs and maintenance and decarbonisation.

A cap set at 7% would mean organisations having to take difficult decisions about what to prioritise and how to make savings, but for some organisations this may be manageable without significant upheaval to business plans. 60% of organisations would see some reduction in investment.

Respondents frequently mentioned that rent ceilings set too low would mean **new development plans becoming unviable**. Those which would go ahead would likely proceed with a reduced specification, especially around energy efficiency ratings. Others talked about the need for more Homes England funding to offset the loss in rental income in order to maintain planned delivery.

Many respondents cited a **slowing down or reduction of scope of retrofit works** where ambitions have previously been high. With a 3% cap, 80% of respondents would push back the date by which all homes reach EPC C, with consequences for residents' fuel bills and warmth.

The vast majority of respondents made clear that **building safety is their first priority**. However, maintaining investment in safety would mean cutting back on other areas such as development, planned maintenance, and other frontline services.

Respondents emphasised the delaying effect of reduced income on planned works. This tends to increase the burden on responsive repairs, an effect which was felt in the wake of the four-year rent cut. Ambition would be scaled back, for example via a **move from 'discretionary' works to those which ensure compliance**. Some would need to consider the viability of homes needing major works, which could lead to disposals.

If the government does impose a ceiling on rent increases, a ceiling set at 7% is the minimum level which would still allow discretion for boards to take decisions on rent increases appropriate for their own organisation. With a 7%

cap we would expect most rent increases to fall between 5% and 7%, with organisations able to target support at tenants who need it most. However this would still mean reduced investment, without government support.

Members shared with us some examples of the impact that different levels of cap would have on their organisation.

- One medium sized provider of all tenures said that if rents were capped at 5% for one year it would take until 2050/51 for the business plan to recover with no subsidy or catch up. Planned investment in homes would be cut by 28%.
- One large, national provider of all tenures told us that a 5% rent ceiling would mean that after completing Strategic Partnership commitments and carrying out essential building safety works, there would be very little left for the investment in the condition of homes. Current programmes would be at risk and would have to be reprogrammed over 10-15 years.
- One small provider of general needs and older people's housing told us that with a 5% or a 3% ceiling, they would likely breach loan covenants in 2025, 2027 and 2028 with no action. To address this, they would have to consider deferring stock investment, including cyclical maintenance and decarbonisation work, and selling off properties in order to fill the gap.
- One small provider told us that with a ceiling of 5% and 3% they would breach loan covenants if no action was taken. Even a 7% ceiling would mean cutting development by 20-25% and a deferment of improvement works.
- One small provider of housing for older people across the Midlands and North told us that a 5% rent ceiling would mean they would cancel all development plans.
- One large provider of all tenures told us that a 5% rent ceiling would take more out of their 30 year business plan than their entire planned investment to achieve net zero.
- One medium sized provider told us that they are already having to reduce development commitments due to difficulties in raising new funding. A 5% rent ceiling would exacerbate this and would create serious concerns around viability

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

If a ceiling is applied to rent increases, we agree that it should only apply for one year. Given the uncertain economic climate, we do not think it would be beneficial to fix rent increases 18 months ahead.

Housing association boards will be best placed to decide next Autumn on the level of rent increases to apply in 2024, based on the latest possible information on affordability for tenants, investment costs and the wider economic climate.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree that if a ceiling is applied to rent increases, then the ceiling should not apply to the formula rent, and therefore to the maximum initial rent that can be charged when properties are let to a new tenant.

This position is consistent with the policy intent set out in the consultation: to limit nominal terms increases for existing tenants in 2023, rather than cut real terms rents in the long term. Ensuring that formula rent continues to rise by CPI+1% means that its value is protected in real terms. On the margins, this will help with the viability of new social housing development, and will very gradually restore rents to their real terms level in future, as homes are relet to new tenants.

However, without a 'catch up' mechanism in place, there will be a gap between actual rents and formula rents for the vast majority of social rent properties for decades. Therefore, to deliver on the policy intent, the government should signal its commitment to reintroduce a convergence mechanism into rent regulation, as described above.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

If a ceiling is applied to rent increases in 2023, we believe there should be an exemption for supported and sheltered housing provision, using the definition of supported housing within current rent regulation.

In many supported housing schemes, 95% or more tenants will receive housing benefit or universal credit to pay their rent, so will not benefit directly from any rent ceiling.

If a rent ceiling is applied to supported housing, there will be a significant risk to organisational viability and future provision.

Supported and sheltered housing provision is under financial strain, with rising costs for energy, staff, repairs, materials and constructions, and reductions in support funding. The specialised nature of many types of care and support means that supported and sheltered schemes are costly to maintain, more so than general needs properties because of the high turnover and greater wear and tear.

An exemption would give housing association boards the discretion to set supported housing rents at a level which protects affordability for tenants while maintaining organisational viability**. In many cases this will still mean rent increases below CPI+1%.** We know that some large sheltered housing providers plan to cap rents around 5-7% irrespective of any exemption.

Operating margins for supported and sheltered housing schemes are tight and are on average 8% lower than social housing lettings overall (including general needs). These margins have only become tighter as costs have risen across the sector, and care and support contracts haven't risen with inflation. Some small supported housing providers are already operating on margins of 1% or less – leaving them extremely financially vulnerable.

Supported housing providers described to us the impact of a rent ceiling on their provision of new and existing supported housing.

- One provider of all tenures told us that the only way they could manage the impact of a rent cap would be to close down their programmes for supported housing and new build. They would also need to put a halt to their fire safety upgrading programme.
- One medium sized provider of all tenures told us that any increase less than 7.5% would see them having to pull out of their extra care and retirement living contracts immediately, in addition to pushing wider development programmes back.
- One small supported housing provider told us that a cap at 5% would stop them building a large scheme of 100 extra care homes, and would mean they would be likely to end their development ambitions altogether.

- One small supported housing provider told us that due to static support contracts and landlords bearing increasing amounts of service share whilst not increasing responsibility for repairs, services are at risk of being handed back at end of contracts, potentially leading to the loss of supported housing units. Costs are increasing fast than income, and any rent cap will significantly exacerbate this issue.

Staff costs are a major component of spend for supported housing providers, and housing associations report increases in costs

- One small supported housing provider agency costs have increased hugely since the pandemic. Spend in 2021/22 was 400% higher than it was in 2018/19, partly because turnover has been so high (35.5%).
- One small supported housing provider told us that they have seen contractors increase prices by around 10-15%.
- One small provider of housing for older people told us that whilst their agency use has decreased by 21% on last year, overall agency spend has increased by 117%.

For more information please contact [redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	National Federation of ALMOs
What is your position in the organisation (if applicable)?	[redacted]
[redacted]	[redacted]
What is your email address?	[redacted]k
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

Comment:
In principle, we do not agree that the government should subject the maximum social housing rent increase to a specific ceiling for the 2023/24 financial year. However, we understand the government's intention to try to protect households with some of the lowest incomes from an above inflation rent increase next year.

The NFA and its members are acutely aware of the impact of the current cost-of-living crisis on the communities they house and serve and are working hard to try to mitigate that impact in a variety of ways, including providing money advice, employment and training services, energy efficiency work and much more.

Our members are looking at the HRA Business Plans, speaking to their parent councils and tenants and modelling different options at a local level which try to find the right balance between affordability for tenants and financial sustainability for the HRA whilst continuing to provide safe, warm and decent homes for their communities.

We consulted members widely on the plans of their local councils and not one of them was planning the full CPI +1% increase with or without further limits from national government. However, all report that they will need to make savings from their planned maintenance and/or new build programmes to make up for the reduction in income which is expected next year.

So, regardless of whether a national cap on rents is introduced, there will be a need to make up the shortfall in HRA income to help cover the increasing costs of maintaining decent homes and a good service to tenants.

We would therefore ask government to make the money saved from the welfare bill through any cap applied – nationally or locally – available to councils' HRAs to invest in energy saving measures and general repairs to keep council homes in good repair.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

No

Comment:

Notwithstanding our objection in principle to a new limit, if the government decides to go ahead with their proposals it should set it at the highest possible level, 7%. This would allow those councils with some of the lowest rents in the country and the most need for investment in the stock to make appropriate decisions on the rent, whilst providing suitable support for those families who find themselves in hardship.

Every local Housing Revenue Account will be different, with varying levels of debt to service, reserves to use in these exceptional times, rent levels and mixes of tenants in relation to age, family size, health, disability, and employment status. We believe local councils, with their ALMOs and tenants are therefore best placed to make the appropriate decisions locally that find the right balance between affordability and the need to pay for services and invest in their homes.

From our discussions it is likely to be a minority who would decide to increase rents by 7% and most would be looking to lower increases but for those who do need it, it could make the difference between providing decent homes for their communities and not.

The principle of a self-financing HRA is that the council, in consultation with tenants and ALMOs where they exist would be able to make local decisions on rent levels, stock investment and service levels within the framework of a 30-year HRA Business Plan. We welcomed the introduction of self-financing to the HRA back in 2012 and worked with members to support good practice in asset management strategies and financial management.

However, the government has intervened in the settlement so many times since then there has been very little opportunity to properly plan over the long term or make appropriate local decisions on investment without having to adjust almost yearly due to rent policy changes, rent reductions as well as responding to new demands from building safety legislation and climate change targets. This has left many councils without the necessary resources to properly fund investment in the stock let alone build new council homes for people stuck in temporary accommodation or on the waiting list.

It was due to these concerns that the NFA, ARCH and the LGA commissioned Savills to look into the future sustainability of the Housing Revenue Account at a national level and they have been able to model the impact of the proposed caps for us. **The key message from that work by Savills is that local authorities need a minimum rent increase next April of between 7-9% to stand still in budget terms but that most are very unlikely to agree to increases in rents to that extent so will be looking to make cuts to investment programmes, services or both.**

Savills' modelling suggests that capping the increase at 7% would still result in budget losses and therefore we need Government to agree ways in which this could be offset through government grants, revenue support or other measures.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

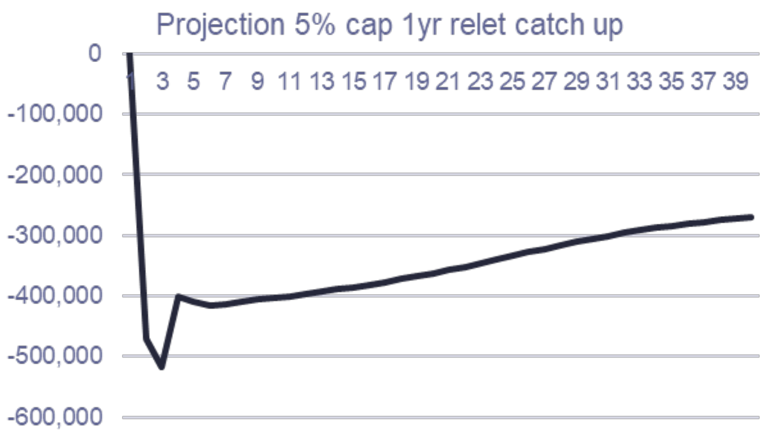
Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

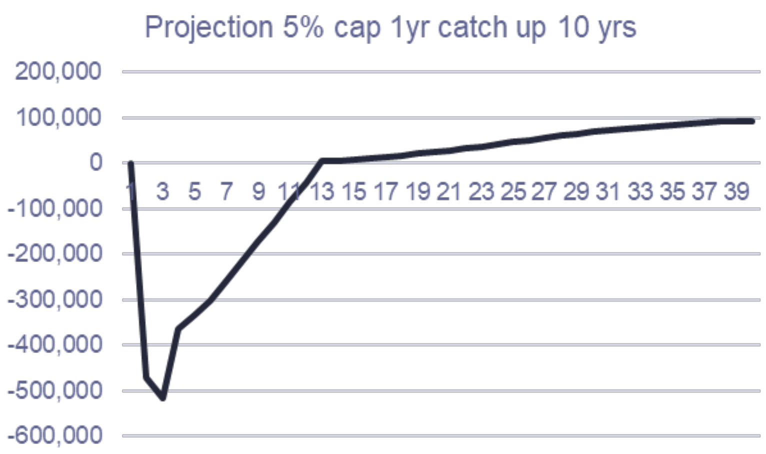
Comment:

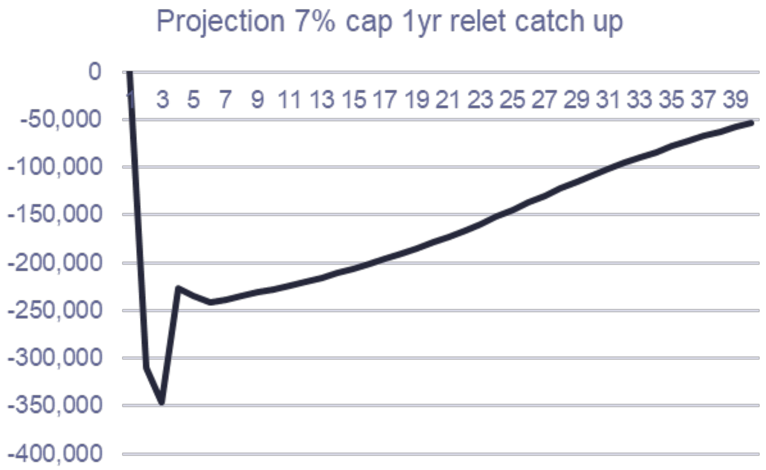
The NFA thinks that any new cap on rent increases should only be applied for one year and we should return to principle of CPI plus 1% as soon as possible, accepting that local authorities and ALMOs will make appropriate local decisions on rent increases thereafter. It is also a very uncertain time economically so councils and ALMOs should be left with as much flexibility to respond to circumstances as possible.

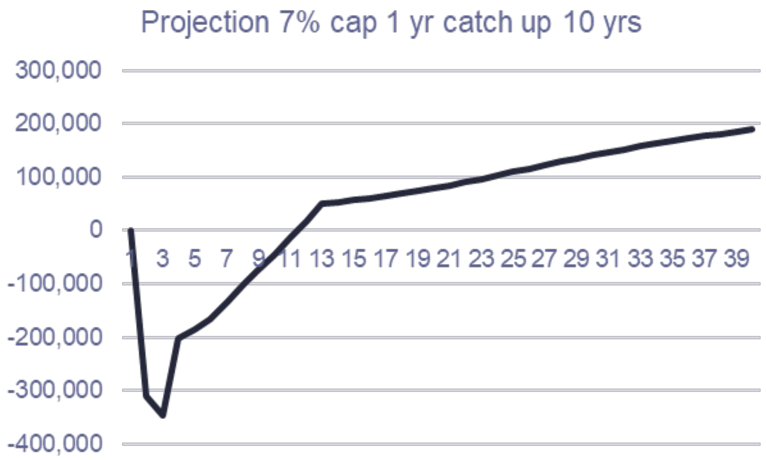
Savills modelling shows that even a one-year rent cap has significant impacts on the level of resource available in the short to medium term for all councils.

As the graphs below show with a one-year cap at either 5% or 7%, allowing reletting at target to catch up only, neither projection returns to a balanced HRA position over 40 years.









The projected net deficits from these are:

	5%	7%
1 year ->	£482m	£321m
2 years ->	£995m	£664m
5 years ->	£2.56n	£1.71bn
40 years ->	£22n	£15bn

With a one-year cap at either 5% or 7%, allowing catch up over 10 years, both projections return to a balanced HRA position at the period when catch up is achieved. However, the feedback that Savills got from councils involved in the research was that catch-up was uncertain even if government policy allowed for it as decisions are likely to depend on future levels of CPI, and that a specific policy towards "re-convergence" would not necessarily affect future decisions on rent increases – as these increases would be above CPI+1% and not be acceptable politically or affordable to tenants locally.

The projected net deficits from these are:

	5%	7%
1 year ->	£482m	£321m
2 years ->	£995m	£664m
5 years ->	£2.34bn	£1.56bn
40 years ->	£9bn	£6bn

As the impacts of any rent cap are compound and have long term consequences, the NFA would welcome some serious discussion with government about how the lost rental income could be made up over time, options include:

- One off grants paid to HRAs as revenue support to cover spikes in inflation in a similar way to Covid grants paid to LAs to support increases in costs or loss of income.
- The flexibility for future rent increases to catch up to recoup the income lost as a result of a rent cap, such as the re-implementation of rent restructuring post 2024.
- Re-distribution to the sector of the welfare benefits bill savings that will be gained as a result of any rent cap.
- Additional capital grant to cover the costs of energy efficiency work and building safety costs in the stock.
- Reducing VAT on capital investment works
- Reducing the PWLB rate for borrowing for social housing
- Broader review of the issues for a sustainable post 2025 HRA settlement

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

Comment:
Most of our members support the proposed exemption for initial lets and re-lets but we would like to point out that at current relet and building rates in the council sector this will not make up for the financial impact of the decision to increase rents at lower than the current level of inflation.

The Savills research estimates that only 75% of all stock would turnover in 40 years and this mechanism would therefore not be sufficient to support recovery to formula rent at a level sufficient enough to return HRAs to surplus.
Savills estimate of the cumulative loss of resources resulting from a rent cap of 5% with catch up via relets only is:

2-years: £1.16 billion
5-years: £3.25 billion
40-years: £29 billion

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes

Comment:
Some of our members have made a case for exempting supported housing due to the higher costs involved in providing such accommodation. Over recent years there has been a reduction in supported accommodation and therefore much needed provision nationally, due to other changes to funding systems. Those projects remaining operate on tight margins and a cap would impose severe strain and potentially make them unviable, in either the short, medium or long term, leading to hardship for individuals in increased costs for the authority in seeking to meet needs.

LGA response to the Department for Levelling Up, Housing and Communities consultation on social housing rents

14 October 2022

Submission

1. **About the Local Government Association (LGA)**

(a) The LGA is the national voice of local government. We are a politically-led, cross party membership organisation, representing councils from England and Wales.

(b) Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.

2. Response to the consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We do not agree that the maximum social housing rent increase from 1 April 2023-31 March 2024 should be subject to a nationally-set lower ceiling to the existing CPI +1% limit.

Councils are rightly very concerned about the impact that rising living costs are having on social housing residents across the country. With that in mind, councils had already been considering their approach to next year's rents to ensure that a careful balance is made between affordability for tenants and investment in the homes that they live in. All councils we have had direct discussions with, as well as those who have been engaged in the Savills research described below, have confirmed that they were already planning for lower rent increases than CPI +1%. Councils will also continue to do what they can to protect people from hardship, targeting help at people facing the most complex and acute challenges.

However, decisions on the level of rent increases need to continue to be made by councils within the existing government rent policy commitment of CPI +1% limit. This will ensure that the variation in cost pressures for different local authorities can be taken into account at a local level and councils can determine the minimum rent increase necessary to meet committed expenditure requirements and essential and urgent new works, whilst balancing this with affordability for tenants.

There are a number of causes for variation in cost pressures across local authorities. These include:

- pay award inflation - whilst a fixed cash increase equivalent this will vary as a percentage pay increase to different local authorities given the pay base for each authority
- requirements to refinance existing debt and/or take on new debt – with costs going up as interest rates rise sharply

18 Smith Square, London, SW1P 3HZ
Email info@local.gov.uk
Tel 020 7664 3000 Fax 020 7664 3030
www.local.gov.uk

- levels of investment needed to maintain the decency of existing homes as well as undertake essential building safety work, especially with inflationary drivers above the long-term OBR forecast e.g. supplies/materials costs; contractor costs; construction costs
- levels of investment needed to raise the standard of all local authority homes to EPC Band C by 2030, paving the way for full decarbonisation by 2050

It is also worth noting that 60% of households renting homes from local authorities receive housing benefit and therefore will not benefit from a limit on rent increase in any case as their benefits will be increased in line with any increase.

Therefore, we consider that the proposal for a nationally-set rent restriction below CPI+ 1% for all local authorities is an untargeted blunt approach which will have potential long-term and wide-ranging impacts on their ability to provide critical services for their tenants and invest in new and existing homes.

Notwithstanding our view that the maximum social housing rent increase from 1 April 2023-31 March 2024 should not be subject to a nationally-set lower ceiling than the existing CPI +1% limit, if the government does take forward a lower ceiling, **7%** should be the absolute minimum cap. This is the higher of the 3 proposed options in the consultation (3%; 5% or 7%).

Alongside this, the government should provide a suitable mechanism to mitigate for any shortfall in any local authority income from a lower rent ceiling e.g. through additional funding for 2023/24 (and future years) and/or a mechanism to allow 'catch-up' of lost income so that local authorities can continue to safeguard services and meet the country's future housing needs.

As an example, the consultation impact assessment points out there will be a substantial reduction in government welfare spending if a rent restriction is taken forward (a £4.6 billion monetised benefit in the 5% cap scenario) – this is money which could be used to support provision of services that tenants will otherwise not receive, because of the loss of income in local authorities resulting from a new ceiling on rents, as well as support for vital investment in new and existing stock.

More broadly, the future sustainability of Housing Revenue Accounts (HRA) remains a concern for stock-holding local authorities. The self-financing settlement in 2012 distributed debt to stock-holding local authorities on the assumption that anticipated rent income would be sufficient to fund works to raise all homes to Decent Homes Standard (DHS) and maintain them there, and to pay off debt over a 30-year period. That is, the settlement was calculated to ensure a level of debt that could be sustained having taken into account future income less future costs. The future costs included allowances for management, repairs and major repairs. Whilst the major repairs was allowance was significantly uprated, it was only ever intended to meet and maintain the Decent Homes Standard – based on the safety standards at the time. The settlement is now 10 years old, and its underlying income and expenditure assumptions have both been superseded. There was no allowance in the settlement for enhanced capital or revenue standards, for example it did not include all the additional enhanced fire and building safety works that local authorities are now required to undertake. Local authorities are therefore carrying a higher level of debt than they would have done had these additional requirements been taken into account. Put another way, rents are now being required to finance works that they were never intended to in 2012.

The 2012 settlement assumed HRA income based on annual rent increases of RPI +0.5%, plus an allowance for convergence to formula rents where this had not yet have achieved. This assumption was compromised by government decisions to scrap convergence and to reduce rents by 1% a year for four years from April 2016, which resulted in an estimated 12% reduction in average rents by 2020-21.

Current government policy limits increases in rents to the Consumer Price Index (CPI)+1 % until 2025, however the current consultation which is proposing further rent restrictions adds another level of uncertainty and further compromises the successful delivery of HRA business plans and services to tenants.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

As described in question 1, we do not agree with imposing any specific lower national rent ceiling on rents in addition to the existing CPI+1% limit. Notwithstanding our view, if the government does take forward a lower ceiling, **7%** should be the absolute minimum cap. Alongside this, the government should provide a suitable mechanism to mitigate for any shortfall in any local authority income from a lower rent ceiling e.g. through additional funding for 2023/24 (and future years) and/or a mechanism to allow 'catch-up' of lost income so that local authorities can continue to safeguard services and meet the country's future housing needs.

The LGA, the National Federation of ALMOs (NFA) and the Association of Retained Council Housing (ARCH) have commissioned Savills to undertake analysis of the implications of a variety of rent scenarios from 2023/24, taking into account the context of current inflationary drivers on expenditure. The full Savills report is available on request.

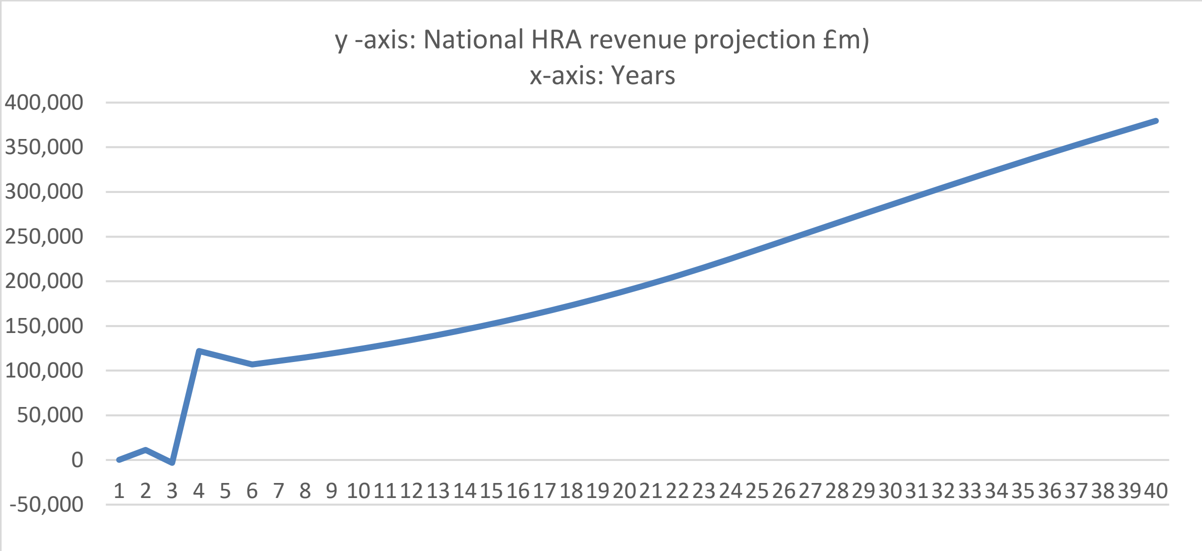
This has resulted in a nationwide HRA projection based on a number of approaches to rent increases:

1 baseline with rents CPI+1% all years
2 baseline with rents capped at 5% for 2 years, no catch-up
3 baseline with rents capped at 5% for 2 years, with catch-up
4 baseline with rents capped at 7% for 2 years, with catch-up

Implications of the modelled rent increases

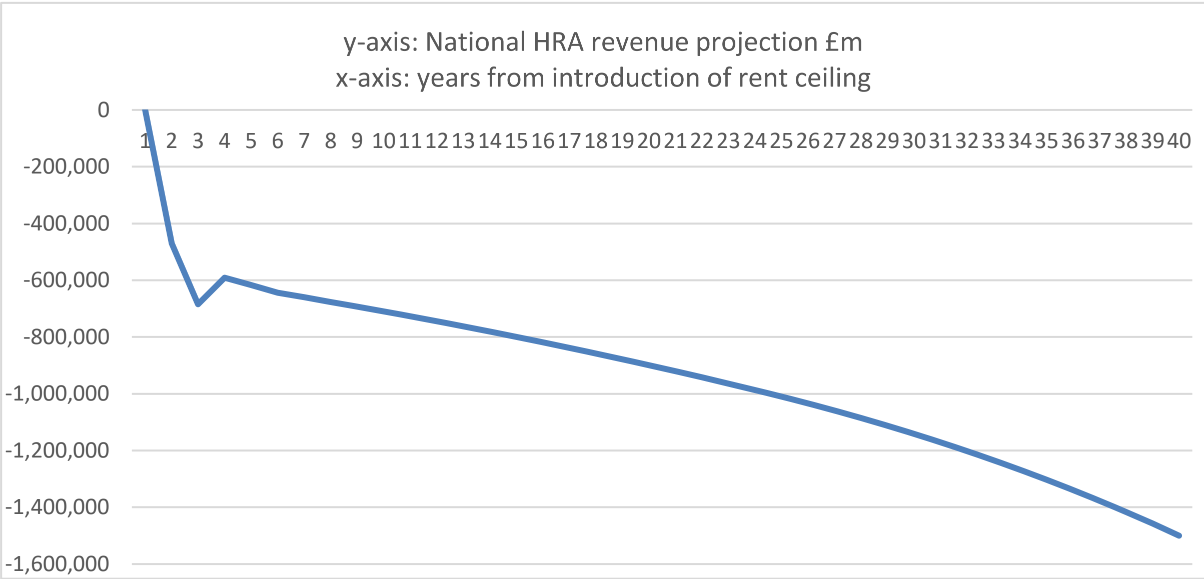
1 CPI+1%	Rent increases are as follows: April 2023 11% April 2024 7% April 2025 5% April 2026+ 3% The chart below shows that in the first year or two, there are potential pressures on revenue arising even when rents are increased at the full CPI+1%, because of the inflationary drivers in the HRA Beyond the first 2-3 years, however, the projection is for a gradually increasing relative annual surplus – which is entirely in line with expectations. Income and expenditure inflation have been aligned for all future years of the projection

	This “steady state” projection offers the basis for comparison when rent increases are varied



2 Rents capped at 5% for 2 years, no catch up	Rent increases are as follows: April 2023 5% April 2024 5% April 2025 5% April 2026+ 3% The chart below shows that in the first year or two, there is a risk of large deficits as rent increases do not keep up with cost inflationary pressures. This would need to be addressed by making substantial additional savings and/or using reserves Beyond the first 2-3 years, the position is unable to be recovered as rents do not thereafter catch up with the cost pressures that have become part of the expenditure in the first 2-3 years. This longer-term projection is therefore for increasing deficits: operating margins decline from around 18% now to zero over the projection term. Operating margin is gross income less operating costs – before any financing or interest costs. It is the underlying operating margin that provides the surplus funds out of which local authorities can either borrow against, repay debt, or fund capital expenditure directly. Cumulative loss of resources: 2-years: £1.16 billion 5-years: £3.36 billion

<table>
<tr><td></td><td>40-years: £45 billion

These losses represent 6-8% of all operating costs (including major repairs) or 9-11% of management and maintenance costs</td></tr>
<tr><td colspan="2">
</td></tr>
<tr><td>3 Rents capped at 5% for 2 years, with catch-up over 10 years</td><td>Rent increases are as follows:

April 2023 5%
April 2024 5%
April 2025-29 4.1% average
April 2030-34 3.5% average
April 2035+ 3% average

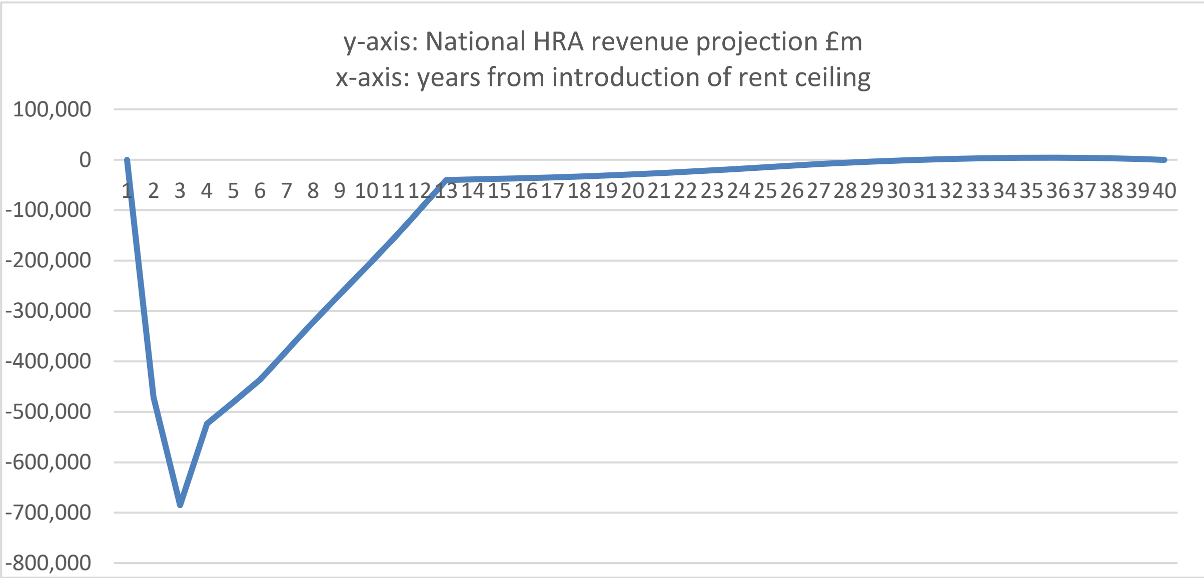
Cumulative loss of resources:
2-years: £1.16bn
5-years: £2.95 billion
40-years: £12 billion

These losses represent 5-7% of all operating costs (including major repairs) or 8-10% of management and maintenance costs in the first 2-3 years.

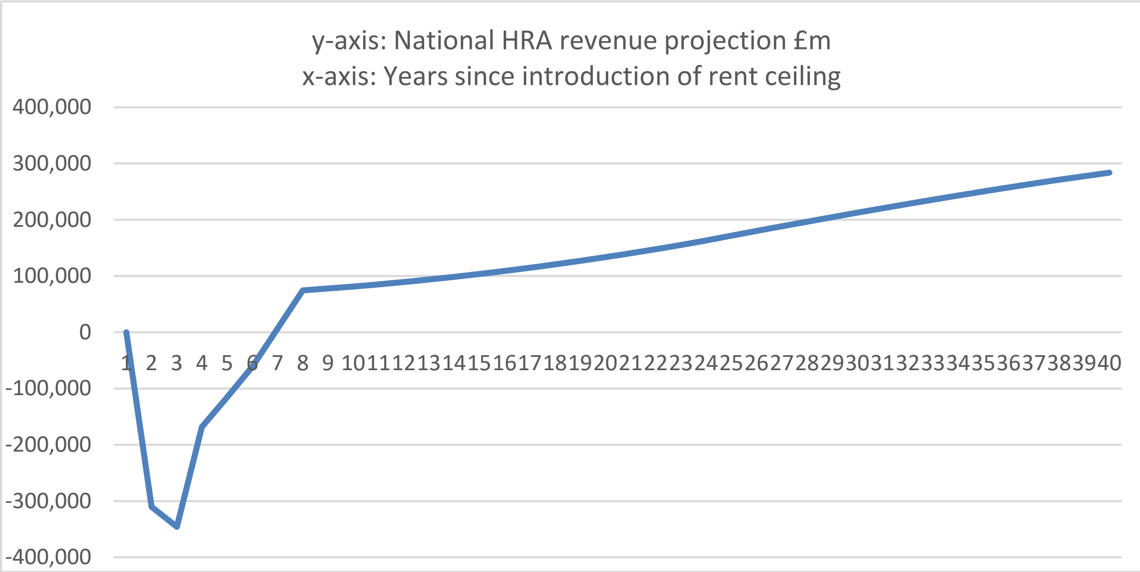
The chart below shows that in the first year or two, there is a risk of large deficits as rent increases do not keep up with cost inflationary pressures. This would need to be addressed by making substantial additional savings and/or using reserves.

Beyond the first 2-3 years, the position is able to be recovered as rents are gradually allowed to be increased back up to the original path of CPI+1%</td></tr>
</table>

	If “catch up” is over 10 years, the projection position is to return to “balance”



4 Rent capped at 7% for 2 years, with catch-up over 10 years	Rent increases are as follows: April 2023 7% April 2024 7% April 2025-29 4.1% average April 2030-34 3% average April 2035+ 3% Cumulative loss of resources: 2-years: £0.66 billion 5-years: £1.35 billion 40 years: £3-4 billion The graph belows shows that in the first year or two, there is a risk of deficits as rent increases do not keep up with cost inflationary pressures. This would need to be addressed by making substantial additional savings and/or using reserves. Beyond the first 2-3 years, the position is able to be recovered as rents are allowed to be increased back up to the original path of CPI+1%. If “catch up” is over 10 years, the projection position is to return to “balance”



Impact of rent decisions on individual local authorities housing management services and stock investment

The graphs above illustrate the impact of a variety of rent approaches on HRA projections at a national level. Individual local authority responses to the consultation will also provide a local flavour of impact as this will be felt differently in different places based on a variety of factors, as outlined earlier. We have also included a few examples below:

Example 1
If the rent increase is capped at 5%, then this would result in a £1.9 million loss for a **district council in the Eastern region,** compared to a CPI +1% increase. This is set against a context of the impact of inflation on the cost of delivering current services – as an illustration this is affecting their newbuild programme. In terms of acquisitions of new properties, prices between October 2021 and September 2022 have increased by around 20% per square metre. In regards to the ongoing maintenance of existing homes, repairs are costed annually on a price per property basis and also expect to see an inflationary increase when these are reviewed for 2023/24. Any impact on increased costs above the inflationary baseline may impact on capital improvements, such as meeting net zero targets.

Example 2
The governments proposed rent cap will bring additional serious financial challenges and disruption to the existing financial plans of a **district council in the East Midlands**.

The council's capital programme assumes the acquisition or build of at least 40 new energy efficient homes. The programme of stock condition surveys being undertaken this year is also enabling them to accurately prepare their future investment programmes for new kitchens, bathrooms and other capital investment projects for 2023 onwards.
The investment proposed in the Housing Capital Programme will make a significant contribution to ensure the council's housing stock is improved to increase its Standard Assessment Procedure (SAP) ratings and ensure all homes are efficient and provide affordable warmth for our tenants. The 4-year capital programme to 2025/26 is currently £83m; £54m for major repairs and energy efficiency measures, £1m external wall insulation, £11m environmental works, £12m new build and £4m acquisitions.

There are already financial challenges and disruption to the council's HRA resulting from the pandemic - due to loss of income in the form of rent arrears and increase in voids, as well as other increased costs e.g. PPE. The proposed rent cap will compound these further and will require savings to be made to reduce costs and comes at a time when residents are also under pressure with the cost of living.

The impact of a rent cap over the next two years would see:

- Planned maintenance programmes lengthened, and major works delayed.
- Decarbonisation works put on hold
- New build and acquisitions falling dramatically – at a time when homelessness is rising and the number of households on the council waiting list has increased by 13.5% in 2021/22 to 2558
- Sharp decline in reserves
- Additional borrowing with increasing interest costs

Example 3
The impact of a rent increase ceiling of 5% would result in a minimum of £11 million in lost income to the HRA for a **metropolitan authority in the Yorkshire and Humber region**. This would come at a time when they are facing steep increases in energy prices and costs as a result of the level of inflation. This is not just a one off but a compound impact and will seriously impact the HRA's ability to invest in and maintain its current stock, also growth in terms of building new social housing and will severely impact the level of services provided to tenants.

Furthermore, the 2016-2020 rent reduction policy is estimated to have cost the council over £300m in lost income, with the council not compensated for lost income. Whilst this cap will not have the same scale of effect, it will undoubtedly limit the councils HRA ambitions which will be to the detriment of tenants.

Possible policy solutions

Notwithstanding our view that there should not be a new lower rent ceiling in addition to the CPI+1% limit, if the government is minded to introduce one, there are a number of options that the Department for Levelling Up, Housing and Communities and the Treasury could take forward with local authorities to mitigate the impact, not least given the £4.6 billion monetised benefit for the Treasury in the 5% rent cap scenario. These are not mutually exclusive and in addition should also be considered even in the absence of the introduction a nationally-set lower ceiling.

- **"Catch-up" mechanism**

  As described above the government should commit to a mechanism to allow 'catch-up' of lost income over a number of years. The Savills modelling looks at a 10-year catch up, but this could be reduced to 2 or 5 years for example, although this would of course mean higher rents for tenants over a shorter period of time. The catch-up mechanism could also be expanded to allow for the loss of rents that resulted from the government's 2016-20 rent reduction programme.

- **Temporary revenue support**

  One off grants paid to local authority Housing Revenue Accounts as revenue support to cover spikes in inflation – there is a precedent with Covid grants paid to local authorities to support increases in costs or loss of income.

- **Capital grant support**

Whilst not addressing challenges in the HRA directly, provision of additional capital support to cover fire and building safety, energy efficiency measures (EPC C by 2030) and revisions to the Decent Homes Standard would reduce pressures to divert revenue to cover these essential costs at a time when net revenue risks being permanently reduced. This would provide a mechanism which would help to ensure that these works are sustainably financed in HRAs.

- **Right to buy reform**

Enabling councils to retain 100 per cent of receipts from Right to Buy sales and giving full flexibility on the use of receipts would support councils to deliver replacement homes more efficiently.

- **Public Works Loan Board (PWLB) borrowing rates**

Rates had, at the time of the Savills research, increased to 3.5-3.7% for long-term debt; while these rates remain below the long-term average interest rate in the Savills projection, a temporary reduction of these rates to lower the cost of investment in building safety and new build would maintain incentives for investment at a time when revenue budgets are under heavy pressure.

There could be two levels of input:

1) A reduction on rates for all new borrowing (but not affecting refinancing). Whilst it is difficult to model an extensive degree of support – assuming 4,000 new homes per annum at £250K build cost, 70% leverage at 4% interest cost would be £25-30 million. Therefore this would assist but not prevent the need for other areas of savings/cuts.
2) A general reduction in rates across the board.

- **Homes England Affordable Homes Programme**

Local authorities continue to want to play a role in delivering additional homes through new-build programmes. But these are being hit by rising construction costs – this is affecting both materials and labour. A rent restriction as proposed in the consultation, will further compound this issue and make it even more difficult to fund the costs of new-build programmes. In light of this, Homes England should take action to review grant contributions to help sustain these programmes.

- **Social Housing Decarbonisation Fund**

BEIS has recently launched the bidding round for Wave 2.1 of the Social Housing Decarbonisation Fund which is an important fund in terms of delivering improved energy performance for council homes, and in turn reducing tenants' energy consumption and therefore outgoings – this is increasingly important in the context of the current high cost of energy. Decarbonisation is also vital to improving the comfort, health and well-being of tenants through the delivery of these warmer and more energy-efficient homes. In Wave 1 applicants were required to contribute at least a third of total eligible costs. Wave 2.1 now requires applicants to contribute a greater proportion of total eligible costs – 50 per cent. Any nationally-set lower rent ceiling below CPI+1%, alongside recent price increases is going to make it increasingly difficult for local authorities to provide higher levels of matched funding. BEIS should urgently review and revise its assumed costs per dwelling alongside reviewing the required level of contribution from local authorities.

- **Housing Benefit/Universal Credit (UC)**

  The Housing Benefit uprate should be fully implemented and overall benefit/UC increased to minimise pressures on spending. This will be particularly important for those on partial benefit.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Notwithstanding our view that there should not be a new lower rent ceiling in addition to the CPI+1% limit, if the government is minded to introduce one, this should only apply for one year. This should be accompanied by a firm commitment that the rent ceiling will revert back to CPI+1% in 2024/25. The government should also commit to a suitable mechanism to mitigate for any shortfall in local authority income.

As described earlier this could be through additional funding for 2023/24 (and future years) and/or a mechanism to allow 'catch-up' of lost income so that local authorities can continue to safeguard services and meet the country's future housing needs.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

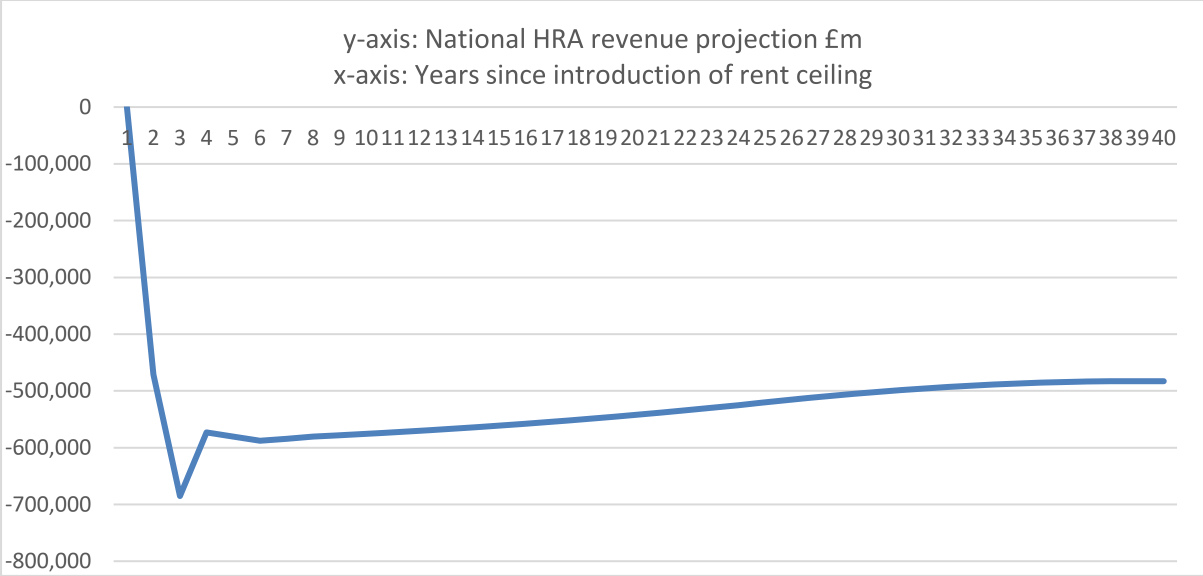
Yes, notwithstanding our view that there should not be a new lower rent ceiling in addition to the CPI+1% limit, exempting Social Rent and Affordable Rent properties when they are first let and subsequently re-let from any new ceiling that is introduced will allow some catch-up from loss of income.

Allowing homes to be let for the first time or relet at formula rent, which has been increased by the full CPI+1%, would help to stem a move into further deficit as described in some of the modelling scenarios outlined in response to Question 2.

However, the Savills research estimates that not all stock would turnover in 40 years, with their estimate of relets being approximately 75% of stock over that period. As the graph below shows, this mechanism would therefore not be sufficient to support recovery to formula rent at a level sufficient enough to return HRAs to surplus.

Savills estimate of the cumulative loss of resources resulting from a rent cap of 5% with catch up via relets only is:

2-years: £1.16 billion
5-years: £3.25 billion
40-years: £29 billion



Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Notwithstanding our view that there should not be a new lower rent ceiling in addition to the CPI+1% limit, it is recognised that there may be some circumstances where the introduction of one could put the financial viability of a local authority Housing Revenue Account at risk.

Therefore, should the government be minded to introduce a new lower rent ceiling, we do not consider that there should be a blanket exception for particular categories of rented social housing. As the consultation points out, an individual housing provider will still be able to apply for an exemption, or the disapplication of the revised Rent Standard, as per the processes under the current Rent Standard.

Despite this mechanism being in place as an important safeguard for individual Registered Providers, the government should however be aware, that any lower rent ceiling, even if it does not jeopardise overall financial viability of individual HRAs, will still have an impact on local authorities and their tenants. This is because it will mean, as the consultation rightly recognises, that local authorities will have less money to invest in provision of new homes, improve the quality and energy efficiency or existing stock and provision of services to their tenants.

Lewes District Council

Lewes District Council
Southover House
Southover Road
Lewes
BN7 1AB

12th October 2022

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Socialhousingrents@levellingup.gov.uk

Social housing rents consultation

1. Introduction

1.1. This is a formal response to the social housing rents consultation launched on 31st August 2022 by the Department for Levelling Up, Housing & Communities to set a new regulatory standard on rents that will apply to Registered Providers (RP) of social housing, introducing an upper limit rent ceiling from 1 April 2023 to 31 March 2024.

2. Background

2.1. Lewes District Council (LDC) is a local authority within East Sussex and RP with a total housing stock of 3,200 social and affordable homes across the borough.

2.2. We have developed a growing pipeline and housing development programme to maximise land (including brownfield) for public benefit and to help meet local needs, reducing the significant pressures of homelessness in the district.

2.3. In addition to a track record of delivery, we have also responded to the government's national request to increase the use of Modern Methods of Construction (MMC) and have worked in partnership with Eastbourne Borough Council (EBC) to create a public sector framework for modular housing construction across East and West Sussex.

3. Wider Economic Context

3.1. We recognise the need to protect social housing residents in the current circumstances, where rent increases in-line with inflation will only add to the financial challenges already faced by local people and the additional hardship this would cause in this cost-of-living crisis.

3.2. We have already created specific hardship funds within our limited financial capacity, considering the impacts of the global pandemic, to support local people and therefore recognise the mitigations to residents that these proposals seek to resolve.

3.3. However, although we agree that residents should be protected, the financial consequences to the Council from these proposals, and in the context of the wider current economic environment, have a significant and compounded impact on our ability to deliver core services for our residents.

3.4. The crippling effects of current inflation on costs, together with the increases to borrowing rates from the Public Works Loan Board (PWLB), are already having significant and detrimental impacts on our ability to maintain current stock and build new homes. When considering the proposals in this broader context, the government must recognise that RPs can only be stretched so far before there is a breaking point.

3.5. The Charter for Social Housing Residents: Social Housing White Paper made emphasis of the importance for landlords to provide quality homes and neighbourhoods, that are safe, secure, and underpinned by good performance when it comes to repairs and maintenance. These proposals will undermine that charter without alternative and sustainable financial solutions to support social landlords.

4. Current Proposal

4.1. The consultation sets out proposals to introduce a social housing rent cap for 2023/24 based on 3%, 5%, and 7% scenarios. This would involve disregarding the final years of the current CPI +1% settlement. The government is minded to implement a 5% cap based on the Impact Analysis undertaken and supporting the proposals.

4.2. When modelling all three scenarios within our Housing Revenue Account (HRA) 30-year Business Plan, there is a significant impact regardless, but that increases at 5% and 3%. Our ability to undertake the necessary and core maintenance works to the housing stock are reduced by up to 50%, which becomes compounded if the cap is introduced any longer than by one year and without any future recourse for recovery.

4.3. Rental income is fundamental to the continued financial health and sustainability of the authority, which, with these proposals, will likely lead to the following:

- Long-term losses of income (compared to pre-cap expectations) will continue in perpetuity as future rent increases will start from a lower base position, unless allowance is made for “catch-up”;
- Planned and preventative maintenance programmes will be lengthened, and essential major works delayed;
- Decarbonisation works will be put on hold;
- New build development will fall significantly, if not stop altogether;
- A reduction in the total number of available social homes.

4.4. The position of local authorities will be far more impacted than other RPs, which will typically have a greater pool of reserves to draw upon. We are already facing so many pressures that these additional financial challenges cannot be reasonably sustained if implemented without alternative solutions.

4.5. A delay in capital maintenance programmes, also when considering the additional costs that will likely arise as a result of new fire safety requirements, will only increase the revenue burdens to the authority on responsive repairs, voids, and likely increase the risk of disrepair.

4.6. It has been estimated that it will cost £104bn to achieve net zero carbon across UK social housing by 2050 and any delays to decarbonisation programmes now will greatly undermine the sector's ability to achieve this target. In addition, the reduction in sustainability interventions will have a knock-on impact on our residents when it comes to the cost of energy and household bills, which must also be considered in the context of a rent cap intended to reduce costs.

4.7. The impact on the new build programme will not only impact on government's housing targets but reduce our ability to generate new income streams and meet the ever-rising demands of homelessness, specifically the cost of temporary and emergency accommodation, will only be exacerbated further by these proposals.

4.8. We will have no choice but to consider more extreme ways of supporting the budget, which could include the disposal of assets to maximise returns and plug the gap caused by the sole implementation of the cap.

4.9. Other implications arising from the above include increases in resident complaints, further pressures on Council officers, and the costs with the associated activities.

5. Alternative Options

5.1. In continuing to recognise that the solution should not be to increase rents to CPI +1%, we strongly urge government to consider other approaches to support RPs and to minimise the impacts set out above by:

- Increasing grant funding opportunities to enable social landlords to both maintain properties and increase supply, whilst keeping rents low and meeting expectations for sustainability, safety, and quality.
- Implementing a "catch-up" mechanism, allowing higher rent rises over a longer-term period (5-10 years) following the initial cap.
- Reintroducing a reduction on PWLB borrowing, as done previously (1%), for the purposes of housing, which will help to counteract the effects of rising costs and income reductions from these proposals.

6. Specific Questions

The following addresses the specific questions raised as part of the consultation:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

- In the current cost of living crisis, we understand the measures being proposed to try to support residents. We however have a responsibility to set a balanced budget and a duty to our residents to provide quality, safe, and well-maintained homes, which would have all been factors in our consideration to increase rents outside of these proposals.

- However, as noted above, we consider that the government has the ability and responsibility to support RPs in other ways, where the importance of reinvesting in social housing and increasing affordable supply of homes remains crucial.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

- A 7% ceiling has the least amount of impact on the authority financially, although remains an unviable option in the long-term without additional support.

- If implemented, the need for some form of "catch-up" will be necessary once the cap comes to an end to enable RPs to manage the housing programme.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

- We would favour one year in the first instance, with encouragement and support for individual voluntary restraint thereafter.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

- Agreed.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

- We consider that supported housing should be exempt from the proposals, given the low financial margins, its importance to vulnerable people, and the likely unintended consequences to health services, crime, and neighbourhoods.

7. Conclusion(s)

As set out above, although we recognise the need to protect residents, we cannot stress enough how much of an impact these proposals will have if implemented on the Council, when also taking into account other current financial pressures, and without additional support from government.

We implore government to carefully consider the sector-wide responses to this consultation and to, in addition to residents, protect the ability of social landlords to provide the much-needed housing, that will become even more fundamental as the cost-of-living crisis continues to impact on local people.

[redacted]

Cc

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Haringey Defend Council Housing
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	58 Newbury House, partridge way, London N22 8DY
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1:

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

✓ ☐Yes

Comment:

In response to the cost of living crisis, there should be a package of measures including a rent and service charges freeze across all rented housing sectors.

47% of food bank users are social housing tenants.[1] 59% of children living in social rent households are in families who cannot afford at least one week's holiday away from home each year; and 44% of these families cannot afford to replace broken electrical goods in the home.[2]

Government should provide an additional capital funding grant to local authorities to maintain service standards and support Housing Revenue Accounts, which will come under inflationary cost pressures while rents are frozen. This measure should ensure there is no loss of service standards or housebuilding capacity in the council housing sector. This financial support should be regarded as a vital investment in communities and in social inclusion. It should be extended to smaller housing associations only, and on a verified needs basis only.

The final sentence of this question suggests that government might not impose a specific ceiling on rent increases. This would lead to excessive increases by providers and more poverty for tenants.

[redacted] Users in Great Britain', Social Policy and Society, 19 (1), 55-73

[2] Data from DWP survey of Households below average income, via FOI response, 10/01/2022: www.whatdotheyknow.com/request/households_below_average_income

Question 2:

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

✓ ☐No

Comment:

There should be a freeze of rents and service charges. It is important to include service charges, because they make up an integral part of the rent payable by the tenant. Excess increases in these charges would negate any limitation in the basic rent charge.

Question 3:

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

✓ ☐No

Comment:

The freeze on rents and service charges should be ongoing into 2024/25.

Question 4:

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

- ✓ ☐No

Comment:

First let and subsequently re-let properties are a relatively small proportion of the total social housing stock.

The DLUHCs *Statistical Release: Social Housing Lettings: April 2020 to March 2021* states that the average Rent Burden (rent charges as a percentage of income) for new social sector lettings is 36%, and 51% in London, compared to a recommended maximum of 30%. The Rent Burden was above 30% in all nine regions of England.[3] It has now emerged that service charges were not included in these figures, although they should have been, and so the real Rent Burden is even greater.[4] Therefore first let and re-let social rents are already too high, and should be frozen under the present circumstances.

Question 5:

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

- ✓ ☐No

Comment:

No exceptions should apply.

[ends]

---

[3] DLUHC, *Statistical Release: Social Housing Lettings: April 2020 to March 2021*, p44. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1094417/Social_Housing_Lettings_in_England_April_2020_to_March_2021.pdf

[4] FOI response, 'Proportion of income spent on rent and service charges for new general needs lettings', 21/09/2022: www.whatdotheyknow.com/request/proportion_of_income_spent_on_re

Government consultation on 2023 rent increases

Impact of a ceiling on rent increases

Question 1 – What would be the impact of caps set at 3%, 5% and 7% on your organisations viability and ability to invest in homes and services.

Response:
We believe that local housing authorities are best placed to make decisions about rent increases, reflecting the unique nature of local considerations, tenants, leaseholders and homes.

Any government limit to the increase will inevitably impact housing authorities who own their own stock and limit the ability to maintain and invest in improving the quality and safety of social housing homes and the investment in decarbonisation. Any limit to rent increases will be very challenging and measures will need to be put in place to protect viability. Modelling the impact at all three levels renders the Harlow Business Plan unviable. In order to rebalance the business plans:

Cap set at 3%

- With a cap set at 3%, revenue reductions totalling £2.25m per annum would need to be made. Reductions would have to start this year (2022/23).
- Direct Revenue Financing is not affordable, so the Council would rely more heavily on borrowing to fund its capital programme
- The Capital Programme would need to be reduced by £6.983m this year and £15.483m over the first five years. £43.302m would need to be found over the 30 year period of the HRA Business Plan

Cap Set at 5%

- A cap set at 5% would still present significant challenges, with revenue reductions totalling £1.5m per annum needing to be identified. Again, reductions would need to start in 2022/23.
- Direct Revenue Financing would be limited to allow for borrowing to fund the Capital Programme
- The Capital Programme would still need to be reduced by £6.983m this year and £15.483m over the first five years. £40.822m would need to be found over the 30 year period of the HRA Business Plan

Cap Set at 7%

- A cap set at 7% would still involve having to take difficult decisions about what services to prioritise and how to make savings. The revenue budget would need to reduce by £1m per annum
- Direct Revenue Financing would be limited to allow for borrowing to fund the Capital Programme
- The Capital Programme would need to be reduced by £5.983m this year and £4.262m over the first five years. £29.956m would need to be found over the 30 year period of the HRA Business Plan

Initial analysis of an imposed rent cap would mean a significant reduction in the revenue support (Direct Revenue Financing) available to fund the Housing Capital Programme in Harlow. In order, to maintain the level of the Housing Capital Investment to meet compliance, decent homes, and tenant expectations it would mean we would have to rely more heavily on borrowing. In the past, "discounted borrowing flexibility" was offered by the Government to support stresses on local authority housing revenue accounts. We would strongly recommend discounted borrowing flexibilities be reinstated.

Question 2 – Are there other knock-on impacts of Government intervention that we should capture in our consultation response.

Response:
The impact assessment captures the immediate financial impact of the different scenarios but it doesn't acknowledge the impact that will be felt by current and future tenants as a result of reduced investment in their homes and services. This is a crucial consideration for the Council, both in maintaining compliance to enhanced social housing regulatory requirements, and meeting residents' expectations.

Question 3: What level of rent increase would you apply if government didn't intervene
a) If there was no catch-up mechanism
b) If rents could catch back up in future – either via regulatory change, or a 'rent waiver' mechanism within existing regulations.

Response
We think this depends on the 'rules' about how the rent increases would be applied in future years:

- Scenario 1: If rents cannot 'catch back up' with their real terms level in future years, so the impact compounds indefinitely
- Scenario 2: If rents can 'catch back up' over future years, either through a regulatory change or mechanisms within existing rent regulation.

We think that local housing authorities would be much more likely to limit their increase to well below the permitted CPI +1% under scenario 2. This could potentially include increases below 7% e.g. future years flexibilities to catch up.

Question 5: do you agree that supported housing should be exempt from any cap, and if so, can you provide evidence on why this will be important to protect the viability of supporting housing provision?

Question 6: Are there any other categories of social housing that should be exempt from the Cap?

Response:
The consultation doesn't propose any exemptions from the cap but does ask for evidence on whether any exceptions should apply for particular categories of social housing, and specifically references supported housing.

We would strongly argue that **"supported housing"** should be exempt from any cap, given the challenges on margins and costs being substantively differently in this part of the sector.

Question 7: Do you think the cap should apply for one or two years from April 2023? Please explain why.

Response:
The proposal is for the cap to apply next year, but the consultation asks for views on whether it should apply for two years, given projections that high inflation will be sustained at least until September 2023 (the reference month for April 2024 rent increases).

A two-year cap would increase certainty for local housing authorities over rent increases in 2024, but reduce the ability to respond nimbly to a highly uncertain and likely rapidly changing situation next year.

A one-year cap potentially leaves a similar period of uncertainty next summer, but would allow for a more nuanced and targeted response to the actual economic conditions faced next year.

The consultation proposes that the cap doesn't apply to new lets, relets. This is very welcome and consistent with the consultation's stated aim of protecting existing residents from high nominal-terms rent increases. If the government had proposed applying the cap to new lets, relets and formula rent it would have meant a permanent and significant real-terms rent cut across all social housing, rather than temporary protection for existing tenants in an exceptional year.

The government's clarification that the CPI+1% cap on rent increases doesn't apply if CPI is below -1% is also very helpful in providing certainty about rental income in the event of deflation.

Question 8: Do you agree with these two proposed areas of focus? Please share any thoughts on how these proposals could work in detail, and any other proposals we should consider.

These are twofold:

Grant funding to cover the shortfall in the short term (inflationary support), reinvesting the benefit savings that will accrue from capping rents into grant funding for local councils which could be allocated to the Council's Corporate Priorities which include …. Building Safety Fund, Affordable Homes Programme, Social Housing Decarbonisation Fund, or new funding for investment in quality or services to tenants, meeting raised expectations within the recently published "Housing White Paper".

A gradual catch-up mechanism in the long-term to return rents to their real terms levels, current position within the formula rent continuum. and protect long-term improvement plans. Once inflation has fallen back to near target levels and real incomes are rising.

This would reintroduce a mechanism similar to the previous **“convergence mechanism”,** whereby below-target rents can gradually catch up with formula rent. The government’s proposal that any cap next year wouldn’t apply to formula rent means that a convergence mechanism would be essential to avoid significant inconsistency in rents between new and existing tenants in future years. This would also address the historic anomaly of below-target rents which never caught up with formula rent before convergence was abolished.

London Borough of Hammersmith & Fulham
Hammersmith Town Hall, King Street
London W6 9JU
www.lbhf.gov.uk

Rt Hon Simon Clarke MP
Secretary of State
Department for Levelling Up, Housing and Communities

12 October 2022

Dear Secretary of State,

We write in response to the rent consultation launched at the end of August. Set out below is our strategic policy context response as the Cabinet Members for Finance & Reform and Housing and Homelessness at the London Borough of Hammersmith and Fulham.

The Borough has for many years promoted compassionate policies to support our residents whilst maintaining ruthless financial efficiency. We have supported our housing tenants by keeping our rents as low as possible.

Local government has paid a high price for the austerity policies of the last 12 years. Since 2010/11, Hammersmith and Fulham Council has had a real terms government funding reduction of 54%. There are not many organisations that could be expected to carry out the same services, to the same standards, with less than half of the resources previously available. In Hammersmith & Fulham we have worked hard to do more with less. This cannot continue indefinitely. If the government wants councils to be able to provide quality services to residents it must fund them properly.

The -1% rent reduction policy that was implemented between 2016/17 to 2019/20 resulted in a cumulative reduction of controllable resources by almost 23% and had a severe impact on day-to-day services, improvements to existing homes and the building of new affordable homes. Residents have also not been provided with the additional necessary building safety funding for essential conversion works following the Grenfell disaster.

You will be aware of the current inflation levels, not seen since 1982, and forecast to remain high throughout 2022/23. Inflation in the construction sector, which has a significant impact on the Housing Revenue Account (HRA) is higher still, due to the impact of labour shortage and supply chain issues exacerbated by Brexit. This means that HRAs are already being stretched. In Hammersmith & Fulham, as in other local authorities across the country, we are investing in new affordable housing to meet demand, necessary repairs to the existing housing stock, and ensuring that properties are as energy efficient as possible as heating bills rise. As such, it is vital to ensure that HRA revenues remain at sustainable levels.

Council tenants will be facing higher costs because of rising bills, food prices and inflation. Hammersmith and Fulham Council has implemented measures to support local residents, including limiting this year’s rent increase to September 2021 inflation levels (3.1%) rather than the CPI + 1% level permitted. One of the lowest increases in London. We have also made available significant direct financial support for residents suffering hardship. With the current pressures brought about by the rising cost of living we would support any further help that residents could be given.

With the cost pressures that HRA budgets are facing, it is vital that revenue is, at least, able to keep pace with inflation. With inflation in September 2022 being 9.9%, local authorities would currently be able to increase rents by 10.9% under the CPI + 1% limits. If the department goes ahead with these proposals to introduce a cap government must provide local authorities with the funding to meet the shortfall between the cap and the existing CPI + 1% limits, for the length of time the cap remains in place. This would be entirely in line with the substantial support provided to other business and service sectors during this period of fiscal turbulence.

The technical officer response to the specific consultation questions is attached in Appendix 1.

We hope these comments are helpful for your deliberations and look forward to considering the outcome in due course.

[redacted]

Appendix 1

Hammersmith & Fulham Council response to rent cap consultation

---

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Response 1:
Formula rents for social rented properties represent the value, size and location of a property and provide a consistent (Government defined) rent level for any social rented property. The self-financing settlement assumed that councils would be charging formula rents. The consequence of extremely high levels of inflation means that this option is not credible in the present climate. This means that rent convergence (where the Council moves towards generating rental income levels sufficient to cover adequately the costs of debt servicing and management and maintenance) is delayed further and thereby limits the Council to deliver its housing service, investment in homes which include decarbonisation plans and ensuring buildings are safe, as well as building new homes for years to come.

The Government should step in to provide separate one-off assistance to bridge the gap so that housing services continue to function effectively.

The Government has previously emphasised that setting rents (within the regulatory framework set out in the Rent Standard) remains a decision for each local authority. This makes sense as each council has its own particular financial challenges. Imposing a cap across the board undermines the local decision-making process.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Response 2:
In the present challenging economic climate, the Government should step-in with a one-off grant of financial support to protect tenants from a rent increase, in addition to the other challenges they face because of the cost-of-living challenges. This would reflect and mirror support provided by the Government to other sectors.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Response 3:

There is no indication in the consultation that the Government plan to provide any support to compensate local authorities for the ceiling on rents, so effectively local authorities will be expected to meet inflationary pressure on expenditure budgets from existing resources / scaling back of spending plans wherever this is more than the ceiling on rents.

Any extension to the ceiling will impose further pressure on the HRA.

The Government could (although it would be expected to resist any pressure to do so) reopen the self- financing settlements and support the ceiling on rents through a reduction in debt. In the event that the ceiling applies to 2023/24 only, it is unclear whether the Rent Standard 2023 would be revoked, and the Rent Standard 2020 would be applied to 2024/25 or whether a new Rent Standard 2024 will be introduced.

We believe the Government should urgently review this position to support residents who form the most vulnerable people within our communities.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Response 4:

Please see our response to the earlier questions. We believe there is a special case, in these unique circumstances for the Government to protect tenants and correspondingly support HRAs with a one-off grant.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Response 5: The draft policy statement does not cover several categories of accommodation and these properties are therefore exceptions to the policy proposals. Of these, only temporary social housing is relevant to H&F Council, and these are very small in number.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	GreenSquareAccord
What is your position in the organisation (if applicable)?	[redacted]es
What is your address, including postcode?	GreenSquareAccord, Methuen Park, Chippenham, Wiltshire, SN14 0GU
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

X Yes
☐No
☐Maybe

Comment:

- The current inflationary environment means our customers are facing challenging financial decisions due to increasing costs of food, travel and energy costs.

- As a social landlord, we fully assess the impacts of any rent increase on customers now and for the future and never take decisions to increase lightly.

Certainly, we had already expected that CPI +1% would have a significant and detrimental impact on affordability and financial wellbeing, which is why GSA considers it difficult to countenance a full pass on of additional inflationary costs to our customers through a full rent-settlement of CPI+1%.

- In our base financial plan, we have therefore assumed a 5% rent cap for the 2023/24 financial year. Whilst we have applied a 5% ceiling in our base financial plan, this does not detract from the adverse impact such a cap will have. A cap lower than 5% would have significant adverse consequences, and we strongly reject anything lower than a 5% increase. The impacts of both a 5% and 3% cap (or lower) will be evidenced further in question 2.

- Balancing the affordability of our customer's homes with our ability to maintain vital services is critical, that's why we believe any cap must be proportionate and we should acknowledge that any cap will have a varying impact across the sector, dependent upon size, financial stability and type of provider. As explored in answer to question 2, a redistribution of the savings government will experience as a result of any cap is imperative

- Our customers have told us that any increase will be difficult to cope with, but agree that capping the rent increase will minimise the severity of this impact. They also tell us that should any increase come into force, they expect us as their landlord to provide them with support with the cost of living and associated pressures on their income.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

X Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

- We consulted with customers to support this submission, and they agree that whilst they will find any increase difficult, a cap at 5% would minimise the uncertainty they are experiencing and the severity of impact.

- They also understand that a rent freeze or reduction to less than 5% would mean considerable rescoping of services and during the consultation they felt there were no services that were not absolute priorities for them. They want us to continue to invest in improving the quality of their homes, keep them safe and secure, and make investments in making homes more energy efficient which benefits both tenants and GSA.

- They would accept a reduction on development in the short term if we had to reduce our investment in building new homes, however understood the consequences this would have on providing social housing in the future and meeting targets to solve the housing crisis.

- Furthermore, customers have told us that investing in the energy efficiency of their homes is critical to enabling them to afford to stay warm in their homes, whilst maintaining affordability. Therefore with a cap at any of the levels proposed requiring us to reduce this programme this would lead to further delaying of investment in the efficiency of our existing stock, thus delaying making these improvements to customer's homes and adversely impacting their financial position and comfort.

- Customer feedback does also highlight that for some, any rent increase will cause hardship, particularly for those in employment, where income is unlikely to rise in line with rent caps or inflation. Almost all customers cited the exponential rise in energy costs and fuel costs as the greatest concern in terms of affordability.

- They also tell us that should any increase come into force, they expect us as their landlord to provide them with support with the cost of living and associated pressures on their income, however from a GSA perspective we will be limited as to what further support services we could provide as we would need to review the scope of our services to mitigate some of the impact of a rent cap.

- As noted above, our base financial plan includes an anticipated ceiling of 5% which already has a detrimental impact on future investment in terms of improving the quality of housing, building new housing, and meeting regulatory and legislative changes.

- We have already taken steps to rescope and right-size investment and service improvement as a result of modelling a 5% cap. [redacted]

- [redacted]

- Since modelling the 5% in the financial plan, economic factors and indicators have moved such that the differential between the cost inflation (at assumed CPI) and the ceiling has now widened with inflation moving from 7% when setting the plan, to 11% now. In addition, funding costs have significantly increased due to the movements in the underlying gilt rates following market reaction to the mini-budget. [redacted]

[redacted].

- As a result of the above analysis, we are revisiting the plan to ensure that the business remains financially strong and will expect to further reduce development ambitions in the near term to accommodate these impacts. These changes are being considered by Board and Executive with a view to ensuring they are factored into the 2023/24 financial plan which will be provided to the RSH via the FFR submission in June 2023.

- Noting the worsening economic backdrop, we would not consider a ceiling lower than 5% to be viable for the sector as the cost to income inflation differential would be too great. The resulting impact of a cap lower than 5% would be severe and see further reduction in investment in homes, development of new properties and ability to deliver services

- Retaining and attracting a strong workforce will be impacted by any cap to rent, with any projected pay increases not matching inflationary rises. By capping our rental income we are essentially capping our workforce's pay which may lead to a drop in service quality.

- Whilst we agree that imposing a 5% cap will provide some protection for our customers versus an inflation-linked increase, we strongly support the government providing extra funding as an alternative to the loss in rental income we are projected to see. With the government estimated to save £4.6 billion in benefit savings from 2023-28 as a result of a 5% cap, we strongly support the re-distribution of these savings to landlords to mitigate the impact on investment in homes, building much needed homes and continuing to provide support services to the most vulnerable in society.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

- We believe that the ceiling should apply for two years. A two-year ceiling of 5% would provide stability to financial planning for the sector and more widely would provide a positive signal to financial markets and credit rating agencies of one of the key credit positives for the sector; stability observed through strong governmental support.

- In addition to setting a two-year ceiling, it would be preferrable for a mechanism to also be announced within the settlement agreement which would allow for RPs to apply higher rental settlements above CPI+1% in future years should inflation reduce in the medium term in line with current economic forecasts. This would again provide further stability and assist in allowing RPs to plan better and may give RPs the ability to revise financial plans to become more ambitious so short term rent cap impacts on services and development are minimised in the long term.

- Should the mechanism be included, it would be sensible to ensure there was a ceiling to ensure rents did not increase above [80%] of market rents to ensure that rents remained more affordable for our customers when compared to private rents, which we have seen increasing at rates significantly higher than inflation.

- As part of the customer consultation we undertook, some asked whether any increase/cap could be introduced over a phased period, to minimise both the impact on us as their landlord but also them as a resident.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

- We do not support a deviation from the Rent standard's rent flexibility level when setting rents in accordance with the formula rent as prescribed by Government. This ensures registered social landlords have the ability to apply discretion applicable to local factors and concerns.

- Formula rent is based upon fluctuating property values and local earnings; therefore imposing a cap on the setting of these rent levels for new lets and subsequent re-lets would impose further restrictions and risk

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

- GSA support the principle of protecting tenants from the rising cost of living, especially the most vulnerable in society. However, the impact of the rent cap for small and medium support housing providers will lead to key services for vulnerable people ending.

Supported Housing (Care and Support) should be exempt for the following reasons:

- In order for housing organisations to remain financially stable, there will be a reduction in the delivery of new homes and investment in existing properties. The impact on the housing crisis will be exacerbated by the lack of housing supply. The demand for support housing (particularly emergency) will increase.
- GSA are revisiting the business plan to ensure we can navigate the financial challenges. Small to medium providers of supported housing will become unviable at a time there is an increase in demand.
- Instability in core rent income will mean many specialised providers will not be able to continue to operate due the current sector challenges that include:
    - Care and Support services that are contracted by local authorities / commissioning groups are not inflation-linked. Gaps are often offset by charitable income.
    - Care and Support providers are facing a staffing crisis, losing staff to better paid jobs in retail and hospitality, and unable to recruit replacements.
    - Impact of building safety/ fire safety costs has resulted in low operating margins c3%
    - Nature of support housing rents for many client groups includes an increase in low level repairs that are not service chargeable. The actual costs of materials and labour will not be affordable with a rent cap to core rent applied.

Social housing rents consultation

G15 response

October 2022

About the G15

The G15 is made up of London's largest housing associations. The G15's members provide more than 715,000 homes across the country, including around one in ten homes for Londoners. Delivering good quality safe homes for our residents is our number one priority. Every year our members invest almost £900m in improvement works and repairs to people's homes, ensuring people can live well. Together, we are the largest providers of new affordable homes in London and build around 15% of all affordable homes across England. It's what we were set up to do and what we're committed to achieving. We are independent, charitable organisations and all the money we make is reinvested in building more affordable homes and delivering services for our residents.

Find out more and see our latest updates on our website: www.g15.london

The G15 members are:

- A2Dominion
- Catalyst
- Clarion Housing Group
- The Guinness Partnership
- Hyde
- L&Q
- MTVH
- Network Homes
- Notting Hill Genesis
- One Housing
- Optivo
- Peabody
- Southern Housing Group

For more information, please contact: G15@mtvh.co.uk

Executive Summary

As not-for-profit organisations that work with and support some of the least well-off people in the country, G15 members are deeply concerned by the impact cost of living pressures are having on the people we provide homes to.

G15 members have increased support for residents, including providing £5.8m for vital crisis support this year, and helping residents to secure £44m of financial gains last year. This is in addition to the work we are doing to bring down people's energy bills by improving the energy performance of the homes we provide, alongside charging social and affordable rents far below market rates at around £125 per week on average (around 50% of market rents).

We are also urging the government to provide further targeted support for those most affected by the cost of living pressures, especially around sky-rocketing energy bills that are driving much of the challenges people are facing. Crucially, this must also coincide with the uprating of social payments in line with inflation, which is something that we have repeatedly called for. Almost 7 in 10 general needs residents living in the homes we provide rely on this support, and for many people this covers the entire cost of renting their home.

Any resident facing financial challenges should contact their housing provider as soon as possible to discuss what support and advice can be provided. G15 members have also reconfirmed their commitment to the NHF eviction pledge and will support people as much as we can where they are engaging.

Potential impact of social rent ceilings

To maintain and improve existing residents' homes, and to continue to build much needed new affordable homes, significant investment each year is essential. As not-for-profit organisations, all the resources we generate are put back into the homes we provide and build, and to support the services residents receive. Re-investable rental income for housing associations is critical to supporting this work. Similarly, meeting the significant challenges of building safety, decarbonisation, and addressing homelessness, requires strong and stable income for organisations.

The surpluses (and/or 'reserves') that are reported as part of our financial results are not 'rainy day' funds that can simply be applied to cover costs elsewhere. Instead, they are key to securing borrowing to deliver the essential work that we do, and are held as fixed assets and working capital, rather than cash.

Housing associations have already seen costs for vital materials for repairs and maintenance work increase by as much as 16.8% this year, and the cost of constructing new homes has grown by more than 11%.

Energy costs for G15 members are forecast to have increased by 225% for electricity and by 573% for gas, on average, between 2021/22 and 2023/24. These above inflation increases present significant pressures on members' budgets and investment plans.

Insurance premiums have also increased sharply over recent years, with one G15 member seeing increases of over £3m in the last two years, and another seeing increases of over 100% year-on-year. Service charges are also rising with inflation, or higher, which places further pressures on both providers and residents (in the case of variable service charges).

Credit rating agencies have cautioned about the impact of divergence between rental income and costs for housing associations and the impact this could have on borrowing costs and investor confidence. The current economic volatility will also have a material impact on borrowing costs for organisations, further impacting our financial standing, which is a critical aspect of how we are able to deliver the work that we do.

Based on the social rent ceilings outlined in the government consultation, this table demonstrates the scale of the reduction in re-investable rental income that G15 members would face from a one-year ceiling:

	Reduction in re-investable rental income over 5 years	Reduction in re-investable rental income over 10 years	Reduction in re-investable rental income over 30 years
Rent ceiling at 3%	£2.071bn	£4.661bn	£17.959bn
Rent ceiling at 5%	£1.516bn	£3.493bn	£13.473bn
Rent ceiling at 7%	£1.017bn	£2.380bn	£9.296bn

As these figures demonstrate, the impact of the government's proposals on G15 not-for-profit housing associations and the activities they deliver would be massive.

In consulting members, it has become clear that, should a low social rent ceiling be applied by the government, reductions in spending across all areas of activity will need to be considered. This includes:

- **Impact on building safety planned works** – The safety of all the people we provide homes to is our number one priority. We are concerned that, without government funding assistance, the rent ceilings being proposed will slow planned building safety works. G15 members are currently collectively forecasting to spend over £4bn on building safety works activities between 2021 and 2034, including meeting costs for social housing properties directly as there is no government funding for these homes.

- **Investment in existing homes reduced** – G15 members spent around £900m investing in existing homes last year. Investment in existing homes, such as works to replace kitchens, bathrooms, and windows, would have to be delivered over a longer period if income is significantly reduced, meaning few improvements each year.

- **Slower progress on decarbonisation and retrofitting homes -** Efforts to decarbonise and retrofit existing homes would be scaled back and progress towards achieving the requirement for all homes to be EPC C rated by 2030 curtailed.

- **Fewer new affordable homes delivered -** Significant reductions in the number of new affordable homes to rent and buy that are built, further exacerbating the housing crisis by failing to meet need and having a massive impact on economic activity at a critical time.

- **Reduced interest cover and negative impacts on financial capacity -** Organisations' interest cover will also be negatively affected by the proposed ceilings, which is a key regulatory measure, and would lead to higher borrowing costs that would reduce our capacity to invest in existing homes and to deliver new homes.

G15 members' approach to rent setting considerations:

Each individual G15 member will be responsible for its own approach to rent setting and making budget decisions. However, we have a number of key principles in our approaches and considerations we are seeking to balance.

Social rent setting:

- If no ceiling was introduced on social rents, it would be extremely unlikely that any organisation would seek to apply the maximum possible increase next year under the existing social rent setting standard.

- All members are carefully considering the impact of the cost of living challenges on residents and the essential work we do in the context of rent setting for 2023/24.

- In getting the balance right on rent setting, we are committed to maintaining affordability for residents.

- Not-for-profit housing associations should be allowed to set rents independently as heavily regulated organisations that are best placed to achieve the right balance, in the context of residents' immediate and future needs, and the long-term requirements of organisations.

Shared ownership rents

Whilst outside of the scope of the government's consultation, G15 members recognise the impact of high inflation on the formula for setting the rental element of shared ownership and the concern that many shared owners will have. That's why we want to provide a summary of G15 members' approaches and current thinking on this too.

It should be noted that limiting shared ownership rent increases at 7%, for example, would reduce re-investable rental income for G15 members by £191m over 5 years, and by £1.15bn over 30 years, in addition to the figures listed above.

- If possible, organisations do not want to apply the maximum increases on rents for shared owners.

- We recognise the unusually high level of inflation means rent increases for shared owners could potentially be higher than in previous years.

- Any decision we can make on shared ownership rents will be affected by the government's decision on social rent ceilings, and the volatile economic situation which is driving up costs further.

- Each organisation will make an individual decision based on careful consideration of multiple factors, including the need to maintain existing homes and services and the financial pressures facing residents, particularly the least well-off.

Mitigations government should consider

Further action is required by the government to support people facing cost of living pressures that are driven in most part by rapidly rising energy bills, especially those people who are least well-off. In taking action to support people with the cost of living, exacerbating the housing crisis by significantly reducing resources for organisations to invest in existing homes and to build much-needed new affordable homes should be avoided.

A number of measures that the government should consider in making its decision on the rent ceiling proposals are:

- Social security payments should be uprated in line with September inflation measures to support the least well-off, recognising that approximately 68% of G15 members' general needs residents are in receipt of Universal Credit or Housing Benefit.

- A specific exemption should be made for supported housing from the proposed rent ceilings, recognising the viability challenges that would be created and the impact this could have on the delivery of such critical services.

- Mitigations must be announced alongside any rent ceiling decision to prevent significant reduction in investment in existing and new homes, including:

    - the reintroduction of rent convergence
    - allowing Recycled Capital Grant Funding (RCGF) to fund major repairs
    - additional grant funding for development of affordable homes
    - removing VAT on housing association activity
    - discussions on the post-2025 rent settlement should introduce a long-term approach based on key principles to secure the financial future of the sector and affordability for residents.

We recognise the importance of residents' voices and input across all areas of our activity, including on this issue. The G15 brought together a group of residents who have engaged with previous consultations and met with former Minister, Eddie Hughes MP, in 2021 to discuss social housing regulation. The views of this group are included later in this consultation response with participants' permission, and demonstrate the difficult balance that has to be struck in making a decision on rent setting.

As this response demonstrates, we recognise the challenges residents face and the desire of the government to assist people. G15 members are committed to continuing to provide support to residents. In reaching decisions on rent setting for 2023/24, careful consideration must be given by the government to the consequences of the proposals in this consultation.

Impact of proposed rent ceilings

Existing cost pressures

G15 members are seeing increases in our costs across key areas of activity. Analysis by Cebr[1] of ONS data for the National Housing Federation has found that:

- Materials for maintenance and repairs price growth peaked at 16.8% in April 2022, with growth at 14% in July 2022.
- Costs of construction new homes has increased to 12.3% in June 2022, and the annual rate grew to 11.1% overall. This is above June 2022 CPI at 9.4%.
- Further pressure housing associations stems from large increases in nominal pay. Over the first half of 2022, earnings increased by 6% on the year, on average, with the most recent datapoint from June pointing towards 6% annual growth that month.

G15 survey data has found that energy costs for members are forecast to have increased by 225% for electricity and by 573% for gas, on average, between 2021/22 and 2023/24. Absorbing these costs is already having significant a significant impact on organisations budgets.

Insurance premiums have also increased sharply over recent years, with one G15 member seeing increases of over £3m in the last two years, and another seeing increases of over 100% year-on-year. Service charges are also rising with inflation, or higher, which places further pressures on both providers and residents (in the case of variable service charges).

Credit rating agencies have cautioned about the impact of divergence between rental income and costs for housing associations and the impact this could have on borrowing costs and investor confidence. The current economic volatility may also have a material impact on borrowing costs for organisations, further impacting our financial standing, which is a critical aspect of how we are able to deliver the work that we do.

It is in this high inflation environment that is leading to increased costs to providers across all our activities that the government must consider its decision. Whilst the four-year 1% rent reduction was massively detrimental to social housing providers' financial capacity, the period this covered was relatively stable in terms of inflation, and inflation was far lower than is currently the case. Therefore, rent ceilings in the current inflationary environment will have a more severe impact than the previous rent reductions.

[1] https://www.insidehousing.co.uk/news/new-homes-repair-and-maintenance-costs-all-rising-above-inflation-warns-nhf-77899

Impact of proposed rent ceilings

The table below illustrates the impact on rental income for G15 members for each proposed rent ceiling if applied in 2023/24:

	Reduction in re-investable rental income over 5 years	Reduction in re-investable rental income over 10 years	Reduction in re-investable rental income over 30 years
Rent ceiling at 3%	£2.071bn	£4.661bn	£17.959bn
Rent ceiling at 5%	£1.516bn	£3.493bn	£13.473bn
Rent ceiling at 7%	£1.017bn	£2.380bn	£9.296bn

If a rent ceiling were to be applied in both 2023/24 and 2024/25, as the consultation invites views on, this would see the financial impact increase by approximately 60%.

As these figures demonstrate, the impact of the government's proposals on providers and the activities they deliver would be massive. In consulting members to inform this response, it has been clear that should a low rent ceiling be applied by the government, reductions in spending across all areas of activity will need to be considered.

Impact on building safety planned works

The safety of all the people we provide homes to is our number one priority. G15 members are currently collectively forecasting to spend over £4bn on building safety works activities between 2021 and 2034, including meeting costs for social housing properties directly as there is no government funding for these homes.

We are concerned that, without government funding assistance, the rent ceilings being proposed will slow planned building safety works. For one G15 member, over the next 5 years this could reduce works by as much as 50-75%. Whilst individual members will have different programmes and capacity challenges, it is a concern for all members that reduced resources will restrict their ability to make progress in assessing and remediating (where required) buildings. With reduced resources, it is highly likely that it will take providers longer to assess lower risk buildings and to carry out works. This is due to the reduced financial capacity we could have to fund inspections and works.

The Hyde Group chairs the G15's building safety group and has held a number of discussions with concerned members who fear they could have little choice but to defer building safety works if rents are capped at low levels without additional support. This would be a devastating blow to the very residents our members are here to support. At the most extreme, when coupled with other significant economic pressures, some providers could find it difficult to fund the costs of cladding replacement works that are not fully covered by the building safety fund, resulting in residents having to wait longer for their homes to be made safe.

Investment in existing homes reduced

This includes slowing down investment in existing homes by extending planned works programmes, such as those to replace kitchens, bathrooms, and windows. One G15 member has indicated that a 5% rent ceiling would lead to a reduction in major repairs spending, including on fire safety, of £5m next year, rising to a reduction of £10m if a 3% ceiling was applied.

Collectively, G15 members spend almost £900m on improvements, maintenance, repairs, and safety checks for existing homes each year. Last year, we invested £350m in our residents' homes to install 10,500 new kitchens, nearly 5,000 new roofs, and more than 21,000 new bathrooms and windows.

However, reduced resources would mean delays to some proactive works. For example, a significant cap on rents could see stock investment programmes, to achieve Decent Homes Standard Plus and to reduce carbon in homes, extended from 10-year programmes to 15/20-year programmes.

Slower progress on decarbonisation and retrofitting homes

It would also see efforts to decarbonise and retrofit existing homes scaled back and progress towards achieving the requirement for all homes to be EPC C rated by 2030 curtailed. Homes rated EPC F are likely to have a gas bill £968 higher than homes rated EPC C, and when gas and electricity bills are taken together, those living in the worst rated homes will pay almost £2,000 extra compared to EPC C, and the average EPC D homes will pay almost £600 extra, demonstrating the need to continue investment in improving energy efficiency of existing homes.

Fewer new affordable homes delivered

The development of new affordable homes to rent and buy would also be significantly reduced, and in some cases halted entirely depending on the ceiling applied, further exacerbating the housing crisis by failing to meet need and having a massive impact on economic activity at a critical time.

One G15 member has forecast that it's programme of new homes would reduce by around one third (approximately 1,900 homes) if a ceiling of 3% was applied. Another member commented that whilst developments that are contracted and ongoing would go ahead, viability would fall and additional subsidy would be required, alongside there being no capacity for new developments outside those in its current pipeline. A further member gave the example that in the scenario of a 3% ceiling, the organisation would lose £3bn over 30 years, which would mean diverting money from development to cover stock investment commitments and result in them building 5,000 fewer homes over that period.

G15 members started building 10,605 homes last year, 83% of which were affordable homes, and completed 11,527 homes, 69% of which were affordable homes. This represents a significant contribution to housebuilding in England. Unless off-set by increased government funding for the supply of new homes, a reduction in rental income will negatively affect G15 members' ability to build new homes. DLUHC has said that inflation, and in particular differential inflation (rental revenues minus costs for providers), presents a major risk to the success of the AHP 2021-2026.[2] Housing associations contributed 22.6% of all new build housing delivery in the 5 years to March 2021. Therefore, should development capacity of housing associations be reduced, there will be a significant gap in delivery overall at a time of economic challenge, which will both mean housing need is harder to meet and there will be a loss of economic contribution.

Reduced interest cover and impact on financial capacity

A particular area of concern is the impact on interest cover for housing associations. The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus[3] that a registered provider generates compared to interest payable, and is one of the key value for money metrics the Regulator of Social Housing tracks. In September, the RSH reported that interest cover stood at its lowest percentage recorded since cash flow data was first collected in 2015.[4] The impact of the rent ceilings for one G15 member would see a further reduction in its interest cover of 0.05x at a 5% ceiling, and 0.1x at a 3% ceiling.

The proposed rent ceilings are likely to impact most members by reducing operating margins. The rents set for the current financial year, 2022/23, at 4.1% are well below existing inflation and the rising costs of critical activities. This divergence will be compounded under the government's proposals, which will mean costs continue to run higher than rental income, meaning margins will compress further. For example, if social housing lettings turnover goes up by 5%, but operating costs go up by 15%, members with a 25% operating margin could see their margin compress to 18% and their operating surplus fall by 25%. A fall in operating surplus implies an equal fall in social housing lettings operating surplus ICR (SHL ICR) assuming interest costs stay constant. This means members going into this environment would need an SHL ICR of at least 1.33x to withstand the drop in surplus such that the SHL ICR are at least 1x.

A reduction in interest cover would mean that providers are less attractive to investors, who see interest cover as a core viability metric. A loss of cover such as this could result in a credit downgrade and beyond a point, a regulatory downgrade, for organisations making it harder to bring in finance and secure affordable borrowing, which are key to the operation of our financing model. Housing associations' interest coverage ratio gas fallen for two years in a row, dropping from 174% in 2018 to 138% in 2020.[5] The fall means the sector is more burdened by debt expenses.

We are aware that funders are concerned about the impact on financial viability of housing associations. Housing associations and investors need certainty to inform borrowing and lending decisions. There are concerns about the potential for bulk downgrades in public ratings, and concerns have been raised about the impact on risk perceptions of apparent

---

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1096533/Scoping_Report_for_the_Evaluation_of_the_Affordable_Homes_Programme_2021-26_FINAL.pdf

[3] Surplus is the money made through activity less the cost of paying interest. Surpluses are not bank balances that can be invested in day-to-day services or used to defer rent increases, but are used to secure additional borrowing that is invested in existing homes and services, and the delivery of new homes.

[4] https://www.socialhousing.co.uk/news/rsh-interest-cover-at-lowest-level-on-record-as-expenditure-mounts-77993

[5] Regulator of Social Housing, 2020 Global Accounts of private registered providers, March 2021

inconsistency of government support for the sector on the funding model of the sector. BusinessLDN has also warned that changes to the rent setting regime by government will dent confidence of investors.[6]

Supported Housing

Many G15 members provide supported housing. Due to the nature of the model, the ceilings being proposed would make many schemes unviable to deliver and would likely lead to providers exiting the scheme.

The operating margin for many supported housing schemes is significantly lower than overall group performance. As such, to enable organisations to meet performance required from lenders and investors, supported housing margin is effectively 'subsidised' by other social and non-social activities. Any rent ceiling significantly below inflation will decrease capacity to continue to operate supported housing. A severe or sustained rent ceiling may, unfortunately, force some organisations to consider a partial or full exit from this sector.

In some settings, residents, often those with additional needs or vulnerabilities, have their support payments (benefits) paid directly to their landlord. Therefore, a rent ceiling will see no direct benefit to residents in terms of cost of living pressures, but a ceiling would reduce resources available to providers to deliver the services on which residents rely. This is a particular concern at a time of rising costs for supported housing providers, including with energy costs that are purchased on commercial terms and have not yet been subject to any price caps or government support.

Change in average weekly rents

The impact on average weekly rents for one typical G15 member of the proposed ceilings would be:

Tenure	Current average weekly rent	3% increase	5% increase	7% increase
Social Rent	£119.68	£3.59	£5.98	£8.38
Affordable	£166.55	£5.00	£8.33	£11.66
Social & Affordable combined	£122.60	£3.68	£6.13	£8.58

The median monthly rent in London for private sector homes was £1,450 in March 2022.[7] Whilst any increase in costs at this time needs to be carefully considered, 68% of general needs residents living in G15 members homes receive Universal Credit or Housing Benefit to meet housing costs, and many are supported to pay their entire rent and therefore would

[6] The case for private investment into affordable housing in London, BusinessLDN, October 2022.

[7] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/privaterentalmarketsummarystatisticsinengland/april2021tomarch2022

not receive any additional saving from a cap. However, for those residents who do pay their own housing costs, members have significant support in place, and we would urge government to consider further support for those who need it.

Mitigations

Alongside further support for people affected by the cost of living challenges, as outlined below, it is essential that the government announces mitigations against the impact the proposed ceilings would have on providers. Such measures would help prevent significant reductions in investment in existing and new homes.

A key measure that should be considered is the reintroduction of rent convergence. This mechanism operated previously by allowing rents to rise by an additional £2 per week to reach formula rent. Applying this same mechanism would off-set some of the impact of the proposed rent ceilings. The G15 has calculated that 29% of members' homes covered by the rent standard are currently below target rent. This leads to an annual shortfall in rental income of £67.7m. Reintroducing rent convergence would be a welcome and fair step, and should also be the agreed starting point for the post-2025 rent settlement.

Allowing Recycled Capital Grant Funding (RCGF) to be used to fund major repairs would alleviate some pressures for certain providers. Whilst not all G15 members have significant RCGF balances, some do and would welcome this flexibility. The ability to use RCGF to fund major repairs will maintain the major repairs spend. RCGF applied to fund major repairs should preferably be written-off entirely or otherwise written down over a number of years. Any unamortised grant used to fund major repairs would be paid back if a property is sold outside the social sector.

Given the risk to the development of new affordable homes that has been outlined, consideration should be given to increased grant to deliver committed programmes. Inflation costs are far higher than when original grant awards were made, and greater flexibility is required.

Another key consideration should be how VAT applies to housing associations. Housing associations are unable to recover most of the input VAT which they incur. The irrecoverable VAT of one typical G15 member is £30m per annum. Our estimate of the costs of irrecoverable input VAT for the sector as a whole is £1bn-2bn per annum. Costs of £1bn-£2bn per annum severely restrict the extent to which the sector can borrow to fund development of additional affordable housing and invest in key areas, without breaching loan covenants.

UK VAT law was originally created by the EU and could not be easily changed. A benefit of leaving the EU is that this is now no longer the case. Protecting housing associations from irrecoverable VAT costs would also support the government's tax cutting agenda. It would be necessary to consult on how, as a technical VAT law matter, housing associations could be protected from the current costs of irrecoverable input VAT, but there are a number of possible approaches:

- Rents charged by not-for-profit registered providers could be recategorised as being zero rated supplies rather than exempt supplies. This would allow the recovery of associated input VAT.
- A special VAT rate for purchases by not-for-profit registered providers could be introduced. There is already a zero rate for most advertising purchases by charities, for example, which could be extended to other supplies. This would mean that suppliers would not need to charge VAT and therefore irrecoverable VAT would not arise.

- An extension of the provisions in Section 33 VATA 1994 which allow councils to reclaim input VAT on their social housing costs. The Section 33 provisions would need to be amended to apply both to not-for-profit registered providers and also to apply where the VAT attributable to exempt supplies is not insignificant.

The government's impact assessment published alongside the consultation recognises the significant savings to public spending if rent ceilings are introduced, with the cost of social security payments being far reduced as many social housing residents are supported to pay their rent by the state. We would welcome the government considering whether the lower costs it faces could lead to additional resources being invested in the social housing sector, whether that is to build new homes, progress decarbonisation works, or to otherwise invest in existing homes.

G15 members' support for residents

In response to the cost of living challenges facing many people, driven by sky-rocketing energy bills, G15 members have committed a further £5.8 million to support residents facing hardship this year.

Through a range of resident welfare and hardship funds, administered by each not-for-profit housing association, residents can receive support with issues such as emergency fuel and food needs, as well as receiving specialist advice and support. The majority of members have increased the support available in these funds from last year, with increases ranging from 18% to 1,171%.

Alongside this emergency support, during the last year (2021/22), G15 members supported residents to secure £44 million of financial gains by accessing social security support and other budget boosting measures.

G15 members also provided 33,767 people with targeted advice support in the last 12 months, including specialist debt advice.

As well as crisis support, G15 members continue to invest to improve the energy efficiency of existing homes and to cut bills for residents. For example, through insultation works, MTVH has saved residents £739,000 over the last year on their bills, and Social Housing Decarbonisation Fund backed improvements will benefit a further 500 homes, saving a further £230,000 on energy bills. Clarion will deliver energy improvements to at least 3,000 homes this year, having carried out works to 1,726 homes over the last year. Peabody is currently fitting 300 homes with solar panels and batteries.

All G15 members are working towards ensuring all homes meet at least Energy Performance Certificate Band C by 2030, with over 71% of G15 homes rated EPC C or above already. Homes rated EPC F are likely to have a gas bill £968 higher than homes rated EPC C, and when gas and electricity bills are taken together, those living in the worst rated homes will pay almost £2,000 extra compared to EPC C, and the average EPC D homes will pay almost £600 extra, demonstrating the need to continue investment in improving energy efficiency of existing homes. Such investment will be affected by the proposed rent ceilings.

G15 members are also working hard to support those residents in financial difficulty and who have built up arrears. All members are committed to the following principles in regards to tenancy sustainment:

- Keeping people secure at home - No one will be evicted by a G15 member as a result of financial hardship, where they are working (or engaging) with their housing association to get their payments back on track.

- Helping people to get the support they need – G15 members will help residents to access benefits and other support to alleviate financial hardship, including supporting people to get into work where possible.

- Acting compassionately and quickly where people are struggling – G15 members will work with any resident who is struggling to pay rent to make arrangements that are manageable for them in the long term. Legal action will only be taken in serious circumstances – for example as a last resort where a resident will not agree a plan with their landlord to pay their rent, or where it is needed urgently in cases of domestic abuse or of antisocial behaviour that is putting other residents or communities at risk.

Eviction is always the last resort for any G15 member and comes at the end of an extended period of support. The issuing of proceedings has the primary aim of bringing a resident forward to discuss about the support that can be provided to recover their financial wellbeing when engagement has not been forthcoming. It also provides an opportunity to connect to the other support services we offer as there are often multiple complex challenges.

Further support for residents from government

Energy Bills

G15 members recognise the unprecedented support the government has announced for many people with the cap on energy prices from 1 October 2022. This will provide welcome relief for many people about future increases in costs, and is in addition to other measures the government has announced.

However, whilst capping energy price rises from 1 October is welcome, the costs people will be facing are still far higher than they currently are (average £1,971), and higher still than earlier this year (£1,277 average from 1 April).

Further action is required by the government to support people facing cost of living pressures that are driven in most part by rapidly rising energy bills, especially those people who are least well-off. This must also include those residents who receive their heating and hot water through district of communal heating systems. We welcome the commitment the Prime Minister has made in announcing that the support will be extended to households using heat networks.

Social security

Social security payments should be uprated in line with September inflation measures to support the least well-off. Approximately 68% of G15 members' general needs residents are in receipt of Universal Credit or Housing Benefit. With inflation affecting the least well-off more significantly in their day-to-day spending and costs, it is imperative that social security awards keep pace with rising inflation.

G15 members have also called for:

- Bringing forward the planned uprating of social security from next April next year to this October
- Limit deductions from Universal Credit for prior overpayments/sanctions
- Remove the benefit cap and two-child limit
- Restore local housing allowance rates to at least the 30th percentile and return to annual uprating
- Prevent energy companies from forcibly switching customers to prepayment meters
- Commit to bring forward additional funding for energy efficiency measures in homes

G15 engaged residents' views

We recognise the importance of residents' voices and input across all areas of our activity, including this issue. The G15 brought together a group of residents who have engaged with previous consultations and met with former Minister, Eddie Hughes MP, in 2021 to discuss social housing regulation. The views of this group demonstrate the difficult balance that has to be struck in making a decision on rent setting.

Some people involved in their organisation's Board and formal engagement structures had discussed the issue of rent setting in meetings. People felt that whilst they may like to see a 0% increase (a rent freeze), it was important to see the implications for both the organisation and for residents in the future, as participants recognised that it could mean colleagues would be let go and/or maintenance and investment in existing homes not done.

There was agreement that whatever level rents are set at, people should be realistic about the impact. One member of the group reflected on the previous 4-year rent cut (2016-2020) and the impact this had on their organisation's ability to invest in maintenance. As a result, they were worried about the impact of the government introducing a freeze or low cap.

People agreed that the G15 and its members should be clear and open about the potential trade-offs and impact of rent caps, but should tell this story in a human way by showing the support that is in place for people as well as the real-world impact of the big numbers being talked about in lost rental income.

There were some comments about specific rent levels that could be set, with 3% being seen as fine, but 7% possibly too much. However, there was a desire to see more information about what the impact of the different proposals could be. Some people also noted reports that smaller housing associations may be in real trouble if their rental income is restricted, and may be forced to merge to avoid collapse.

The group discussed the extremely challenging situation some people are facing due to the cost of living crisis.

Members asked what mitigations could be asked for if caps are introduced, for example, would housing benefit savings be reinvested into the sector. There was also a discussion about how government initiatives were very broad brush and actually more targeted support for those who need it most was needed.

Concerns were raised about the impact on the development of new affordable homes, particularly in light of proposals in the Levelling Up & Regeneration Bill, which could see the amount of affordable homes secured through the planning system reduced.

There was concern that the current system could allow providers to increase rents by as much as CPI+1%, which would see increases of around 12% potentially, which were seen as unaffordable. Comments were also made about how inflation will be high for at least two years, so a 2-year cap should be considered and is most likely to be needed. There was also concern that if rents go up too high as the recession bites, people will leave their homes if they can find cheaper alternatives. Evictions were raised as a worry as well.

The private and social rent freeze announced in Scotland were raised, as was the impact on leaseholders of rising service charges as well as rents who are less likely to get support from the social security system. More people possibly being caught by the benefit cap was also a concern.

Whilst the action on energy bills by the government was welcome, the issue of communal heating systems was raised as a concern.

One resident in receipt of Universal Credit commented that they had a better appreciation of the scale of the costs to organisations of the rent caps. They were also more worried about those not in receipt of social security than those receiving support, as if the government increases payments in line with inflation they will be supported, but those not on Universal Credit or Housing Benefit will continue to be squeezed.

Members also raised a lack of trust in the government's approach to rent policy, which is particular issue as organisations have to have long-term decision-making approaches, which is harder with increased uncertainty and limits the ability to bring in private investment.

Responses to consultation questions

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

Response: Not-for-profit housing associations should be allowed to set rents independently as heavily regulated organisations that are best placed to achieve the right balance on such matters in the context of residents' needs and the long-term requirements of organisations. All G15 members are considering the impact of the cost-of-living challenges on residents and the essential work we do in the context of rent setting for 2023/24 carefully, and it would be extremely unlikely that any organisation would seek to apply the maximum possible increase next year under the existing rent setting standard.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Response: Not-for-profit housing associations should be allowed to set rents independently as heavily regulated organisations that are best placed to achieve the right balance on such matters in the context of residents' needs and the long-term requirements of organisations. All G15 members are considering the impact of the cost-of-living challenges on residents and the essential work we do in the context of rent setting for 2023/24 carefully, and it would be extremely unlikely that any organisation would seek to apply the maximum possible increase next year under the existing social rent setting standard.

The impact of these ceilings is explained more fully elsewhere in this response. In terms of lost income, the proposed ceilings would have the following impact:

	Reduced rental income over 5 years	**Reduced rental income over 10 years**	**Reduced rental income over 30 years**
Rent ceiling at 3%	£1.912bn	£4.301bn	£16.514bn
Rent ceiling at 5%	£1.389bn	£3.206bn	£12.316bn
Rent ceiling at 7%	£923m	£2.166bn	£8.428bn

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Response: We do not believe a rent ceiling should be applied and instead individual organisations should be allowed to set rents directly, as previously stated. Any ceiling should be for one year.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

> **Response:** We agree that any proposed ceiling should not apply to the maximum initial rent that may be charged when homes are first let and subsequently re-let. This will protect resources for investment in existing and new homes.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

> **Response:** Many G15 members provide supported housing. Due to the nature of the model, the ceilings being proposed would make many schemes unviable to deliver and would likely lead to providers exiting the scheme. In some settings, residents, often those with additional needs or vulnerabilities, have their support payments (benefits) paid directly to their landlord. Therefore, a rent ceiling will see no direct benefit to residents in terms of cost of living pressures, but a ceiling would reduce resources available to providers to deliver the services on which residents rely. This is a particular concern at a time of rising costs for supported housing providers, including with energy costs that are purchased on commercial terms and have not yet been subject to any price caps or government support. A specific exemption should be made for supported housing from the proposed rent ceilings, recognising the viability challenges that would be created otherwise and the impact this could have on the delivery of such critical services.

From: [redacted]
[redacted]
Subject: FW: Social housing rents consultation - Gascoyne Residents Association
Date: 13 October 2022 16:04:58

[redacted] | Local Authority Housing and Right to Buy Division
Department for Levelling Up, Housing and Communities
[redacted]

From: [redacted]
Sent: 12 October 2022 10:05
To: Social Housing Rents <SocialHousingRents@levellingup.gov.uk>
Subject: Social housing rents consultation

You don't often get email from [redacted]

From Gascoyne Residents Association, Hackney, London

Dear Sir or Madam

We are a tenants' and residents' association on Gascoyne Estate in Hackney, London. I am the chairperson.

Most of our members are on low incomes and faced with many problems as a result of the rise in the cost of living, particularly in energy bills. We have also had a rent rise this year of more than four per cent.

For this reason we disagree with the proposals for a 3, 5 or 7 per cent rent increase next year.

We are asking the government instead to implement a rent freeze on all social rented housing, whether council or housing association.

We do not agree that rents should go up by CPI + 1 per cent when homes are newly let or re-let. There is no logic in this. The people going into those homes are just as unable to pay these high rent increases as we are.

There are 8 flats affected by this in a bad way. Example; 1 family pay £70 per week more than their neighbours with the same size flat and similar income. So over a 10 year period, that same family have paid £36,400.00 more rent than their neighbours. This is unfair. That amount is a deposit for a family to move onto the property ladder and relinquishing another home for those who need it.

We are aware that the steep rate of inflation will make it difficult for our landlords, both council and housing association, to maintain the proper upkeep of our homes. We recommend therefore that the government should give social landlords extra funding so they can maintain our homes properly in the face of the inflation rate.

We are counting on the government at this crucial time to support social rent tenants, a section of the electorate which is on some of the lowest incomes in the country, both by freezing our rents and by giving extra funding to our landlords to maintain our homes.

Yours sincerely,

[redacted]

From:	FPRA Info
To:	Social Housing Rents
Subject:	FPRA response to Social housing rents consultation
Date:	12 October 2022 09:05:46
Attachments:	image001.jpg image002.png image003.png image004.png

You don't often get email from info@fpra.org.uk. Learn why this is important

Many thanks for your email.
We are the National Body who have represented the interests of long leaseholders since 1971 in England and Wales which we do via their Residents' Associations, Resident Management Companies, Right to Manage Companies and similar groups.
The issues you raise whilst of interest to our members', we are unable to respond to due to our limited resources as a non-profit organisation.
We would however, ask that in your deliberations you give careful consideration to how these issues will impact upon blocks of flats and estates that are managed collectively and where they are governed by legislation in the leasehold sector.
Additional information can be found on our website.
If there is a particular point that you would like to discuss with us, please email us again and we will endeavour to assist you.
Regards
[redacted]
For the FPRA Admin Office
(The Admin Office is open most Monday – Friday mornings and is run as a job share between [redacted] so any correspondence may be dealt with by any one of us.)
Please review us on Trustpilot by clicking here

This email was sent from or on behalf of The Federation of Private Residents Associations Ltd.
A Non Profit Company limited by guarantee. Registered number 1992130

FPRA only advises member associations - we cannot and do not act for them.

Opinions and statements offered orally and in writing are given free of charge and in good faith and as such are offered without legal responsibility on the part either of the maker or of FPRA Ltd.

Main Office.
The Federation of Private Residents Associations Ltd,
P O Box 10271
EPPING
Essex CM16 9DB

Telephone Number[redacted]

[redacted] **on:-**
@FoPRA

Eastbourne Homes Limited
Town Hall
Grove Road
Eastbourne
BN21 4UG

12th October 2022

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Socialhousingrents@levellingup.gov.uk

Social housing rents consultation

1. Introduction

1.1. This is a formal response to the social housing rents consultation launched on 31st August 2022 by the Department for Levelling Up, Housing & Communities to set a new regulatory standard on rents that will apply to Registered Providers (RP) of social housing, introducing an upper limit rent ceiling from 1 April 2023 to 31 March 2024.

2. Background

2.1. Eastbourne Homes Limited (EHL) is the Arm's Length Management Organisation (ALMO) for Eastbourne Borough Council (EBC) with the responsibility for the management and maintenance of the local authority housing stock of 3,400 social and affordable homes across the borough.

3. Wider Economic Context

3.1. We recognise the need to protect social housing residents in the current circumstances, where rent increases in-line with inflation will only add to the financial challenges already faced by local people and the additional hardship this would cause in this cost-of-living crisis.

3.2. The Council have already created specific hardship funds within their limited financial capacity, considering the impacts of the global pandemic, to support local people and therefore recognise the mitigations to residents that these proposals seek to resolve.

3.3. However, although we agree that residents should be protected, the financial consequences from these proposals, and in the context of the wider current economic environment, have a significant and compounded impact on our ability to deliver core services for our residents.

3.4. The crippling effects of current inflation on costs, together with the increases to borrowing rates from the Public Works Loan Board (PWLB), are already having significant and detrimental impacts on our ability to maintain current stock and the Council to build new homes. When considering the proposals in this broader context, the government must recognise that social landlords can only be stretched so far before there is a breaking point.

3.5. The Charter for Social Housing Residents: Social Housing White Paper made emphasis of the importance for landlords to provide quality homes and neighbourhoods, that are safe, secure, and underpinned by good performance when it comes to repairs and maintenance. These proposals will undermine that charter without alternative and sustainable financial solutions to support social landlords.

4. Current Proposal

4.1. The consultation sets out proposals to introduce a social housing rent cap for 2023/24 based on 3%, 5%, and 7% scenarios. This would involve disregarding the final years of the current CPI +1% settlement. The government is minded to implement a 5% cap based on the Impact Analysis undertaken and supporting the proposals.

4.2. When modelling all three scenarios within our Housing Revenue Account (HRA) 30-year Business Plan, there is a significant impact regardless, but that increases at 5% and 3%. Our ability to undertake the necessary and core maintenance works to the housing stock are reduced by up to 50%, which becomes compounded if the cap is introduced any longer than by one year and without any future recourse for recovery.

4.3. Rental income is fundamental to the continued financial health and sustainability of the authority and ALMO, which, with these proposals, will likely lead to the following:

- Long-term losses of income (compared to pre-cap expectations) will continue in perpetuity as future rent increases will start from a lower base position, unless allowance is made for “catch-up”;
- Planned and preventative maintenance programmes will be lengthened, and essential major works delayed;
- Decarbonisation works will be put on hold;
- New build development will fall significantly, if not stop altogether;
- A reduction in the total number of available social homes.

4.4. The position of local authorities will be far more impacted than other social landlords, which will typically have a greater pool of reserves to draw upon. The sector is already facing so many pressures that these additional financial challenges cannot be reasonably sustained if implemented without alternative solutions.

4.5. A delay in capital maintenance programmes, also when considering the additional costs that will likely arise as a result of new fire safety requirements, will only increase the revenue burdens on responsive repairs, voids, and likely increase the risk of disrepair.

4.6. It has been estimated that it will cost £104bn to achieve net zero carbon across UK social housing by 2050 and any delays to decarbonisation programmes now will greatly undermine the sector’s ability to achieve this target. In addition, the reduction in sustainability interventions will have a knock-on impact on our residents when it comes to the cost of energy and household bills, which must also be considered in the context of a rent cap intended to reduce costs.

4.7. The impact on the new build programme will not only impact on government's housing targets but reduce the generation of new income streams and meet the ever-rising demands of homelessness. The financial impact of homelessness in Eastbourne, specifically the cost of temporary and emergency accommodation, will only be exacerbated further by these proposals.

4.8. The Council will have no choice but to consider more extreme ways of supporting the budget, which could include the disposal of assets to maximise returns and plug the gap caused by the sole implementation of the cap.

4.9. Other implications arising from the above include increases in resident complaints, further pressures on staff, and the costs with the associated activities.

5. Alternative Options

5.1. In continuing to recognise that the solution should not be to increase rents to CPI +1%, we strongly urge government to consider other approaches to support social landlords and to minimise the impacts set out above by:

- Increasing grant funding opportunities to enable social landlords to both maintain properties and increase supply, whilst keeping rents low and meeting expectations for sustainability, safety, and quality.

- Implementing a "catch-up" mechanism, allowing higher rent rises over a longer-term period (5-10 years) following the initial cap.

- Reintroducing a reduction on PWLB borrowing, as done previously (1%), for the purposes of housing, which will help to counteract the effects of rising costs and income reductions from these proposals.

6. Specific Questions

The following addresses the specific questions raised as part of the consultation:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

- In the current cost of living crisis, we understand the measures being proposed to try to support residents. The Council however has a responsibility to set a balanced budget and we have a duty to our residents to provide quality, safe, and well-maintained homes, which would have all been factors in our consideration to increase rents outside of these proposals.

- However, as noted above, we consider that the government has the ability and responsibility to support social landlords in other ways, where the importance of reinvesting in social housing and increasing affordable supply of homes remains crucial.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

- A 7% ceiling has the least amount of impact on the Council financially, although remains an unviable option in the long-term without additional support.

- If implemented, the need for some form of "catch-up" will be necessary once the cap comes to an end to enable social landlords to manage the housing programme.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

- We would favour one year in the first instance, with encouragement and support for individual voluntary restraint thereafter.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

- Agreed.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

- We consider that supported housing should be exempt from the proposals, given the low financial margins, its importance to vulnerable people, and the likely unintended consequences to health services, crime, and neighbourhoods.

7. Conclusion(s)

As set out above, although we recognise the need to protect residents, we cannot stress enough how much of an impact these proposals will have if implemented on the Council, when also taking into account other current financial pressures, and without additional support from government.

We implore government to carefully consider the sector-wide responses to this consultation and to, in addition to residents, protect the ability of social landlords to provide the much-needed housing, that will become even more fundamental as the cost-of-living crisis continues to impact on local people.

[redacted]

Cc

- [redacted]
- [redacted]

[redacted]

Cheshire West & Chester Council

Response to consultation on

Rental increases to social housing

October 2022

Building futures, opening doors

Cheshire West and Chester

Introduction

The purpose of this document is to detail the council's formal response (as an authority which has retained its housing stock) to the UK Governments proposal to introduce a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year. This document details our formal answers to the specific consultation questions as well as providing an overview of how the proposals will affect the Housing Revenue Account.

Background

The Government is proposing to direct the Regulator of Social Housing to set a regulatory standard on rents that will apply to Registered Providers of social housing. This term encompasses:

- Private Registered Providers (including housing associations)
- Local authority Registered Providers (i.e. local authorities with retained housing stock)

Section 197 of the Housing and Regeneration Act 2008 gives the Secretary of State the power to direct the Regulator of Social Housing to set a standard on rent, and about the content of that standard. Once issued, a Direction is binding on the Regulator. The Government proposes to use this power to issue a new direction to the Regulator on rent.

In 2019, the government set a rent policy for social housing that would permit rents to increase by up to CPI plus 1 percentage point ('CPI+1%') per annum, and made clear its intention to leave this policy in place until 2025. The Government recognises the value of longer-term certainty for everyone who has a stake in social housing and had no desire to change rent policy before 2025.

However, we are living through exceptional times. When the current rent policy was set in 2019, inflation was forecast to be around 2% in 2022 and 2023. CPI was 10.1% in July 2022. If CPI remains at or above this level in September, this would permit social housing rent increases from 1 April 2023 to 31 March 2024 of 11.1% or more. This much higher than expected rate of inflation is already placing considerable pressure on many households, including those living in social housing. At the same time, Government also recognises that Registered Providers of social housing ('Registered Providers') will also be concerned about these pressures on their residents and will be carefully considering how to respond.

In the face of these exceptional challenges, the Government think there is a strong case for making a temporary amendment to the CPI+1% policy next year in order to provide a backstop of protection for social housing tenants from significant nominal-terms rent increases.

Proposed rental increase direction

The Governments proposed direction would make the CPI+1% policy subject to a 5% ceiling from 1 April 2023 to 31 March 2024. This would mean that, for rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, Registered Providers would be permitted to increase rents by up to CPI+1% or by 5%, whichever is lower. This ceiling would apply to both Social Rent and Affordable Rent homes.

The Government is proposing to apply this ceiling to maximum rent increases due to the very high rate of CPI inflation. CPI is currently considerably higher than anticipated at the time when CPI+1% policy was set in February 2019. At that time, the most recent version of the Office for Budget Responsibility's Economic and Fiscal Outlook had forecast that CPI would be 2.1% in 2022 and 2.0% in 2023. 1. CPI was 10.1% in July 2022. If CPI remains at or above this level in September, this would permit social housing rent increases from 1 April 2023 to 31 March 2024 of 11.1% or more.

In light of these exceptional circumstances, we think it is right to apply a ceiling to the CPI+1% policy in order to protect tenants from very high nominal-terms rent increases next year, at a time when their incomes are unlikely to be rising as quickly. This consultation asks for views on whether the cap should be set so that rents would rise to a maximum of 3%, 5% or 7%.

Cheshire West and Chester Council formal response

The following details the council`s formal response to the specific questions outlined in the Government`s formal consultation.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

As a council we recognise the pressures that tenants face from the high cost of living. The costs associated with housing in terms of rent is a significant proportion of a tenant's household expenditure, in light of this, we are highly supportive of the Governments proposal to introduce a specific ceiling in addition to the existing CPI+1% limit. As a council we have determined that an inflation rate of around 10%, to meet current contractual obligations, the council requires a minimum increase of 4.1% to maintain current planned investment in the housing stock.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

A 5% ceiling would be preferable for the Council. To be able to deliver a balanced budget for the Council`s HRA, a lower rate of 3% would require a reduction in the capital investment in the housing stock for 2023-24 and thereafter given the income levels would fall below the funding envelope required in subsequent financial years.

Whilst a higher rate such as the previously mentioned 7% cap rate may adversely impact on the Council due to the risk of increases in residents requiring temporary accommodation should residents be displaced, the risk is already high due to cost-of-living increases.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

As a Council, we do not see there being any benefit to imposing a two-year cap, given current market volatility, we feel it would be more prudent to response to change as required. We would suggest that the ceiling is revisited annually as required.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Where viable, Cheshire West and Chester require all affordable rent properties to be let at a maximum of 80% of the open market rent in line with Homes England guidelines and to not exceed the Local Housing Allowance rate for first lets - to ensure new affordable homes are accessible to applicants in acute need on the Housing Register. We would expect that any subsequent re-lets are in line with national regulatory standards

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Please be advised that we have no specific view on whether to make exceptions for particular categories of rented social housing.

The South Yorkshire Housing Partnership (SYHP) comprises the nine housing associations who hold housing stock of more than 1,000 homes each across the South Yorkshire sub-region, several supporting housing associations with less stock, and all four local authorities that have social housing stock.

The Partnership is also supported by Homes England, the South Yorkshire Mayoral Combined Authority and the National Housing Federation.

This response is made on behalf of the housing association members of the SYHP and represents their collective views.

A number of housing association members are also making their own sepaarte additional submissions.

The local authority members have each arranged to make their own submissions to the consultation.

Question 1:

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Yes **No** Maybe

Our initial view is that the determination of the level of rent to be set within the restraints of the current CPI+1% limit should be left to the discretion of individual organisations. As responsible housing associations we are best placed to understand our business pressures and priorities and to assess and appreciate the impact of rent levels on our tenants.

Engaging with and justifying the level of increase to our tenants would ensure we are held accountable for any decision subsequently made which would be based upon our detailed understanding and knowledge of our local context and the impact upon our local communities.

We are acutely aware of the impact the current cost of living crisis is having on our residents. We are concerned about the ability of our residents to cover rising costs that are being seen across daily life. These are likely to be a particular challenge for those on low incomes and with limited financial resilience.

Increasing rents for social housing residents is not an easy decision. We do not wish to put our residents under significant financial pressure. We already have a range of approaches in place to support residents financially, including Hardship Funds and teams to support tenancy sustainability and securing Welfare Benefits where applicable. We will continue to provide this support for residents.

This has to be balanced against sharp increases in our operational costs. Industry experts suggest that building cost inflation will run at around 8.5% for the remainder of the year, carbon reduction component costs will increase by around 10%, and we are already seeing repairs costs increase by around 10%. This is a particular challenge for new development and if significant efficiencies were needing to be sought, our investment programmes for new and existing homes may be at risk.

SYHP members were already considering the available options prior to this consultation being published. There is a delicate balance to carefully balance rents, the affordability for residents, with our increasing costs.

Rental increases that stretch the affordability for residents carries with it an increased risk of rent arrears, tenancy turnover and reduced demand for homes. If rents do not rise sufficiently, difficult decisions will be required about where to make reductions in investment.

It is important to understand the impact of a rent cap is not just for the year it is applied. This has a compounded impact upon housing association finances over the length of their business plans. It is more complicated than just a one year reduction, it has an increasing impact over the life of the business plan.

Whilst the ability to increase rents in line with CPI + 1% would be available without a mandatory ceiling, SYHP members were not intending to increase by the maximum amount, over 10%, unless there was a clear requirement to do so. Examples include specific tenures which may not be sustainable / viable without a larger increase, such as supported housing.

This point is covered in response to a later question in this response.

It should be noted that most SYHP members were already considering increasing rents by lower than the maximum.

Whilst we understand the rationale for implementing a ceiling for rent increases as this provides certainty and some reassurance for residents, the primary responsibility and accountability for setting rent within the current capping criteria should remain with individual landlords.

This rent cap proposal comes at a time when the cost of borrowing has increased significantly following the recent budget and base rate determination. Investment in new and existing homes will need to be assessed based on this increased cost and it is likely to put significant pressure on our ability to deliver new properties in particular at anything like the rate we were planning to previously.

As a Partnership we need the right levels of income and income certainty to help us to continue to invest and help do our bit to solve the housing and climate crisis.

We are in a period of unprecedented economic uncertainty further adding to the challenges the SYHP members are facing. This includes inflation, interest rate uncertainty, supply chain issues, house price instability and removal of mortgage products for potential shared ownership and open market sale customers. Uncertainty on rents will only exacerbate these issues.

Question 2:

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Yes **No** Maybe

Our modelling indicates a 7% ceiling would have the least impact on current financial commitments, including investing in new and existing homes. However, we know that this would be the most challenging for residents.

A lower increase would put many at risk of breaching their loan covenants without finding significant savings, leading to business instability and potentially for some, placing their longer term viability at risk. Whilst decisions about where these efficiencies would be found have not yet been made, we anticipate that there would be an impact on programmes for building new homes or for improving the energy efficiency of existing homes.

There is an acute need for more affordable housing across South Yorkshire. With inflation at such a high levels, the cost of developing has increased significantly. With grant levels at their current levels, it will not be possible to continue to deliver the supply of new homes at current rates if the current economic environment endures. It should also be noted that there is a considerable lag period (several years) from stopping new development activity to getting this up and running again.

If a 5% increase cap was imposed, we would suggest this includes a deferred increase (catch up) option added in in future years when CPI is at a lower level. Even with this in place it should be noted that there will still be reductions in existing investment programmes. There is a precedent here from the approach adopted towards rent convergence across the sector.

If the Government chooses to limit the rent increases for tenants at the lowest possible level, there should be additional financial support made available to social landlords to help them cope with inflationary pressures, protect our ability to maintain expenditure in existing homes, alongside increasing the energy efficiency and affordability of our homes.

The external impact of a further change to the 10-year rent framework on the rating agencies is also a significant consideration. One of the ratings agencies (Moody's) has already signalled a review of existing credit rating as their confidence in the Government's ability to maintain rental income levels within the rent framework have been undermined. If this were to be downgraded this would result in a significant increase in cost of funding, leading to a reduction in our long-term investment plans for new and existing homes.

It should be noted that if a rent cap were to be imposed this would mean that for at least 5 of the 10 years covered by the framework, rents would have been at a much lower level because of direct Government intervention. This is leading to a loss in confidence and trust in a key cornerstone of our business plans and financial modelling.

It is reasonable to assume that the imposition of a rent cap will result in the regulator increasing the number of housing associations that are rated as V2. This in turn will increase funding costs leading to reduced levels of new homes, less investment in existing stock and slower rates of decarbonisation.

For some housing associations there is a risk that their longer-term financial viability could be at risk, leading to them being rated as V3 or V4. This will result in serious decisions needing to be made about existing levels of investment and services, alongside potential defaults on existing loan facilities as well as being unattractive to future investors.

If a rent cap is to be imposed, it would be helpful if this could be aligned with any decision on the rent framework for post 2025. This may allay some of the rating agencies and funders concerns, albeit with the caveat from the earlier point about the level of confidence and trust in future Governments adhering to this.

We would welcome a review of grant for new affordable housing, increasing levels to ensure new homes can continue to be built. This could be done by using the savings from reduced benefit payments due to the limited rent increases for affordable housing development grant funding.

Additional financial support for investment in retrofit of existing homes and in the form of grant to make up the shortfall would also be needed to ensure SYHP members can continue to invest in our people, our homes, energy efficiency and carbon reduction.

Question 3:

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes No Maybe

We would strongly oppose the imposition of a rent cap over a two-year period. It is impossible to predict at this time what the economy will look like next year. Inflation is projected to fall, and it is unclear whether the economy will quickly rebound from the current recession (as it did post COVID).

It should also be remembered that just two years ago we were in the height of the second Covid wave. This further demonstrates how quickly things can change and why the imposition of a two-year cap at this time would be inappropriate.

We would also link the imposition of any rent cap with the need to undertake an urgent review of rent policy to inform financial planning for 2024-25 and beyond.

Question 4:

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes No Maybe

We understand the rationale for exempting Social Rent and Affordable Rent properties from the rent increase ceiling when they are first let or subsequently re-let. This would provide SYHP members with greater certainty for these properties and partially mitigate some of the effects of the rent ceiling on investment.

Question 5:

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes No Maybe

Our members have a range of portfolios of supported housing, including both short term schemes (mainly homeless-based provision) and long-term schemes (extra care and provision for adults with learning disabilities).

The supported housing sector is already under significant pressure, with narrow operating margins, additional pressures relating to care and support funding from Local Authorities, increasing requirements relating to building safety given the complexity of the stock and extremely high increases now being experienced in utility costs. Pay in the sector is also an issue, with recruitment into care roles becoming increasingly difficult.

The combination of these pressures is proving increasingly challenging for the sector.

Whilst we welcomed the specific inclusion in the 2021-26 Affordable Homes Programme of providing supported housing, realistically, the ability to develop further supply is becoming unviable, especially when considering the inflationary costs in construction. Further financial pressures are likely to reduce the ability to develop further.

We recognise that there is substantial diversity within the supported housing sector in relation to the impacts, including the variance of impact on residents, given the resident profile is quite different between short and long stay schemes. Therefore, the impact to residents relating to rent increases will be quite varied. Affordability for residents and impacts is always balanced carefully with sustainability by the sector and is a fundamental part of annual rent setting.

Applying a blanket approach must consider the additional consequences for supported housing to minimise sustainability impacts on current supply as well as further strains on new developments. For this reason, we consider that there is rationale to consider supported housing being excluded.

Contact:

[redacted]

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	[redacted]
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Pioneer House, Norton Way South, Letchworth Garden City SG6 1NY
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☒Maybe

Comment:
Whilst there is a logic to ensuring a consistent ceiling at a time of high inflation the imposition of this does impact on the autonomy of Boards and their understanding of their organisational context.

It is unlikely that many landlords would increase rents by more than the potential 7% ceiling figure being considered.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☒No
☐Maybe

Comment:

A Maximum of 7% would offer a consistency but also allow for individual contexts, maintenance of services and potential future development.

Where any limit is imposed there shod be a mechanism for this to be recovered over subsequent years during periods of lower inflation. Whilst we can absorb the difference between cost inflation and income for one year the compounding impact over a 30 year business plan cannot be accommodated without a detrimental decrease in development output.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☒Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☒No
☐Maybe

Comment:
The ability to charge what in reality is the “real” rent (current rent plus inflation) at the start of tenancies is a helpful mitigation against some of the losses of a maximum ceiling for current tenancy increases.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
No
☐Maybe

Comment:

Social Housing Rent Consultation: YMCA Response

YMCA is the largest voluntary sector provider of supported housing to young people in England and Wales. We provide a safe and supportive home to more than 20,000 young people each year, equipping them with the skills and space they need to live independently.

Our residents come to live with us for a range of reasons and their length of stay with us can be a few months through to a few years. Many of the young people who live with us do so because they have nowhere else to go. We offer a home to young people who have been asked to leave by their parents; a lifeline to those who experienced trauma in their lives; a safe place for those who have found themselves homeless; and a welcome to those who have left state care provision on their 18th birthday. We support young people to be able to go on to live independent lives.

We are delighted to have the opportunity to respond to the Department for Levelling up, Housing and Communities consultation on social housing rents published on 31 August 2022. Please find our responses below.

If you have any questions or queries please email [redacted]

<u>Q.1 Do you agree that the maximum social housing rent increase from 1st April 2023 to 31st March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?</u>

YMCA agree that placing a rent ceiling is the right thing to do.

As a not-for-profit provider, we will have to increase rents due to the impact of rising costs but this will be in moderation to what is needed to ensure the viability of the service that we provide. Our concern would be that without a ceiling, for-profit providers could use the current economic and inflationary environment as a means to increase rents and their profits at a disproportionate rate at the expense of their client group.

We do, however, further believe that supported housing should be treated differently and further evidence around this is submitted in responses to Q.2 and Q.5.

<u>Q.2 Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options?</u>

YMCA disagrees with the proposed 5% ceiling level and believes that it should be set at the higher 7% level. The 7% level is still significantly below the current rate of inflation, but would allow YMCA to continue to deliver a quality service, maintain our housing stock and invest in our staff.

Supported housing accommodation is different to other forms of social housing and is often more costly. It should be noted that general needs landlords are largely protected from utility costs as it relates to tenants' homes, whereas many supported accommodation units tend to have large common rooms and communal spaces for residents to benefit from which additionally need to be maintained together with the extra energy costs needed to run them.

Supported accommodation, especially in large blocks or high needs accommodation can often have high maintenance and repairs costs, and providers are already seeing the impact of increase costs on maintenance and repairs.

A large London YMCA provider told us they would not be able to recoup their costs. For them a full cost recovery on energy is no longer possible as whilst Housing Benefit would cover the communal areas, allocations by some Boroughs and buildings are that 50% of the energy needs to be in personal charge.

Their personal service charge is £27.64 per week or £119.77 per month. This covers breakfast but no other meals. This leaves an under 25 year old with £134 and an over 25 with £200 to live on for the month and pay all their other commitments including food, travel, studies and leisure.

They already have residents in large rent arrears, ones that are paying "what they can" but not their full service charge weekly, and others that we are evicting for rent arrears. Increasing the service charge to a full cost recovery model would leave those residents with no money after service charge is claimed.

From a staffing perspective, providers will need to consider if inflationary pay rises are needed to retain staff in work and help them afford the cost of living. Recruitment and retention of staff has been a particular challenge for the sector and it is affecting our ability to deliver a consistent service. In some areas, we are already seeing staff struggling to afford to put fuel in their cars to get to work and have had to refer some to our foodbanks as costs rise.

Many local YMCAs are actively pursuing the development of new housing stock. Our margins are already tight compared to general needs housing. By treating supported housing the same in terms of a rent ceiling, this will place providers under greater financial hardship and will prevent further development. This will hinder the government's ambition to end homelessness.

<u>Q.3 Do you agree that the ceiling should only apply to social housing rent increases from 1st April 2023 to 31 March 2024, or do you think it should apply for two years (up to March 2025)?</u>

YMCA believe the celling should initially be in place for one year. This is because the economic situation could further change within a year and it should be reviewed once again then.

If a two-year approach is the preferred option, we believe there should be the ability to increase rents further in the second year to a moderate level.

Q.4 Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable rent properties are first let and subsequently re-let?

On average a young person lives in YMCA supported housing for two years. Generally, we would not expect large increases in rent between tenants leaving and those who are replacing them.

For new properties it would be hard to implement a ceiling given it would not have had a rent level previously. This should be implemented at the current market rate at the time of moving in.

Q.5 We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

YMCA believes supported housing is different to other forms of accommodation that form part of this consultation. It therefore argues that further consideration should be given to exempting supported accommodation from the proposed rent ceiling or additional allowance made within the ceiling approach to recognise the additional costs that supported housing providers can face.

In responding to Q.2, YMCA has set out the types of additional charges that supported housing providers have to accommodate. There are higher hosts attached to providing communal facilities and supporting clients with higher level needs. In particular the not-for-profit sector utilise any surplus to grow our provision to provide more for communities which are in high demand, the ceiling being too low means this would halt efforts to support our communities further.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Wigan Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Town Hall, Wigan WN1 1DD
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

Comment:

It should be up to each provider to assess based on local circumstances but we fully understand why central government is considering this option given the current cost of living crisis. If a cap is enforced we would like to see support to HRAs to ensure providers are compensated for the reduction in income. The cumulative effect on HRA business plans must be considered this is not a one off hit.

We would like to raise our concern in terms of the timing of the outcome of this consultation as we are on extremely tight deadlines in term of the budget setting / democratic process for approval to rents.

Yes, we would be looking to increase rents but it may not be at CPI+1%. It would be determined by our refreshed medium-term financial forecast. The in-year impact of inflation on energy costs, repairs budgets, the proposed pay award, interest rate rises not withstanding the demand pressures means we are projecting spending £3.5m more than budgeted for. This is going to have a significant impact on our tenants as we won't be able to invest in our stock in line with our asset management strategy if we can't set rents at a level which allows us to meet our local and central governments objectives for dealing with the housing crisis.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐No

Comment:

3 and 5% is not affordable given the current rates of inflation/interest rates/demand pressures. [redacted]

This is the MTPF approved in March 2022

	AS IS		
HRA 30 Year Business Plan	**Year 1**	**Year 2**	**Year 3**
	2022/23	**2023/24**	**2024/25**
Net (Surplus) / Deficit	**5,656**	**4,016**	**769**
Balance Brought Forward	**- 12,466**	**- 6,810**	**- 2,795**
Balance Carried Forward	**- 6,810**	**- 2,795**	**- 2,026**

This is the current position updated based on the 3% assumption. As you can see the impact of inflation is severe.

		22/23 update and 3% (23/24) and 3%		
HRA 30 Year Business Plan		Year 1	Year 2	Year 3
		2022/23	2023/24	2024/25
Net (Surplus) / Deficit		9,404	6,290	6,195
Balance Brought Forward		- 15,200	- 5,796	494
[redacted]		[redacted]	[redacted]	[redacted]

This is the updated position reflecting inflation on rents at 7% and 3% in 24/25. [redacted]

	22/23 update and 7% (23/24) and 3%		
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

All plans would need to be revisited. We would have to undertake only critical repairs and reduce tenant support services. We would certainly have to postpone our new build programme, zero carbon projects and cut stock investment programmes (capital) which negates the governments growth agenda.

There would be a detrimental impact on tenants who some are our most vulnerable in the borough. *The inability to set an affordable rent would compromise on tenants safety especially in responding to the Grenfell enquiry and new fire regulations*

It also needs to be noted that social rents are significantly lower than market rents in Wigan.

Property type - GN	% lower than market rent

One bedroom	45%
Two bedrooms	73%
Three bedrooms	91%

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Some of this is referenced in Q2. We fully understand the objective of the policy is to protect social housing tenants from exceptional rent increases due to the high levels of inflation. We would take this into account in our decision-making process around affordability for tenants and the HRA business plan.

HRAs are still recovering from the government imposed 1% rent reduction from 2019 (***12% reduction in real terms***). This resulted in lost revenue of **c£30m.** A cap which is not affordable will only be to the detriment of tenants in the longer term as we will not be able to afford ongoing investment (capital and revenue).

Reducing investment will impact on the quality of homes and the decent homes standard. All this will have a wider downward impact on economic activity, across the construction and maintenance sector. This will not support the government's agenda for economic growth.

As mentioned in Q2 some of our most vulnerable tenants are supported via the HRA and the services it provides and this would be put at risk at a time when these people need more support.

The assessment indicates there will be considerable savings in the projected spend on the housing benefit. Will this be reinvested to support providers? Could this be used to support tenants. Is there a possibility of grants on refurbishment work and not just new builds?

If a rent cap is imposed we would also propose re-evaluating the RTB policy to allow councils to retain more or all of the receipts. Also a review of the debt settlement. 15% of our budget is debt repayment. The HRA borrowed £99m as part of the move to self financing incurring £3.5m on annual interest payments

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐No

Comment:

This is very much dependent on the level of any proposed cap which we disagree with. We would recommend the status quo until 2025.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐No

Comment:

This would cause disparity between current and new tenants. Whilst this allows for higher rentals it is unfair.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

Comment:

Service charges and supported accommodation need to be exempt so the true costs are recovered.

From: [redacted]
Subject: shared ownership rent cap
Date: 09 October 2022 16:29:49

[You don't often get email from [redacted]. Learn why this is important at https://aka ms/LearnAboutSenderIdentification]

To whom it may concern

I'm writing to you with regards to government consultation on social rent cap.
I am one of the 202,000 households in England who owns a shared ownership property. I live in [redacted]
Getting this property was a dream come true. In fact, I have only completed [redacted] Instead of being happy and excited, these feelings were overshadowed by the possibility of shared ownership rent increasing according to RPI which is currently in double digits. That would mean over £100 extra for rent only. This is excluding service charges as there are no regulations for service charges increases (why on earth there aren't?!). I am DISAPPOINTED (not surprised) that government is ignoring shared ownership households. There is a reason we purchased property this way. Because open market is way too expensive. This was the only way to get out of renting privately. This is supposed to be affordable and put us on the property ladder. However the government seem to think that owners like myself have a constant cash flow and can afford massive increases driven by huge inflation.
The government should extend the rent cap so shared ownership households are included in this(this includes service charges). I am sure government is well aware that come April, wages wont get increased according to inflation. Everything else will BUT WAGES. So can the government think about everyone for once and not just select who they want. It takes hard work and lots of sacrifices to purchase your own property. Just because we are not in social housing it doesn't mean we sleep on mattress filles with cash.
I am appealing along with other SO owners for government to come up with a plan for us instead of pushing us into financial struggles. Times are difficult already. Please have some mercy for regular people.
On a separate note maybe housing minister could look into SO scheme as there are few things that could be improved there to make it more attractive to the buyers.

Sincerely

[redacted]
SO owner

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	London Borough of Waltham Forest
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Town Hall, Walthamstow, London E17 4JF
What is your email address?	[redacted]
[redacted] your contact telephone number?	[redacted]

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI +1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Yes

No

Maybe

To continue to deliver front line services and deliver the existing 10 year agreed HRA capital programme at the London Borough of Waltham Forest (LBWF) a rent increase of 9.3% (before assessing the impact of build cost inflation on the investment in existing stock) would be required in 2023/24. Any cap on rent increases will result in a funding gap against this which will result in reduced capital investment. Officers at LBWF would have been recommending that Members agree a rent increase of at least 9.3% up to a maximum of CPI +1%.

At LBWF 70.79% of our tenants are on full or partial housing benefit or the housing element of universal Credit. However, this is only part of the consideration in terms of the financial impact. In most cases a rent increase will come with a corresponding increase in Housing Benefit subsidy which will partly, and in many cases fully, offset any proposed rent increase. For those tenants who are in receipts of HB we offer the following support to tenants which is even more important during the current cost of living crisis.

Through our rents service we offer a wide range of support to help residents maximise their income and support them manage any debt. We offer Financial Capabilities workshops and can refer residents to local courses on digital and financial inclusion. Where residents are in debt and live in a council home that's larger than they need, we support with downsizing referrals, as the incentives offered can help clear debts and make future bills more manageable. We also make referrals to a wide range of support schemes including food and baby banks, credit unions and independent financial advice.

We work directly with several council and government run schemes and support residents with their benefit applications as well as various discretionary payments. We refer to the Council's Local Welfare Assistance offer, plus the Citizen's Advice grant scheme, which offer grants to vulnerable residents to pay ongoing essential related to food and utilities, plus some utility bill debts as appropriate. In addition, the team works closely with our Community Independent Living Service who provide floating tenancy support to vulnerable residents. They will visit vulnerable residents and help with applications and setting up key online accounts.

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Yes

No

Maybe

The HRA is entirely dependent on rental income to meet its on-going objectives and priorities. The likely impact of the HRA not being able to maximise income that it should reasonably recover is a reduction in its ability to deliver front line services and service debt and, as a consequence, a much larger reduction in the borrowing that it can take on to support its capital investment.

Imposing a rent cap of any level of will mean that the HRA's capacity over the medium term to invest in capital projects would not be enough to deliver all the proposed projects in the pipeline whilst also investing in the existing stock to the full requirement.

Rents for 2022/23 in Waltham Forest are 21st in value out of 30 London Boroughs with an HRA. In addition our rents are all significantly lower than the current LHA and Market Rents in the Borough. LBWF has a policy of charging Social Rents on all our HRA properties where we could charge Affordable rents on new builds. This has had the impact of keeping overall rent level low. See below for a comparison of rents for 2022/23 for a 2 bedroom property in Waltham Forest.

Bedrooms	£ Social	£ LHA	£ Market
2	109.64	281.92	357.92

The previous rent reduction policy took significant resources from the HRA, service plans and the capital programme were adjusted to reflect the impact of 4 years of a 1% rent reduction policy. A comparison of rents if there had not been 4 years of rent reductions and rents had increased annually by CPI + 1% indicate that current rents would be 15% higher than those agreed for 2022/23. 91% of LBWF's rents are at Formula for 2022/23 with the 9% that are not resulting in an annual loss of income to the HRA of approximately £600k.

Imposing a further restriction on the level of rental income available in the HRA will only have a negative impact on the Council's ability to provide a day to day housing service and deliver an appropriate level of capital investment over the next 10 years.

By capping rents at 3%, 5% or 7% there will be a direct reduction in income in the HRA and then in turn resources available for capital investment. The HRA income drives the capacity to borrow and resources to service debt. The loss in income by applying a cap would be 3% - £2.4m, 5% - £3.5m and 7% - £4.6m in 2023/24. Over the next ten years this income would be lost from the base making the cumulative impact approx. 3% - £24m, 5% - £35m and 7% - £46m.

Modelling of the different levels of a proposed rent cap as set out in the Consultation have been used to inform the impact on the HRA Capital Programme and potential HRA Future Capacity/(Shortfall). Under all three options there will be a shortfall of resources on the current agreed 10 year capital programme. Over the next ten years this the cumulative loss in resources is approx. 3% - £202m, 5% - £162m and 7% - £122m.

Even if LBWF implement a maximum rent rise in line with the Rent Standard (currently 11.1%) we are forecasting a shortfall in resources for the capital programme of approx. of £40m. This is due to the impact of inflation on both revenue and capital budgets along with an assumption of build cost inflation on the capital investment in our dwelling stock.

The programme will need to be reviewed to match the resources available which will result in reprofiling of existing schemes for investment in the existing stock where possible and a future pipeline of New Build schemes being paused.

In our opinion the government should provide short-term revenue relief (at least two-years) for the HRA to support local authorities if a cap is introduced. We would only support the introduction of a cap if such compensation was offered. If compensation was offered then we would be in favour of a cap on rent rises to protect those tenants not on some sort Housing Benefit.

LBWF also support the National Housing Federation's view that the savings to HB generated as a result of the cap should be ringfenced and used to fund social landlords' work on building safety, energy efficiency, and Decent Homes.

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes

No

Maybe

If a cap is introduced for 2023/24 then this should come with the option to continue into 2024/25 but not be fixed as yet. Maximising income in the HRA is essential to continue to deliver front line services, capital investment and build new homes. Introducing a two year cap now when it may not be necessary will create additional pressures on an already challenging position.

For future years we are seeking clarification of how we can move actual rents back in line with formula rents to recover our rental base. This is essential for the long term viability of the HRA.

We would have hoped to see some assurances with regard to the longer term policy around rents alongside how we move actual rents back to formula over the short to medium term. Can we receive an indication on what this policy is likely to look like so we can model the impact in the context of a possible rent cap for 2023/24.

We would also like to be able to converge all our rents to full formula as part of future rent policy. We have approximately 9.4% (911 properties) where the rent is currently below the formula rent (before any rent cap is imposed).

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

No

Maybe

The current policy at LBWF is that rents for new tenancies and relets are set at the formula rent for their property in line with the Rent Standard issued by the regulator. We would want to continue this policy in line with the rent standard if a cap is introduced.

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes

No

Maybe

We would like to see consideration to be given to exempt Supported Housing from the rent cap. Alongside this we would like to see additional support to be offered either to the Council to support tenants or directly to tenants to manage the impact of an uncapped rent increase. This would allow the service model for Supported Housing to continue to work effectively without any reduction to the level of service delivery.

Could you also please provide more information on how and on what basis the regulator will grant exemptions to individual private registered providers from the rent standard. How will their financial viability be measured for an exemption to be granted?

At LBWF we have detailed stock condition data that informs our need to invest in our HRA Dwelling Stock. This along with details of the comprehensive redesign the Housing Service has undergone over the last 18 months offer a strong case for LBWF to be granted an exemption from the application of a Rent Cap.

Social housing rents, England

Consultation response

Date: 11 October 2022

Sent to: Socialhousingrents@levellingup.gov.uk

UK Finance is the collective voice for the banking and finance industry.

Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. In addition to representing residential mortgage lenders for home purchase and buy-to-let, UK Finance members also lend to support the social housing/ RSL sectors across the UK.

We welcome the opportunity to responsd to the consultation on a new Direction to the Regulator of Social Housing in relation to social housing rent policy from 1 April 2023.

Context; overarching comments

The impact of the proposed rent caps should be considered against the overall obligations/ pressures already facing housing association businesses, and the impact on other Government policy priorities such as increasing new housing supply and retrofitting homes for net zero carbon, Specifically:

- There has been increased pressure on housing associations' financial strength in the past seven years, with the 4 years of rent cuts, the focus on building safety post Grenfell and, more recently, on retrofitting homes to meet net-zero carbon targets. We are primarily of the view that rent caps at any level will reduce the number of new homes being built as housing associations look to mitigate the lower net cash inflow from rental income.

- Following the 2016 rent reductions, the current rent cap proposals represent a further government intervention in the sector, potentially calling into question its independence as private businesses. Interventions such as this which directly affect RPs ability to maintain cashflows and generate income have an impact on funder confidence and appetite in the sector.

- Reduced rental income through the application of caps will squeeze operating margins, cashflows and reduce interest cover, which will have a negative impact on the ability of the sector to raise new finance. Absorption of the 2016 rent reductions and building safety costs were at a time when interest rates were at historically low levels. The rent caps now proposed are in a completely different context of rapidly rising interest rates and high inflation, meaning they will be more challenging for housing associations to absorb without potentially damaging effects on their financial health.

- The imposition of a rent cap will impact capacity in other areas such as quality/ decent homes and retrofit for net-zero. The lower (and longer) the cap, the greater the implication for expenditure in these areas.

- The proposed rent cap will have a cumulative impact, meaning not just lower income in the first year but also in subsequent years, unless there is some form of clawback or rent smoothing arrangement in the future. We strongly recommend that government agree a clawback or rent smoothing mechanism to enable housing associations to recover rental income to target rent over time, most likely when cost of living challenges have abated.

- A significant majority of social rents are paid by Housing Benefit/ Universal Credit. On this basis, and to mitigate the likely reduction in development capacity of the sector, Government should consider passing an element of these savings back, for example via increased grants for building new homes, bearing in mind the role of housing associations as homebuilders whose activity supported the economic recovery from past recession.

- While we recognise the need for rental income to rise to sustain financial viability of housing association businesses, we also recognise the impact that any significant rent increase would have on the most vulnerable tenants, and overall rent affordability for tenants at a time of rising living costs.

- The proposed caps raise funder concerns about financial viability impacts on RPs:
    - Although some housing associations will undoubtedly be able to adjust their plans to accommodate a short-term rent cap, some of the smaller and/ or weaker housing associations may become unviable.
    - Housing association businesses need certainty, not least in support of financial forecasts which, from the perspective of funders, are key to informing lending and investment decisions. We note that there will be a consultation on rents from 2025 and call on government to avoid significant disruption/ intervention now, while a definitive medium to long term policy is awaited.
    - While we note that RPs concerned about their financial viability (or ability to fulfil health and safety obligations) could apply for an exemption to the rent policy, this could have a detrimental impact on the Regulatory view/ reputation/ credit rating of a particular organisation, which in turn could affect their Treasury and funding activities.
    - Funders take great confidence from the strength of economic regulation of the sector provided by the Regulator of Social Housing and that the sector has not experienced a payment default in some 35 years. There is a risk that this unblemished track record could be broken and with the sector now benefiting from investment of over £120Bn of private capital, the consequences could be felt quickly. This underlines our view that a cap, if implemented, should be at an appropriate level, for a short time only, and with a claw-back or rent smoothing arrangement.
    - One of the core strengths of the Regulator is its ability to intervene in the case of RPs in financial difficulties. Over many years the Regulator has developed a strong track record of facilitating mergers between providers, which has helped ensure the sector remains zero-default. The implications of a rent cap could be that the list of providers in a position to acquire struggling RPs could reduce given that the larger providers could have lower financial headroom than previously.
    - We are mindful that the Government may be considering the substantial surpluses made by the sector (as a whole) not all of which translate into cash generation.

However, where they do, and as a largely “not for profit” sector the entirety of the surplus cash generated is reinvested into new housebuilding activity (critical to addressing the shortfall in housing supply), maintaining and improving existing homes (critical to maintaining “decent homes”), fire safety programmes (vital post-Grenfell) and retrofit/ net-zero carbon programmes (critical to wider Government policies).

Consultation questions

Taking account of the context and overarching comments provided above, our responses to the specific consultation questions are:

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

We recognise the need to apply a ceiling to ensure rent affordability for tenants at this time of rising living costs. The level of the cap to enable rent affordability will need to be carefully balanced with the need to ensure ongoing financial viability of housing association businesses and sufficient levels of rental income to meet funding commitments and covenants and deliver business plan priorities.

A blanket rent cap will impact different housing associations in different ways, varying according to a range of factors including size/ location/ stock/ operating sector all meaning that one size does not fit all.

Given the current cost of living challenges, a cap below CPI+1% would be appropriate to assist tenants and those less able to pay.

Given the charitable purposes and ethos of the sector, if a cap was not imposed it is likely that some housing associations would apply a rent increase below CPI+1% - but the increase arrived at may differ across organisations, meaning inconsistency across the sector.

A Directive would give certainty and consistency to tenants and RP Boards, which would be able to focus on delivery rather than debating whether to introduce a cap at a particular level.

The cap is intended to apply across all RPs even although it will have varying impacts. It will be important, therefore, to ensure measures are in place (and what those measures will be) to assist any RP that is unable to deliver within a rent cap and remain financially viable. Appropriate guidance and processes will need to be implemented to enable an RP to seek a hardship concession to depart from the cap.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Although funders agree a cap would be appropriate in the circumstances, they view the level of the cap as being a matter for government and RPs, including through their representative bodies, to decide.

Alternatives to the 5% ceiling should be investigated, together with any potential 'catch-up' of rental income lost as prescribed above.

A ceiling would be an appropriate compromise balancing the impact on tenants and RPs but will reduce income receipts by RPs meaning expenditure will need to be reduced.
The greater the gap between CPI and the rent ceiling will have a more material impact on RPs meaning greater cost reductions would need to be achieved through delaying repairs and maintenance activity as well as new development and energy efficiency improvements - which would all impact negatively on tenants/ residents.

Setting the cap too low will impact on the financial stability of RPs, which is important to retain confidence in the sector and continue to ensure that private finance can be raised.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

The period of rental caps should be viewed partially in the context of our response to question 2.

Given the current volatility and uncertainty about the situation in March 2025, it would be appropriate to review this nearer the time when the position should be clearer. While this creates some uncertainty in terms of planning, it will enable the circumstances at the time to be better reflected in the approach.

The longer RPs have a real reduction in income, the greater will be the financial impact on stock valuations and consequent impacts on the number of new homes built, maintenance and retrofit. Applying the cap for more than one year will inevitably have more of an adverse impact on the sector, particularly in the absence of a clawback or rent smoothing mechanism.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Yes – it would be illogical to apply a rent cap to a new/ void property.

Further, we would like to see clarity about provisions for any successors in title or mortgagee in possession and the applicability of the cap in these circumstances.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

At this stage, we agree in principle with the proposed approach in which there is no tenure exception, with all general needs rented properties being treated the same.

Government and the sector should fully consider how best to proceed in the care/ supported housing sub-sector where cost pressures may be even higher and, traditionally, these providers work to a lower operating margin. The risk of failure or significant stresses on financial health of providers in this sub-sector should be considered in the application of a rent cap.

Further, we believe that there is a risk of a “perfect storm” in the key affordable housing tenure of shared ownership.

Shared owners are, in most cases, responsible for 100% of maintenance costs, and are facing pressure from rising interest costs for the mortgaged element of their shared ownership.

The cumulative impacts of higher mortgage costs, rising energy costs and rents generally linked to RPI could increase the potential for default, making shared ownership less attractive as a proposition for both residential mortgage lenders and commercial funders of housing association providers.

Contact

To discuss this response further, please contact [redacted]

Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	As an organisation
What is the name of your organisation?	Two Saints
What is your position in the organisation?	[redacted]
What is your address, including postcode?	Fareham House, 69, High Street Fareham, Hampshire, PO16 7BB
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

✓ Yes
☐ No
☐ Maybe

Comment: With inflation in double digits, it doesn't seem fair to increase social housing rents by inflation plus 1%, when social housing tenants are often some of the least well-off people in society. From everything I've heard, I think it's unlikely that housing association Boards would increase rents by the maximum allowed at this difficult time, but it must be recognised that housing associations are also facing challenges from the cost-of-living crisis and if their income is restricted, this will limit their ability to deliver important work including:

- providing new homes for those who can't afford open market rents
- maintaining the required levels of investment in existing homes
- moving towards the Net Zero target

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
✓ No
☐Maybe

Comment: Every housing association will be in a different financial position, so we'd recommend giving some flexibility to increase rents up to 7%, but on the basis that this should only happen where it's necessary and the Regulator of Social Housing should have a role in monitoring and managing this.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (up to 31 March 2025)?

✓ Yes, you agree the ceiling should only apply to rent increases for 2023/24
☐ No
☐ Maybe

Comment: The current external environment is so volatile that we'd recommend only restricting rents in 2023/24 and reviewing the situation again this time next year.

Question 4: Do you agree the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

✓ Yes
☐ No
☐ Maybe

Comment: We agree the ceiling should only apply to existing tenants

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

✓ Yes
☐ No
☐ Maybe

Comment: We believe there may be exceptions that should be made for certain types of supported housing, including homeless hostels where the housing associations provide communal heating and hot water and have 'taken the hit' on this during 2022/23, as the significant increases in utility costs came after this years' service charges had been set. In addition, there are increased costs of providing specialist accommodation for homeless people including higher turnover as this is short term accommodation, which leads to increased re-let and maintenance costs. There are also other increased costs of specialist accommodation including fire safety. Failure to give exemptions to the homelessness sector could:

- leave housing associations unable to bid for future support contracts
- reduce or even end investment in future new services

TENANT ENGAGEMENT EXPERTS

tpas

Consultation response

Rent Setting Consultation

Introduction

Tpas are England's leading tenant engagement experts. We're a not-for-profit organisation and have been representing our members across England since 1988. In 2016 we dropped the acronym, "Tenants Participation Advisory Service" and chose to be known simply as Tpas – The tenant engagement experts.

Our membership is made up of local tenants and landlord organisations, covering over 3 million homes. We support over 290 Housing Associations and Local Authorities along with resident groups and contractors, to experience the benefits of true tenant engagement.

We bring tenants, landlords and contractors together through a wide range of services, independent and impartial advice, support, consultancy, and training.

Overall response to the proposals

Clarity is welcome

On average, households in social housing have an income that's about 41% of the average mortgage buyer's income[1]. For this reason, we share the widespread concerns about the impact that high CPI inflation could have on social housing rents in the midst of a cost of living crisis that disproportionately affects those on the lowest incomes. We welcome the Government's aim of providing greater clarity for tenants and landlords.

Social landlords are exposed to commercial pressures

However, we also recognise that social landlords face considerable financial pressures: in relation to improvements to the safety and environmental performance of tenants' homes; in terms of the impact of inflation and increased interest rates on their own costs; and in terms of their mission to contribute to the stock of affordable homes.

In their response to the sudden and dramatic increase in energy prices, we note that the Government's approach has been to impose a price cap and to channel support to all UK households through energy companies. We understand that energy companies will be compensated in full, which has supported their viability at the same time as achieving the intended consumer protection.

Like energy companies, social housing providers are exposed to commercial risks. Typically, maintenance costs and loan interest comprise the large majority of their costs. Although these are both carefully managed, prices can't be frozen completely. Increased day to day costs are likely to be unavoidable. The imposition of a rent cap will have the effect of restricting income when costs cannot be fully restricted, creating a severe risk to housing providers' business plans. Although the Government's impact analysis

---

[1] https://www.ukhousingreview.org.uk/ukhr21/compendium.html#profiles

attempts to quantify the impact on business plans, they are based on surplus levels that would be expected to fall as a result of cost increases (because inflation in maintenance costs typically outstrips CPI), and they only consider costs over a period of five years while housing providers' business plans typically cover 30 years. The cap on rent increases will severely restrict the investment capacity of all social housing providers, and in some cases will threaten their viability. All of this of course severely impacts on tenants.

Government funding is essential

In our judgement, a cap on social housing rent increases is necessary in the short term, to protect tenants from one of the impacts of high CPI inflation. Although Government has chosen to compensate energy providers for the effect of a similar cap, they have chosen not to offer the same support to non-profit housing providers, and we are extremely disappointed by this. We were also very concerned to note in the consultation document (paragraph 22) that the proposed approach where a provider's viability is threatened will be to allow an exemption from the cap, with the burden of the high rent increase falling on the provider's tenants[2]. We find the contrast to the Government's support for energy providers shocking, and strongly urge the Government to step in and provide top up funding to housing providers whose viability is threatened by the cap.

Specific consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Our members – both tenants and landlords - have been very concerned about the uncertainty over rent increases. We therefore welcome the clarity provided by a cap on rent increases.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We would find it difficult to comment on a ceiling figure unless there is evidence that the proposals are taken with consideration to the wider economic context. With the ongoing uncertainty in energy provision and its consumer impact and a lack of clarity on the governments proposals on rises to state benefits in line with inflation. We feel that

[2] The Government's own impact analysis recognises that around a third of rent costs are borne directly by tenants, with the remainder coming via their benefit claims

to determine a figure at this time without adequate data would be an unwise course of action and would urge the government not to look at this measure in isolation.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

We would again be unwilling to have a fixed preference for either option without some clarity and assurances to the issues mentioned in our response to the previous question. The current lack of surety of long-term strategic policy due to this proposal occurring within the later stages of this governments political cycle makes it in our opinion exceptionally hard for housing providers to factor this into their long term business planning.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Bearing in mind that new social housing tenants are likely to have lower incomes than established tenants, as well as facing all the additional costs of moving, we're unclear as to how this is justified.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We agree that the impact on housing providers should be considered on a case by case basis. However, we'd strongly urge that any exceptions should be funded in full by Government, rather than by imposing unaffordable rent increases on tenants.

Stonewater

Social housing rents consultation

For more information about this response, please contact [redacted] via [redacted] or [redacted].

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Stonewater generally agrees with implementing a ceiling on social housing rent increases during this period. The current economic uncertainty and cost of living crisis is affecting everyone - particularly those with the least financial resilience. Without intervention, rents could rise by around 10-11% if the CPI+1% cap was applied. It is also likely that different HAs would take different approaches, leading to longer-term variation and volatility.

While 43% of Stonewater customers would see their rent increase supported by benefit payment (at least in part if not in full), the majority (57% self-payers) would also be impacted. These customers fall outside of the traditional groups which require support, are less likely to be in debt and therefore less likely to be in contact with us. They are often longer-term customer in larger homes with older children, or 'empty nesters' with above average incomes compared to other social housing sector tenants.

We have a well-established programme of support for customers who need it. This includes working with our independent charity, the Longleigh Foundation, and providing expertise through income and wellbeing teams. Expanding and targeting a different group of customers will need more thought and additional strategies put in place. We have also identified the geographic areas and tenure types likely to be most impacted, which would help us deploy the right resources in the right places. Having this data and information at an early stage means we are already well advanced in this thinking and able to target households that we know will be directly affected by any change.

However, this 'preparedness' must be balanced against the wide-ranging consequences and significant loss of financial capacity that any ceiling would place upon housing associations and related organisations. For example, at a 5% cap, Stonewater's debts would increase by £278m over 15 years (which equates to the cost of our entire net zero retrofit programme). Any level of cap will have a direct impact on the number of new affordable homes we can build, services we can provide, as well as the reach of our retrofit plans to reduce our customers' energy bills in the long term. If a ceiling is implemented, we urge the Government to consider how additional funding can be provided to housing associations to mitigate against this loss of income, along with the critical need for a convergence mechanism to 'catch up' capped rents to the level they should have been.

It should also be noted that this proposal comes at an early stage of the current rent settlement and follows five years of 1% per year reductions. This has meant several years of less than CPI increases already, which has resulted in significant efficiency savings being made with the sector juggling the competing demands of funding for development, building safety, repairs, improving services and decarbonising homes. To illustrate this, we have - even without this year's rent cap - seen a reduction in our rents in real terms of 7.9% since 2015-16.

Base year = £100	CPI	Rent at CPI	Actual % Rent Change **	Actual Rent	Real rent % change
2015-16	1.2%	£ 100.00	2.2%	£ 100.00	
2016-17	-0.1%	£ 99.90	-1.0%	£ 99.00	-0.9%
2017-18	1.0%	£ 100.90	-1.0%	£ 98.01	-2.9%
2018-19	3.0%	£ 103.93	-1.0%	£ 97.03	-6.6%
2019-20	2.4%	£ 106.42	-1.0%	£ 96.06	-9.7%
2020-21	1.7%	£ 108.23	2.7%	£ 98.65	-8.8%
2021-22	0.5%	£ 108.77	1.5%	£ 100.13	-7.9%

**** Actual % Rent Change includes 1% rent reduction years from 2016-17 to 2019-20 inclusive. Other years at CPI + 1%**

Added to this, our costs do not have a ceiling and we have to procure services and materials which may have price increases of above CPI. This means our margins will tighten even further and there will be an impact on the sector's ability to help tackle the housing crisis while sustaining a viable business model. At Stonewater, we are already controlling wage costs by reimagining how we work more effectively and efficiently, while seeing real challenges in staff retention - there is only so much we can do in this environment.

In recent years, Stonewater has innovated to leverage significant borrowing in the private finance market to support our ambitions during the rent reduction period. However, any proposed cap will have a further knock-on effect on lending confidence and our borrowing capability. For example, in terms of Security Value, a 3% rent cap will reduce our borrowing capacity by circa £100m and 5% reduces it by £46m. Both 3 & 5% (without convergence) will have a significant impact on our credit rating and may also impact the view of the rating agencies on the value of government support and the uplift that gives us. This will lead to higher borrowing costs, further affecting both performance and covenant compliance. We cannot reduce our borrowing costs as the current facilities are required to complete our contracted development programme.

When deciding between a 3, 5 or 7% cap, we hope the Government recognises the urgent need for additional resource to help housing associations continue providing support to the most vulnerable in society. Without additional resource, there will be a significant cumulative effect on service quality, development levels, building safety remediation and net zero retrofit programmes.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

While Stonewater assumes that the Government's preferred option is a 5% ceiling, we would urge the Government to opt for a 7% increase. This should be accompanied by a targeted supported mechanism that would allow homes that will be capped (existing lets) to converge with homes that are uncapped (for example, new lets). If an effective convergence mechanism can be agreed it would significantly mitigate the impact of a cap, regardless of where that cap is set.

Housing associations, like all businesses, have to look to future years and longer-term certainty from rent settlements allows us to confidently plan investment. The Government agreed a new five-year CPI+1% rent settlement in 2019 following five years of reduced rents. Therefore, capping rents at a sub-inflation increase would renege on the existing agreement in place with the sector and on which our business plans are based. In the context of rising construction and maintenance costs, any rent settlement which is below inflation means that investment plans will need to be reviewed.

If rent increases do not keep pace with inflation, this could create a situation where the sector becomes more, rather than less reliant on support from the state. Greater investment will be needed from the

Government to deliver both decarbonisation (a key element of Government's 10-point 'green' agenda) and to subsidise the delivery of new affordable homes to meet housing need. In addition, it should be recognised that rent increases which more closely match the rate of inflation help sustain investment and support jobs within the construction industry and wider supply chain, bringing wider benefits to communities.

We have analysed the impact of each level of cap on our income, debts and financial borrowing capability. This shows that, over a 10-year period, the level of income lost through a 7% cap would be £76.2m (if CPI is 10%), while there would also be significantly higher debt of £88.4m after 10 years, and £112.m after 15 years. For context, this figure could pay for approximately 35-40% of our net zero retrofit programme alone.

By contrast, a 5% cap would result in a £125.4m loss of income over 10 years, and an increase in debt of £144.1m after 10 years (£184m after 15 years).

We would strongly advise against a 3% cap and would go so far as to say it would be catastrophic for the sector. The rent reduction over earlier years has already taken significant capacity out of the sector and reduced some HAs to providing little more than core services. A 3% rent increase would make many housing associations' models unviable. We would expect there to be a number of breaches of Bank Covenants and impacts on funding availability for continued operations as the whole sector is likely to come under pressure, both due to credit rating downgrades and potential financial failure of some providers. [redacted]

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

We have modelled for both one and two years and agree that the ceiling should be limited to 2023/4. A one-year ceiling would give flexibility to identify the biggest impacts and develop targeted actions to mitigate them. While one year means a degree of uncertainty beyond 2024/25 and having a two-year cap might mitigate that uncertainty, two years would limit our responsiveness to emerging economic factors and impact our ability to meet the needs of the most vulnerable for two years.

There is also the backdrop of economic uncertainty, with some inflationary forecasts already at 15-17%, and we cannot accurately predict what the situation might be in 18 months' time. Therefore, HAs need to retain the agility to respond and we need an ongoing dialogue with Government about the settlement for 2024/25.

While it is not within the scope of this consultation proposal, we would urge the Government to consider a convergence mechanism that would eventually bring rents back up to where they would have been if the ceiling was not implemented. This is in part to ensure that the long-term impacts on debt and income (see above) are mitigated, and also to ensure that that there is not a situation where some customers are paying one rent and their neighbours are paying a higher rent for the same type of property. This would be key to sector stability and the sooner it is put in place, the better.

We would also like the Government to consider how it can mitigate the financial loss through additional grant funding. As noted above, the ceiling would have an impact on our ability to access additional private finance for development/capital investment because of reduced security values, and we could also face higher loan costs.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, this is welcome as prevents a permanent real-term loss of income, while also reflecting the need for short-term protection for existing customers. We know that the customers most impacted by any rent change are those with longer tenancies. New customers (due in part to the short supply of affordable homes in many areas) tend to be single income households with income levels that fall in the lowest 30th percentile locally. As such, they are likely to in receipt of housing support. While these customers are by their nature more vulnerable, a comprehensive affordability assessment and support package is available to them before and after the start of their tenancy.

The new let expectations have been taken into account when measuring viability for our new development schemes. However, these may be unviable if the initial rents are capped, further exacerbating financial distress.

As noted above, this approach potentially creates different costs for the same properties and we would urge the Government to consider the importance of a convergence mechanism. This is, in part, to ensure that that there is not a situation where some customers pay a different rent to their neighbours on the same type of property.

The table below illustrates the margin over CPI for rent level to catch up with CPI +1% by year 3. i.e., if 7% rent cap in year 1, years 2 and 3 would require a CPI + 3% rent increase to achieve rent level parity. If catch-up by year 5, this would require CPI +2% in years 2-5 and so on. This would not recoup any rent shortfalls.

Rent Cap	Year3	Year5	Year10
7%	3.0%	2.0%	1.4%
5%	4.0%	2.5%	1.6%
3%	5.0%	3.0%	1.9%

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Stonewater would strongly urge the Government to confirm that the current category of exempt accommodation would continue to be excluded from any cap. There is already a precedent for providing this as it was excluded from the 1% rent reduction in 2015.

This type of accommodation has very tight financial constraints and customers with high levels of support needs. Any deterioration with the service offer could see providers leaving the market on the basis of risk and/or viability.

In addition, the impact on recruiting care staff, (which is already incredibly difficult) in the Real Living Wage context, should be considered. There are currently circa 165,000 vacancies in the care sector and this has a significant ripple effect on the NHS and local authority budgets.

About Stonewater

Stonewater is a leading social housing provider, with a mission to deliver good quality, affordable homes to people who need them most. We manage around 34,500 homes in England for over 76,000 customers, including affordable properties for general rent, shared ownership and sale, alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, domestic abuse refuges, a dedicated LGBTQ+ Safe Space, and young people's foyers.

Our significant and progressive house-building programme aims to build a minimum of 1,500 new homes a year from 2022/23 and we have a healthy pipeline of development to achieve this, driven by our vision of everyone having the opportunity to have a place that they can call home. We plough our surplus into building new homes, improving our existing housing stock and investing in customer services.

We're also the biggest management partner for Legal & General Affordable Homes, supporting the organisation with its ambitious plan to build 3,000 homes by 2022 by managing its housing operations in England.
.
We recognise that the way we work matters too. As part of our commitment to providing energy-efficient homes, we are working towards meeting the Government's carbon neutrality targets. We use our Environment Strategy to manage our impact on the environment and minimise our resource usage.

Our talented 800+ employees embody our values – being ambitious, passionate, agile, commercial and ethical. We're proud to be recognised as a 'Two Star' workplace in 2022 by Best Companies, and one of the Top 100 Large Organisations to work for in the UK as well as one of the Top 25 Best Housing Associations, reflecting 'outstanding' levels of engagement at Stonewater.

With an annual turnover of around £225m and £2.2bn in fixed assets, Stonewater is a strong, dynamic and well-managed social business, with a long-term rating of A+ by independent credit ratings agency, S&P Global Ratings and a top G1/V1 governance and viability ranking from the Regulator of Social Housing.

In our role as thought leaders, we constantly evaluate where we believe we possess a strong voice and the potential to have a significant impact. For more information on our thought leader work, you can read more here.

For more information, visit our website at www.stonewater.org

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	St Mungo's
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	3 Thomas More St, London E1W 1YW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

☐No

x☐Maybe

Comment:

We understand why the Government has decided to put in place a backstop on rent increases, and agree that for general needs social housing tenants it will provide security, as well as ensure that Registered Providers are prioritising affordability.

However, we do not think that supported housing and general needs housing are comparable business models, and would recommend that a different approach is taken for supported housing.

As a supported housing provider, our higher day to day costs make it more challenging for us to keep our rents significantly below CPI+1%. This is due to the needs of our clients, and the more intensive housing management activity, which leads to us having less surplus (or no surplus) which means our overall financial position is impacted by decisions like a rent cap.

When modelling the impact of a 3% or 5% rent cap, this would have severe implications on our ability to continue to deliver services, whilst a 7% cap would deliver its own challenges and require tradeoffs in the organisation. Examples are provided in our response to question 2.

As the focus of this consultation is around protecting existing tenants from very significant rent increases, we would emphasise that the vast majority of our clients pay their rents through Housing Benefit, and so would not feel the benefit of a rent cap. Instead the consequence would be, depending on how low the cap was set, a reduction in responsive repairs, cuts to our workforce, and as a last resort, cuts to frontline services.

We would ask that the Government exempts the supported housing sector from the cap, and increases its investment in Housing Benefit in order to maintain the supply of quality supported accommodation.

We are not yet in a position to fully understand what rent increase would be required for the financial year 2023/24 to ensure services could continue to operate as they do.

If the Government did not put a ceiling on rent increases in the supported housing sector, we would look to increase rent sufficiently to cover our projected costs but not necessarily go all the way to CPI+1%. Based on the current positon we envisage that our rent increase would be at 7-8%.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

x☐No

☐Maybe

Comment:

All the caps would have implications for our delivery of supported housing. We would have greatest concerns if a cap was set at 3% or 5%, whilst a 7% cap would deliver its own challenges and require tradeoffs in the organisation.

Our assumption for the financial year 2023/24 was that we would have a 5% rent increase, as CPI was 4.2% in October 2021 when this forecast was made. However, with inflation now 10-11%, a rent cap set significantly below would have damaging implications for our delivery of supported housing, which is outlined in greater detail below.

For our leased accommodation we still have to pass on the bulk of rent to the owner, retaining a lease or management charge. From this retained income we have to cover a lot of costs which are themselves increasing – meaning we would run at a deficit (which we cannot do). This would lead us to exiting services.

Retrofit of existing homes

- For each of the caps it will take longer to get to EPC C, and we anticipate there would be delays in delivering our Asset Management and Sustainability strategies. The lower the cap, the longer we anticipate it would take to deliver on these goals.

Planned building safety work

- Although a risk-based approach would be adopted, each of the caps will slow down any planned building safety work. Building safety is paramount and the tradeoff is that resources will need to be diverted from other services to mitigate building safety risks.

Planned major repairs / maintenance

- With building safety being a priority, planned major repairs/maintenance programmes would be deferred as appropriate, with the most severe impact felt at a 3% and 5% caps.

Reduce responsive repairs

- A reduction in financial resource due to a rent cap would impact any expenditure decisions, with a more severe impact felt at the 3% and 5% caps.

Reduce frontline services to tenants

- This would be a last resort, and would arise whereby meeting costs to maintain services to pre-agreed and/or regulatory standards, was no longer financially viable due to a rent cap, and considerations would be made to close these services. Where our lease and management charges no longer cover our rising costs, this would mean we would run into a deficit (which we cannot do), and would lead us to exit services.

Make cuts to our workforce

- For each of the caps, we will have to look at all areas of the workforce and any closure of services due to affordability challenges would result in a cut to the workforce.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

x☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No

☐Maybe

Comment:

If the Government did decide to impose a cap on the supported housing sector, we would support the ceiling only applying to rent increases from 1 April 2023 to 31 March 2024.

This is because we would need to make tradeoffs over course of this year, and to minimise the impact this would have on our delivery of services we would seek to have it in place for the shortest amount of time. Moreover, given the level of economic uncertainty, we would want to avoid a two year cap, so that decisions on rents could be based on the most up to date external factors.

If a cap was introduced on the supported housing sector for one year, we would also ask that the Government commits to reintroduce a ‘catch up’ mechanism, so that rents can gradually return to their real terms level once inflation has fallen back, preserving long term investment for the sector. If the Government could signal a return to convergence in the future, then difficult decisions about pushing back or cancelling investment in homes and services could possibly be avoided.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

x☐Yes

☐No

☐Maybe

Comment:

We agree that the proposed ceiling should not apply when Social Rent and Affordable rent properties are first let. This is because providers have costed their participation in these schemes on the basis of how long it would take to recover their money, and so would not be financially viable to go below what has been costed for the development.

Allowing up to CPI+1% to be charged for re-lets for existing schemes would technically help mitigate the impact of a cap, particularly within schemes we operate which have a high turnover. However, we do not currently administer different rent increases for different clients and this would not be possible to implement. Therefore we would not be able to benefit from this approach and recoup costs.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

x☐Yes

☐No

☐Maybe

Comment:

As discussed in Question 1, we are not yet in a positon to determine to what extent we would need to increase our rents for the financial year 2023/24. This is due to a number of factors, including the current economic uncertainty around energy and inflationary costs. This would all need to be factored into considerations around rent increases.

However, it is likely that a cap, particularly if imposed at 3% or 5%, will impact our ability to deliver support and so would recommend that an exemption is given to supported housing.

We will need an exemption due to the tight margins we operate against which would make our organisation less resilient to the financial pressures of capping rents significantly below CP+1%.

The average length of tenure across our accommodation remains under 365 days. This means that all of the costs associated with re-letting a unit of accommodation happen more frequently in our services than in general need housing associations. Given that we are providing accommodation for people who often have vulnerabilities and complex needs, the housing management costs will be higher as we provide intensive housing management which includes things like increased health and safety compliance checking, reporting the need for repairs and arranging access for contractors to properties as clients are unlikely to manage this themselves. Our Financial statements show the operating margin on our supported housing lettings for 2020-21 was 1.84% and in the year before it was less than 1%.

Where our lease and management charges no longer cover our rising costs, resulting in a deficit, this would lead us to exit services.

We also have to maintain our owned stock and are required to hold funds to support this in our reserves.

[redacted]

For an estimated 95% of our clients, increases to core rent would be covered by their Housing Benefit. Of the small minority of clients who are not eligible for housing benefit due to their income or immigration status, our organisational position is that we do not evict people due to changes in our rental charges. In these situations we would encourage a new application for housing benefit and support the client to apply for grants.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Responding on behalf of the Sovini Group
What is the name of your organisation (if applicable)?	Sovini Group (incorporating One Vision Housing and Pine Court Housing Association)
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Unit 1 Heysham Road, Bootle, Merseyside, L30 6UR
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☑Maybe

Comment:

We are absolutely under no illusions as to the extent of the current cost-of-living crisis and the impact that this is having on our customers lives, in these ‘exceptional times’.

We fully recognise the need to alleviate financial pressures for customers in any way that we can and in response to the current crisis we have upped our support for those who are struggling both financially and personally, as people worry about what the winter ahead will bring.

Within this context we understand the rationale for introducing a temporary rent cap below the levels achievable with the current CPI + 1% formula. This is not to say that we agree with the preferred option being put forward for a 5% cap.

'Exceptional times' is a phrase that not only defines the cost-of-living crisis but aptly describes the financial demands that are currently being made of the social housing sector in general.

[redacted]

The Governments own consultation document spells out more clearly what these choices may involve, as the rent capping proposals will, "*leave Registered Providers with less money to invest in providing new social housing, improving the quality and energy performance of their existing homes and providing services to tenants*".

This list does not, however, come close to describing the whole myriad of other financial demands, some of which we will absolutely refuse to compromise on, such as ensuring our homes meet the highest safety standards and fulfilling all of our compliance duties.

All of this is expected in an environment where our businesses are facing 'exceptional' increases in operating costs due to inflationary pressures.

Given this context, without government intervention and imposition of a rent cap, there is every likelihood we would be making the recommendation to our Board for rent increases at rates above 7% but below the maximum amount permissible with current formula for the 2023-24 period, [redacted]

This difficult recommendation would be made to ensure viability, to continue to develop much needed new homes and continue to provide excellent services to our customers.

If we were to follow this path for rent increases we would ensure it is accompanied by a corresponding increase in the levels of support provided to those most in need.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☑No
☐Maybe

Comment:

Our detailed financial modelling indicates that even under the best-case scenario of a 7% cap this likely to result in a £9.2m deficit in our business planning over a two-year period (assuming inflation currently at 10% reducing to 3.5% in 2024/25 and 2% thereafter).

The scenarios obviously become more severe as the level of cap decreases, at 5 or 3%, having a huge impact on gearing ratios [redacted]. Difficult decisions on 'what gives' will need to be made, even under a scenario where the rent increase is capped at 7%.

Likely areas of impact include our development programme, improvements to properties and our ambitions to work towards zero carbon emissions, all of which are tied in with central government targets and timelines.

The impacts will not be limited to our business and our customers. The work we undertake and would have to limit, postpone or cancel has significant benefits to the local economy (through sustaining employment, supply chain and ancillary services).

This type of impact when magnified across the sector at large could wipe out billions of planned expenditure contributing to economic recovery and growth.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

We do not think that it would be prudent to set a limit on rent increases for a two-year period when there is so much flux and uncertainty over the direction of travel of inflation.

Whilst we all want to be able to plan ahead with certainty, we are hopeful that the economy will be in better place next September (CPI rates) and it may be feasible for rent setting to return to the agreed formula, without this causing affordability issues for customers.

Exceptional times call for exceptional measures and whilst we are still in the midst of this enduring crisis it makes sense to review the situation more frequently and through pragmatic discussion with the sector.

The government should consider the compound effect of any measures to limit rent setting as this will impact business planning for far longer than a one- or two-year period. It should also consider how it will assist the sector to recover from this huge knock to financial planning.

Our preferred option here would be for the savings made to the Treasury from any rent cap to be ploughed into a convergence mechanism, allowing for a gradual clawback of rents to target levels and in line with inflation.

The rent setting settlement that is due to be introduced for the period 2025-30 provides an opportunity to conduct a more in-depth review of government rent setting policy that strikes the right balance between affordability, longer term surety for the sector and a fairer deal for social renters.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑Yes
☐No
☐Maybe

Comment:

We agree that the proposals should only apply to existing tenants, allowing providers freedom and flexibility to make their own decisions on rent levels to be charged for new properties and re-lets, subject to the existing formula mechanism.

However, as this would effectively create a 'Two-tier rental system' we believe this adds further weight to the argument for a convergence mechanism to be put in place to allow existing tenants to catch-up over a period of time, as outlined above.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☑Maybe

Comment:

Taking our own situation into account, we would see no value in exempting any categories of housing provision, in particular supported housing services, from any potential rent cap. This is in recognition of the vulnerability of this client group.

We do appreciate, however, that this may not be the case for all providers and without ability to charge rents that are in line with real costs it may threaten the future viability of these vital services.

Any loss of these specialist services / providers would have devastating impacts for the individuals who receive this type of support and there would likely be much higher costs to government in social care provision.

The government should therefore have enough flexibility in its rent setting instructions to the Regulator for assessment on what is the best option i.e. exceptions for these providers, on a case-by-case basis.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	South Kesteven District Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	South Kesteven District Council Council Offices, St. Peter's Hill Grantham, Lincolnshire, NG31 6PZ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

X Yes
☐No
☐Maybe

Comment:

South Kesteven District Council is both a registered social housing provider and the strategic housing authority for the district. The Council is providing advice and assistance to residents of the District impacted by the current cost of living pressures and would be concerned by the impact on residents, not only in its own housing stock, but also residents living in accommodation provided by other social housing landlords in the district, by a significant rise in rent levels.

The Council will consider rent setting for 2023/24 through its usual governance arrangements and within the relevant Regulatory Standard. This includes robust scrutiny arrangements and equality impact assessments. In that context, the Council would consider carefully the impact on tenants and their households that could be caused by a significant rent increase, but also be mindful of balancing that against the impact on the Housing Revenue Account Business Plan (HRA BP) and the investment required to maintain the Council's housing stock in the context of significant inflationary pressures.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

X Yes, you agree with imposing a ceiling of 5%
☐No
Maybe

Comment:

For the Council, a 1% rent rise equates to around £250k of income. Around 60% of the Council's tenants are in receipt of state benefits for support with housing-related costs.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

The Council is currently reviewing its HRA BP and its services are benchmarked as "low cost". In the context of current inflation for building materials etc, the Council believes a two-year ceiling may be restrictive in terms of future rent-setting, where the circumstances may allow rents to increase at even a slightly higher rate, allowing increased spend on the housing stock.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☓ Yes
☐No
☐Maybe

Comment:

The rent setting for properties is a well-established procedure and, for new builds, allows clear project appraisal and costings. Changing this methodology would reduce the appetite for development. Additionally, on the re-let of Social Rent properties the Council believes that the formula rent used has a modest impact and provides equity across the social housing sector.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☓ No
☐Maybe

Comment:

The Council provides accommodation classified as general needs; sheltered housing; and temporary accommodation. The Council believes that imposing different levels of rent increase would naturally cause tenants impacted by higher increases cause for dissatisfaction.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Shepherds Bush Housing Association (SBHA)
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Mulliner House Flanders Road London W4 1NN
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☑Yes
☐No
☐Maybe

Comment:

Overall we support the intent for a specific ceiling in the short-term, to protect social housing residents during the very difficult and exceptional cost of living crisis. This needs to be balanced with the overall impact this could have for social housing residents (existing and future) in the longer term with many Registered Providers having to consider reducing planned investment in current homes, a reduction in development activity or the need to actively dispose of social housing stock – all of which exacerbate the housing crisis.

Whilst it is unlikely that SBHA would apply the existing CPI+1% limit in 2023/24 we do feel it is important that if a cap is introduced, it is of a level that enables Board discretion – creating the ability for individual Boards to take decisions that balance the short term needs of resident affordability with the ongoing viability of the organisation. A lower cap will restrict the ability for individual nuances and geographical variations to be taken into consideration. With a higher cap it would also enable a commitment from Registered Providers to ensure targeted support is in place for residents experiencing financial hardship.

Finally, to avoid long-term consequences from a short-term action and we would propose that a catch up mechanism is agreed enabling under-target rents to catch up over a period of time once inflation has stabilised.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☑No
☐Maybe

Comment:

As set out in response to Q1 above, we believe a higher cap will enable a more holistic approach to the application through Board discretion, managing the short-term impacts of resident affordability, targeting support to those most in need and reducing the need to make trade-offs with other areas of investment.

Whilst a cap of between 3-5% would provide immediate support to a sub-group of residents, our modelling indicates that there would likely be short term impacts in reductions to our planned maintenance programme, potentially affecting decent homes compliance. The reduction would be c.10-15% in the early years at a time where we have already reduced our planned maintenance spend by some c.£6m in 23/24 to support increased costs associated with building safety works.

Against our long-term financial plan, due to the compound effect of a lower cap of between 3-5%, the impact of this change would cause an overall reduction in re-investible rent of c£23m over the course of the next 30 years. This will further impact SBHA's longer-term investment programme, ability to support new affordable housing and delay the start of necessary decarbonisation work.

We have c50% of tenants in receipt of Universal Credit or Housing Benefit and whilst the affordability impact should be lower as increased rent should be covered by increases in their welfare package, but there are still likely to be significant pressures on household budgets due to other inflationary pressures in other household costs. A lower ceiling will impact our ability in the provision of holistic services for these residents – for example maintaining their current home and the provision of additional hardship support.

If a cap of between 5-7% is implemented we would be likely to see a further c460 residents (c10% of our portfolio) struggle to pay who may require additional support. Proactive and targeted support would be offered to these residents through our customer support package where we actively identify additional income and benefits for residents.

Under a higher cap, between 5-7% our modelling indicates that SBHA would be able to continue to offer its hardship fund, supporting both general needs and shared-ownership residents. Conversely under a lower cap SBHA would be forced to review the viability of this scheme.

In summary, we would propose that a cap is implemented at the higher range, but still below existing allowance of CPI+1%. The outcome would be the cap is implemented in the short-term to enable Boards to:

- balance the addressing short-term affordability needs of residents;
- continued investment in residents homes;
- additional targeted financial/welfare support for those most in need; and
- the ability to plan alongside the longer-term requirements for the organisation.

We would also encourage the Government to continue to find new ways to support people impacted by the cost of living crisis with a focus on ensuring welfare payments are increased in line with inflation, this coupled with a rent cap on social housing will undoubtedly support those who are the least well off in society

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Due to the current economic uncertainty, we would propose that if a ceiling is introduced, it should only be in place for one year. We would suggest that there is a further consultation exercise in 24/25 if inflation remains high as currently anticipated

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑Yes
☐No
☐Maybe

Comment:
We agree that the proposed change, if put in place, should be to support current tenants and that new or re-lets should be charged in line with the current rent standard.

Registered Providers already have to manage the complexity across certain schemes where tenants are on varied rent levels and the management of this can at times be difficult. There will need to be a renewed focus on Registered Providers to ensure robust checks are carried out for new tenants to ensure affordability against the formula rent and welfare support is maximised.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☑Yes
☐No
☐Maybe

Comment:

We would propose that a specific exemption should be made for supported housing from any rent ceiling, recognising the viability challenges that would be presented otherwise and the impact this could have on the delivery of critical services to vulnerable individuals.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Sedgemoor District Council (SDC)
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Bridgwater House, Kind Square, Bridgwater Somerset TA6 3AR
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Note: A Local Government Reorganisation is underway in Somerset which will result in a single authority, Somerset Council, emerging as a unitary council replacing 4 districts and 1 county council. This change comes into effect on 1st April 2023.

SDC recognises that we must protect the most vulnerable households during what will be a difficult year ahead. Even without Government intervention the Council would be putting some form of cap on rent increases for social tenants. SDC believes that imposition of the maximum rental increase from 1st April 2023 would not be sensible. A rent increase of circa 11%, following the current government policy, in conjunction with rising inflation, soaring energy bills, spiralling food and fuel prices would create a significant financial impact on many of the tenants who live in the properties we own. The council has a social purpose to provide people on some of the lowest incomes with high-quality, affordable homes and it is not just those receiving housing benefit (34%) and/ or universal credit, there will be a huge impact on those who haven't needed our help before, those people who are working but just can't make ends meet. Arrears levels would undoubtedly increase.

There is a balancing act between our social purpose and financial viability, investing in our homes is becoming more expensive as well as investing in new ones. The costs we incur, particularly in relation to repairs and maintenance and capital works, have increased significantly, by as much as 25%. We are also impacted by the increase in energy supplies. Even with a rent increase of circa 11% our budgets would be under significant pressure. It is felt that a rent cap is appropriate to protect the tenants we serve during the next 12 months, but a rent cap will also impact on the services we are able to provide tenants. There is a risk that Decent Homes Standards may not be met, though maintaining this will be a priority. Our ability to progress works to meet net zero standards will be compromised. Reduced funding for the development and build of new homes will result in projects being delayed or slowed.

Clearly any rent cap will create additional financial challenges for Somerset Council, who will replace SDC. We are still facing a housing crisis. There were 11,357 households registered on our choice-based lettings system on 3 October 2022, an increase of 660 households (6%) from 1 July 2022. 236 homes (40%) advertised during the last quarter received over 100 bids. The highest number of bids received was 415, for a 1 bed house in Bridgwater.

Homes in Sedgemoor, our Arm Length Management Organisation, have agreed to allocated £200k of its reserves to support a hardship scheme which will be in place for the remainder of 22/23. Proposals in the scheme include the provision of emergency payments to support energy costs and the installation of components to help reduce energy consumption. While the energy cap is welcomed, it still represents an increase on what most people are currently paying.

SDC would welcome an expansion of government grants to help support net zero initiatives. A review of Public Works Loan Board (PWLB) arrangements would also be helpful.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No = 7%

☐Maybe

Comment: A 7% cap is thought to be a fairer balance than 5%, between the impact on the tenants versus the impact on the Housing Revenue Account. Even with a 11% increase there would be pressures to manage. The exact impact of different scenarios is worked through below. Any impact of a cap on income levels collected needs to be recouped over time, say a period of 5 years. This is important to enable the baseline to be restored to a sustainable level.

<u>Year one rent loss 2023/24 compared to the base case of 11% rent increase</u>
3% £1.385m
5% £1.040m
7% £695k

<u>Rent loss over 30 year plan with assumptions in the HRA business plan:</u>
3% in years 1 & 2 and then back to CPI only thereafter £83.368m
5% in years 1 & 2 and then back to CPI only thereafter £54.625m
7% in years 1 & 2 and then back to CPI only thereafter £25.354m

Please note that with the base case rents set at 11% over the 30 year business plan there are shortfalls.

It would be detrimental to our tenants if an imposed cap affected key services that our ALMO currently provides such as cuts to planned spending on things like maintenance and decarbonisation programmes. The government itself is set to benefit through reduced spending on benefits to tenants but a balance needs to be maintained.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment: The impact of a single years rent cap will be significant. To introduce a rent cap for a second year would compromise our ability to deliver key services going forward. The financial environment seems so uncertain for the foreseeable future and no doubt a more sensible approach would be to assess the situation in 12 months rather than commit to a 2-year arrangement at this stage.

SDC welcomes the governments commitment to a review of its social rent policy beyond 2025, with a consultation due to be launched next year, and would welcome additional funding for 2023/24 and for future years so that we can continue to safeguard services and meet our current tenants and future tenants housing needs.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment: This depends on any government decision to apply a lower than 7% cap on existing social housing tenancies as, again, there will be a need to balance the pressure on the Housing Revenue Account with any negative impact on future tenants.

A new social housing tenant would still have their rent set no higher than the formula rent, CPI+1% formula. However, SDC would consider applying a lower rent level given the effect on future tenants, who themselves will be facing many of the current and future cost of living challenges. This will be particularly acute amongst those who are ‘self-funding’.

There is potential impact on wider cost measures such as the cost of borrowing, with knock-on effects for the economy, and costs for services for instance through continued occupation of temporary accommodation if those in temporary accommodation find they cannot afford the new rent. Local discretion would be applied.

It may also become complicated to operate with a legacy of variations to manage.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment: Those organisations that provide more expensive forms of accommodation, such as specialist supported housing could be more adversely affected, although this will be mitigated to some extent by the enhanced housing benefit such provision attracts. Placing additional pressure into these arrears could compromise service provision. Normally this type of provision would be exempt from formula rent. They are small in number in our area and would contribute little to the overall benefit from any rent cap. It is assumed that standard sheltered, and extra care schemes would be included in the rent cap.

The provision of housing for temporary accommodation, examples might be accommodation for domestic abuse victims and refuges, should also be viewed as an exception. In its own impact assessment, the government says supported housing providers may be “less resilient” to financial pressures because of their business models or operating margins. If rent increases hold at 5% or 7%, that could leave massive deficits that providers of specialist supported housing won't be able to get back through general needs housing.

South Cambridgeshire District Council

Department for Levelling Up, Housing & Communities

Consultation on Social Housing Rents

South Cambridgeshire District Council's Response

The Council's response to the proposals for the introduction of a rent ceiling from 1 April 2023 to 31 March 2024 are set out below:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No.

With the significant increases in the cost of living, housing providers are acutely aware of the significant financial impacts this will have on social housing tenants. As a local authority housing provider, we are putting in place additional support for those struggling financially and fully understand the impacts this can have on tenants' health and wellbeing as well as increased financial pressures as an organisation in terms of increased rent arrears.

Whilst we can therefore understand the Government's reasons for implementing a rent ceiling, this should be left to housing providers to set their own rent increases based on local knowledge. A one-size-fits-all approach from central government does not work. Housing providers are best placed to make the difficult decisions in terms of a balance between affordability for tenants and investment in the homes that they live in and services targeted at those most in need. Setting a rent ceiling could be counter-intuitive in terms of housing providers' ability to run services to help those most in need struggling from current financial pressures.

South Cambridgeshire District Council would be looking to increase rents, aligned to previous year's CPI +1% but would not have implemented a rent increase based on the current CPI of around 10%. However, whilst it is acknowledged that a rent ceiling will keep rents more affordable, Government should consider funding the shortfall to ensure that housing providers can continue to offer services to those that need them, continue with planned home improvements such as energy efficiency measures and the delivery of new affordable homes. All of these objectives are key to the Government's ambitions and without additional funding projects are likely to stall or be scaled back.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

South Cambridgeshire District Council has undertaken some modelling in terms of setting a rent ceiling of either 3%, 5% and 7%. If a ceiling of 3% is applied, the impact of potential rent loss if we were to apply current policy of CPI +1% would equate to approximately £2.5M rental loss for 2023/24; at 5% £1.9M and at 7% £1.2M. In contrast, costs have significantly increased above the maximum proposed ceiling of 7%, with new build costs estimated at a 20% increase from last year.

If a ceiling was to be imposed, a ceiling of up to 7% would give housing providers some further flexibility in terms of balancing the needs of tenants with the condition and investment required for their housing stock. A 7% ceiling rather than a 5% ceiling could be the difference between being able to continue providing additional support to those most in need and an unviable service.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes, if a ceiling is applied, this should only be for the year 1 April 2023 to 31 March 2024. With such economic uncertainty it would be unfair to implement a ceiling beyond the year.

As a local authority, the debt taken on in 2012 as part of the rent reforms was predicated on rental security and the ability for local authorities to plan long term investment into their homes. Since the implementation of this, we have seen a four year rent reduction from 2016-2020, the scrapping of rent convergence in 2015 and now proposals for a rent ceiling. The impact of the four year rent reduction and the abolition of rent convergence has meant that rents are already below that accounted for within our 30 year business plan. This is at a time when there are increased financial pressures on housing providers in terms of meeting the new safety regulations and targets for net zero carbon homes.

The impact on the continuous intervention on the ability for local authorities and housing providers to make long term decisions on investment is not helpful. Any shortfall this year, will be repeated for all future years under the current rent formula.

In particular, we would welcome the ability to ‘play catch up’ in terms of rental lost over years by the re-introduction of rent convergence

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes. However, we are also mindful that this will continue to widen the gap between rents paid on new homes and existing homes. Further grant funding should be considered through the affordable homes programme to ensure new homes are affordable to those that most need them.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Whilst it would make sense to have a consistent approach across the board, implementing the rent ceiling may make some supported/temporary accommodation unviable. If the Government does take forward a ceiling cap, then it should ensure that there is additional funding to safeguard services that are targeted at those most vulnerable in society.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Sandwell Metropolitan Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Sandwell Council House Freeth Street PO Box 2374 Oldbury B69 3DE
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐ Maybe

Comment:

We are aware of the pressure the current climate is having on our residents but capping below the rate of inflation creates financial pressures for the council to deliver key services. The budgetary pressures created by imposing a rent cap will impact our ability to deliver repairs, new build schemes as well as meet increasing staffing costs.

We would not normally support a cap on rents for the reasons detailed above but due to these exceptional circumstances, we would support a 7% cap.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐ No
☐Maybe

Comment:

From a finance perspective, every 1% ‘lost’ equates to a reduction in next year’s rental income estimated at £1.182m or £35.46m over 30 years. A ceiling of 5% could result in a potential loss of rental income of £7.09m next year (when compared to CPI+1%). Rental loss over the life of the HRA 30 years business plan would equate to £212.77m.

Due to budgetary pressures, if a cap is to be imposed we would be in favour of the 7% cap.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Due to the volatile current economic climate Sandwell would support a 12-month cap

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐ Maybe

Comment:

We can see the potential benefits of applying higher rates for relets but the financial impact of this would be minimal and this may raise concerns amongst our tenants about fairness and transparency of rent setting.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐ Maybe

Comment:

We would welcome an exception for tenancies that are part of a block, estate or scheme that has benefit from significant investment funded by the Housing Revenue Account within the last 12 months. We are experiencing significant increase in the delivery costs of these improvement programmes from inflationary pressures on costs and it would seem reasonable to have the discretion to increase rents CPI+1% to reflect these costs and the benefit the residents will have derived from such improvements to improve the quality of our stock.

Department for Levelling Up, Housing and Communities Consultation on Social Housing Rents

Organisation: SAGE HOMES

Respondent [redacted]

Contact details: [redacted]

Address: Orion House, 5 Upper St Martin's Lane, London WC2H 9EA

12th October 2022

INTRODUCTION

1. Sage Homes (Sage) welcomes the opportunity to respond to the consultation by the Department for Levelling Up, Housing and Communities (DLUHC) on social housing rents.

2. Sage is a For-Profit Registered Provider (FPRP) of affordable housing and, in March 2021, became England's largest provider of newly-built affordable homes.

3. Established in 2017 by investment funds advised by Blackstone and Regis, our purpose is to provide high-quality, well managed and customer-focused affordable housing, whilst also bringing significant, stable capital to the sector, enabling increased access to high-quality affordable housing for the people who need it most[1].

4. Sage has committed to over £3.5 billion of investment and delivered over 9,000 new affordable homes to date. Sage has a total of 22,000 homes in the pipeline (delivered and exchanged) and recently increased its housing delivery target to 30,000 homes by 2030[2].

5. Sage works with the largest house builders across England to deliver new housing via Affordable Rent and Shared Ownership tenures. Our Affordable Rent homes are let exclusively to people on local authority housing waiting lists. Our Shared Ownership homes offer a step on to the property ladder for aspiring homeowners, with a part buy, part rent way of owning a home.

6. We are proud to be working to help address the long-term housing affordability crisis. Our customers are at the centre of everything we do, and we know we have a vital role to play – particularly at a time when people are facing the challenges of rising costs and financial pressures.

7. However, we share concerns raised by the National Housing Federation, British Property Federation, G15 and other stakeholders about Government's proposed intervention. Changes to the agreed CPI+1% per annum rent increase policy until 2025 threaten investor confidence by intervening in the stable and predictable regulatory environment required to invest in affordable housing at scale, and will limit the Government's ability to deliver new social homes in the future.

---

[1] https://www.sagehomes.co.uk/about-us/
[2] https://www.blackstone.com/housing/sage-housing/

In addition, as per DLUHC's cost-benefit analysis, the primary financial beneficiaries of a temporary rent cap are not tenants, and such an intervention also fails to deliver targeted additional support for the most vulnerable households.

8. The existing certainty of a long-term regulated rent regime – linked to inflation – is a key component of the sector's attractiveness to long-term, institutional investors, which is crucial to supporting the delivery of new affordable housing.

9. By recent comparison, the announcement in 2015 of a four-year, 1% annual reduction in social rents was, at the time, estimated to have resulted in 27,000 fewer affordable homes being built, according to the National Housing Federation[3]. Credit agency Moody also said this intervention meant the stability of the sector to investors had "…been eroded by the sudden removal of the rent-setting formula"[4].

10. Amending the existing regulatory regime which put in place an agreed CPI+1% per annum rent increase would once again fundamentally lower the attractiveness of the sector to long-term, institutional investors, limit sources of finance for the development of new housing stock (both for affordable rent and shared ownership), reduce investment in existing housing stock, and create a substantial liquidity challenge for an industry already subject to rising cost pressures. For some providers, investment in building safety, as well as sustainability, could also be negatively impacted.

11. Restricting investment sources in this way would exacerbate the issues already faced by developers because of rising interest rates, increasing inflation, and the growing cost of capital which could pose systemic risks to the sector.

12. In addition to seeing fewer affordable homes provided and less investment in quality and building safety, this would also have negative impacts for investors and lenders. In particular, the proposed changes could threaten pension funds and insurers, who are key sources of low-cost capital for the affordable housing sector and have already been heavily affected by recent market volatility. Decreasing the attractiveness of the sector to such investors at this time is likely to have significant long-term implications on the future delivery of much needed affordable housing.

13. As set out in this response, we would welcome the opportunity to work closely with DLUHC and other industry stakeholders to agree on alternative, industry-led temporary solutions that provide meaningful relief and vital security for tenants over the coming months in a way that does not undermine the delivery of new affordable homes, the management of existing properties and wider sector stability, including investor confidence.

14. We are committed to supporting our customers through these difficult times, and believe a combination of voluntary industry action and targeted support would achieve security for tenants, while preserving the long-term sustainability of the sector. A commitment from all stakeholders in the industry, for example, to agree voluntary, sector-wide agreements that provide temporary support for customers in meeting their rent payments, coupled with targeted support through expanded hardship funds would focus the relief on the most vulnerable tenants.

---

[3] https://researchbriefings.files.parliament.uk/documents/SN01090/SN01090.pdf
[4] ibid

15. We have been in close conversation with sector representatives, including the National Housing Federation, British Property Federation, and G15, and strongly welcome further collaboration to reach an industry-led solution.

16. In addition, Sage has implemented policies that are in line with the leading Housing Associations and is working hard to support those customers in financial difficulty and who have built up arrears. Sage is, and will continue to be committed to the following principles to support tenants:

    i. Keeping people secure at home: No one will be evicted by a Sage as a result of financial hardship, where they are working (or engaging) with our Financial Wellbeing Team to get their payments back on track.
    ii. Helping people to get the support they need: Sage helps residents to access benefits and other support to alleviate financial hardship, such as providing food and energy vouchers.
    iii. Acting compassionately and quickly where people are struggling: Sage will work with any resident who is struggling to pay rent to make arrangements that are manageable for them in the long term. Legal action will only be taken in serious circumstances – for example as a last resort where a resident will not agree a plan with their landlord to pay their rent, or where it is needed urgently in cases of domestic abuse or of antisocial behaviour that is putting other residents or communities at risk.

QUESTIONS

Q1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

17. As highlighted by the National Housing Federation, G15, British Property Federation and other stakeholders, we are concerned that any regulatory intervention to amend the existing regime could threaten the current ecosystem which supports the delivery of new affordable homes and the management and maintenance of existing properties.

18. FPRPs have grown exponentially in recent years, almost doubling their housing stock every year since 2015[5]. The FPRP model has also attracted significant institutional investment in affordable housing. Savills estimate FPRPs, including Sage, will commit £27 billion towards the delivery of new affordable homes in the UK by 2027 – enough to fund 140,000 homes[6].

19. FPRPs have become an essential component of the UK's much-needed housing sector diversity, especially at Affordable Rent and Shared Ownership levels. FPRPs have already enabled thousands of people to step onto the property ladder, helping tackle council waiting lists.

20. The attractiveness of FPRPs for investors also provides a vital source of liquidity to the sector, in turn helping fund property developments and other industry costs, such as building safety and cladding remediation work.

---

[5] https://pdf.euro.savills.co.uk/uk/spotlight-on/spotlight---private-capital-in-affordable-housing.pdf
[6] https://pdf.euro.savills.co.uk/uk/spotlight-on/spotlight---equity-investment-in-affordable-housing.pdf

21. The success of the FPRP model in aligning the aims and incentives of investors with societal benefits of providing new affordable housing has been predicated – above all else – by its ability to generate a secure, long-term, inflation-linked income stream for investors.

22. However, as stated in DLUHC's impact analysis accompanying this consultation, the primary financial beneficiaries of a temporary rent cap are not tenants, and such an intervention also fails to deliver targeted additional support for the most vulnerable households.

23. As highlighted by sector representatives, there are concerns that any temporary benefit via a rent ceiling would be undermined by more permanent damage to the affordable housing ecosystem and institutional investor appetite.

24. The attractiveness of the sector to investors has underpinned its recent growth. Limiting this will negatively impact the delivery of new affordable homes and the management of existing properties.

25. As recognised by the British Property Federation, inflation also affects all Registered Providers' operating costs, including increased contractor, supplier and construction fees, some service areas (especially utility costs), and labour costs – combining to drive costs at a rate that is typically higher than CPI for many Registered Providers. DLUHC's impact analysis accompanying this consultation does not take into account any of these cost rises.

26. According to Barclays, under DLUHC's central 5%, 12-month cap proposal, Private Registered Providers will lose an estimated £4.9 billion over the next five years, with the annual loss in rent likely to be c.4% of total turnover in FY21 and 17% of operating surplus for the largest providers.

27. As highlighted in DLUHC's proposed direction, imposing a ceiling on rent increases would leave Registered Providers with less money to invest in providing new social housing, and to improve the quality and energy performance of their existing homes, as well as providing services to tenants.

28. Sage is committed to providing high-quality, affordable homes to those that need them most – that won't change. However, pressure on operating margins could also threaten investor confidence in Registered Providers, including FPRPs – particularly as the underlying attraction of investments being index-linked no longer applies and there are no assurances beyond 2025.

29. Within the context of wider market volatility in the UK economy, we are concerned that such an intervention could also have detrimental wider consequences on liquidity and financing within the sector, as investors reassess the creditworthiness of the sector and the risk profile compared to other residential asset classes and other property sectors, including internationally.

30. In turn, an intervention to cap rent increases below the current CPI+1% framework may undermine any potential financial savings for Government via lower welfare expenditure, should the sector require Government support in a more stressed environment created by a temporary cap.

31. We therefore strongly agree that investor confidence and support for the affordable housing sector depends on the availability of a stable and predictable policy environment – which could be threatened by any temporary regulatory intervention.

32. Instead, we would welcome the opportunity to work with DLUHC, industry representatives and other stakeholders to consider meaningful alternative interventions to support tenants through rising costs, whilst ensuring the stability of the affordable housing ecosystem.

33. For example, Sage would support further engagement with DLUHC and industry representatives to agree voluntary, sector-wide agreements that provide temporary support for customers in meeting their rent payments, alongside providing security to tenants. As previously highlighted, we have been in close conversation with sector representatives, including the National Housing Federation, G15 and British Property Federation and strongly welcome further collaboration to reach an industry-led solution.

34. We believe a voluntary, sector-wide agreement on temporary support would provide the best way of ensuring support for tenants during this difficult period, whilst also not risking disruption to wider affordable housing delivery , which ultimately benefits lower-income households, Government and society over the long-term.

Q2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

35. We do not agree. For the reasons set out above, we strongly agree with the view set out by sector representatives and other stakeholders that any intervention to amend the existing regulatory regime to create a temporary ceiling below the current CPI+1% level threatens investor confidence by intervening in the stable and predictable regulatory environment required to invest in affordable housing at scale, limiting Government's ability to deliver new social homes. In addition, as per DLUHC's cost-benefit analysis, the primary financial beneficiaries of a temporary rent cap are not tenants, and such an intervention also fails to deliver targeted additional support for the most vulnerable households.

36. Instead, we would welcome engagement with Government to find an industry-led agreement that guarantees meaningful protection to tenants, whilst also better balancing the concerns and needs of the sector.

Q3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

37. At this stage, we believe the sector and Government's priority should be focused on an industry-led temporary agreement to support tenants over FY24.

38. According to the Bank of England's latest Monetary Policy Committee baseline projections, CPI inflation is expected to fall sharply to the 2% target in two years' time[7].

[7] https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022

39. We therefore do not believe making forward-looking interventions for FY25 would be sensible at this stage, due to the uncertain medium-term inflation outlook and the potential disruption such intervention could cause for the affordable housing ecosystem.

40. Relatedly, to support longer-term certainty based on predictable and stable regulation, we would welcome a commitment to bring forward a further consultation on a new rent settlement to be agreed post-2025, with a commitment to CPI+1% to assist recovery, to re-build capacity for future investment in new and existing affordable homes, and to support continued investor confidence to participate in the affordable housing sector.

Q4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

41. To ensure support is focused on protecting existing tenants, we agree with Government's proposal that the method of calculating the maximum initial rent for Affordable Rent homes should remain unchanged, as proposed by this consultation. This will also protect resources for investment in the development of new homes.

Q5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

42. We do not agree in creating exemptions for particular categories of rented social housing. We strongly believe that a sector-wide, industry-led solution to protect the needs of customers through these challenging times should be prioritised and we would welcome further engagement with Government and stakeholders to achieve this.

43. All Registered Providers are regulated by the same regulator and code so all proposals need to be sector wide and fair for all.

Social Housing Rents Consultation – October 2022

Rushmoor Borough Council Response:

Contact: [redacted]

Email: [redacted]

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Yes, a rent celling should be applied to social sector rents. In Rushmoor, a non- stock holding authority, we appreciate that this year's 4% increase has been challenging for tenants alongside the other household inflationary pressures faced in the cost of food, fuel and transport. Based on the current formula and predicted increase in inflation rents rises will be 11.1% (Inside Housing September 2022). Without government intervention, it is likely that Registered Providers will be looking to maximise rental increases to recover costs from the current financial year.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Yes, a ceiling of 5% is appropriate. Despite the added burden any increase places on tenants Registered Providers need to be able to ensure that they can resource their services, maintain safety standards and retain staff with the right skill sets in the context of national inflationary pressure. Government should assess the impact of this and ensure that Registered Providers receive appropriate support to maintain their delivery, fire safety and thermal insulation programmes of work.

Inflationary increases to Universal Credit will absorb some of the increase for households, however there must be recognition of the draw on the public purse caused by steep rent increases. Furthermore, the social impact of holding or pushing households into benefit dependency as well as the disadvantage to hard working households, not in receipt of state benefits, many of whom are increasingly reliant on the charitable support for food, clothing, toiletries, and school equipment, must not be underestimated.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

A two-year ceiling would give tenants medium-term certainty on their rent increase so they can budget reducing associated stress which uncertainty generates. It is appreciated that Registered Providers may find this a challenge for their business model, Government could encourage them to work collaboratively within their sector and with their contractors to maintain services, standards, skills sets and the overall viability of their organisation.

Viability exemptions should take into consideration that this is a short term rather than a permanent situation. Registered Providers work on long term business modelling, therefore a longer-term policy would enable them to plan with confidence and work through offsetting short term losses.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

The existing formula works well to establish initial rent levels however, not applying the rent increase restrictions to re- lets may result in a situation where some tenants pay higher rents than their neighbours living in the same sized home and which we know, though the introduction of affordable rent on re lets, does cause tension within neighbourhoods.

Whilst we recognise the short term need to take action, rent policy, since the ending of moves to achieve convergence, is inconsistent and we would encourage government to undertake a comprehensive review.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Agreed. This is not a permanent policy; in this instance a uniform approach will reduce uncertainty, administration, and the burden of auditing exemptions.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Royal Borough of Greenwich
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Woolwich Centre, 35 Wellington Street, London SE18 6HQ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☑Maybe

Comment:

Like other local authorities, the Royal Borough would likely make decisions reflecting a variety of local circumstances, such as current rental levels and their affordability, revenue requirements to support service delivery, and the availability of hardship support for tenants. It is unlikely that any London local authority would implement the maximum possible rent increase that currently looks possible under the CPI+1 approach in full (up to around 14%) based on affordability grounds.

This consultation comes at a time when significant financial pressures are already bearing down on our HRA. Primarily these pressures have been driven by the previous policy to reduce social housing rents by 1% for four years from 2016/17 but have also been compounded by the impacts of the COVID-19 pandemic, rising inflation impacting on our HRA cost-base and increasing demands on funding (such as building safety, investment requirements to maintain an aging housing stock and low carbon retrofit objectives).

Our analysis shows that our HRA rental income was only expected to return to 2015/16 level this financial year (2022/23), while in 2021/22 we estimated that rental income would be £19.8 million lower than it would have been if the CPI+1% policy had remained in place from 2016. Because rents have been uprating from a lower base than anticipated since 2016 this gap continues to grow into the future, with HRA income forecast to be more than £29.7 million lower in 2024/25 than previously expected and a total impact of more than £148.5 million in lost revenue income over the period 2015/16 to 2024/25.

The COVID-19 pandemic further eroded HRA resources. While the data is incomplete, these impacts have in part caused a reduction in our HRA reserves from around £12.0 million in 2016/17 to a budgeted £9.5 million in 2021/22. The financial impact of COVID-19 on council HRAs was never recognised by central government in the form of financial relief, unlike for the local authority general fund.

Further to the four-year rent reduction, implementing a rent ceiling in 2023/24 represents another occasion where central government has intervened in local rent decisions. Not only does this run counter to the principles set out at the time of self-financing (i.e., local decision making) but it is also a consequential intervention that impacts on the essential deliverability of our HRA business plan. In implementing rent rises below the CPI+1% formula it is therefore a necessity for central government support for the HRA to help maintain essential services and strategic priorities. The Department for Levelling Up, Housing and Communities (DLUHC) could consider bringing forward the following options to support local authorities and mitigate the impacts of the rent ceiling:

- <u>Greater flexibility around the use of Right to Buy receipts:</u> There is currently a substantial need for additional funding to support HRA activities, which would be exacerbated by the introduction of a rent ceiling. To support us to achieve adequate service levels we should be granted additional short-term flexibilities regarding how this money is spent and within what timeframes, including enabling us to spend this money on the wider set of HRA activities.

- <u>Rent catch-up/ flexibility:</u> We should be enabled to implement a catch-up period so that following the rent ceiling period rents can gradually rise to the position they would have been under CPI+1% position. This would enable us to recover some of the funding needed for investment in essential services while protecting tenants from significant short-term annual increases in rent.

    - Based on our analysis, allowing a five or ten-year catch-up period on a 5% rent ceiling would mean our council housing rents rising from £95.42 a week in

London in 2022/23 (£405 a month) to around £127.58 a week by 2029/30 (£542 a month) and £138.10 by 2033/34 (£587 a month). In contrast, data from the Office for National Statistics showed median private rented sector rents in Greenwich currently stand at £1,375 a month (already over double the amount our council rents would be by 2033/34 if allowed to catch up to formula rent).[1]

- Temporary revenue support: Government could provide us with short-term HRA revenue relief (for at least two-years) to support us in keeping rents below the CPI+1% formula. If applied to all costs in the context of a two-year rent cap with catch up to CPI+1%, temporary revenue subsidy requirement estimated at a minimum of £8m;[2]

- Capital grant support: While it may not directly establish a long-term solution to the underlying financial challenge in the HRA caused by the rent ceiling (i.e., the disconnection between rents and the HRA cost base caused by holding rates at below inflation), capital funding to support works such as fire and building safety, energy efficiency[3] and Decent Homes would reduce pressures within our HRA. At the time of the self-financing agreement many of these types of capital investment, particularly large-scale building safety works, were not forecast to require significant HRA investment.

- Public Works Loan Board (PWLB) borrowing rates: Government could consider reducing PWLB rates for long-term debt, which have increased to 4.5%-4.7%. A temporary write-down of rates to reduce the revenue burden of investments in building safety and new build would maintain incentives for investment at a time when revenue budgets are under pressure, with many HRA schemes predicated on a maximum interest rate of 3% for viability.

- Allow catch up over a period: Government could also make provision for us to raise rents back up to the CPI+1% position over a particular time frame following the conclusion of the cap. Our analysis of the likely financial implications of a cap, followed by a catch-up period, are presented under the next question below.

- Expand Discretionary Housing Payment (DHP) allocations: In response to rising inflation we are looking at enhancing our current financial support offerings to support residents impacted. A key driver of inflation is the rising cost of energy, and even after government intervention to limit average household energy bills to £2,500 next year, this level of spending is equivalent to about 40% of the average amount that tenants will spend on council rents. Government should support this work through increasing DHP allocations for 2023/24 (which

---

[1] 'Private rental market summary statistics in England: April 2021 to March 2022', Office for National Statistics, 22 June 2022

[2] Based on a cap of 5% for two-years followed by a period of rents 'catching up' to where they would have been under the CPI+1% approach over a five-year period.

[3] London local authorities have agreed to achieve an average EPC B rating across all London properties by 2030, while they will also need to deliver on the requirements of any revised Decent Homes Standard.

we saw reduced by approximately £270k this year) and introduce specific criteria and proportionate additional funding to reflect the increasing challenges that social tenants are experiencing.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☑No
☐Maybe

Comment:

Of the options presented we strongly prefer a 7% cap in order to provide us with greater local flexibility to balance the needs of our tenants and the investment required in our housing stock. A cap of 7% ensures that this rent cap proposal doesn't impose significant revenue implications, which would result in the HRA needing to identify immediate savings of c£3m and allows for future investment.

Our analysis estimates the following financial implications of each of the cap scenario (3%, 5% and 7%) presented in the consultation document. This analysis assumed that the cap is in place for two-years:

- 3% cap: £18.17m financial impact over a two-year period, £33.01m impact over five-years, and a £189.5m impact over a 30-year business plan period.
- 5% cap: £15.5m over two-years, £2.83m impact over five-years, and £82.15m over 30-years.
- 7% cap: £7.8m over two-years, positive £1.5m impact over five-years, and a positive £103.69m impact over a 30-year period.

This represents an unsustainable loss of revenues, on top of previous policies that undermined our HRA income base. The government's preferred option of a 5% rent ceiling implies losses of 5.5% of all operating costs (including major repairs), or 1.4% of management and maintenance costs, in the first 2 years. The 30-year impact of a 5% rent cap is equivalent to £82.15m.

Case study evidence from London local authorities has highlight the following likely implications of introducing a rent ceiling without further support from central government. These highlight some of the financial challenges facing councils, and also areas where the services tenants receive (including new build development) would likely come under pressure.

We are a growth led borough and a vital part of this is the provision of more and better council homes. With a backlog of Decent Homes requirement and an aging stock profile, stock investment is central to our programme to deliver quality, decent homes as well as our 750-home new build programme. This, alongside the ambition to deliver our commitment to our Carbon Neutral Plan means our business plan must support significant capital investment. To deliver on our existing capital programme and revenue services a rent increase of 8% would be required in 2023/24 and a ceiling on rent increases (either mandatory or voluntary) will result in a funding gap. Based on the current business plan, if revenue services were to continue to increase by estimated CPI and rent increases were capped at 5%, the net impact would be a £82.15m loss over the 30-year business plan from our original baseline plan assumptions. The loss of revenue would impact the ability to deliver the capital programme as c.£223m are supported by revenue contributions over the 30-year period. The HRA's capacity over the medium-term to invest in capital projects would not be enough to deliver all the proposed projects in the pipeline whilst also investing in the existing stock to the full requirement.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

We are concerned by the potential for inflationary pressures to remain high, with Bank of England forecasts suggesting inflation will remain in the range of 10% throughout 2023,[4] exacerbating the financial difficulties faced by low and middle-income tenants. Our primary concerns are that appropriate cost-of-living support is in place for tenants (including by ensuring accommodation remains affordable) and that our HRA is sufficiently resourced to deliver basic services.

At this stage we believe it is more important to agree the principles for support that would be made available to social housing providers to help maintain service investment while a rent ceiling is in place. This package of support could then be repeated if the rent ceiling is extended for a further year into 2024/25.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑Yes
☐No
☐Maybe

[4] 'Monetary Policy Report', Bank of England, August 2022

Comment:

We agree that new lets and re-lets should not be subject to the cap, and that the formula rent policy should apply to these properties. We would also highlight that our council rents are currently the lowest across all local authorities, averaging £95.42 per week (2022/23) compared with the London average of £108.20[5] (2020/21).

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☑Yes
☐No
☐Maybe

Comment:

We would agree that other forms of rented housing, such as specialist and supported housing, should not be subject to the cap. There has been a persistent shortage of specialist and supported housing, with viability challenges and other barriers discouraging the social housing sector to bring forward new supply and a longer-term trend of decommissioning. We fear that adding restrictions on such sites would further reduce the viability of projects and reduce the incentive to develop new schemes. It is vitally important that the financial assistance is always available to cover the full costs of such schemes, including through the benefits system and social care budgets.

[5] 'Live tables on rents, lettings and tenancies', Department of Levelling Up, Housing & Communities, 23 June 2022

From:	[redacted]
[redacted]	Social Housing Rents
Subject:	Social housing rents consultation - response from RB Greenwich
Date:	11 October 2022 08:35:22
Attachments:	Rents for social housing response template [RB Greenwich].docx

You don't often get email from [redacted]. Learn why this is important

Good morning,

The Royal Borough of Greenwich is a stock-owing local authority with some 20,000 social rented homes in ownership and management, and we are pleased to have the opportunity to respond to this consultation – our full response is attached to this email.

This comes at a critical time for residents and local authority landlords, as UK inflation now stands at more than five times the 2% target set by the government for the Bank of England (BoE). The BoE recently forecast that inflation will peak at around 13% by the end of this year and will continue at "elevated levels" through 2023. Given the scale of this situation it is vital that we do all we can to mitigate the impact on our most vulnerable residents.

This consultation comes at a time when Housing Revenue Account (HRA) finances have already been undermined by previous policy decisions related to the 1% rent cut from 2016/17-2019/20, the financial implications of the COVID-19 pandemic, as well as the difficulties created by high inflation within our cost base. The funding position facing our HRA, and the possible implications of a rent ceiling, will therefore make it challenging for us to maintain even adequate management standards and capital investment (for example, in building safety and home retrofit). At the time of the self-financing agreement the rent restrictions imposed by central government in 4 of the last 7 years and many of these types of capital investment, particularly large-scale building safety works, were not forecast and have resulted in a material impact on the HRA settlement and the authority's revenue base.

Without any mitigating support from government, the options presented in the consultation will have significant financial implications for the Royal Borough. The figures below show the estimated financial impact of each option based on an assumption that the rent ceiling is in place for two years:

- <u>3% cap:</u> £18.17m financial impact over a two-year period, £33.01m impact over five-years, and a £189.5m impact over a 30-year business plan period.
- <u>5% cap:</u> £15.51m over two-years, £2.83m impact over five-years, and £82.15m over 30-years.
- <u>7% cap:</u> £7.8m over two-years, positive £1.5m impact over five-years, and a positive £103.69m impact over a 30-year period.

This represents an unsustainable loss of revenues, on top of previous policies that undermined our HRA income base. The government's preferred option of a 5% rent ceiling implies losses of 5.5% of all operating costs (including major repairs), or 1.4% of management and maintenance costs, in the first 2 years. The 30-year impact of a 5% rent cap is equivalent to £82.15m.

We are concerned that the government's proposed approach as set out in the consultation does not sufficiently consider HRA business plan viability, and without additional government support it will be challenging for us to deliver appropriate basic services and ensure tenants' safety in their homes.

In summary, our consultation response makes the following key points:

- Of the options consulted on, the 7% rent ceiling is the only option that allows local flexibility to balance cost pressures on tenants while ensuring basic safety.

- The implementation of a 3% or 5% ceiling will have significant implications our ability to deliver our basic housing management responsibilities, as well as strategic investment priorities (including decarbonisation and building safety), and will require us to reduce revenue spend of between £4m and £9m per year.
- The proposed intervention, following the previous 1% rent reduction policy undermines the principles of local sovereignty that underpinned the self-financing model, and support is needed to help address the funding gap caused by this intervention.
- We agree that new and re-let properties should be exempt from the rent ceiling, which would help to mitigate some of the financial impact of the policy.
- Specialist and supported housing should also be exempt – and the rental costs covered through welfare and health budgets –to avoid further disincentivising this type of much needed development.

Our overriding aim is to support our tenants through this cost-of-living crisis, helping them sustain their tenancies and ensure we are able to maintain their homes adequately. Without support to mitigate the financial implications of a rent ceiling, tenants are likely to experience less responsive repairs, deep cuts to management services (impacting councils' ability to deliver on new regulatory requirements), and a lack of investment in buildings (including building safety and energy efficiency).

Kind regards,

[redacted]

www.royalgreenwich.gov.uk

-- This message is for the named person's use only. It may contain confidential, proprietary or legally privileged information. No confidentiality or privilege is waived or lost by any mistransmission. If you receive this message in error, please immediately delete it and all copies of it from your system, destroy any hard copies of it and notify the sender. You must not, directly or indirectly, use, disclose, distribute, print, or copy any part of this message if you are not the intended recipient. Royal Borough of Greenwich reserves the right to monitor all e-mail communications through its networks, in accordance with legislation. Royal Borough of Greenwich has scanned this e-mail for viruses but does not accept any responsibility once this e-mail has been transmitted. You should scan attachments (if any) for viruses. Royal Borough of Greenwich can be contacted by telephone on +44 (0) 20 8854 8888 -----
----

From: [redacted]
To: Social Housing Rents
Subject: Social Housing Rents Consultation Response
Date: 11 October 2022 09:24:32

You don't often get email from [redacted] why this is important

Social Housing Rents Consultation
Royal Borough of Kingston upon Thames response

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?

No. We believe that no specific ceiling should be applied in addition to the existing CPI+1% limit.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We would be likely to increase rents by CPI + 1% as presently allowed. However, the extent of increase would be dependent upon the specific circumstances of each provider, and we believe every effort would be made by Registered Providers to limit rent increases.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling?

No, we do not agree with the imposition of a ceiling, in addition to the existing CPI+ 1 ceiling. If a ceiling is imposed, the least disruptive to the council's business plan would be the 7% option.

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

The Government's own analysis indicates that a 5% cap would result in the loss of income to the social housing sector amounting to £7.4bn over the five year period 2023/24 to 2027/28. This could have a devastating impact on services to residents and stock investment. It would also significantly undermine the sector's ability to achieve the Government's policy objectives in relation to home energy efficiency and net zero carbon. It would also impact upon new affordable housing supply and the ability of providers to address building safety and compliance issues risking a potential repeat of the Grenfell fire. The cap may even jeopardise the viability of some providers. Given this, we would strongly advocate that any funding gap created as a result of a rent increase cap should be mitigated via Government grant, in the form of one off grants paid to HRAs as revenue support grants to cover spikes in inflation. There are precedents with Covid grants paid to support increases in costs or loss of income. This could apply in particular to utility costs as these might ordinarily have to be passed onto tenants and leaseholders.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Whilst we do not agree that the ceiling should be applied at all, if it is, applying it for 2 years would have an even more devastating impact on services, stock investment plans and the Government's net zero carbon agenda.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes exceptions should be applied to supported housing, including housing for older persons as the impact on services to these categories of rented social housing is likely to be greater, giving the more intensive housing services required by those who occupy the category of social housing.

Please note: I work flexibly and may email outside normal working hours, I do not expect a response outside your office hours, or a non working day or at the weekend.

[redacted]
Royal Borough of Kingston upon Thames
Guildhall | Kingston upon Thames | Surrey | KT1 1EU
[redacted]
Web: kingston.gov.uk

Disclaimers apply, for full details see : (https://www.kingston.gov.uk/email-disclaimer)

From:	[redacted]
To:	Social Housing Rents
Subject:	Social rents and shared ownership
Date:	31 August 2022 09:44:38

Good morning,

I am reading the consultation on a rent cap and would ask that this includes the rent element of Shared Ownership. My wife and I work just enough to not qualify for many of the cost of living help options however our rent rises just like anyone else's.

While shared ownership is a great option for helping people like us get a property, the rent elements are uncapped, always rise year on year and are affected by inflation. I would hope, given the government's push for people to buy with the various schemes, that protecting people who's income is being stretched to the limits but who don't receive any other support, will be considered.

Kind regards,
[redacted]

Get Outlook for Android

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Raven Housing Trust
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	29 Linkfield Lane, Redhill, Surrey, RH1 1SS
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X ☐No
☐Maybe

Comment:

Registered Providers (RP's) are already dealing with a significant loss as a result of 4 years of rent reduction, which replaced an agreed rent settlement at short notice. Taking similar action a second time during a period of significant cost rises will have an impact on the sector and its investment in people's homes.

Changing away from an agreed rent settlement a second time will undermine trust and confidence needed by RP's and investors to make long term investment plans to improve existing homes and provide new affordable homes.

Registered providers are independent bodies, with independent Boards. They are regulated to ensure the best balance between affordability, investment, meeting lender requirements and customer need. Existing regulatory requirements ensure customers are consulted and the impact of rent increases on customers is considered.

RP's started early conversations with Boards and customers this year to consider affordability, investment, and cost increases to prepare proposals for rent increases prior to this consultation being announced. Registered Providers would be likely to impose lower rent increases than CPI+1% if a ceiling were not imposed, but actual increases may vary based on organisations specific financial positions, real costs of providing services and dealing with inflating costs.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

X ☐No

☐Maybe

Comment:

If a ceiling were to be imposed, a higher maximum than 5% would support flexibility where needed. Many organisations already have a deficit in service charge collection caused by costs increasing above the rate of last year's rent increase. Imposing a ceiling considerably below CPI will further impact the ability for organisations to recover these costs in any reasonable timeframe. This will also impact on future investment in existing and new homes.

The options set out in annex D underplay the loss of income as they only project this over 5 years. RP business plans project over 30 years increasing understanding that the full impact is more significant unless there is a future mechanism to recover lost income to offset increased costs in future years.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X ☐**Yes**, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No

☐Maybe

Comment:

If a ceiling is imposed, applying this to only 1 year would be preferable. A 1 year impact will be easier to recover from as RP's re-frame their business and asset management plans. A 2 year impact is more likely to cause concern for lenders and place more RP's at risk of serious financial concerns, or further limiting investment in new and existing homes.

When projected over the 30 year lifespan of an RP business plan, the loss of income is more significant than the 5 year prediction in annex D unless there is a mechanism in a new rent settlement to recover this in future.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
X ☐**Maybe**

Comment:
If a maximum is imposed, RP's would benefit from as much flexibility as possible regarding new schemes/1st lets to ensure schemes remain viable, , excluding them from the ceiling would support this. But it carries a risk that customers with high housing needs, low incomes, and fewer choices about where they live could end up paying the highest rents, with more households likely to hit benefit caps.

Rent settlements and setting mechanisms have varied considerably over the years, we are already operating a complex system where people can pay very different rents for the same property, depending on when they moved in and the rules that applied then. Rent convergence was not completed and the introduction of affordable rents has increased the disparity between rents for similar homes.

Excluding relets from the ceiling would enable landlords to increase income for around 10% of homes but increases the disparity between rents for the same properties.

It is also arguable that households at the top of housing registers and in greatest need of social housing are likely to be those on very low incomes with other housing options unaffordable. They are also likely to have fewer choices about where they live.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X ☐**Yes**
☐No
☐Maybe

Comment:
Supported housing and temporary accommodation attract higher costs due to higher risk buildings with additional facilities and health and safety risks, alongside customers with higher support needs.

Organisations with a high exposure to this type of service and accommodation will find increased costs harder to manage if they are not excluded, putting support and services for customers at risk.

Overall comments:

Housing Association Boards should determine rents:

- Registered Providers are regulated and organisations know and understand their local needs and costs
- Boards already consider how to balance customer affordability with costs, lender requirements and future investment
- Evidence from sector wide consultation (NHF/Placeshapers) indicates most housing associations would increase rents by significantly less than CPI +1%, (most between 5% and 9%), alongside investing in targeted customer support.
- Alongside rent increases, RP’s put measures in place to support tenancy sustainability and affordability for customers, for example benefit and budgeting advice, customer support funds, support accessing grants and reducing utility costs.
- National rent caps do not take into account regional differences for instance higher costs in London and the South East, or particular financial pressures delivering supported housing and temporary accommodation
- Past rent regimes are complicated leaving customers paying very different rents for similar properties, RP’s are better placed to understand the impact of this on their customers and seek to apply policies that reduce disparity

Investment in new and existing homes:

- A low cap on rents while inflation is high will negatively impact on the services customers receive and investment in new homes
- RP’s will have to make difficult decisions reducing investment that would improve energy efficiency and costs for customers as well as meeting sustainability targets
- Even a 1-2 year slow down in developing new homes will have a significant impact on meeting housing demand that already outstrips supply. Almost 200,000 children are homeless or in temporary accommodation.

Financial viability:

- Lending agreements, covenants and financial metrics have been designed based on the existing rent settlement, short notice changes risk undermining lender confidence in the sector and will increase borrowing costs as well as increase risk profiles
- Supported and temporary accommodation services would be very challenging to provide if included within a cap, risking schemes and support closing, leaving vulnerable people at high risk in unsupported accommodation, often in expensive B&B or private rented homes.

Mitigating the impact:

- If a cap is applied, 7% would be the minimum level at which providers could meet rising cost obligations, but some organisations would be able to set rents lower than this.
- A lower rent cap would reduce RP’s ability to provide support services for customers, such as customer support funds and tenancy sustainability.
- If a cap is imposed, impacts would be mitigated if this were for 1 year only.
- If a cap below 7% is imposed, the government should also consider offering grants to RP’s to support investment in homes and services for residents
- If a cap below 7% is imposed, RP’s would like to see a commitment to re-introducing a rent convergence – or a catch up mechanism to recover income and give confidence to commit to future investment.

[redacted]

From: [redacted]>
Sent: 27 September 2022 02:45
To: Social Housing Rents
Subject: Hi housing costs costs of living crisis. Pathetic Conservative government

You don't often get email from [redacted]. [redacted]

Hi there so I live in social housing like so many millions in the UK.. what the government yourselves don't realise is we rely on social housing associations to get a roof over our heads. I work , I do full time hours where I can on a part time job to help live. I have universal credit to help me where I need it but so many don't get the help. And where this joke of a government under now Liz truss there's no handout talk going forward leaving us all on a path to stupid politics and no help for people like me trying to make it day by day. We need things capped, housing for one. The fact we are debating it is a joke and tells me that corporate companies don't give a crap about anyone else just themselves and thier deep pockets.. scandalous. Hope you take this very seriously for the millions like me although I do doubt it very much. We need a labour government and now. Conservatives are a waste of space.

[redacted]

From: [redacted]>
Sent: 21 September 2022 13:25
To: Social Housing Rents
Subject: Social Housing Rents Consultation (Case Ref: ZA46789)

You don't often get email from [redacted] Learn why this is important

To Whom It May Concern

I am responding on behalf of my constituents who are concerned about the current risk to social housing and shared ownership tenants posed by rent rises.

This consultation discusses capping social rents between 3 and 7%. But my constituents fee that many social housing tenants, already struggling with the cost-of-living crisis, cannot afford any rise. They highlight that the consultation also omits mention of service charges or shared ownership rents, which many tenants are concerned could rise significantly to match the losses providers will incur from a reduction in rents.

My constituents highlight that social rent arrears are already spiraling. I understand that housing association rent arrears are already at £704m, up over £200m in two years. My constituents fear that even a 3% rise on current rent levels, coupled with the cost of living crisis, will mean many tenants are simply unable to pay. Meanwhile, for those tenants whose rent is met by social security, my constituents highlight the government will be paying out billions.

At the same time, my constituents highlight that even a 7% rise in rents will mean real-terms cuts for councils and social housing providers who are already struggling to maintain properties, keep up with new regulations, and build the social homes this country desperately needs.

My constituents support the Homes For Us campaign, led by the New Economics Foundation, which is calling for rents and service charges for social tenants and shared ownership tenants to be frozen, and for subsequent government savings, resulting from lower housing benefit bills, to be reinvested back into the sector and focused on repairs, retrofitting and building new supply.

I share my constituents' concerns on this matter and think their suggestions are a sensible way for the Government to proceed on this issue.

Yours sincerely,

[redacted]

[redacted]

[redacted]

DLUHC Social Housing Rents Consultation-PHG Response

11th October 2022

Contents

1 Introduction

1.1 Background to response

1.1.1 Thank you for the opportunity to respond to your Social Housing Rents Consultation dated 31st August 2022. In this introductory section we set out some background to our organisation and relevant facts to place into context our response.

1.1.2 We then set out our high level executive summary before moving on to answer the specific consultation questions in section 2 in the template format requested.

1.2 Company Profile

1.2.1 Platform Housing Group (PHG) is a not-for-profit social landlord with a proud history of providing quality homes to customers in housing need since 1967. We own and manage over 47,000 affordable homes across the East and West Midlands and surrounding areas, with a portfolio that includes social and affordable rent and shared ownership properties. We play a vital role in tackling the housing crisis in the UK as the largest social landlord in the Midlands, and one of the top 15 nationally. We are also one of the top builders of new affordable homes in the country, completing 1,171 homes during 2021/22. We hold G1 governance and V1 financial viability ratings from the Regulator of Social Housing and an A+ (stable) rating from both Standard & Poors and Fitch Ratings. During 2021/22 PHG has turnover of £297m and invested almost £200m in new and existing homes.

1.2.2 99% of Platform's homes in management are let for a social purpose; rents are on average 63% of private sector levels. A Wellbeing Fund was established as a response to Covid to help those most in need, £1.6m was provided to over 4000 customers in 2021 to help with essential items. A further investment of £150,000 was made in community projects, helping to improve wellbeing, community cohesion and employment skills. We have a dedicated Rent Support Team to help customers better understand welfare benefits, provide budgeting advice and debt specialist referrals: this activity generated £6.8m social value in 2021 (HACT). We have since widened our social value tracking and reporting to include other areas of the business and are on track to deliver £12m social value in 2022.

1.2.3 We had the lowest headline social housing cost per unit of our peers in 2021, at £2,463. This is significantly below the sector median of £3,730[1] and demonstrates our leading position as one of the most efficient landlords in the sector.

1.2.4 Our organisation and the investment it makes into the essential infrastructure of affordable housing in the Midlands supports the supply chain in local areas and contributes to levelling up.

1.2.5 To find out more please visit our website at www.platformhg.com.

1.3 Executive Summary

1.3.1 We can see some benefits of imposing a rent cap on Registered Providers ("RPs") of affordable housing (e.g. simplicity and certainty for customers) and fully understand the cost of living pressures on customers. However, overall we **consider a cap not in the interests of UK Government broader objectives, the affordable housing sector, those housed in it or those in need of affordable housing** for the following reasons:

- A rent ceiling will **damage investment into UK essential infrastructure and harm UK economic growth.**
- It will **hamper the UK's net zero carbon goals and delay energy independence**.
- It will **cut across the UK's levelling up mission**- associations outside the Greater South East have a higher proportion of revenue from Social and Affordable Rent so will be impacted to a greater degree by a ceiling, consequently impacting their investment in those areas to a greater degree.
- Capping the rents of social landlords while providing Government support to energy companies **disadvantages a predominantly charitable and reinvesting sector and their debt investors**.
- Reducing the financial capacity of charitable registered providers will also **dramatically reduce the social value[2] we are able to create** for the good of the communities we serve, local government, the country as a whole and exchequer over the longer term.
- Could **call into question the independence of the social housing sector and its freedom from political intervention**- this could impact both debt costs (higher rates and reduced value for money) and potentially prompt another review by the ONS regarding whether housing associations can be considered private non-financial corporations for the purpose of national accounts and economic statistics[3].
- Individual Boards should be free to decide- A blunt cap **fetters the ability of Boards to manage risk appropriately** by taking decisions that should be made in the specific interest and knowledge of their organisations and its customers out of their hands.
- Platform (and many others in the sector) **were modelling and considering rent increases below the maximum allowed in any case** with the aim of carefully balancing customer affordability, quality of housing provision and financial stability considerations.

---

[1] Value for Money metrics report 2021 Annex to Global accounts (publishing.service.gov.uk) page 31 Headline social housing CPU (£k) column

[2] Currently our social value to investment ratio is 1:37, so for every £1 spent on social value initiatives we generate £37 of social value

[3] ONS reclassified housing debt as public sector in 2015 and reversed this due to regulatory changes in 2017.

- For Platform a 5% ceiling (with no subsequent catch up) would **remove £554m from our 30 year business plan**, **reducing the capacity available for investing in energy efficiency works and new build by at least this amount**.
- **Platform is able to tailor customer support where it is needed most**- we have a dedicated income support team and last year our customer wellbeing fund provided £1.6m to over 4000 customers in need of additional support for essential items.
- **Any ceiling should only be considered within broader context of a medium term rent policy which would allow catch up in future years**- rent convergence and/or flexibility to charge higher than CPI+1% increases in the near future is essential if a ceiling for 23/24 is imposed.
- Other core UK infrastructure sectors are offered protection from cost and income mismatch risk[4], while **a cap on social landlords' rents would exacerbate the risk that housing associations will face cost and income mismatches**.
- **The rationale for the 5% figure is unclear** , any ceiling should at least be linked to some assessment of RP costs, impact on financial strength and assessment of customer impact/affordability
- **Impact assessment is very short term** and doesn't consider the additional costs of homelessness or housing those in need in private rented accommodation instead of newly produced social housing. It also doesn't consider the additional hardship of living in energy inefficient homes for longer if RPs can't afford to do as much energy efficiency work
- **Any revenue removed by a ceiling if no catch up concurrently agreed should be ringfenced for investment in the sector by increasing Grant available by a commensurate amount**.

[4] See for example Ofgem's 'Real Price Effects' which are said to "reduce risk by reflecting material external cost fluctuations in companies' revenue:
RIIO-2 Final Determinations - Core Document (ofgem.gov.uk) page 65

2 Response to Questions (In Response Template)

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Platform Housing Group
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	1700 Solihull Parkway, Birmingham Business Park, Solihull B37 7YD
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation Questions

2.1 Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

☐No

☐Maybe

Comment:

2.1.1 We can see some benefits of introducing a specific ceiling to social housing rent increases, namely simplicity and certainty for customers. However, **overall we consider it not in the interests of the sector or those housed in it** to cap rents for the following reasons.

- Registered Providers are **independent private charities** that do not distribute profits to shareholders, instead reinvesting for the benefit of current and future communities for addressing the housing crisis and improvements to existing housing to meet safety standards and Government's net zero carbon agenda. This investment helps create jobs in the supply chain and drive economic growth across the country. Recent measures announced for **investment zones including for the West Midlands[5] will not be as effective if registered providers have less to invest due to rent caps**.

- By changing the rent settlement mid way through, DLUHC would be **fettering Registered Provider Board's ability to manage risk** specific to their individual organisation.
- **Many RP's (including PHG) were already considering and modelling lower than full CPI+1% rent increases due to customer affordability considerations**. This was being done in the knowledge of each RP's cost base pressures, what their investment plans are and what their targets are for financial strength. A bluntly imposed ceiling removes the ability of organisations to take into account their individual circumstances and manage risk appropriately. The precise level of increase would be decided once more information on cost base pressures was available and a full assessment of the impact on customer affordability could be undertaken (some of which is dependent on other Government decisions). However, PHG were certainly not expecting to increase social rents by double digit percentage points.
- New Government Directions such as this mid way through a rent policy **potentially compromise the independence and effectiveness of the Regulator of Social Housing**.
- As The Rt Hon Sajid Javid said in 2017 following the decision to reclassify housing associations as private sector organisations and remove the sector's debt from Government balance sheet, housing associations should be *"Freed from the shackles of public sector bureaucracy, associations will be able to concentrate on their core, crucial mission – building homes."*
- One of the reasons the regulated utility companies attract lower cost debt despite lower ratings is the market's perceived consistency and independence of the energy regulator in providing a consistent and predictable regulatory regime over long periods of time and relative freedom from political intervention. In addition, the regulated utility companies are offered specific cost inflation protection for labour and materials costs[6]. This significantly protects investors in that sector from cost and income mismatch risk, while a cap on social landlords' rents would exacerbate the risk that housing associations will face cost and income mismatches.
- Individual **registered providers are well placed to tailor customer support** to where it is needed most and create additional social value- for example Platform's income support team help with training, employment and advice and created £6.8m in social value through these services (using HACT social value calculator)
- Provision of additional much needed good quality and stable affordable housing for those in need reduces homelessness, health inequalities and social issues while increasing

5 Announced by Kwasi Kwarteng on 23rd September 2022

6 See for example Ofgem's 'Real Price Effects' which are said to "reduce risk by reflecting material external cost fluctuations in companies' revenue:
[RIIO-2 Final Determinations - Core Document (ofgem.gov.uk)] page 65

educational attainment, employment and contributes to levelling up- reducing our financial capacity for development will **drastically reduce the social value** offered by this provision and increase costs for the exchequer in the medium to long term. As Shelter point out:

> *"Without more social homes, the country won't be able to escape the grip of the housing emergency. More people will become stuck in unaffordable, overcrowded, insecure housing – especially families and older people.*
>
> *Government funding will be spent on helping the growing number of families cover the cost of unaffordable private rents through housing benefit, rather than investing in the bricks and mortar of new homes with guaranteed low rents."*[7]

- If lenders, investors and rating agencies perceive the Direction as political interference this will be likely to **increase the cost of debt for the sector**[8], further reducing the funds available for services to customers, provision of new housing and energy efficiency investment in properties. This is evidenced by recent rating agency comments as follows:
    - *"The UK social housing sector faces potential deterioration in credit quality when the government imposes caps on social rents, , Fitch Ratings says…. **The temporary cap could have a more severe impact on the sector's finances than the previous rent reductions, as the inflation differential will be higher.** The impact of lost revenue will not be confined to the year in which the cap is in place, but will compound over several years……. Fitch applies a **one-notch** uplift to providers' Standalone Credit Profiles to reflect the supportive regulatory environment of social housing in the UK. This factors in an assessment of the government's support of providers' financial stability and viability. **The introduction of a multi-year cap on rents part way through a rent settlement period could affect this assessment**" [FitchWire, Mon 12th Sept 2022].*
    - *"Providers in England are also subject to **negative intervention from the U.K. government in the form of rent-setting constraints or additional spending responsibilities, without adequate additional funding. This weighs on our view of the regulatory framework assessment"***

      S&P Global Research update for Platform Housing Group, January 26th 2022

[7] The story of social housing - Shelter England

[8] Our banks suggested that secondary bond spreads for the sector widened by 0.05% following publication of the Government consultation, suggesting that uncertainty over risk in the sector could lead to £43m additional interest costs per annum (once all existing debt is refinanced and assuming no new debt is raised). This could rise to £130m per annum if a one notch ratings downgrade is assumed.

2.1.2 At Platform we had been modelling different levels of rent increase and considering the impacts on customers of different levels of increase. Significant amounts of scenario testing had been undertaken for different rent levels alongside different cost inflation assumptions to help our Board understand the financial risks of different rent increases alongside our and their natural concern for our existing customers. Although we have not yet landed on a number as more analysis is needed, PHG was not expecting a double digit rent increase, preferring to cut some expenditure where possible while maintaining services and quality of homes for customers as much as possible.

2.1.3 Last year we were conscious that our customers were facing higher rent increases than they had seen in recent times alongside the continuing pressures from Covid so we decided to increase the amount made available for our customer wellbeing fund to £1.75m for 2022/2023. This demonstrates housing association's ability and willingness to consider the specifics of customer affordability, tailored and targeted support for those most in need and risk management (covering not only financial risk but also regulatory, health and safety and customer satisfaction risk).

2.1.4 The consultation doesn't mention whether or not there is any intention to consider a rent ceiling in 23/24 and possibly 24/25 alongside any agreement for rent convergence or catch up in future years. Rent convergence would seem 'fair' given the rationale for the consultation but is not something included in the consultation, which seems remiss and renders the consultation incomplete.

2.2 Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

☐Yes

☐No

☐Maybe

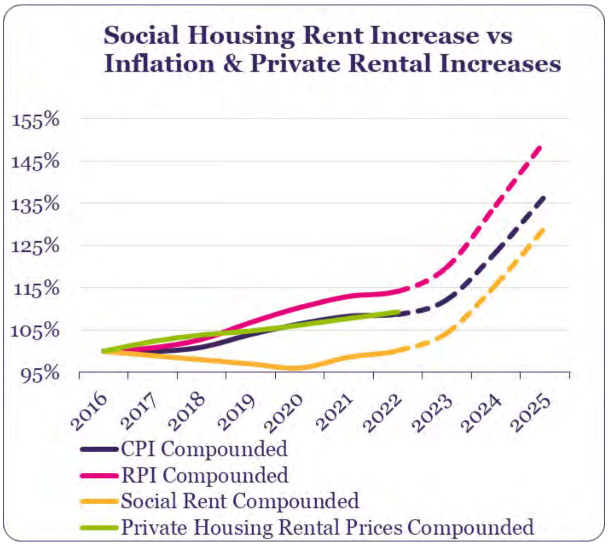
Comment:

2.2.1 We don't agree with imposing a ceiling of 5% for the reasons of principle stated in response to question 1. In addition, for PHG a 5% cap would remove approximately £554m from our 30 year business plan[9], which equates to 2,150 new affordable homes or 57% of our currently forecast decarbonisation energy improvement spend to 2050.

2.2.2 If Platform were to reduce the number of newly provided homes by 2,150 over the period and assuming this provision would have otherwise benefitted a population of which 25% were rough sleepers and 75% coming from temporary accommodation this would lead to a social value reduction of over £24m per annum[10]. If this situation were assumed across the whole RP sector the social value impact would be much larger. In addition, we currently estimate a social value return of over £3k per property when carrying out energy efficiency improvements so any reduction in energy improvement works would also have a significant impact on the social value created.

2.2.3 Without mitigation (which would likely include reduction of spend on development or energy efficiency work) a 5% cap is likely to negatively impact RPs credit ratings. Of course, this will vary by organisation and what mitigation actions are taken but a one notch downgrade across the sector could cost £130m[11] in additional interest costs per annum. This is additional funding that would not be available for reinvestment in provision of housing, energy efficiency works and/or community support.

2.2.4 A 5% ceiling equates to a real-terms cut in rental income and a mismatch between costs and income that could be more severe than the 1% rent cuts imposed in 2016. Social and Affordable Rent customers have faced lower levels of rent increases than cumulative inflation over the last 6 years and lower increases than those in private rented accommodation. An imposed rent ceiling will likely lead to further and continued divergence between private rents and social rents.

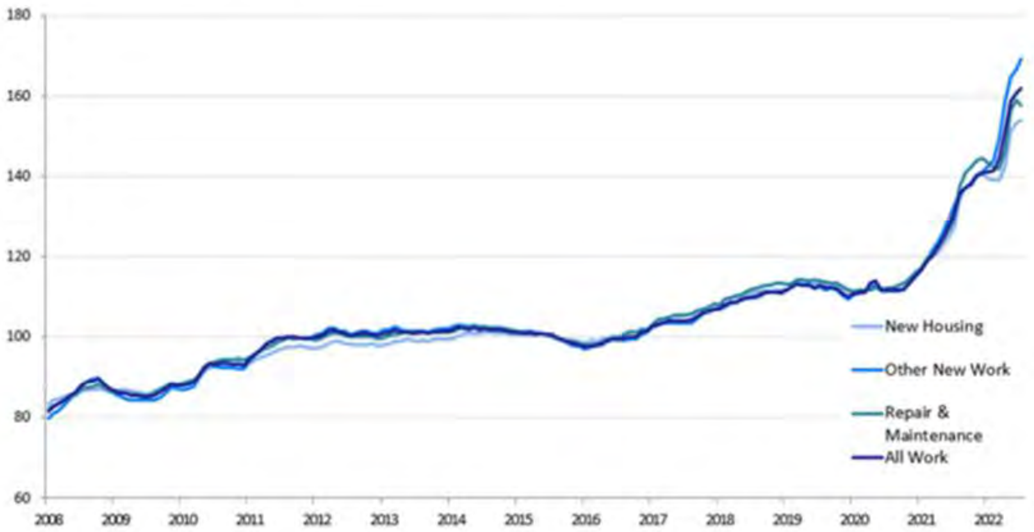


Note: CPI/RPI based on prior year (September) to ensure parity with rent increase

2.2.5 All of the proposed cap levels consulted on but particularly 3% and 5% would likely leave registered providers facing a severe mismatch between their cost inflation and their income inflation, potentially leading them to need to cut back on services provided to customers to maintain financial strength.

2.2.6 BEIS data suggests that construction materials increased by 24.1% July 2021 to July 2022, including repairs and maintenance at 21.9%[12] (see chart below). Information from our procurement team suggest that some of our most commonly bought items such as plasterboard, plastic pipes, paints and boilers have faced even higher increases over recent months and are expected to continue to rise.

Chart 2: Construction Material Price Indices, UK
Index, 2015 = 100



Source: Department for business, energy & industrial strategy (BEIS) – Monthly Statistics of Building Materials and Components

[9] For simplicity compared to a full rent increase and assumed only capped for one year with no catch up in future years.

[10] £24m per annum is the social value lost for 2,150 affordable homes so this figure would build up over the 30yr period to £24m per annum from year 30 onwards.

[11] Based on 15bps additional cost of debt on £86bn debt across the sector, once all sector debt is refinanced at the higher credit spreads.

[12] Source. Department for business, energy & industrial strategy (BEIS) – Monthly Statistics of Building Materials and Components

2.2.7 In addition, quotes for energy for heating communal areas in our housing schemes suggest we could be facing increases of 10x[13] in some cases compared to last year due to the severe increases since energy rates were last fixed. Although for social rent properties these costs could theoretically be passed through, we would of course need to consider customer affordability for this. For Affordable Rent properties that have service charges included in the rent these service cost increases will erode the net rent receivable for this tenure type and exacerbate the negative impact on revenue of a rent cap.

2.2.8 Our analysis would suggest that at least a 7% increase would be required to not have a material impact on services or investment so to the extent any cap is imposed we would favour a 7% or 8% cap. This would allow those associations in a stronger financial position to weigh up the customer affordability and investment considerations and tailor support where it's needed most. Less financially strong associations may still struggle to balance their books but to a lesser extent than if a lower cap were imposed.

2.2.9 Leaving the rent settlement as it is at CPI+1% would allow social landlords to consider the financial impacts and customer impacts for different tenure types and potentially take a more tailored approach to rent increases across different tenure types to take into account different customer group affordability constraints while minimising the potentially negative impact on services and investment that cost and income mismatch could mean.

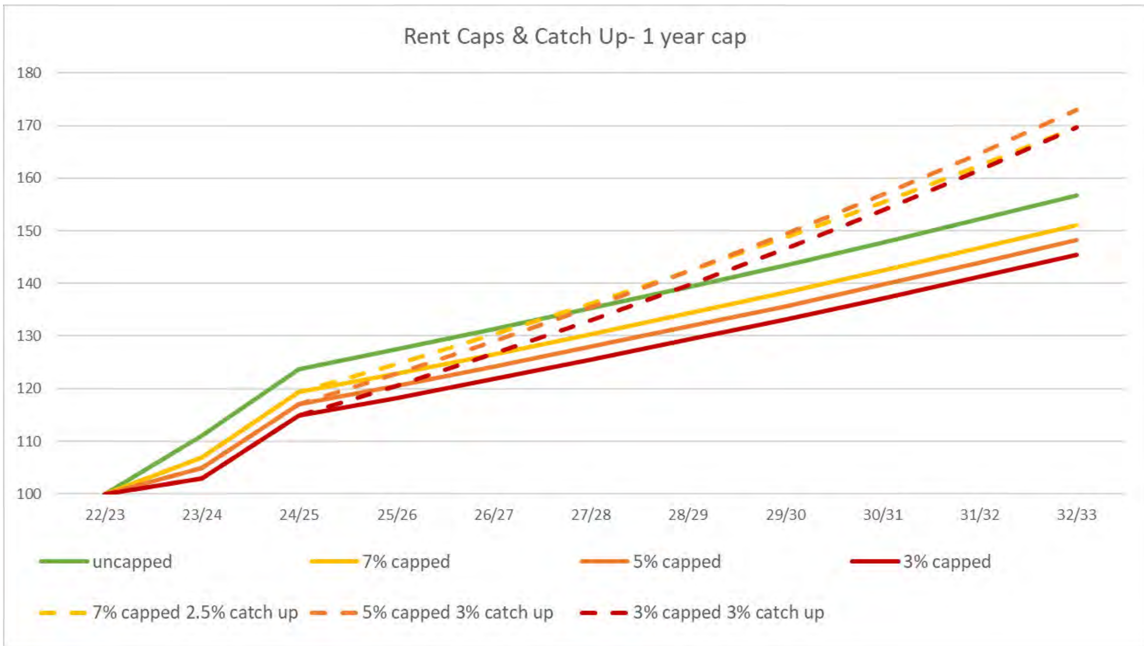
2.3 Potential Mitigations

2.3.1 We are keen to work with DLUHC to consider whether there are ways to achieve the stated aims of the consultation while protecting against the damaging impacts of reduced investment and/or services for customers. To that end we present below some potential mitigations of a rent ceiling that should be considered:

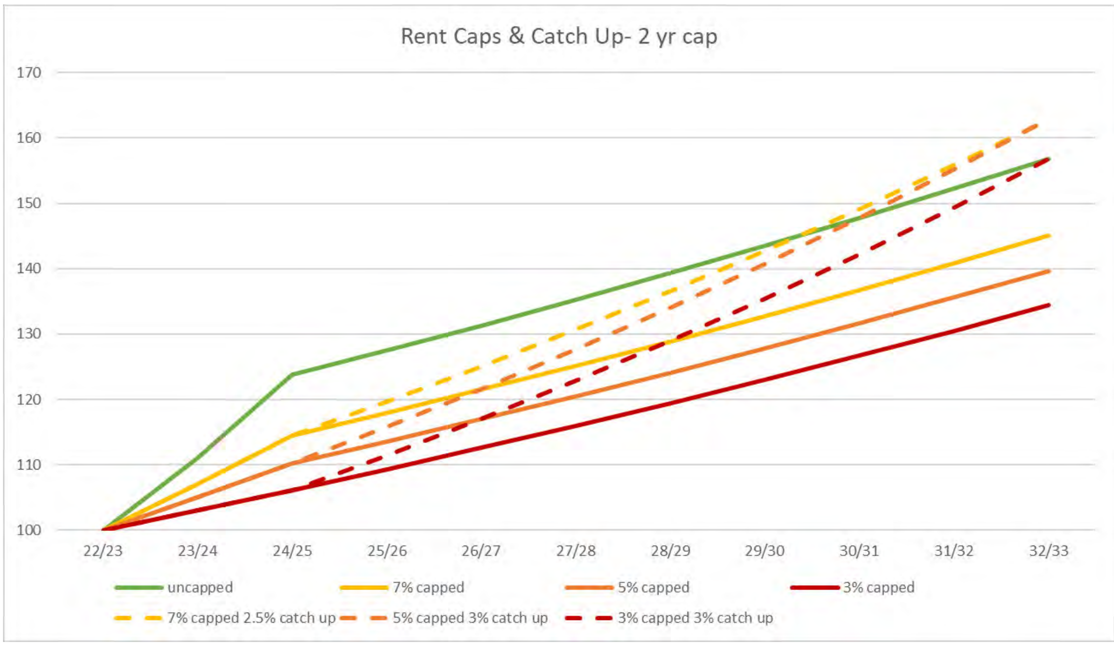
[13] For example, one quote for 12 months from October suggests an increase from £221k paid last year to £2.3 million for the 12 months from October.

Rent convergence

2.3.2 The re-introduction of rent convergence generally would allow social landlords to better standardise rents across their portfolios and across the country but specific more flexible rent convergence would be required following any decision to impose a cap on rents for 23/24 (or both 23/24 and 24/25). The charts below demonstrate that if a rent cap were imposed for 23/24 only but were increased by CPI+1% for 24/25 with 2.5-3% catch up above CPI in future years rents could recover to uncapped levels by 27/28 in the case of 5% or 7% caps and 28/29 for 3% cap. This demonstrates that it would be possible to recover the position within the normal period of a 5 year rent settlement if a 5% or 7% cap were imposed. However, this assumes both Government and housing associations being comfortable with high increases for 24/25 as CPI is currently forecast to remain high for 24/25.



2.3.3 If a two year cap is imposed it would take slightly longer to recover as shown in the chart below. This would require a longer term rent settlement.



2.3.4 However, the ability to catch up somewhat relies on CPI being lower in future years to allow 'space' for catch up without triggering affordability concerns in future years. In addition, given the multiple interventions to date on longer term rent settlements it's difficult to see how Boards and investors could have confidence that Government would not intervene again before catch up was achieved. In which case the damage to investment would have been done by the initial intervention (if decided upon).

Government Grant

2.3.5 Over the years the amount of grant housing associations have received has fallen and the different measures introduced by various Governments were intended to provide revenue certainty so that associations could instead borrow more privately to fund investment. This then reduced Government borrowing requirements by allowing private social landlords to fund more of their investment in new development and existing housing using private debt capital.

2.3.6 With another mid rent settlement intervention (if decided) it seems unlikely Boards or private investors could have confidence in that eventual revenue stream so would not wish to allow significant additional borrowing to fund investment. Therefore, if DLUHC do decide to cap rents for 23/24 alternative potential mitigation is to provide the funding instead as additional Grant through Homes England. This would of course increase Government borrowing but would be similar to the support Government is offering energy companies while capping the cost of energy for consumers. Assuming Government would want to continue with some form of rent regulation for social landlords in future this amount would need to cover the cumulative lost income rather than simply one year revenue lost.

2.3.7 One potential mitigation is to provide a greater amount of grant per unit under Homes England's Affordable Homes Programme. The amount of Grant offered under this scheme is not sufficient to subsidise the build of affordable homes, particularly with increases in build costs. To date RPs have subsidised this development by either also developing additional homes with a sales element (which increases market risk for those organisations) or using some of their financial capacity through additional borrowing (increasing gearing). Increasing the amount of Grant provided per unit under the Affordable Homes Programme Strategic Partnerships over the next few years would reduce the amount of borrowing RPs would be required to undertake in what are now likely to by relatively high borrowing cost years given the following relevant factors:

- 30 year Government gilt yields have risen to over 5% for the first time since 2002[14]
- The credit markets were already concerned about the unwind of corporate bond quantitative easing by the Bank of England and the impact this could have on credit spreads[15], and

[14] 30 year gilt at 5.07% on 28th September 2022, have risen 3.3% compared to 6 months prior

[15] PHG secondary market bond spreads were 88bps (0.88%) at the start of December 2021 but had risen to 130bps by August 2022 despite no change in credit rating or quality of our individual organisation

- The Rent Consultation has caused further market uncertainty/concerns and has pushed up funding spreads/ margins further for RPs[16].

2.3.8 An additional mitigation would be to increase the Social Housing Decarbonisation Grant and reduce the amount of co-funding required from RPs, again reducing the amount of borrowing RPs would need to undertake to fund this work. Depending on the scale of grant available to fund these works this could allow this investment to continue with a fabric first approach. This will help both the customers in those homes spend less on energy but also help the UK reduce consumer demand for energy and move towards energy independence sooner.

VAT

2.3.9 The majority of the turnover for a housing association is outside the scope of VAT as it relates to property rent. A consequence of this is that housing associations are not able to recover VAT it incurs on expenditure relating to the properties it rents, increasing cost pressures. In addition, it can only partially recover VAT it incurs on direct business expenses. Changes to allow housing associations to reclaim VAT incurred on all expenditure would allow for further investment in new housing and more support for existing tenants.

[16] In the two days following the Rent Consultation our banks informed us that housing association spreads had widened a further 3-5bps.

2.4 Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes

☐No

☐Maybe

Comment:

2.4.1 To the extent a ceiling is imposed we agree that it should only be imposed for 23/24 and not also 24/25. Extending a ceiling to 24/25 (assuming a 5% cap) would remove a further £546m from our 30 year business plan, assuming CPI is 10.5% for next year. In total, this would remove £1.1bn of income which would exceed Platform whole net zero carbon provision for all existing stock. If a two year cap is imposed with no catch up or additional Government Grant and cost inflation remains high for those two years, PHG would need to significantly scale back investment to maintain an acceptable level of credit quality.

2.5 **Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?**

☐Yes

☐No

☐Maybe

Comment:

2.5.1 We do agree with any proposed ceiling not applying to new Social Rent and Affordable Rent properties as this would somewhat mitigate the negative impact the cap has on investment and the provision of new affordable housing. We understand the markup of the Policy statement on rents for social housing (Annex C of the Consultation) to mean that RPs would have the flexibility to charge a higher rent for existing properties at re-let (as Formula Rent would still increase at CPI+1%). If the intention is to protect existing Social Rent and Affordable Rent customers from higher rent increases then excluding both re-lets and first lets would be logical and would mitigate the impact on RP revenues and capacity for investment. However, even with this mitigation the impact of a cap will still be significant and require mitigating action in the form of reduced investment and/or services to customers.

2.6 Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

☐No

☐Maybe

Comment:

2.6.1 We would propose that supported housing be exempt from the proposed cap, given the higher management costs associated with this tenure. Evidence of this cost per unit differential is that the costs associated with this tenure are on average £6,082 per unit compared to our overall cost per unit across the portfolio of £2,855 (both 2021/2022 numbers). This differential is driven in large part by 5x higher service costs (most are recoverable, except for Affordable Rent as discussed below) but also by 60% higher management costs and 90% higher major repairs costs.

2.6.2 Specifically for Platform Housing this category relates to around 3,500 units of retirement living/sheltered housing, retirement villages/extra care housing and supported living accommodation, plus a small portfolio of housing for customers with physical, sensory and learning impairments. The service we provide to our customers living in our supported housing schemes at Platform is very much focused on quality, wellbeing and security, ensuring that we can support customers to retain their independence and live within a community setting for as long as possible or during a transitional period that they may be experiencing (i.e. homelessness). Inevitably, providing such quality accommodation attracts higher management costs however the overall savings to the 'public purse' are significant by ensuring that additional burden is not placed on commissioned support and care health services. In addition, it is important to recognise the overall significant social value that the provision of supported housing provides (i.e. reduction of loneliness/social isolation).

2.6.3 The detail behind the higher management costs are referred to within the NHF Service Charge and Rent Setting guidance with some additional comments provided specific to our organisation:

- Supported housing is often of higher quality than mainstream housing. This is because the units of accommodation are purpose built to enable residents to lead more independent lives, with greater accessibility, more space or specific adaptations included (not all these components are service chargeable and form part of core rent). At PHG we have some more complex and technical buildings (retirement villages) that are generally higher cost to maintain than other types of buildings.

- There can also be additional maintenance costs through heavier wear and tear, given the nature of the customers that are rehoused in such schemes (i.e. for wheelchair users).
- Staffing costs can also be higher due to more time spent on (core) housing management functions and extra security because of residents' mental disabilities or chaotic lifestyles (different to enhanced housing management services for which a service charge is applied, see below)

2.6.4 In addition to the 'core rent' considerations above there are also increased impacts for supported housing where an Affordable Rent is charged and where service charge costs are also much higher so the net rent recovered is vastly reduced. For the additional 'support' function provided across our supported housing schemes, we apply an 'eligible' enhanced housing management charge amongst others such as maintenance for specific components like lifts/fire alarms/communal alarms/door entry systems etc). At PHG we have 2 retirement villages where Affordable Rent applies so the net rent recovered for these schemes would be vastly reduced if a rent cap was applied to Affordable Rent without an exemption for supported housing.

3 Conclusion

3.1.1 As evidenced in this consultation response a rent cap on social and affordable rents would have a significant impact on RPs and their ability to invest in core UK infrastructure for the benefit of their current customers and those in housing need.

3.1.2 We are keen to work with DLUHC (either through the National Housing Federation or as an individual organisation) to find solutions to what we recognise are significant challenges for balancing the use of public funds, customer affordability and investment for growth and a better future.

3.1.3 We welcome the opportunity to engage on the topics raised in the Social Rent Consultation and are available to discuss anything in our consultation response further or any follow up considerations.

From: [redacted]
To: Social Housing Rents
Subject: Response to consultation on rents
Date: 09 October 2022 16:15:26

You don't often get email from [redacted]. Learn why this is important

From Victoria Community Association

Dear Sir or Madam

We are a tenants' and residents' association on [redacted], a four-landlord housing estate of about 500 homes in [redacted]

At our meeting on Saturday 8 October we agreed to write to the consultation on rents. Most of our members are on low incomes and faced with many problems as a result of the rise in the cost of living, particularly in energy bills. We have also had a rent rise this year of more than four per cent.

For this reason we disagree with the proposals for a 3, 5 or 7 per cent rent increase next year. We are asking the government instead to implement a rent freeze on all social rented housing, whether council or housing association; we have both on our estate.

We do not agree that rents should go up by CPI + 1 per cent when homes are newly let or re-let. There is no logic in this. The people going into those homes are just as unable to pay these high rent increases as we are.

We are aware that the steep rate of inflation will make it difficult for our landlords, both council and housing association, to maintain the proper upkeep of our homes. We recommend therefore that the government should give social landlords extra funding so they can maintain our homes properly in the face of the inflation rate.

We are counting on the government at this crucial time to support social rent tenants, a section of the electorate which is on some of the lowest incomes in the country, both by freezing our rents and by giving extra funding to our landlords to maintain our homes.

Yours sincerely

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Oxford City Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Town Hall, St Aldate's, Oxford OX1 1BX
What is your email address?	[redacted]
What is your contact telephone number?	

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X ☐No
☐Maybe

Comment: Following the self-financing of the HRA in 2012, which saw Local Authorities spend millions to purchase our way out of negative subsidy, the premise was that Local Authorities would also be given the freedom to run their HRA as they saw fit, and in line with local circumstances. Since then there has been ongoing interference with that, including the imposition of rent freezes and now caps.

Local authorities, Registered Providers and social value landlords are not in the business of causing their tenants more hardship. It should be left to the local housing providers, who have the best and most knowledge of their residents and specific economic challenges to set appropriate rent increases.

If no rent cap/ceiling is introduced, we as a stock holding Local Authority would still increase our rents, and we would do this by carefully judging all local circumstances. Local authorities have a good grasp of local circumstances and what the impacts on communities and the services we and others provide, and therefore we are best placed to judge what level of rent increases should be introduced. In setting our own rent increases, we would take local factors into account, mitigating both the Council's overall finances and the income we need to deliver essential services under the HRA, as well as household need/levels of affordability.

The costs to us as a local authority for providing services to our tenants is increasing with inflation, which is a lot higher than the proposed ceiling to rent caps. We are already in this financial year therefore, looking at a shortfall between rental income and expenditure. The impact of associated costs to us as a landlord raising with inflation, whilst at the same time having to impose a cap to rents that is well below the level of inflation for 2023/24, will exacerbate our shortfall and have significant impact on the HRA and our ability to invest. Further detail of our financial modelling of the financial impact to us is detailed in question 2.

To make our books balance and to ensure that our long term HRA Business Plan is sustainable, and that there is not a significant loss of income over the next few years, we have to increase our rents – 7% or even higher. We believe that most providers of social housing are in the same situation.

The budget setting process for 2023/24, when the proposed ceiling would be introduced, is well underway in our Local Authority and necessary rent increases have already been drafted. The decision that will be made by government on any potential rent ceilings will be made far too late in the budget setting process, with our budget drafted in December of 2022.

We believe that there are other, and more effective ways to assist households on low incomes than to introduce a blanket cap on rents in the social rented sector. Such cap will severely impact housing services in this sector for all as it will put severe and pressures on stock holding authorities/organisations finances.

Oxford City Council's wholly owned housing company – OX Place – would not be required to adopt the rent cap, if it is introduced, but the company is committed to limit the impact of the cost of living crisis on its tenants and would therefore increase rents in line with the rent increases the Council adopts to its properties.

Similar to Oxford City Council, OX Place would suffer a significant reduction in rental income with the introduction of any of the proposed rent caps. The cost of maintaining the affordable homes that OX Place has is based on RPI, which is significantly higher than any of the proposed rent caps. Rent caps, even at the highest proposed level of 7%, would therefore significantly reduce any surpluses to the company. Surpluses are invested into the development of affordable homes and the rent cap, combined with the rapidly increasing cost to the company, would therefore negatively impact the delivery of more affordable homes by the loss of income to the business.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X ☐No
☐Maybe

Comment: If a ceiling to rent increase is to be introduced, it should be at least 7%.

To ensure that our long term HRA Business Plan is sustainable, and ensure that there is not a significant loss of income over the next few years, we have to increase our rents – 7% or even higher.

Following detailed financial modelling of rent increase options, and taking into account rising costs and the repairs and maintenance programmes needed for our stock, a 7% rent increase – at least - is needed in order to balance our budget and be able to maintain adequate services for our tenants.

The introduction of a rent cap lower than the current CPI+1% puts a significant pressure on the HRA finances considering that the associated expenditure is currently increasing by RPI (circa 10%) at a time when Social Landlords are also being asked to invest in the improvement of the standard of social housing (e.g. new Decent Homes, Zero Carbon agenda with Oxford City looking to achieve EPC C by 2030 and net zero by 2040). Compliance with the new standards will be impossible and unaffordable to achieve without additional support from the government.

Capping rent increases to a level below CPI, will result in a shortfall in our related expenditure compared to the rental income. This means that further investment in our current or new stock will be severely restricted. It also means that we will have to look at reducing some services to balance our budgets and restrict other work, such as carbon reduction severely.

If the rent increase is restricted to below inflation for next year, the HRA would potentially not be able to “catch-up” with the inflationary increases of the associated expenditure and therefore would have no alternative but to cut costs to breakeven or reduce the level of capital spend to remain within prudent levels of borrowing as set by the Head of Financial Services (Section151 Officer).

The impacts on our organisation for 2023/24 if the ceiling was set at 3%, 5% and 7% respectively is as follows, and demonstrates the financial difficulties we would be in as a local authority if a ceiling to rent increases is to be introduced. If rent caps were to be introduced for further years, the negative impact would accumulate.

Rent Increase	Increase in Rental Income £'000	Estimated Increase in Net Costs £'000	Net Reduction / (Increase) to HRA budget £'000	Reduction / (Increase) in Borrowing Headroom* £'000
3%	1,349	3,183	1,835	41,934
5%	2,248	3,183	935	21,371
7%	3,147	3,183	36	823

In addition to this, we estimate that the pressure on chargeable cost (service charges), will be approximately £470,000 in 2023/24. If we were to limit the increase in service charges to our tenants to the same level as the proposed rent cap, this would mean that the HRA will have an estimated shortfall of £450,000. This would be in addition to other known pressures such as the increase in material costs in respect of Repairs and Maintenance budgets (currently estimated at £225,000).

Whilst we as a local authority need to see rents increase by 7% to balance our books and continue delivery repairs, maintenance and good service to our tenants, we do acknowledge that households will be affected by this increase, and put additional and possibly not sustainable impact on their finances. Tenants in our housing stock are among most financially vulnerable. 45.6% of households are in receipt of Housing Benefit or the Housing element of Universal Credit, with the amount received varying depending on individual circumstances. Raising rents by 7% would still leave rents within full eligibility for Housing Benefit or Housing element due to no cap on social or affordable rent levels within these benefits, so tenants on UC or HB will see increases in their entitlement to support them with the cost, and more households would also become entitled to these benefit as the rents increase further helping. This is a mitigating effect to a 7% rent increase.
In addition, it is likely that a 7% rent increase to social rents would be less than increases to mortgages and rents in the private rented sector, so therefore proportionate.

We believe there are other, and more effective ways that the government could help mitigate the effects on households and on local authority overall finances. We would therefore urge government to mitigate these effects in a number of other ways, including:

- Increasing DHP funding to local authorities so that we can support those social tenants that will be impacted by rent increases. We are likely to see more applications for DHPs following any rent increases and the general impact of the cost of living crisis.
- More time for local authorities to apply for Social Housing Decarbonisation Fund grants so that we can use these funds and not burden our HRA.
- The effects of caps to rents will most likely mean cut-backs in HRA programmes in terms of development of new social/affordable housing, and this will make the housing crisis we are seeing locally made even worse, with less social/affordable housing made available. The government should instead consider:

- o Give local authorities more flexibility about the use of RtB receipts. The use of 141 replacements is too ridged especially if demolishing old housing blocks and clearing the sight to replace with lower numbers of new housing;
- o Consider cheaper borrowing for spending on development of social housing
- o Do something to enable us to bid for Homes England grant for replacement rather than additionality

Similar to Oxford City Council, OX Place (the Council's wholly owned housing company) would suffer a significant reduction in rental income with the introduction of any of the proposed rent caps. The cost of maintaining the affordable homes that OX Place has is based on RPI, which is significantly higher than any of the proposed rent caps. Rent caps, even at the highest proposed level of 7%, would therefore significantly reduce any surpluses to the company. Surpluses are invested into the development of affordable homes and the rent cap, combined with the rapidly increasing cost to the company, would therefore negatively impact the delivery of more affordable homes by the loss of income to the business.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X ☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment: We do not agree that a ceiling to social housing rent increases should be introduced at all. However, it is it, this should only apply for 2023/24. The economic climate is too uncertain at present, with significant challenges to local authorities' budgets. We would instead suggest that following a review of any rent cap that is introduced in 2023/24, the rent cap (changes to the rent policy) is extended for a further year, if this is deemed necessary in a year's time.

Our rent setting process starts in September of any year and concluding with a draft budget in December. We would have a much better picture of both the national and local economic circumstances at that point in time, and would therefore be able to set our rents for 24/25 based on the current circumstances then. If a rent cap is introduced in 23/24, we would also have further detail on the impact on our HRA and the local community, and would be in a good place to judge rent increases for further years without government intervention.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X ☐Yes

☐No
☐Maybe

Comment: We agree that the proposed ceiling should not apply when properties are first let or re-let.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
X ☐No
☐Maybe

Comment: If a ceiling is introduced, we do not think there should be any exceptions.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	An Organisation
What is the name of your organisation (if applicable)?	Onward Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	2 Christie Way, Manchester, Greater Manchester, M21 7QY
What is your email address?	[redacted]
What is your contact telephone number?	

Dear Sir/Madam,

The purpose of this letter is to provide a response to the current government consultation on social rent in England.

Onward is a social landlord that rents, develops and sells homes across the North West. We own or manage over 35,000 homes and serve around 60,000 customers. We are also drivers of the North West economy, planning to invest £600m to deliver 5,000 homes by 2030, including 3,200 as Strategic Partners of Homes England. Our proposals for continuing investment of £300m to improve existing homes will drive regional growth and create warmer, drier and more affordable homes.

Detailed responses to the consultation questions are provided below. Overall, a cap on social rents would be a new government regulation that suppresses economic growth, requiring us and other social landlords to scale back our new build and investment programmes. Our ability to attract and deploy private capital would also be damaged by the uncertainty introduced for our lenders, with borrowing costs rising accordingly.

Onward would voluntarily restrict rent increases without a cap being introduced. Whilst such decisions are subject to Board agreement, a voluntary increase of around 8% is a realistic scenario. If a cap is introduced, a one-year cap of 7% would enable us to continue most of our planned investment in new and existing homes, whilst also protecting customers this winter. A cap below 7%, or extended beyond one year, would result in significantly reduced economic activity, investment and direct support for people on low incomes. However, the negative impacts of a cap could be significantly reduced by introducing a facility to catch up 'lost income' in a controlled manner as the economy recovers.

Please read on for our detailed responses to the consultation questions.

Yours sincerely,

[redacted]

[redacted] Onward Homes

<u>Onward Homes detailed response</u>

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the Government did not impose a specific ceiling?

- No, we do not agree
- Onward would likely increase rents by circa 8%
- New rent regulation risks deterring investment and deferring economic activity

Introducing a rent cap at any level, in addition to the existing CPI+1% limit, would create a new government regulation that suppresses economic growth and private investment. Housing associations are adept at securing private funding to invest in new and existing homes. Investors are attracted by our stable business model and steady rental income, backed by long-term government rent deals. A decision to enforce a rent cap below the settlement agreed in 2019 would represent the second such decision in 10 years. Indeed, rents would have faced additional restriction in up to 8 years of the 10 year settlement announced in the 2013 Spending Round. Our funding partners are telling us that this would materially impact the terms of lending to housing associations, significantly increasing the cost of future borrowing. The effect will be to deter private investment in English social housing and make it more expensive.

Social housing is countercyclical, unlike the rest of the housing sector. During a downturn we provide much needed capacity to continue investing in new and existing homes whilst others reduce activity. Reducing this countercyclical capacity in the sector would risk prolonging any recession and delaying economic growth. For example, in 2021 Onward completed its first successful bond issue, securing £350m to support capital works, including a major regeneration scheme in Preston, an expanding development programme and ongoing investment of £300m in improvements to existing homes. A rent cap will reduce this capacity by undermining the income assumptions in our Business Plan and by increasing the cost of borrowing when we next refinance debt in 2024. This would compound the likelihood, as assessed by the major ratings agencies, of sector credit worthiness (including ours) being downgraded in response to the worsening outlook on sovereign debt.

Additionally, the record of much of the last 10 years is of government setting rents directly, rather than establishing an envelope within which housing associations can make decisions. There is a risk that extending this trend this will prompt the Office for National Statistics to consider reclassifying social housing debt as public sector debt, with implications for the national balance sheet, debt-to-GDP ratio and market confidence.

Irrespective of an additional rent cap, Onward will not set a CPI+1 increase on customer rents next year. Despite the pressures of the pandemic, we maintained a human presence in all of our neighbourhoods and remain in close, regular contact with the communities we serve. We therefore understand very well the hardships facing our customers and the necessity of rent restraint. Whilst such decisions are subject to Board agreement, a voluntary increase of around 8% is a realistic balance between providing customers with immediate help this winter and long term help through our Business Plan. An increase of 8% would also allow us to continue the extensive financial support we provide to customers and are preparing to escalate this winter.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

- Any rent cap will reduce Business Plan capacity, investment and economic activity
- A cap below 7% will result in reduced investment in new and existing homes
- A cap below 5% will result in most investment being cancelled and in reductions to direct support for customers this winter

A rent cap of any kind in addition to the agreed CPI +1% will reduce capacity in our Business Plan. Our Board would need to discuss the trade-offs in operational and investment activity that this would entail. However, modelling undertaken at Onward captures the potential impact as follows:

Proposed cap	Potential consequences
7%	- Up to 25% reduction in development programme (1,250 fewer homes) - Up to 25% reduction in retrofit investment (reduction of £25m)

5%	- Up to 50% reduction in development programme (2,500 fewer homes) - Up to 50% reduction in retrofit investment (reduction of £50m) - Reduced repairs and frontline services - Reduced protection for customers this winter
3%	- Closure of development programme (5,000 fewer homes) - Up to 75% reduction in retrofit investment (reduction of £75m) - Up to 25% reduction in building safety investment - Severely reduced repairs and frontline services - Severely reduced protection for customers this winter

Our modelling illustrates that a rent cap is not a one-year cost reduction exercise, but rather a deletion of capacity permanently across a 30-year Business Plan. Against this background, if an additional rent cap is introduced, it is inevitable that we would scale-down our planned activity to remain compliant with the financial covenants agreed with our lenders. Our modelling includes realistic assumptions about cost inflation, but does not factor in the potentially substantial impact of a likely downgrade to our credit rating. It should be noted in particular that our energy costs next year will be five times higher than last year, even after the support recently introduced by the Government.

Furthermore, an additional cap of 5% or below would result in us reassessing the viability of our current commitment to provide all tenures of social housing, from social rent to shared ownership. Currently, 70% of our housing stock is social rented, but this proportion will not be sustainable if a cap is set at 5%, restraining our ability to generate income and reducing the long term benefits of cross-subsidy through curtailed development activity. We would instead need to refocus future new provision on affordable rents, rather than social rents, to the detriment of people on the lowest incomes.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

- Any rent cap should only be for one year
- The negative impact of a cap would be reduced by introducing a 'catch up' facility
- Reintroducing rent convergence would also help mitigate some impacts

If a rent cap is to be introduced, we strongly feel that a one-year rent cap is the most that should be agreed at this point. A one-year cap would leave all options open to government the following year. Enforcing a two-year cap, before we know what the wider circumstances will be in 12 months' time, seems unnecessarily restrictive both for the sector and for government.

The negative impacts of a cap could be significantly reduced by introducing a facility to catch up 'lost income' in a controlled manner as the economy recovers. This could work by giving housing associations freedom to increase rents by CPI+2% over a fixed period, for example three years. The current proposal already allows for relets to be made at a higher rent level, something we are supportive of, although the very low turnover rates in most social housing mean that this will not mitigate the long-term impact of a cap.

We also support the principle of reintroducing social housing rent convergence as an exception to the rent cap. This would still effectively cap rent increases for most social housing tenants, including where social rents are determined by the national formula and for affordable rents at 80% of local market value. But where rents are lower than national formula for historic reasons, housing associations would be free to determine larger increases to catch up with the social rent formula.

This would have the benefit of increasing fairness in the system by improving the consistency, transparency and fairness of social rents across England. It would also allow housing associations to receive some mitigation to capping increases in formula and affordable rents overall.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

- Yes we do support this
- But general needs turnover at around 7% means that recovery would be slow
- Supported housing turnover at 60% shows a cap would have limited value for this tenure

Allowing housing associations more freedom in setting rents for new customers would be welcome as a way to mitigate the negative impact on business planning. Nonetheless, turnover in general needs social housing is low at around 7%, so this should not be mistaken for a mechanism that would enable housing associations to recover substantially, or quickly, from rents being capped.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

- If rents face an additional cap, supported housing should have a higher cap at 9%
- Margins on supported housing are very low and an additional cap could threaten viability
- Customers are protected from rent increases as most pay via housing benefit
- There is limited benefit to the Treasury from an additional cap for supported housing

If rents face an additional cap, we propose that supported housing should have a higher cap. This is because supported housing is expensive to provide, margins are small and costs are increasing. Any rent cap applied to supported housing carries a risk of systemic service failure across the supported housing sub-sector. This would result in reduced safety for supported housing customers who have particular needs and rely upon specialist accommodation. A rent cap could also deter the already precarious willingness in the sector and amongst lenders to invest in new supported housing facilities in future. We propose that a one-year rent cap for supported housing at 9% would provide sufficient protection to mitigate the worst risks.

Most tenants in supported housing pay rent through welfare support, so increasing supported rents will not adversely impact these customers. The cost to the welfare bill of allowing an increase up to CPI+1 for supported housing would be relatively small compared to overall movement on social rents. In addition, turnover in supported housing is significantly higher at around 60%, so under the proposals most customers would be eligible for higher relet rents in any case.

North Northamptonshire Council

Finance & Strategy
Municipal Offices
Bowling Green Road
Kettering, NN15 7QX
Tel: 0300 126 3000
www.northnorthants.gov.uk

Social Housing Rents Consultation

North Northamptonshire Council (NNC) welcomes the opportunity to respond to the consultation on the Rent increase cap and would urge the government to give early indication of the decision on the rent cap to aid councils in their current budget making process. Our responses below set out our position on the proposed specific ceiling.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

In our opinion, a statutory cap on council rent increases is unnecessary. The cap already exists through the CPI + 1% formula, and whilst the current formula could result in higher rent increases due to the high inflation rate, we do not agree that the rent increase should be subject to a revised ceiling. Whilst Councils may not apply the current formula this year, there should not be the need to introduce a new cap on rent levels. In setting rents authorities will balance the impact of the rising cost of living on our tenants'. Councils will also face significant cost pressures and the impact of these will vary between authorities. The HRA's will face a number of cost pressures such as increased costs in materials and increased salary costs which could be around 8% for 2022/23 owing to the composition of the workforce in the HRA.

NNC is facing cost increases of at least 50% in utility costs and 10% in other areas - this is having a knock-on effect to our budgets which may result in a reduced capital programme. There is also the rising wage expectations for skilled labour, as a result we are having difficulties recruiting. At NNC we are still experiencing pressures from COVID which has resulted in a repairs backlog. A real time reduction in budget if rent rises are significantly capped will only exacerbate this situation.

Consideration also needs to be given to the added costs of decarbonising the existing housing stock to meet government net zero carbon targets and ensuring the highest levels of fire safety following Grenfell. Councils are being encouraged to bid for Social Housing Decarbonisation Funding. The previous Wave assumed maximum dwelling costs, and hence matching funding from local authorities, which have been superseded by recent price increases. Rent restriction will mean Councils are less able to fund these cost pressures. To be certain of Fund take-up, BEIS needs to review and increase assumed costs per dwelling.

As interest rates rise it becomes increasingly important that PWLB make more favourable rates available to support local authority housing investment. We would be more inclined to borrow against the HRA if Government provided more incentives to do so.

Any ceiling placed on the rent increase will not only impact the current year's HRA but will have a knock-on impact on the 30-year business plan which will reduce the income yield by millions of pounds over the life of the business plan. This would have implications for the capital programme, the decarbonisation / net zero plan, and future aspirations for the HRA as well as managing tenants' expectations for decent homes. To mitigate this, we would suggest giving consideration for future rent increases above CPI +1% where inflation is significantly lower to compensate for the loss of income over the 30-year business plan. The rent formula of CPI + 1% welcomed back in 2019 for the 5 years 2020 – 2025 gave certainty and security to deliver on the business plan and our aspirations for new homes to help meet government housing growth expectations. Any deviation from the formula would not seem reasonable and will have a negative impact on the future of the HRA.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We do not think a cap is necessary but if Government are inclined to implement one then 7% is preferable, anything lower will seriously impact our ability to balance the budget.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

We do not think a cap is necessary but if Government are inclined to implement one then it should be for 2023-24 only, with a review next year, given the current volatility of the wider economy. In addition, as mentioned above, a cap does not just impact one year, it takes funding out of the HRA over the life of the 30-year business plan.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree that the proposed ceiling should not be applied to the maximum initial rent charged on first let and subsequent re-lets. This would enable us to bring rents closer to formula rent. Social rents are already considerably lower than the Private Rented Sector.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We do not recommend making any exceptions. Parity for all our tenants is preferable and avoids undue equality impacts.

Social Housing Rents Consultation

Response from the Northern Housing Consortium

About us

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of the North' working with councils, housing associations and ALMOs to develop insight, influence and solutions to create better homes and places.

Introduction

The Northern Housing Consortium welcomes the opportunity to respond to the consultation. We understand the great concern about the affordability implications of a possible large rent increase driven by high inflation, so we welcome the action to gather the views of the sector.

Our membership includes councils, housing associations and ALMOs who own or manage more than 9 out of 10 socially rented homes in the North. Our response is informed by discussion with our members on the financial and business impact of each of the options, including the likely consequences for the national social housing decarbonisation programme.

It was very clear from our consultation that member organisations were acutely aware of the impact the current cost of living crisis on their residents, especially those on low incomes and with limited financial resilience. The 2022 edition of the Northern Housing Monitor shows that the average Band D home will pay £680 more for gas going into this winter, compared to an EPC Band C home. One of the identified risks by providers is that the programme of housing decarbonisation, including insulation, could be slowed down in the short term.

All providers operate financial advice and support services and one of the unfortunate consequences of a low rent ceiling could be the curtailing of this type of additional community support which adds so much value to the communities served by local housing providers.

Increasing rents for social housing residents is not an easy decision. Providers were already considering the available options with the need to carefully balance affordable rent levels alongside covering the high inflationary costs to deliver services.

Housing providers are facing inflationary costs with construction costs and materials for maintenance and repair becoming drastically more expensive in the last year. They are also major employers in their local areas and have an appreciation of the financial wellbeing of their employees.

For a variety of reasons including stock variations, essential works such as the need to invest to sustain the decency of existing homes varies across providers and across geographies. There are also wide variations in the extent to which providers need to refinance existing or take on new debt. While we understand the intention behind the rent proposal, rents and charges are set annually in a process involving an understanding of the financial implications for each organisation and this must be retained.

The NHC's detailed responses to the consultation questions are below:

Question 1: a) Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? b) To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

a) We do not agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling, beyond the existing CPI+1% limit.

Rent is the principal income source for providers, representing 72% of turnover (RSH Global Accounts 2021). It is therefore fundamental to raising the income needed to fulfil longer-term business plan objectives such as growing the supply of new affordable housing, tackling fuel poverty through green home upgrades and providing services to tenants.

If this proposal comes into force, it will mark an abandonment of the long-term rent settlement: the second settlement in a row which has been subject to government intervention mid-term. Assumptions about future rental income streams have been factored into the preparation of long-term business plans which also guided the amount of debt that providers took on. We believe credit markets may take an unfavourable view of such uncertainty, where long-term settlements are repeatedly reneged upon. Boards should be left to decide in the spirit of co-regulation.

There is widespread concern about the rising cost of living – among housing providers, residents, and staff working for housing organisations. But a sector-wide rent ceiling is an untargeted way of tackling this. It is important to recognise that 56% of households living in social housing will not see a cash benefit from any ceiling; as their rent is covered by housing benefit[1] : meaning that the major beneficiary of the savings will be the Department of Work and Pensions. Those residents who do pay their own rent already benefit from lower housing costs than equivalent homes in the private rented sector, and many also benefited previously from a reduction of in rents of 1% each year for four years.

Major costs for housing providers, such as construction costs and repairs and maintenance materials costs are increasing more than headline inflation rates. Homes England, noted in their 2021/22 Annual Report that high inflation in construction costs and labour has created 'a difficult environment in which to complete the build of new homes'.[2]

- Inflation on construction costs overall accelerated to 9.6% in June 2022.
- The cost of new housing has risen even more quickly, with inflation at 12.3% in June 2022.

---

[1] English Housing Survey Social Rented Sector 2019/20

[2] Homes England Annual Report and Financial Statements 2021/22

- Repair and maintenance prices surged over 2021 and 2022, with annual price increases for repair and maintenance materials peaking in April 2022, at 16.8%. Annual price growth was still highly elevated in July 2022 at 14.0%.[3]

The consultation proposal will remove discretion away from Boards and will introduce uncertainty into business planning, and potentially result in a large reduction in projected resources compared to previous assumptions which were based on the rent settlement.

There are good reasons why the decision to set rent increases should sit with the organisations who are aware of local cost pressures and have carefully structured their financing and business planning.

A blanket approach to the ceiling will impact variously depending upon the size and local circumstances of each provider, and in some cases may impact on viability. At the least, many providers will lose significant capacity to develop additional housing, tackle the cost of living through energy efficiency upgrades; or invest in neighbourhood or community services.

We are disappointed with the plan to make a substantial change to the main income stream, and very concerned about the likely impact on development and retrofit plans and urge the government to rethink these proposals.

b) Registered Providers were actively considering the best options prior to this consultation being published with the need to carefully balance rents for the affordability for residents and to meet increasing business costs.

There is no evidence that we are aware of that any provider was planning to increase rents next year by the full CPI + 1%.

One provider told us about the options they had been considering: "*We would consider a range of alternative options as to how we could implement a lower than CPI +1% level of increase in 2023/24. Our aim would be to implement a solution that would not have an irrecoverable long-term detrimental impact on our capability and capacity to deliver key services and make investment, and for example we would consider deferral of an element of the CPI+1% into subsequent years and would apply that deferred element when CPI was running at a lower level than it is currently*."

Providers are very aware of the impact the current cost of living crisis is having on residents and are concerned about the ability of residents to cover rising costs with recent research showing 68% of social housing residents were worried about being able to meet normal monthly living expenses all or most of the time.[4]

Another large provider told us: *"We do not wish to put our residents under significant financial pressure and we already have a range of approaches in place to support residents financially, including a Hardship Fund and Tenancy Sustainability and Welfare Benefits Teams. We will continue to provide this support for residents."*

[3] Cost inflation for Housing Associations Cebr report for the National Housing Federation August 2022
[4] CIH Cost of Living Briefing 2022

Recognising the impact of the rising cost of living on tenants' budgets, all providers that we have spoken to are planning rent increases which balance the needs of residents and organisational budgets.

The important point is that individual councils and housing association boards should decide the increase for their organisation and their residents, and many providers told us they were talking to their residents about rent and services and how to reach an outcome that balanced competing pressures effectively - for everyone's benefit.

Boards and councils have clearly indicated that they would have self-regulated and set rents with fairness and affordability in mind, doing what they can to protect people from hardship, targeting help at people facing the most complex and acute challenges. They are aware they must absorb some of the inflationary costs on behalf of their residents. We do not believe that councils and housing associations - landlords with a social purpose at the heart of their operations - would increase by the maximum amount, over 10%, unless there was a compelling need to do so.

Question 2: a) Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? b) Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

a) **No - the 5% ceiling would have a significant impact on the financial capacity of social landlords.**

We do not believe a ceiling is necessary but of the options proposed, the alternative percentage of **7% would have a less significant impact on social landlords' ability to deliver housing growth and services to support residents through the cost-of-living crisis**.

Of the options proposed, a 7% ceiling would see the least impact on current financial commitments, including investing in housing growth and tackling fuel poverty by investing in existing homes. We know that this would be the most challenging for residents, however, the 3% and 5% ceilings will result in cutbacks in services, including a great deal of preventative work that social housing providers engage in and therefore represents a false economy.

A blanket ceiling will require a rent restructuring mechanism in future years, if the sector is to avoid a permanent loss of capacity. The Government should be particularly mindful of the consequence of such a permanent loss of capacity in a counter-cyclical sector which has often been called on to keep the housing market moving in previous downturns.

Examples from our members demonstrate the impact of the options under consideration:

Rent ceiling	Modelled example Northern provider with 40,000 units, (housing and other fixed assets of £1,109m), reserves of £173.9m and an annual turnover of £190m. Operating surplus of £16.3m and an operating margin of 8.5%.

3%	3% ceiling for 2 years would see a reduction in expected rental income compared to CPI + 1% (using 10% as CPI) £14.8m in the first year, £46.9m by the third year and £79.4m by the fifth year. **Equates to 42% of the annual turnover of the organisation.**	Significant impact on building new homes including Shared Ownership and supported schemes, housing retrofit delayed, review of community projects. Would put many providers at risk of breaching loan covenants.
5%	5% ceiling for 2 years would be a reduction of £11.6m in the first year, £29.8m by the third year and £47m by the fifth year. **Equates to 24% of the annual turnover**	Likely to impact on housing providers' ability to invest in new and existing homes as well as providing critical services for residents, and housing retrofit slowed.
7%	7% ceiling for 1 year and a 4% ceiling for the following 2 years would be a £8.5m reduction in the first year, a £23.2m reduction by the third year and a £36.6m reduction by the fifth year. **This represents 5% of annual turnover in year one.**	Least impact on short term financial commitments, including investing in new and existing homes. Medium to longer term commitments would be reviewed.

b) We have been working with members to understand the detail behind this proposal and the impact.

The impact of reduced levels of rental income means that there will be fewer resources available to finance the capital programme including to fund housing growth and tackle the cost of living by investing in retrofit home upgrades. The extent to which they can refinance or take on new debt will be impacted, and other impacts will vary according to local circumstances. Investment in new safety requirements and higher decency standards must continue, and the result of that will be a likely pulling back from investment in development and retrofit home upgrades.

There had already been a substantial negative impact in terms of the loss of income resulting from previous changes to rent policy (the impact of four years of a 1% rent cut). This cut impacted the whole sector, but had particularly consequences local authorities who had engaged in Housing Revenue Account refinancing, taking on redistributed debt on the basis of the rent settlement in place at that time. The current proposal will again reduce the resources and introduce uncertainty.

Impacts fall under three main categories:

1. <u>Viability risks</u>

Registered Providers have told us that the loss of income from a 3% or 5% ceiling would affect their projected cashflow and could push them into breaching loan covenants. One smaller Northern housing provider stated: "*A 3% ceiling would put us at risk of breaching our loan covenants without finding savings of £6.5m by 2027/28.*"

A 7% ceiling is less likely to breach loan covenants, although it would require a reduction in costs, which many providers have been planning for in order to self-regulate rent increases.

Lenders may become nervous about making long term investments in social housing development with the uncertainty over future rent levels.

If a ceiling rent proceeds, waivers should be granted to providers whose viability problems are explicit and immediate. We would urge that providers in those circumstances should be able to plan their rents on the basis of the current settlement.

2. Investing in Housing Growth and Housing Quality

While decisions have not been made about where efficiencies can be found, all the evidence shows that housing growth is likely to be affected.

Even on the Government's own impact assessment, the preferred option of a 5% cap will remove £1.85bn from the sector in the North (in England £7.4bn less in rental income over the period 2023-28 than would otherwise be the case). That would be the equivalent to the subsidy gap for 83,828 affordable homes (assuming a national mix of products)[5]. This equates to the subsidy for all the affordable housing units provided in the North from 2014/15 to 2020/21 (7 years).

If the entire lost £7.4 billion was distributed as subsidy to regions pro rata to the numbers of developed units this would be the equivalent of 17,600 homes to the North. In other terms, this would be 1.8 years of an entire Northern programme.

This five-year forecast fails to recognise that impacts will be compounded further over the course of landlords' 30 year business plans without a convergence mechanism to recover lost income.

A long-term rent settlement has allowed Registered Providers to plan for housing growth and for the phased upgrade of homes to tackle fuel poverty and meet energy performance targets by 2030, which Government has indicated will be expected to build the supply chain for other tenures to be able to retrofit existing housing.

All providers we have spoken to have told us that their development programme may be at risk, at least in the medium term. Affordable housing completions were already 8,550 homes *below* identified need each year (2015/16 to 2019/20) in the North.

Inflationary prices have impacted on the cost of developing with annual construction price growth accelerating to 9.6% in June 2022. The cost of new housing has risen at an even higher rate and in June 2022 new housing was 12.3% more expensive than a year earlier.[6] With capped rent and with grants at their current levels, it will not be possible to continue to develop at pace if the current economic environment endures.

[5] ARC4 analysis for NHC, derived from NHF evidence of £12.4 billion gap generating 145,000 homes in https://publications.parliament.uk/pa/cm5801/cmselect/cmcomloc/173/17308.htm
[6] Cost inflation for Housing Associations Cebr report for the National Housing Federation August 2022

There have already been delays in progressing sites due to Covid restrictions, delays in sourcing labour and material shortages and contractors diverting scarce resources onto private sale units at the expense of the affordable units. The Government's own housing agency has warned that this is 'a difficult environment in which to complete the build of new homes'[7]. Lenders may become nervous about making long term investments in social housing development with the uncertainty over future rent levels.

If this proposal proceeds, we would welcome a review of grant for new affordable housing, increasing levels to ensure new homes can continue to be built. This could be funded by redirecting the savings from reduced DWP housing benefit payments due to the limited rent increases to affordable housing development grant funding.

Providers have told us that even with reduced capacity they will continue to meet safety requirements and to undertake what is necessary to meet repair and maintenance works but their ambitions on energy efficiency upgrades, contributing to tackling fuel poverty and towards achieving net zero, could be significantly slowed.

The cost of energy has highlighted the need to ensure homes are energy efficient. Improving energy efficiency will produce savings for residents on their energy bills and so is cost effective. The social housing sector is leading the way on energy retrofitting with over half of social housing already at EPC C or above. A rent ceiling could have the perverse effect of delaying these works, which will deliver long-term cash savings for residents.

Bringing forward carbon net zero retrofit to those in risk of fuel poverty in social housing is of high importance to the sector but supply chain issues and inflation are starting to impact on the pace of work that landlords can achieve.

The Environmental Audit Committee stated, "they (the social rented sector) have a limited budget and have a limit on the rental income that can be charged. Rental income is usually spent on maintenance, so when it comes to some of the more expensive measures, where there is a longer payback, these authorities have to build a business case to gain access to funding."[8]

Losing control of rent setting in one year over the life of a business plan will have long term implications for programmes such as decarbonisation. One larger Northern provider told us that they predicted a total loss of income of £350m over their 30-year business plan which was equivalent to their entire decarbonisation programme budget.

Housing is responsible for 26% of the North's carbon emissions[9], and poor insulation means that £1 in £4 spent on heating is wasted, while 780,000 children live in homes with dampness.[10] Yet, the costs for providers to do this work are increasing. BEIS has estimated that the average per-property spend to provide limited retrofit to rented housing up to EPC Band C is £4,700. The costs of retrofitting a heat pump with no additional efficiency measures are around £9,000, and whole house retrofit costs range from between from around £16,700 to over £26,000.[11]

[7] Homes England Annual Report 2021/22.
[8] EAC Energy Efficiency of Existing Homes
[9] BEIS UK local authority carbon dioxide emissions estimates, 2017, Table 1.
[10] New Economics Foundation. (2022). The great homes upgrade
[11] Committee on Climate Change The costs and benefits of tighter standards

It is forecasted that due to demand and exchange rate risks, there will be price increases for air source heat pumps equivalent to around 10% during 2022/23. Similar increases are being experienced for other decarbonisation components. Price growth for electricity, gas, and air conditioning increased from the end of 2020. A first peak was reached in November 2021, at 43.8% annual growth, which was then surpassed by 54.3% in April 2022. In July, prices were 43.8% higher than a year earlier.[12]

BEIS announced bidding for Wave 2 of the Social Housing Decarbonisation Fund (SHDF): an £800m wave of funding which will require at least 50% of total eligible costs to be provided by the housing provider. The Fund proposes to invest £3.8bn over 10 years yet the total cost to decarbonise homes is likely to be between £35bn and 58bn.[13] Each stock holding provider will model an assumption of receiving 10% - 15% in grant funding, but the rest must be found from income. A rent ceiling will make providers less able to take up opportunities which require match funding.

At a roundtable event we held with BEIS last month, many providers spoke of how the pace of progress on energy efficient home upgrades would be impeded, and the target of reaching EPC by 2030 will be delayed.

Table: Summary NHC Roundtable on housing growth and net zero

Rent Ceiling	Impact on provider appetite to participate in SHDF Wave 2
3%	Significant impact on net zero plans. All investment scaled back in short term. Net zero would not be delivered on target.
5%	Scaled back development. Both in terms of funding and implementation. Decisions to prioritise development and retrofit to reduce gap in financial plan. External subsidy required.
7%	Impacts on development and retrofit. Scaled back and no longer fully funded within business plan.

Within the group, half of the participants stated they would consider withdrawing from bidding to SHDF Wave 2.1 at a 3% ceiling, marking a risk to the delivery of that programme.

One housing provider told us *"At 3%, I cannot see how net zero would be delivered."*

All of the participants in our roundtable stated there would be a detrimental impact at a 3% ceiling, at least in the short term, and management of schemes would only be possible with the ability to recover target rents in future years.

Participants stated that a ceiling of 5% would require prioritisation between development and retrofit programmes to reduce the gap in financial plans, thereby risking the successful delivery of the wider decarbonisation programme, which was a 2019 manifesto commitment. As one provider told us, "At 5% ceiling, significant external subsidy will be required to deliver net-zero."

---

[12] Cost inflation for Housing Associations Cebr report for the National Housing Federation August 2022

[13] Decarbonising the Housing Association Sector Savills 2021

Social landlords are very reluctant to cut net zero programmes because they know that they are the only sustainable long-term approach to shielding residents from energy price rises, by reducing the amount of energy used in homes. However, the scale of the impact of a ceiling on business plans will leave many with little choice.

3. Service Provision

Risk to new development is of particular concern, but the impact on community support work, including services for mental and physical health, and housing's role in well-being and preventative work will be at high risk of being withdrawn.

The housing providers we have spoken to have been consulting with tenants to find out which services they most value and need, and this data will be used this to help determine what can be pulled back from if a lower rent ceiling is set.

There is a real risk that what gets reduced will be the wider, holistic work where providers work within communities, identifying and targeting help, supporting those in hardship. This is especially important now in a cost of living crisis with support and advice on financial management and debt advice increasingly needed. Public services are lean on the ground and housing associations meet this need by working in partnership to re-double efforts in local communities.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Only from 2023-24

Rent setting requires careful review with the most up to date information at the time required.

This is a period of significant economic uncertainty and commitments for rent setting should not be made beyond one year.

Inflation was 2.9% in September 2021 but has been forecast to peak at 18.6% early next year according to one analysis from investment bank Citi. Such a high level of inflation combined with a rent cap would have a material impact on business plans.

A rent ceiling of 7% may go some way to mitigate the effect of the current inflation rate but nearer the time of rent setting for 2024/25, the economic position should be reviewed and a decision made as to whether another rent ceiling is required.

A rent ceiling applied just for one year will see reduced income 'baked in' for the future, with properties not achieving target rent.

A mechanism to catch up in future years to achieve target rent, for example CPI +1% + £1 per week on any one rent, would mitigate the significant impact of a rent cap on long-term business plans.

The provision for rent restructuring and an ability to allow convergence towards recouping lost income in future years will mitigate the effect of lost capacity. Therefore annual increases in future years, beyond a rent ceiling year, subject to a maximum annual increase will level out the impact of a ceiling in the next financial year.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

We understand the rationale for exempting Social Rent and Affordable Rent properties from the rent increase ceiling when they are first let or subsequently re-let. There are already properties in the sector which do not achieve target rent and when signing for a new tenancy, tenants understand the rent commitment in advance and have the choice not to take the tenancy where it's unaffordable.

This exemption would provide social landlords with greater certainty for these properties and mitigate some of the effects of the rent ceiling on investment.

We would again stress that a 3% or 5% rent ceiling would likely impact development of new homes. Therefore, while it would not apply to new lets, there may be a lower number of new homes coming forward.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes, exceptions should apply to certain types of housing

Specialist Supported Housing - The NHC is seeking an exception for supported housing. We believe this exception is essential.

A rent ceiling to this type of housing will be detrimental to a most vulnerable sector of the population. This includes those with mobility issues, dementia, health deficiencies, those who live on their own, maybe without a family network to support them.

The supported housing sector represents 17% of the total Housing Benefit spend and therefore, affordability for residents is always balanced carefully with sustainability and is a fundamental part of annual rent setting.

The impact to residents relating to rent increases will be quite varied as there is substantial diversity within the supported housing sector but we have been informed that a 3% ceiling would be significantly impactful for the most vulnerable people and in some cases supported housing could become unviable.

Supported housing is already under significant pressure, with narrow operating margins, additional pressures relating to funding from Local Authorities, increasing requirements relating to building safety given the complexity of the stock and extremely high increases in utility costs.

One Northern provider specialising in older persons' accommodation including Sheltered Accommodation for the over 55's (currently 7,000 residents) said: "*Working out the actual cost of inflation rises for such a business for an older community, proves, for us, and the majority of specialist providers, to be between 7% and 9%. This level of rent, whilst still impacting the business, would enable basic services to be provided, but reflecting the current position facing tenants in terms of the cost of living. Anything lower than 7% leads to significant pressures*."

Applying a blanket approach loses the consideration of consequences for future supply of supported housing. Whilst we welcomed the specific inclusion in the 2021-26 Affordable Homes Programme of providing supported housing, realistically, the ability to develop further supply is becoming unviable, even more so when taking into account the inflationary costs in construction. Further financial pressures are likely to reduce the ability to develop further.

For these reasons, we consider that there is rationale to consider supported housing being excluded.

Shared ownership – shared owners are not covered by the rent standard and therefore a ceiling won't apply to them. Social landlords we have spoken to were very concerned about this group who are by their nature marginal homeowners and face potential exposure to the costs of rising interest rates. Landlords were in discussions about limiting rent and service charge rises where possible, but their ability to do so will be eroded if a rent ceiling on social housing is implemented.

In addition to the impact of rent increases combined with interest rate rises making this group financially vulnerable (more so than owner occupiers as they are also liable for service charges), this model of development could face suppressed demand and leave providers with unsold stock thereby shared ownership development could become a less attractive option for providers to develop. Clearly changes which have consequences for delivery of shared ownership and other low-cost home ownership products have a knock-on impact on the Government's mission to boost home ownership across the country.

Rents and Service charges – we propose an exemption of service charges in any rent cap arrangement, particularly in relation to properties let at Affordable Rents to ensure service charges are outside of the cap and can reflect inflationary costs.

One provider told us "*This is a "double whammy" for us given we provide shared accommodation with communal internal and external spaces, because the cap on affordable rent is highly likely to mean our service charge costs are not covered by the reduced rent.*"

A key benefit of variable service charges is that it encourages affordability and lower costs as it is based on a recharge basis and not a fixed charge and in most cases actively involves the residents in determining the nature and volume of services they require to be provided.

For further information about this response, please contact

[redacted]
Northern Housing Consortium
[redacted]

[redacted]

Social housing rents in 2023

Network Homes' response

About Network Homes

Network Homes is a housing association with a proud history of providing affordable homes for people going back over 45 years. We own and manage over 21,000 homes predominantly in London and Hertfordshire. **We believe good homes make everything possible**.

https://www.networkhomes.org.uk/about-us/

Summary

The rising cost of living is making the lives of households around the country much more difficult, including households in social rented housing, who have some of the lowest incomes. There are many who need support with housing costs, but a blunt, percentage-based cap is the wrong way to go about this.

A further cap on rents without compensation to social landlords would be a mistake

Because we reinvest 100% of the income we collect into existing and new affordable homes, a rent cap in the absence of measures to compensate social landlords would mean we would have to spend significantly less on one or more of these items:

- Planned/major maintenance, including building safety remediation
- Day to day repairs
- Housing management
- Building homes for those in housing need.

The inflationary environment – where many of our costs are going up by much more than the headline rate of inflation – already makes it harder to carry these out. And due to the rising cost of living they are arguably even more important to be carried out responsively and effectively.

If government does impose a cap, it should be more flexible

The proposals in the consultation document wouldn't help the tenants who need the most help. The majority of the incidence of the cap wouldn't benefit tenants at all, because most social tenants are supported to pay their rent by government and will be left with the same residual income regardless. And by definition, percentage-based rent increases mean the tenants who are already paying the highest rents have the highest and least affordable rent increases. If rents are to be capped then it would be better to cap each social landlord's rents in aggregate (for example at one of the suggested levels) and leave it to organisations to ensure that the protection is applied to tenants who need it most.

If government does impose a cap, it should be funded

If a cap is implemented, it should be funded by way of much higher grant rates (paid for by the savings government will make on welfare spending, and therefore revenue-neutral) and by a return to rent convergence.

Depending on the final policy design, 66% of the reduction in revenue could be offset by a £4.6bn increase in the Affordable Homes Programme, and around 10-30% could be paid for by increasing rents for tenants paying below target rent levels.

If government does not impose a cap, housing associations will be free to support residents in more targeted ways

There are many better and more targeted options housing associations could choose to adopt – for example, a freeze on 3+ bed Affordable Rent homes – which would cost associations orders of magnitude less in lost income and help those most in need far more than government's proposals.

Furthermore, shared ownership households face higher and uncapped rent increases. Any cap on social rents will greatly restrict our ability to mitigate these impacts on the worst affected shared owners.

Responses to questions posed

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?

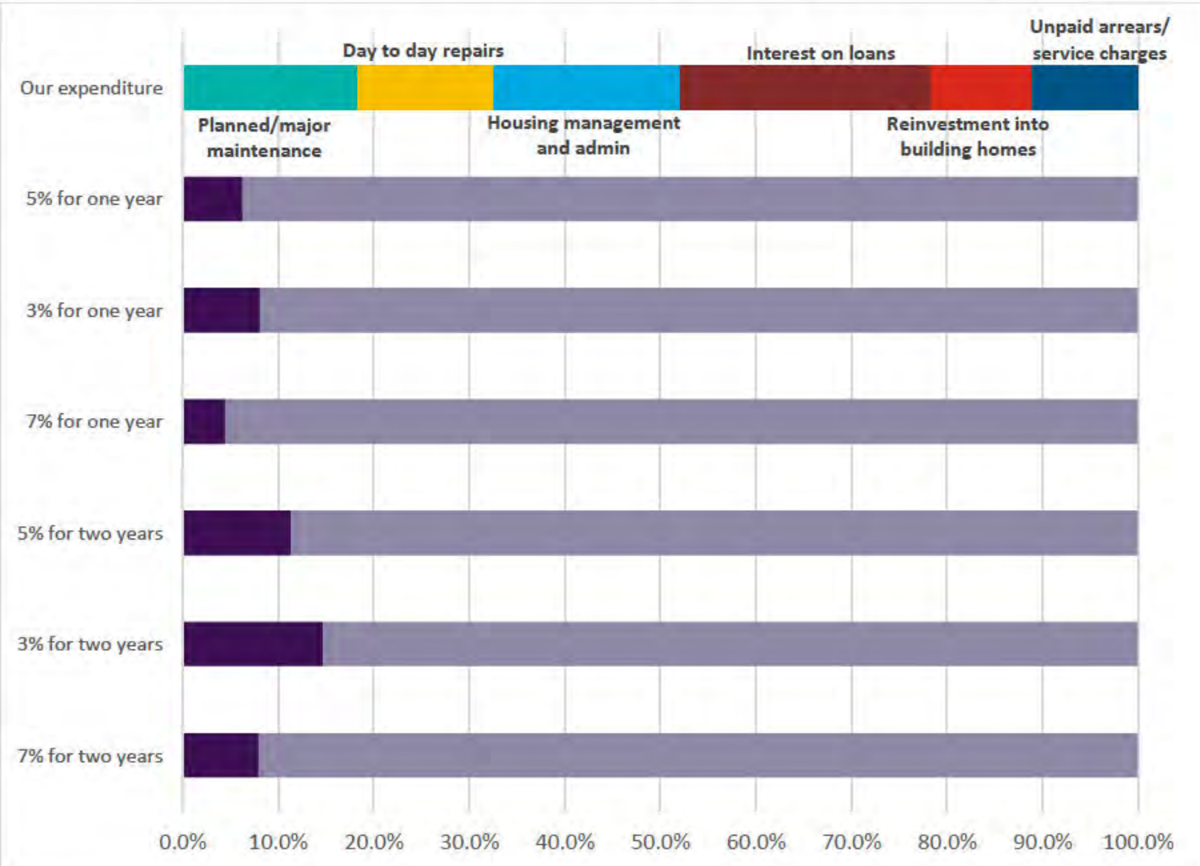
No.

There can be no doubt that the rising cost of living necessitates government intervention on many fronts to help struggling households. However, a blanket cap on rents in social housing would do more harm than good.

The cost of maintenance and construction are rising at a higher rate than the headline rate of inflation, and in some areas they are rising substantially faster. Any cap beyond that which already is imposed on rent increases will amount to a real-terms cut to social landlords' budgets. 100% of the money housing associations collect in rent is reinvested into existing homes or new affordable homes, so any real-terms cut to our budget will result in less money being spent on existing or new homes.

Figure 1 below shows what we spend money on, and how much yearly income we would lose relative to increasing rents by CPI+1%. They are shown together so the scale of the cut is clear.

Figure 1: Network's loss of annual income in 2024/25, shown alongside what we spend money on[1]



[1] The purple line represents Network's income from social rented tenures, with the darker segment showing the income that we would no longer collect in that year if various cap scenarios were implemented. The expenditure proportions are taken from 2021/22.

If government caps rent increases in one of the ways proposed in the consultation and depicted in this chart, the real-terms reduction in our income will have to be taken from one or more of the expenditure items on the top row. Because we reinvest 100% of our income, there is nowhere else for the consequences of a rent cap to fall.

We consider each of these items in more detail below.

Planned/major maintenance

Forcing housing associations to spend less on planned maintenance is incompatible with government's stated aim of making homes across the country safer. Network has set aside around £100m for ongoing remediation works to its buildings on an accelerated timescale. To do this, we have deferred some cyclical maintenance across our housing stock. If we cut funding on this item, it would mean building safety works would take substantially longer than currently planned.

Forcing housing associations to spend less on planned maintenance is also incompatible with government's stated aim reaching net zero carbon emissions by 2050. To achieve this, housing associations need to invest substantially, and government's existing £3.8bn Social Housing Decarbonisation Fund can cover at best around one tenth of this bill. If housing associations are forced to cut spending on this item, a net zero housing sector will be even further out of reach.

Day to day repairs

Forcing housing associations to spend less on repairs is incompatible with government's stated aim of ensuring tenants have a good quality home in good repair. Repairs cost inflation is at 14%, substantially higher than the headline rate of inflation. This means that even a CPI+1% rent increase will not cover the costs housing associations are experiencing. It's not easy to see how we could let the incidence of any cut fall on repair costs, given they are a fundamental duty of landlords, and we will already likely have to do less of other things to fund them.

Housing management and administration

Forcing housing associations to spend less on housing management is incompatible with government's stated aim of improving housing associations' compliance with the consumer standards. Government's move toward regulating consumer standards more pro-actively to drive up compliance in the wake (among other things) of high profile news coverage of the conditions some tenants face is laudable, and Network is well placed to meet the increased scrutiny. But cutting funding to housing management and administration – which includes general overhead organisational costs – will make this substantially harder to do.

We already report on Value for Money to the regulator and take ongoing steps to be as efficient as possible. Indeed, at Network many of the cost savings we've achieved in the last few years have fallen in this area. Cutting funding on this item beyond cuts already implemented would mean that the housing service we provide to residents would get worse, at a time when government is explicitly asking that it gets better.

Interest on loans and reinvestment into building new homes[2]

Forcing housing associations to spend less on building new homes is incompatible with government's stated aim of building more homes. There are two ways Network funds any new development scheme: borrowing, and internal subsidy (shown in dark and light red respectively). In general, the borrowing costs ensure homes get built, and the internal subsidy ensures as many as possible are as affordable as possible, given viability constraints. Our cost of borrowing is likely to increase significantly over the medium term in line with movements in the markets.

There 250,000 households in London, and 1.2m in England, waiting for social housing. While private developers will tend to minimise the new social homes in their schemes as far as possible, housing associations use their surplus to maximise the delivery of affordable homes. And even apart from the households desperately in need of social rent homes, it is widely accepted that there is a housing affordability crisis, and that part of the solution is increasing the number of homes we build. If housing associations cut funding to this area, fewer people in housing need will be given the social homes they desperately need, and fewer new social and market homes will be built.

As is noted in government's Impact Assessment, 66% of the benefit of a rent cap will not be felt by tenants at all, but rather government, in the form of lower welfare spending. In the even a cap is introduced, this saving should be reinvested into social housing, in the form of a £4.6bn additional injection into the Affordable Homes Programme.

Uncollected arrears and service charges

Expecting housing associations to recover greater proportions of rents and service charges is unrealistic given the current rising cost of living, and in any case, if achieved, would be incompatible with government's stated aim of protecting social housing residents against rising housing costs. The majority of this expenditure comes from services that we pay for but do not collect from tenants. Some also comes from rent arrears and service charge arrears that we write off due to it not being realistic that they will be collected. The soaring energy bills tenants face, coupled with the inadequate levels of welfare benefits claimants receive, already put great pressure on tenants and landlords alike. In the current climate, this expenditure item cannot reasonably be expected to fall.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

If a rent ceiling were not imposed, housing associations would be free to consider much more targeted rent caps, rent freezes or funding for households in need, which would have significantly less impact on aggregate rent revenue, but which would help tenants far more. For example:

- A freeze on Affordable Rent 3+ bed homes. This would mean that those with the least affordable homes, and those most likely to be affected by the benefit cap and already facing shortfalls in their rent, would not pay any increase at all. Analysis we did last when considering how to increase rents in 2022/23 showed that this would cost Network £4.8m in the long run – a tiny fraction of the hundreds of millions of pounds that proposals in government's consultation would cost.

[2] These two items are taken together, because the loans we take out are almost exclusively to fund new development.

- A cap based on absolute increase in rents rather than percentage increases. This too would help those households whose rents would rise by huge amounts even should government's 5% cap be implemented.

Furthermore, shared ownership rents, which rise based on RPI rather than the lower CPI, will be hit far harder than social rents. The protections that we will be able to offer to shared owners facing rent increases will be dependent on the implementation of government's proposals.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

No.

Even the highest proposed cap of 7% for one year would lose Network around £250m over the duration of our 30 year business plan. This is more than double what we have set aside for building safety remediation. Even a cap at this level would mean we would have to weigh up various options, all of which are bad:

- We may have to pause all new development
- We may have to take substantially longer to complete necessary building safety works
- We may have to push back cyclical maintenance again (we had already taken the necessary decision to defer much of our planned maintenance beyond our mid-2010s expectations in order to fund building safety works).

One of, or some combination of, these options would be extraordinarily detrimental to the same tenants that government is hoping to support with the cap in the first place. So it follows that if a cap is implemented, it should be commensurately beneficial to the tenants it helps.

A percentage-based cap on rent increases is *not* sufficiently beneficial to tenants to warrant the harm this would cause. As government notes in the Impact Assessment, most tenants (around two thirds at Network) have their rent fully or partially covered by housing benefit or Universal Credit. For these tenants, they will benefit either very little or not at all from a cap.

The ones who would benefit – those who do not rely on welfare benefits – are precisely the tenants who are *least* in need of government's support as all are already earning more than government deems the minimum necessary to live upon (the level set in benefits/Universal Credit).

More targeted support could alleviate far more hardship than a percentage-based cap, which is a very blunt instrument. For example, removing the benefit cap would support households who are already being denied enough money to prevent deprivation.

Or, if government is not minded to do this, a rent increase cap based on the aggregate rent revenue a given organisation has would be more appropriate. For example, Network collects £96m in social rents each year. If the cap applied to this number, and capped Network's total rent roll at 5% or 7% higher than this, we would be free to flexibly target support at households who need it most.

The tenants on high Affordable Rents (who are on average in more need than social rent tenants, both because of the additional rent they pay, and because on average they moved into social housing more recently at a time when the threshold of need was higher) are in greater need of protection from high rent increases than lower rent tenants are. Affordable Rent tenants are also more likely to face higher shortfalls in their welfare payments due to the benefit cap, and even the ones who pay their rent without government support would be hit harder than other social tenants by any blanket percentage-based rent increase.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

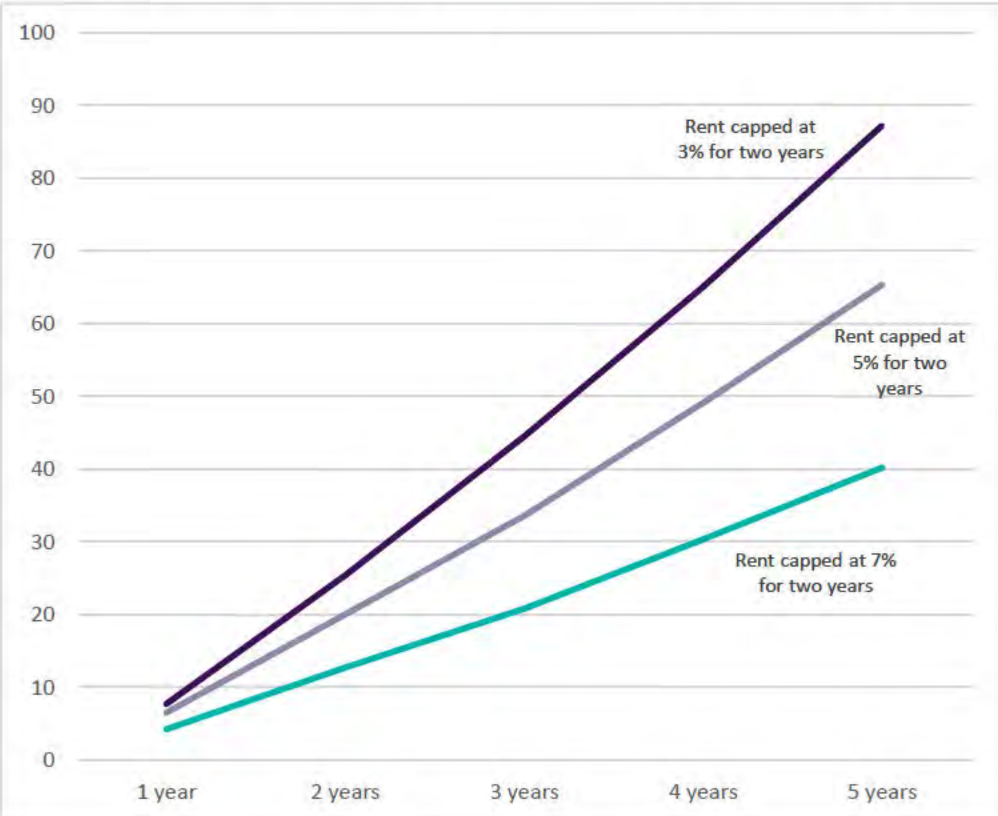
If a ceiling is introduced, it should not apply for more than one year. If further protection is needed to households from 1 April 2024 there is plenty of time for government to develop much better mechanisms to provide this.

As shown in Figures 2 and 3 below, a 5% cap for two consecutive years would cost Network around £780m over the duration of our business plan. Due to the very high inflation on repair costs we are facing as an organisation, the scale of this loss would challenge our ability to carry out even our statutory duties as a landlord, like carrying out responsive repairs.

Figure 2: Network's cumulative loss of income based on various cap scenarios (table)

Cumulative loss (£m)	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**	**10 years**	**30 years**
Rent capped at 3% for two years	7.67	25.3	44.5	65.0	87.2	215	835
Rent capped at 5% for two years	6.47	20.0	33.5	49.0	65.3	160	779
Rent capped at 7% for two years	4.18	12.7	20.7	30.3	40.2	96.3	537

Figure 3: Network's cumulative loss (£m) of income based on various cap scenarios (graph)



Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, if a ceiling is introduced.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes.

Social rent homes that are below target rent should be exempt from any cap imposed. Due to the introduction of Affordable rents and the early ending of the rent convergence policy, many tenants living in similar homes to one another pay an extremely wide range of rents. Exempting any below-target rents from the cap, or setting them a higher cap so that their 2023 rent would be in line with what they would have paid had they been paying target rent in 2022, would go some way to making the submarket rent system fairer.

Separately, and for the same reasons, government should implement a return to rent convergence, so that over time, those whose rents are far below target can catch up to other rents paid by newer social rent tenants.

The early end to rent convergence, as of today, costs Network around £3m a year. Removing this loss of income over time could go some way towards offsetting the enormous additional loss of income government is proposing to impose on housing associations. Depending on the spend at which landlords were able to converge rents, this could pay for 10-30% of the income lost by imposing a 5% cap.

For more information, please contact:

[redacted]

Network Homes

From: [redacted]
To: Social Housing Rents
Subject: social-housing-rents-consultation
Date: 31 August 2022 10:15:41
Attachments: 0.png

IMPORTANT: This message is private and confidential.
If you have received this message in error, please refer to our email disclaimer.

Hi,

I am writing in concern for our clients, who include a number of housing associations and charities, following the recent announcement: https://www.gov.uk/government/news/rent-cap-on-social-housing-to-protect-millions-of-tenants-from-rising-cost-of-living .

This "support" is extremely concerning and will cause a huge amount of damage to both housing associations and their residents. It neither addresses the issues or provides any level of meaningful support – it simply pushes the Burdon onto housing associations. When these housing associations are forced to sell off properties or go bust their vulnerable residents will be left without support.

Some examples of how this policy will adversely affect tenants and housing associations.

Nacro - https://www.nacro.org.uk/

Nacro have around 507 flats which would qualify for this new cap. With £300/site saving for the tenants this policy just cost Nacro £150k.

Nacro have already taken a huge hit on energy costs which is threatening their viability as a charity. I cannot disclose sensitive information however I can say their electricity costs increased 290%.

With no support from the government Nacro as a charity is being completely undermined by the cost of living and cost of energy crisis.

Barnet Homes.

Barnet Homes locked in a long term energy contract and have therefore protected their residents from the worst of the increase. Despite proactively managing risk for their residents they are now forced to absorb (922 sites) 276k in additional costs.

- Housing associations only have one way of making money – by charging for rent and services.
  - If you cap rent to this degree then housing associations will have to either pass on the costs to residents via service charges, face staff redundancies or sell off assets. None of this is beneficial in the current cost of living/cost of energy and afford bile housing crisis.
- Accrual and budget forecasting.
  - Most housing associations have had to make specific accommodations in their budget and are taking proactive effort to ensure stable cash flow during their difficult time in order to support vulnerable residents.
  - This plan will render a lot of that time and effort a complete waste as Housing associations will now have very little time to re budget. This can cause cash flow issues resulting in spiralling late payment costs and disruption.
- Too little too late.
  - The plan comes into force in April 2023. 8 Months away. In the last 8 months the Energy market moved from around 175 p/MWh to around 520 p/MWh. There is no way £300/site will be relevant by April, furthermore I suspect a number of housing associations will not be able to survive winter without additional government support.

Can I ask what considerations have been given to the above points?

Many thanks,
[redacted]

[redacted]

[redacted]ership.co.uk • **Office:** [redacted] • **Follow us:** Facebook | Twitter | Linkedin
Monarch Partnership, Monarch House, 7-9 Stafford Road, Wallington, Surrey, SM6 9AN

Please consider the environment before printing this email.

The Monarch Partnership Limited. Registered in England & Wales. Company No 4346309. Monarch House, 7-9 Stafford Road, Wallington, Surrey, United Kingdom, SM6 9AN
Please follow the link to our email disclaimer.

Social Housing Rents Consultation, 2022

Melton Borough Council

Background

In response to the Cost-of-Living Crisis, the Government launched a consultation to seek views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. It focuses on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year. Three 'upper limit' (rent cap) scenarios were proposed for consultation: 3%, 5% and 7%. At the time of the consultation, inflation was in excess of 10%.

Consultation Response: Melton Borough Council - Key points:

- **All three rent cap scenarios weaken the financial position of the Council's Housing Revenue Account and the impact of any rent cap imposed will have a long-term impact on the resources available to invest in homes and to meet the robust and evidence led commitments set out within the Council's HRA Business Plan. This will be the same for the whole housing sector.**

- **If the rent cap at any level is imposed for more than one year, the viability of the Housing Revenue Account will be significantly undermined. The Councils Housing Revenue Account would go into a deficit position if a 3% or 5% rent cap was maintained for 2 years. With a number of properties already below target rent, the Council is already still managing the long term impacts of previous rent setting policies.**

- **With a rent cap of 7% for one year, the Council could (based on current projections) still maintain its health and safety and decent homes commitments but would be unable to progress many of the planned investments set out in its Asset Management Plan. If a rent cap is implemented, there are areas of the Asset Management Plan that would need to be reviewed to identify further savings. These would require further consideration and consultation with tenants to identify their revised priorities based on reduced budget availability. The Council (and the wider housing sector will likely experience reputational risks and impact on tenant satisfaction as a result of reducing investment in social housing. For some landlords, health and safety may also be compromised.**

- **The Council does not consider that the proposed rent cap is an effective or proportionate response to the Cost-of-Living Crisis, and to impose this at such a key time in holding landlords to account (quite rightly) for excellence in housing standards and in preparing the sector for regulatory change is a significant risk, particularly against a backdrop of unprecedented cost pressures and rising costs facing landlords.**

- **A more pragmatic solution that would genuinely enable landlords to support tenants through the Cost-of-Living crisis would be to encourage local authorities to use a portion of the rent increase for the creation of a hardship fund that could be**

targeted to support those on low incomes and / or those with high energy costs and in particular, to support households who are not in receipt of financial help with their housing costs (i.e those without a safety net). Alternatively, Government funding to local authorities to enable targeted financial support would be even more impactful and effective. This would allow landlords to support tenants in need, to continue to invest in tenants' homes, and also reducing the risk of destabilising Housing Revenue Accounts.

- **Should a rent cap be imposed, landlords will require significant financial support to mitigate the impacts.**

Consultation Response: Melton Borough Council

Delivering excellent homes and landlord services is a corporate priority for Melton Borough Council. Having been on a housing improvement journey and with a range of tangible and positive examples of improvements and excellence in its housing service, the proposed rent cap will undermine the progress made and inhibit what could otherwise be achieved in the coming years.

Melton Borough Council has some of the lowest rents in the Country. It also has a number of properties that are already below target rent as a result of the impacts of previous national rent setting policy.

The Council has agreed a policy position of maximising rental income in order to maintain investment and improvement in tenants' homes and to ensure the long-term viability of the Council's Housing Revenue Account. In 2022, the Council approved an evidence led thirty-year business plan, guided by a detailed understanding of its stock profile and investment requirements, and shaped by tenant feedback on what matters. At every stage, the Council has ensured a focus on landlord health and safety (compliance) and on meeting the Decent Homes Standard. In addition, the Council has developed a detailed asset management plan and five-year capital programme, has secured substantial assurance (October 2022) in an audit of its health and safety obligations and has worked tirelessly to engage with and listen to tenants about what matters. These are key components of the Council's commitment to deliver excellent homes and landlord services and also form key strands of the Council's readiness for regulatory change. Alongside this, the Council understands the need to support vulnerable tenants and is resolute in its commitment to support tenants, including through the cost-of-living crisis.

The Council agrees that a safety net for tenants is important to assist households in being resilient to the financial impacts of rising costs, however, does not agree that capping rent at a time of unprecedented levels of inflation and other extreme pressures on council finances alongside regulatory changes and uncertainties around energy costs and future of the decent homes' standard represents a logical or responsible solution. Quite simply, to cap rents in this way will inhibit the progress and ability of the housing sector to maintain momentum and progress in delivering and maintaining homes fit for the future. With a high proportion Council tenants in receipt of financial help with their housing costs through either Universal Credit or Housing Benefit as a key safety net, the Council considers that a more targeted approach to assisting tenants with housing costs is more appropriate,

All three rent cap scenarios weaken the financial position of the Council's Housing Revenue Account and the impact of any rent cap imposed will have a long-term impact on the resources available to invest in homes and to meet the robust and evidence led commitments set out within the Council's HRA Business Plan. This will be the same for the whole housing sector and landlords will require financial support to mitigate the impacts of the proposed rent cap. The Council does not consider that the proposed rent cap is an effective or proportionate response, and to impose this at such a key time in holding landlords to account (quite rightly) for excellent in housing standards and in preparing the sector for regulatory change is a significant risk, particularly against a backdrop of cost pressures and rising costs facing landlords.

Rent Cap Analysis

With a 30-year business plan in place, the Council has been able to predict the impact of the rent cap far more accurately.

If the rent cap at any level is imposed for more than one year, the viability of the Housing Revenue Account will be significantly undermined. The Councils Housing Revenue Account would go into a deficit position if a 3% or 5% rent cap was maintained for 2 years. This would put service delivery and compliance at risk.

Without a rent cap, the Council's Housing Revenue Account has an annual average headroom of £1.2m within its Business Plan. The Council has worked hard to ensure it can maximise impact through this headroom, to proactively meet the scale challenge the housing sector faces and has developed a robust and effective plan based on stock condition data (almost 90% stock surveyed), tenant views and always with a focus on ensuring we meet our legal obligations as a responsible landlord. Through its robust plan the Council has embraced and planned for a number of requirements and challenges such as new regulatory requirements, building safety, zero carbon and developing much needed affordable housing. There is no doubt that imposing a rent cap will have a detrimental impact on the sector, and that the impact will be long lasting.

If the rent cap was in place for 2023/24 only, the average annual headroom in the HRA would be reduced to:

3% £120,000

5% £320,000

7% £553,000

[redacted]

[redacted]

[redacted]

[redacted]

Even a rent cap of 7% for two years, or at 3% or 5% for one year would drastically reduce the headroom within the HRA. However, at 7% for one year, the Council could (based on current projections) still maintain its health and safety and decent homes commitments but would be unable to progress the planned investment in new build housing, energy efficiency and other areas identified in the Asset Management Plan.

Additionally, Melton Borough Council has a number of properties which are already not at target rent following the cutting short of the previous rent convergence policy. To implement rent caps across the board further undermines our long-term business plan. The expectation should be then that those properties not at a target rent be capped at a higher percentage, if such caps are imposed.

If a rent cap is implemented, it must be done in a way that does not destabilise Housing Revenue Accounts, and it must take into account factors such as properties that are already below target rent. The Council believes there are more pragmatic and proportionate solutions to support tenants with increased costs of living than imposing rent caps, which are targeted and more effective and will allow landlords to genuinely support tenants through the financial pressures they face.

Any rent cap will require the Council to review its Business Plan, Asset Management Plan and service delivery to identify savings. These will require further analysis and consultation with tenants to identify their revised priorities based on reduced budgets.

The Council believes the proposed rent cap will be catastrophic for the housing sector and in tenant trust and confidence in the sector at a time of increased regulatory focus, and during a move to increased emphasis on tenant satisfaction and consumer standards this will have a heightened impact. Landlord (and lenders) may be less confident in borrowing to support the development or acquisition of much needed affordable homes

In the event that a rent cap is imposed at any level, the Council will need to take action to mitigate the impacts, however the scale of and impact of such intervention will depend on the cap imposed. The Council will consider the options below, however this is unlikely to be sufficient to mitigate the scale of the rent cap challenge:

- Ensure that service charges are sufficient to cover the costs of the services provided (however, this is also a cost to tenants)
- Further reduce operating costs where possible – this may impact on service delivery / quality and staffing capacity
- Explore the generation of capital receipts from disposal of appropriate assets on the open market however this is a one-off solution
- It will be essential to access additional external funding for things such as zero carbon investment

Contact:

[redacted], [redacted])

[redacted]

mhs homes
Broadside, Leviathan Way
Chatham, Kent, ME4 4LL

Login or register with My Account
mhs.org.uk/myaccount

Our ultimate ambition is to help end the housing crisis in north Kent

Social Housing Rents
Department for Levelling Up, Housing & Communities
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London SW1P 4DF

By email to: Socialhousingrents@levellingup.gov.uk

12th October 2022

Dear Sir/Madam

Re: Consultation on Social Housing Rents

This response to the open consultation on Social Housing Rents, published on 31 August 2022, is made on behalf of both **Heart of Medway Housing Association** and its parent, **MHS Homes**. We are grateful to have the opportunity to comment on the proposals.

By way of background, Heart of Medway HA is a registered provider set up in 2010. Heart of Medway owns and manages c. 900 affordable homes. Heart of Medway HA comes within the regulatory framework set by the RSH and fully complies with the Rent Standard. If the government implement a specific ceiling to the maximum social housing rent increase, it will apply to Heart of Medway HA.

MHS Homes is the parent of Heart of Medway HA and is also a social landlord in its own right to c. 9,000 affordable homes. MHS Homes is a charity registered with the Charity Commission but is not registered with the RSH. Consequently, MHS Homes does not come within the Rent Standard and any ceiling on the maximum social housing rent increase will not apply to it. However, as a leading housing charity with a commitment to providing affordable homes to those on the lowest incomes, we believe that MHS Homes have an important contribution to the consultation on social housing rents.

Heart of Medway

mhs homes Limited is contracted by Heart of Medway Housing Association Limited to deliver landlord services. If you're a Heart of Medway Housing Association Limited customer please be informed that correspondence to you is sent from mhs homes Limited in its capacity as a managing agent for Heart of Medway Housing Association Limited.

INVESTORS IN PEOPLE Gold

CUSTOMER SERVICE EXCELLENCE CSE

mhs homes Limited **10704997**
Registered Charity **1177565**
Registered in England and Wales

mhs homes
Broadside, Leviathan Way
Chatham, Kent, ME4 4LL

Over the last 32 years MHS Homes have set our own rents outside of the regulatory framework and have done this with clear social purpose. Indeed, our rents are not significantly different to those provided by registered providers. We believe that MHS Homes provides a working example that housing associations boards can be trusted to make decisions on rent increases without the need for prescriptive regulation on rent ceilings or caps.

Specific Questions Asked

We set out below our responses to the specific questions asked in this consultation.

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

We do not feel it is necessary for the government to impose a specific ceiling. As responsible charitable organisations with strong social purpose, we feel that boards should be left to exercise their own judgement on such matters and to be held accountable to stakeholders such as tenants and local authorities for any decisions made.

In the case of Heart of Medway HA (which would come within any proposed rent cap), the Board have considered the cost of living crisis and its impact on our tenants at length. Whether a rent cap is implemented or not, it is unlikely that the Board would consider any rent increase above 5% given the need to keep rents affordable to those on those lowest incomes.

In the case of MHS Homes (which would not come within any rent cap and has freedom to set rents at a higher level), again it is unlikely that the Board would set rent increases in 2023/34 any higher than 5% given the current cost of living pressures. Again, this highlights that housing association boards should be trusted to make decisions with full regard to the financial wellbeing of tenants.

mhs homes
Broadside, Leviathan Way
Chatham, Kent, ME4 4LL

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

In terms of Heart of Medway HA, a ceiling of 5% is manageable and, as highlighted above, even if there was no cap in place, we would be unlikely to set rent increases in 2023/24 above this level.

Whilst a rent cap of 5% is manageable in one year, there would be a much more damaging impact if the government were to seek to extend this into future years and not allow providers to return to the rent settlement of CPI +1%, Any long term deviation from the agreed rent settlement would inevitably lead to planned maintenance programmes being lengthened, decarbonisation and essential building safety works being delayed and a significant reduction in new development.

If a rent cap is introduced, we would like to see the government consider a 'catch up' mechanism so that lost rental income can we recovered gradually over, say, a 10 year period. This will help avoid the situation where the income gap created by the rent cap is rolled up in perpetuity into our future business plan.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

We would ask that any rent cap is only in place for the one year from April 2023 to March 2024. The current economic environment is highly volatile and setting the ceiling for one year – rather than two years – gives the government greater flexibility to reassess the position in a years' time.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

mhs homes

mhs homes
Broadside, Leviathan Way
Chatham, Kent, ME4 4LL

Login or register with My Account
mhs.org.uk/myaccount

Our ultimate ambition is to help end the housing crisis in north Kent

Yes. We agree that the proposed ceiling should not apply to maximum initial rent when properties are first let. The proposed rent cap seeks to limit rent increases for existing tenants, but it would be helpful not to apply the ceiling to newly developed homes.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

We would strongly recommend that the government consider exempting supported housing schemes from the rent cap. For example, Heart of Medway HA currently operate two Foyer schemes for young people. These invaluable schemes provide a safe home for young people between 16 and 25 years of age, many of which are care leavers. Our Foyers seek to break the cycle of homelessness created by 'no home no job, no job no home'.

Our Foyers operate as a charitable endeavour in that expenditure is not matched by income and the deficit is funded by Heart of Medway HA. Previous assistance through supporting people grant has largely disappeared. A rent cap applied to these schemes for any longer period would put their ongoing viability at risk.

We hope that the comments made in response to the consultation are helpful and would be very happy to provide additional information to any of the points made if that would be helpful to the Department. Thank you for considering the comments made.

Yours faithfully

[redacted]

[redacted]
MHS Homes and Heart of Medway Housing Association

From: [redacted]
To: Social Housing Rents
Subject: [redacted] consultation on rental cap
Date: 12 September 2022 21:29:11

You don't often get email from [redacted] Learn why this is important

As a pensioner in a shared ownership property I am very worried that my provider will increase rents by RPI in accordance with the terms of the lease leading to future annual rent rises in excess of 10%. My request is that rises should be capped at 5% for shared owner rents as for other types of tenancies.
As far as I can see I am likely to be hardest hit of any kind of householder in this cost of living crisis.
Mortgage payers are unlikely to face % mortgage rates as high as RPI.
Shared owners in work are likely to win substantial pay rises and or extend the term of their mortgage to compensate rent rises.
Social renters will have rents capped.
Many thanks, [redacted]

MANCHESTER
CITY COUNCIL

[redacted]
Email: [redacted]

[redacted]
Director Housing Operations

12th October 2022

To Whom it May Concern

Social Housing Rents Consultation Response

Please find enclosed the response to the social housing rent consultation from Manchester City Council.

Please see the below statement from [redacted] the Executive Member for Housing and Development

"At a time when we know many of our city's households are struggling through a cost-of-living crisis that hasn't yet reached its peak, talk of increasing social rent by any margin is going to add yet another set of worries on our residents, particularly those in lower income households

"However, Councils rely on rent income to invest back into social housing stocks and although any increase in rent is unpalatable, the reality is that current inflation levels mean Councils and housing providers would be unable to maintain housing stocks to decent homes standards and undertake statutory fire safety works. We would also be unable to invest in low carbon retrofitting works - which would make reducing household energy bills, and meeting our carbon reduction targets extremely difficult - and we would struggle to build the new affordable homes that we know our city needs.

"Our ask would be for Government not to impose a specific cap on social housing rents but allow Councils and landlords to act in the best interests of their local area with the expert knowledge of our housing base and residents. Or if a cap is introduced, then Government should be prepared to help fund the shortfall in revenue to ensure that vital social housing investment is not impacted, to the detriment of our residents.

"Of course, residents need to be supported through this crisis. In Manchester we have an £8m programme to support Manchester people through local interventions. And we also believe that there are further housing measures that could be introduced nationally, including increasing LHA levels to support those on the lowest incomes, stop S21 evictions, and a ban on winter evictions. These measures would fundamentally improve the lives of residents across our city in Manchester."

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

In Manchester, social housing plays a vital community role, providing warm, safe and affordable homes to our local residents. It is also a priority for Manchester that we continue to support residents, as we have done through austerity, covid and now the cost of living crisis by ensuring that any increase in rent is proportionate. Our current social rent levels are one of the lowest in the country and with or without a rent cap, Manchester would continue to maintain low rents for our residents.

To illustrate further, Manchester City Council is also taking direct action in supporting local residents due to the cost of living crisis which includes more than £8m to be made available to support residents across the city through the expansion of welfare schemes as well as helping to provide access to food.

Returning to the issue of social rent, there are two key points to make

1. Manchester City Council, in light of our clear commitment and action in mitigating the impact of the cost of living crisis for local residents, would recommend to government that local autonomy in terms of decision making within a CPI+1% framework be maintained, without the need for a universal social rent cap from government. MCC would of course take into account the cost of living context and not increase at the maximum level. However, MCC does seek additional government funding to meet the adverse financial impact as to continue the shared agenda of delivering levelling up, decent homes, building safety and on zero carbon. Table 1 sets out the different financial impacts of a 3, 5 and 7% increase.

2. If the above position was not accepted and a universal social rent cap were introduced by government, MCC would clearly welcome the intervention to reduce the impact of the cost of living on our residents. On that basis, MCC would again seek additional government funding to meet the adverse financial impact as to continue the shared agenda of delivering levelling up, decent homes, building safety and on zero carbon. Table 1 sets out the different financial impacts of a 3, 5 and 7% increase.

The estimated impact of the rent caps are set out below, and illustrate the fact that base costs will increase but will not be covered by a corresponding increase in rents, creating a budget shortfall that compounds over the 30 year life of the business plan.

[redacted]

In summary, any introduction of a local or national social housing rent cap, would need to be accompanied by additional government funding to the council to meet the planned cost of decent homes, building safety, net zero programmes and continuation of quality services housing services to local residents.

Without additional funding it is highly likely to compromise the quality of existing social housing provision, the building safety issues post Grenfell, our shared net zero ambitions as well as that of the future social housing developments for our local residents and Government's Levelling Up agenda.

Key Services and Programmes that would be impacted include

- Housing Services – Vital Repairs and Maintenance Services to our 12,500 households
- Decent Homes – Our rolling decent homes programme to ensure quality social housing for local residents
- Building Safety – The welcome changes to Building Safety and rising standards and the increased expenditure in this critical area
- Net Zero – Manchester is a leading light in the race to net zero, however, the funding gap prior to any further reductions through the rent cap, is significant and the council would seek financial support from government to continue our progress in reducing energy bills for our residents as well as the overwhelming environmental benefits

As a helpful suggestion, if a cap were introduced the £3bn savings made by the DWP/Treasury through the initiative should be made available to social landlords to maintain services and capital investment programmes at the required levels.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

As above

The impact of the suggested rent caps are set out below

[redacted]	[redacted]			
	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]		[redacted]	[redacted]
[redacted]				

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

As above, Manchester is supportive of national and local action to minimise the cost of living crisis to local residents, particularly those in social housing. Manchester's preferred solution is where a cap is introduced that government funding is made available to meet the commitments set out in the HRA business plan (Table 1) to deliver the key national priorities of Levelling Up, Decent Homes, Building Safety and Net Zero.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Manchester is committed to maintaining social rents at an affordable level for our residents and for new tenants, the government proposal of not applying the ceiling would still allow Manchester to do so. Agree, albeit MCC would still seek additional government funding as set out in Question 1.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

After careful consideration, properties that are in a PFI management scheme should be excluded to ensure that the viability of the schemes is not compromised (considering the fixed nature of PFI credits provided by Government). The properties have been maintained at a consistently higher standard due to not being subject to previous rent caps due the PFI status.

Yours sincerely,

[redacted]

[redacted]

[redacted]

Manchester City Council

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Lumen Housing Ltd
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	348-350 Lytham Rd Blackpool FY4 1DW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:
As a small and recently created Registered Provider Lumen would find its financial viability threatened by the imposition of a rent increase cap that would see rents rise more slowly than running costs. It has no historical reserves on which to rely. Current projections with no cap would see Lumen make cumulative surpluses by March 2027, the imposition of a 5% cap would see this pushed back by at least 2 years and

increase its reliance on the continuing support of its parent company which itself is facing similar challenges.

Rent increases would be a matter for individual providers but I would expect the Boards of RP's would set rents at a level that would enable them to maintain viability and provide services to the Communities they serve whilst balancing the challenges faced by tenants in a cost of living crisis.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:
Any ceiling would cause financial challenges that would require the ongoing support of the parent. The imposition of a 5% cap would cost Lumen c£250k over the next 5 years, a substantial sum for a small provider. If a ceiling is to be imposed, given rising material and labour costs, 7% would be more tolerable.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
Any continued cap on rent increases would only worsen the position already set out. Boards should be trusted to make the right decisions for their organisations and tenants rather than having limits imposed on their ability to raise income to provide improved services to those in need.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:
As a provider of Affordable Housing funded under the SOAHP, Lumen calculates rents at 80% of the market through the gathering of data around market rents. [redacted]

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:
Lumen has only been trading for a short period of time and began operating under a business plan that accepted some losses would be incurred in the first few years of operation. Many RP's are long standing businesses that have built up significant reserves that mean any short term financial hit can be absorbed albeit with revised investment and operating assumptions. Lumen has no historical reserves on which to rely. There should be some leeway for organisations that have been in existence for less than 5 years to offset potential insolvency.

Social housing rents consultation

London Councils Consultation Response

London Councils is the collective of London's thirty-two boroughs and the City of London. London local authorities manage 390,000 rented properties and are expected to build 40% of all homes due to be delivered in London through the 2021/26 Affordable Homes Programme.

We are pleased to have the opportunity to respond to this consultation, which comes at a critical time for residents and local authority landlords. High inflation is driving a cost-of-living crisis that is severely impacting all residents, with Bank of England forecasts showing Consumer Price Index (CPI) inflation potentially rising to as high as 13% by the fourth quarter of 2022.[1] Given the scale of the crisis we face, it is vital that steps are taken to protect residents.

London Councils does not support the fettering of local discretion on rents policy (a key principle of self-financing) and believes that local authorities can be trusted to make these decisions in consultation and partnership with tenants. We are concerned that the government's proposed approach does not sufficiently consider Housing Revenue Account (HRA) business plan viability, and without additional government support it will be challenging for some councils to deliver appropriate basic services and ensure tenants' safety in their homes.

To inform our understanding of the implications of various rent scenarios that could be implemented from 2023/24 we worked with Savills to provide the modelling that is reflected in this consultation response. Local authorities face a significant challenge in supporting residents at this time of financial pressure: HRA finances have been undermined by the decision to cut social sector rents by 1% a year from 2016/17 through to 2019/20, the financial implications of the COVID-19 pandemic, the difficulties created by high inflation within their cost base and increasing investment requirements (especially in aging stock and in areas missed by historic rounds of Decent Homes funding). The funding position facing HRAs, and the possible implications of a rent ceiling, will therefore make it challenging for councils to maintain even adequate management standards and capital investment (for example, in building safety and home retrofit). At the time of the self-financing agreement many of these types of capital investment, particularly large-scale building safety works, were not forecast to require significant HRA investment.

[1] 'Monetary Policy Report', Bank of England, August 2022, p.4

Without any mitigating support from government, the introduction of a rent ceiling will have significant financial implications for local authorities. The figures below show the estimated impact across London of the options presented in the consultation, for both a one or two-year rent ceiling:

One-year rent ceiling	3% ceiling	5% ceiling	7% ceiling
Impact in first year (2023/24)	-£217 million	-£163 million	-£108 million
Impact over first two-years	-£448 million	-£337 million	-£223 million
Impact over first five-years	-£1.2 billion	-£901 million	-£598 million
Impact over first forty-years	-£16.0 billion	-£12.0 billion	-£8.0 billion

Two-year rent ceiling	3% ceiling	5% ceiling	7% ceiling
Impact in first year (2023/24)	-£217 million	-£163 million	-£108 million
Impact over first two-years	-£560 million	-£394 million	-£223 million
Impact over first five-years	-£1.67 billion	-£1.15 billion	-£598 million
Impact over first forty-years	-£23.4 billion	-£16.0 billion	-£8.0 billion

This represents an unsustainable loss of revenues for many councils, further undermining an already weakened financial position within many HRAs. The 40-year impact of a one-year 5% rent ceiling would be equivalent to three-times the value of London's 2021/26 Affordable Homes Programme allocations (£4 billion).[2]

Extending the ceiling to two years exacerbates this problem. A two-year 5% rent ceiling would create financial losses within London HRA's totalling £16 billion over a forty-year period. This would imply losses of 6-8% of all operating costs (including major repairs), or 8-10% of management and maintenance costs, in the first 2-3 years.

The social housing sector is a strategically important partner for government in expanding the supply of new homes. However, introduction of a rent ceiling without mitigating support from government will reduce the resources available to social housing providers to deliver affordable housing (see case studies below). Analysis by the G15 group of London's largest housing associations highlights that its members would face a £13.5 billion reduction in re-investable rental income over the next thirty years under the government's preferred option.[3] Moody's credit ratings agency has warned that the imposition of a cap will constrain revenue growth and effect credit scores, reduce investment, and early indications from credit ratings agencies suggest the entire housing association sector would be at risk of potential downgrades. Reducing available investment in affordable housing would undermine the government's economic growth and wider policy agenda, such as by reducing capacity for new housing development and investment in works such as decarbonisation. For example, achieving an average Energy Performance Certificate B rating across all London's homes, of which council housing represents more than

[2] 'Mayor sets out blueprint for new generation of social housing', Mayor of London, 24 November 2020

[3] 'Preferred rent cap would leave £13.5bn black hole in G15 funds over next 30 years', Inside Housing, 6 October 2022

10% of the housing stock, holds the potential to sustain 110,000 jobs per year by 2030.[4] Reducing investment in affordable housing will also place greater pressure on the local housing market, including through increased private sector rents. This in turn increases local need for homelessness support and places increased budgetary pressures on local authorities.

The proposed rent ceiling presents a particular challenge for London local authorities, where maintaining adequate property standards is more challenging and requires significant investment. For example, a 2021 Housing Ombudsman report found that 57% of all damp and mould maladministration cases were recorded in London, compared to 19% of the total social housing stock being situated in the capital.[5] These heightened challenges largely derive from the characteristics of London's housing stock, which includes more higher density development and a greater proportion of flatted properties. Government must therefore compensate housing providers for the impact of the rent ceiling to help councils and other social housing providers maintain adequate repairs and maintenance services (as well as building safety, retrofit and new build programmes) and support implementation of the new Decent Homes Standard currently being developed by the Department for Levelling Up, Housing and Communities (DLUHC).

Social housing providers (including local authorities) also deliver a wider support role for tenants beyond their immediate landlord functions. This often includes services such as employment and financial advice, as well as working to address critical issues such as anti-social behaviour. Given our responsibility as developers and building managers, we also stimulate local economic activity either directly or through our sub-contractors. The rent ceiling, without mitigating support, would undermine the finances required to deliver on key government priorities, as well as the ability of councils and wider social housing sector to mutually work to improve standards locally.

London Councils advocates for extra support for residents effected by rising cost of living pressures. The proposed approach, however, is not a needs-based approach but would provide financial assistance to all social tenants regardless of their household income.

In summary, our consultation response makes the following key points:

- The implementation of a ceiling will have significant implications for councils' ability to deliver on their basic housing management responsibilities, as well as strategic investment priorities (including in new build affordable housing development, decarbonisation and building safety).
- The proposed intervention, following the previous 1% rent reduction policy, undermines the principles of local sovereignty that underpinned the self-financing model, and support must be provided by government to address the funding gap caused by this intervention.
- Of the options consulted on, we would prefer the 7% rent ceiling to be taken forward to allow local flexibility to balance cost pressures on tenants with ensuring basic safety.
- We agree that new and re-let properties should be exempt from the rent ceiling, which would help to mitigate some of the financial impact of the policy.

[4] 'London Councils: Pathways Report' Parity Projects, July 2021, p.55

[5] 'Spotlight on: Damp and mould', Housing Ombudsman, October 2021, p.14

- Specialist and supported housing should also be exempt – and the rental costs covered through welfare and health budgets – to avoid further disincentivising this type of much needed development.

We would welcome the opportunity to discuss this critical issue further with DLUHC and to help shape support from central government that can assist tenants and ensure councils are able to adequately maintain tenants' homes.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Local authorities would make rent decisions for 2023/24 that reflect a variety of local circumstances, such as current rental levels and their affordability, revenue requirements to support service delivery, and the availability of hardship support for tenants. It is unlikely that any London local authority would implement the maximum possible rent increase that currently looks possible under the CPI+1 approach (possibly up to around 14%) based on affordability grounds. We recognise however that the introduction of a rent ceiling from 2023/24 would not be a needs-based approach but provide blanket financial assistance to all households based on their tenancy and regardless of household income.

This consultation comes at a time when significant financial pressures are already bearing down on local authority HRAs. Primarily these pressures have been driven by the previous policy to reduce social housing rents by 1% for four years from 2016/17 but have been compounded by the impacts of the COVID-19 pandemic, rising inflation impacting on the HRA cost-base and increasing demands on funding (such as building safety, investment requirements to maintain an aging housing stock and low carbon retrofit objectives).

Analysis by London Councils shows that HRA rental income was only expected to return to its 2015/16 level this financial year (2022/23), while in 2021/22 we estimated that rental income would be £459 million lower than it would have been if the CPI+1% policy had remained in place from 2016. Because rents have been uprating from a lower base than anticipated since 2016 this gap continues to grow into the future, with HRA income forecast to be more than £500 million lower in 2024/25 than previously expected, and a total impact of more than £3 billion in lost revenue income across London over the period 2015/16 to 2024/25. This loss of income has a significant impact for local authorities' ability to invest in the housing stock and maintain standards.

The COVID-19 pandemic further eroded HRA resources, with an estimated £100 million financial impact in London. While the data is incomplete, these impacts have in part caused a reduction of HRA reserves in London from around £915 million in 2016/17 to a budgeted £642 million in 2021/22. The financial impact of COVID-19 on council HRAs was never recognised by central government in the form of financial relief, unlike for the local authority general fund.

Further to the four-year rent reduction, implementing a rent ceiling in 2023/24 represents another occasion where central government has intervened in local rent decisions. Not only does this run counter to the principles set out at the time of self-financing (i.e., local decision making) but is a consequential intervention that impacts on the deliverability of HRA business plans. In implementing rent rises below the CPI+1% formula it is therefore a necessity for central government support to help maintain essential HRA services and strategic priorities. DLUHC could consider bringing forward the following options to support local authorities and mitigate the impacts of the rent ceiling:

- Greater flexibility around the use of Right to Buy receipts: There is currently a substantial need for additional funding to support HRA activities, which would be exacerbated by the introduction of a rent ceiling. To support local authorities to achieve adequate service levels they should be granted additional short-term flexibilities regarding how this money is spent and within what timeframes, including enabling them to spend this money on the wider set of HRA activities.

  Greater flexibility over the use of Right to Buy receipts – including, for example, by enabling the use of receipts alongside Affordable Homes Programme grant funding – would also better enable the delivery of new development during the current period of significant inflation within the development/construction sector. These market pressures have made it more challenging for social housing providers to enter new development contracts and flexibility around the use of Right to Buy receipts could help unlock new schemes by improving viability. This would also support economic growth strategies, through enabling increased activity within the construction sector and regeneration that can drive local economic development.

- Temporary revenue support: Government could provide short-term HRA revenue relief (for at least two-years) to support local authorities in keeping rents below the CPI+1% formula. If applied to all costs in the context of a two-year rent ceiling at 5%, with catch up to CPI+1% over five years, the temporary revenue subsidy requirement would be an estimated minimum of £400million.[6] If this support were to exclude coverage for local authority pay awards (on the basis that the rent increases largely covered these), this requirement would be reduced by around an estimated £70million. In part, the required revenue support could be funded through repurposing the government's windfall revenue saving from lower welfare spending, which government estimates to be £4.6 billion over a five-year period.[7]

- Capital grant support: While it may not directly establish a solution to the underlying long-term financial challenge caused by introducing a rent ceiling (i.e., the disconnection between rents and the HRA cost-base caused by holding rates at below inflation), capital

[6] This figure would include utility costs typically passed onto tenants and leaseholders, and government calculations would need to consider the exact support being made available by government after April 2023 in relation to energy costs.

[7] 'Impact Assessment: Implementing a ceiling on social housing rent increases in 2023-24', DLUHC, 31 August 2022, p.5

funding to support works such as fire and building safety, energy efficiency[8] and Decent Homes would reduce pressures within the HRA. At the time of the self-financing agreement many of these types of capital investment, particularly large-scale building safety works, were not forecast to require significant HRA investment.

Within the context of a permanent real-terms reduction in available funding (resulting from the proposed ceiling, and further to the previous 1% rent reduction policy), such works will become undeliverable for many councils without additional financial support. Capital support could ensure these works are more sustainably financed within HRAs. Supporting increased capital investment by social housing providers in energy efficiency should also be an important way of addressing the cost-of-living crisis that is primarily driven by rising energy prices.

- Public Works Loan Board (PWLB) borrowing rates: Government could consider reducing PWLB rates for long-term debt, which have increased from 3.5% to over 5%.[9] A temporary write-down of rates to reduce the revenue burden of investments in building safety and new build would maintain incentives for investment at a time when revenue budgets are under pressure. At the time that Savills' analysis was completed, long-term PWLB rates stood at around 3.8%, and a 20% reduction on interest rates was estimated to create annual savings of around £260 million a year, facilitating a one-off long-term borrowing of £2.7billion to cover investment in the existing stock, regeneration and new build (including mixed tenure development, which would become more challenging to sustain).

- Expand Discretionary Housing Payment (DHP) allocations: In response to rising inflation many councils and social housing providers will be establishing or enhancing hardship funding to support residents impacted. A key driver of inflation is the rising cost of energy, and even after government intervention to limit average household energy bills to £2,500 next year, this level of household spending is equivalent to about 40% of the average amount that tenants will spend on council rents. Government should support this work through increasing DHP allocations for 2023/24 and introduce specific criteria and proportionate additional funding to reflect the increasing challenges that social tenants are experiencing.

- Rent catch-up: The social housing sector should be enabled to implement a catch-up period following the rent ceiling period so that rents can gradually rise to the position they would have been under CPI+1% position. This would enable housing providers to recover some of the funding needed for investment in essential services while protecting tenants from significant short-term annual increases in rent. Assuming a one-year rent ceiling, a catch-up period would reduce the financial impact of the government's preferred 5% rent ceiling in London from £12 billion over 40-years to £2.2 billion or £3.8 billion based on a five and ten-year catch-up period respectively. Even if a partial rent catch-up was permitted (to prevent the possibility of significant annual rent increases immediately

[8] London local authorities have agreed to achieve an average EPC B rating across all London properties by 2030, while they will also need to deliver on the requirements of any revised Decent Homes Standard.

[9] https://www.dmo.gov.uk/data/pdfdatareport?reportCode=D7A.2

following the conclusion of the proposed rent ceiling) this would provide some opportunity to limit the impact of the policy on HRA investment.

At present the government is not proposing to make available a comparable package of support for tenants in the private rented sector, where affordability has become more stretching over the past year. While the gap in affordability between the social and private rented sector is likely to grow further, it is notable that under a rent catch-up approach the average council rent would remain significantly lower than even current private sector rents in London. Based on London Councils' analysis of the most recent local authority rents data published by DLUHC, allowing a five or ten-year catch-up period on a 5% rent ceiling would mean average council housing rents rising from £108.20 a week in London in 2020/21 (£469 a month) to around £177.50-£179.35 by 2033/34 (£769-£777 a month). In contrast, data from the Office for National Statistics showed median private sector rents in London currently stand at £1,450 a month (almost double the amount council rents would be by 2033/34 if allowed to catch up to formula rent).[10]

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment?

Of the options presented London Councils prefers a 7% cap in order to provide councils with greater local flexibility to balance the needs of tenants with the investment required in the housing stock. We stress however that even a 7% cap will significantly reduce the long-term financial position of the HRA and support from government is needed to help local authority landlords maintain services and deliver on strategic investment priorities.

Analysis by Savills estimates the following financial implications for HRAs across London of each of the rent ceiling scenarios (3%, 5% and 7%) presented in the consultation document, based on the rent ceiling being in place for one year only (followed by a return to the CPI+1% policy).

	3% ceiling	5% ceiling	7% ceiling
Impact in first year (2023/24)	-£217 million	-£163 million	-£108 million
Impact over first two-years	-£448 million	-£337 million	-£223 million
Impact over first five-years	-£1.2 billion	-£901 million	-£598 million
Impact over first forty-years	-£16.0 billion	-£12.0 billion	-£8.0 billion

The 40-year impact of a one-year 5% rent ceiling would be equivalent to three-times the value of London's 2021/26 Affordable Homes Programme allocations (£4 billion).[11]

As noted above, the financial impact of the proposed rent ceiling grows wider into the future because the link between rents and costs (as measured through CPI) is broken. Savills have

[10] 'Private rental market summary statistics in England: April 2021 to March 2022', Office for National Statistics, 22 June 2022

[11] 'Mayor sets out blueprint for new generation of social housing', Mayor of London, 24 November 2020

analysed scenarios that would allow rents to catch up with the CPI+1% position over either a five or ten-year period. The financial implications of each scenario for London local authorities are set out below. While the impact of a rent ceiling would still be significant, this analysis highlights the need for some form of catch-up provision to mitigate the worst impacts of the proposed policies.

For a one-year 5% rent ceiling, allowing a ten-year catch-up period would likely reduce the forty-year financial impact of the policy across London from £8 billion to £2.52 billion (a 68% reduction of the financial impact). A five-year catch-up period would reduce the financial impact by more than 80%.

Five-year catch-up period	**3% ceiling**	**5% ceiling**	**7% ceiling**
Impact in first year (2023/24)	-£217 million	-£163 million	-£108 million
Impact over first two-years	-£448 million	-£337 million	-£223 million
Impact over first five-years	-£917 million	-£692 million	-£455 million
Impact over first forty-years	-£2.7 billion	-£2.2 billion	-£1.3 billion

Ten-year catch-up period	**3% ceiling**	**5% ceiling**	**7% ceiling**
Impact in first year (2023/24)	-£217 million	-£163 million	-£108 million
Impact over first two-years	-£448 million	-£337 million	-£223 million
Impact over first five-years	-£1.1 billion	-£795 million	-£525 million
Impact over first forty-years	-£5.1 billion	-£3.8 billion	-£2.5 billion

The stock profile of social housing in London, which includes a greater proportion of high-rise and flatted properties, makes it more challenging to maintain an adequate standard of accommodation. The introduction of a rent ceiling will leave less funding to properly invest in addressing property deficiencies and raise standards to the level that will be required when the revised Decent Homes Standard is introduced. Without financial support to compensate for this impact, tenants will experience less responsive repairs, cuts to management services (impacting councils' ability to deliver on their forthcoming new regulatory requirements), and an under-investment in buildings (including building safety and energy efficiency). Case study evidence from London local authorities (below) highlights some of the financial challenges facing councils, and service areas that would come under pressure.

- City of Westminster: To safeguard existing levels of planned expenditure (both capital and revenue) and absorb the impact of new service requirements (including building and fire safety) modelling indicates that Westminster's HRA would need a minimum rent uplift of 9% for 2023/24. This assumes that the rent uplift remains at CPI+1% for 2024/25. If the rent uplift was capped at 5% the HRA would have a capital funding shortfall of £77m by 2037/38. This would require a reduced investment ambition over that period, which would have a detrimental impact on maintaining the quality of existing homes and the amount of new social housing that could be delivered. Even if rents were capped at 7%, the HRA would require savings and/or the reprofiling of existing capital commitments to remain viable.

A rent ceiling would therefore leave the council needing to make difficult decisions about where to reduce delivery in relation to a number of programmes delivering important outcomes for its tenants and wider resident population. This is likely to result in reduced delivery of new affordable housing, a scaling back of ambition to retrofit council housing (and be carbon neutral by 2030) or a reduced programme of major works to improve the condition of existing homes unless the government is willing to compensate providers for losses.

- London Borough of Camden: The impact of the four-year rent reduction policy continues to be felt in the HRA, and while the borough raised rents by the maximum permitted from 2020/21-2022/23 this was often insufficient to cover inflation and other cost pressures mainly arising from the Fire and Building Safety Acts (e.g., CPI base used for rent setting 21/22 was only 0.5%.). If rents are capped, with no replacement funding offered to subsidise the loss, the only option is to make savings in HRA budgets. The medium-term strategy plan includes a target of £8 million HRA savings from 2023/24-2025/26 and any further funding pressure from a rent cap could require deeper reductions to budgets.

- London Borough of Enfield: Enfield is a growth led borough and a vital part of this is the provision of more and better council homes. With a backlog of Decent Homes requirement and an aging stock profile, regeneration is central to the borough's programme to deliver quality, decent homes as well as our 3,500 homes new build programme. This, alongside the ambition to deliver the Retrofit London mission of achieving an average EPC B rating by 2030, where part-funding is required, means the council's business plan must support significant capital investment. To deliver on the council's existing capital programme and revenue services a rent increase of 9% would be required in 2023/24 and a ceiling on rent increases (either mandatory or voluntary) will result in a funding gap. Based on the current business plan, if the cost of revenue services were to continue to increase by estimated CPI and rent increases were capped, the net impact would be a £327 million loss over the 30-year business plan. The loss of revenue would impact the ability of the council to deliver the capital programme as c.£100 million is supported by revenue contributions over the 30-year period. The HRA's capacity over the medium-term to invest in capital projects would not be enough to deliver all the proposed projects in the pipeline whilst also investing in the existing stock to the full requirement.

- London Borough of Waltham Forest: To deliver the existing capital programme a rent increase of 9.3% would be required in 2023/24. Based on the current refresh of the HRA Medium-Term Financial Strategy, the potential funding gap to deliver both front line services and the existing capital programme is forecast to be between £37 million and £176 million (if rents were held at 2022/23 levels). The funding gap, and therefore the scale of savings required, is based on the amount of forecasted pressure (from inflation, new regulatory cost pressures, required reserve levels, significant ramp up of the capital programme covering delivery of new social housing, investment in existing stock and retrofit) and assumptions on rent increases. The council's HRA capacity over the medium-term to invest in capital projects would therefore not be enough to deliver all the proposed projects in the pipeline whilst also investing in the existing stock to the full requirement.

- Royal Borough of Kensington & Chelsea: The council takes very seriously the impact of rising costs on its residents, but strongly believes that judgements on how to balance these pressures against the need to invest in residents' homes should be made by local councillors in discussion with those residents to whom they are directly responsible.

  The council has geared up to deliver a significant capital investment programme over the short- to medium-term, which reflects the condition of properties as identified through stock condition surveys undertaken after the Grenfell Tower tragedy. Further to this investment in building standards, the council aims to achieve net zero carbon by 2030 and anticipates increased investment requirements in their housing stock resulting from the provisions of the Fire and Building Safety Acts.

  Funding sources to undertake these works include capital receipts and grant funding, but the majority of investment will need to be met from additional borrowing by the council, likely to be in excess of £200m. The cost of borrowing is now expected to be much higher than when the council first started to plan this programme and needs to be met from the surplus in our revenue account. If a rent ceiling of 5% was introduced, with no replacement funding offered, then it is anticipated that rent losses of around £24m over a five-year period will severely impact the council's ability to finance these loans.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

London Councils is concerned by the potential for inflationary pressures to remain high, with Bank of England forecasts suggesting inflation will remain in the range of 10% throughout 2023,[12] exacerbating the financial difficulties faced by low- and middle-income tenants. The primary concerns for London local authorities are that appropriate cost-of-living support is in place for tenants (including by ensuring accommodation remains affordable) and that local authority HRAs are sufficiently resourced to deliver basic services.

Savills' modelling of the impact of a two-year rent ceiling shows the significant impact this would have on HRAs across London.

	3% ceiling	5% ceiling	7% ceiling
Impact over first two-years	-£560 million	-£394 million	-£223 million
Impact over first five-years	-£1.67 billion	-£1.15 billion	-£598 million
Impact over first forty-years	-£23.4 billion	-£16.0 billion	-£8.0 billion

It is estimated that a two-year rent ceiling at 5% would mean financial losses of around 6-8% of all operating costs, including major repairs, for London local authorities or 8-10% of management and maintenance costs in the first 2-3 years. Without additional support from government to

[12] 'Monetary Policy Report', Bank of England, August 2022

address this funding deficit it will become more difficult for councils to deliver even basic services and necessary works (such as building safety).

The below tables set out the financial impacts if allowing a catch-up period back to formula rent over a five or ten-years. For a two-year 5% rent ceiling, allowing a ten-year catch-up period would be expected to reduce the forty-year financial impact of the policy across London from £16 billion to £5.10 billion (a 68% reduction of the financial impact).

Five-year catch-up period	**3% cap**	**5% cap**	**7% cap**
Impact over first two-years	-£560 million	-£394 million	-£223 million
Impact over first five-years	-£1.25 billion	-£863 million	-£455 million
Impact over first forty-years	-£3.78 billion	-£2.68 billion	-£1.32 billion

Ten-year catch-up period	**3% cap**	**5% cap**	**7% cap**
Impact over first two-years	-£560 million	-£394 million	-£223 million
Impact over first five-years	-£1.46 billion	-£1.00 billion	-£525 million
Impact over first forty-years	-£7.46 billion	-£5.10 billion	-£2.52 billion

At this stage we believe it is more important to agree the principles for support that would be made available to social housing providers to help maintain service investment while a rent ceiling is in place. This package of support could then be repeated if the rent ceiling is extended for a further year into 2024/25.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We agree that new lets and re-lets should not be subject to the cap, and that the formula rent policy should apply to these properties. Savills' forecasts show that allowing re-lets to be charged at the formula rent would reduce the impact of a 5% rent cap from £16 billion to £10.7 billion over a 40-year period. Enabling councils to apply the formula rent to re-lets could therefore enable councils to limit at least some of the financial impact of a rent ceiling. London Councils would highlight that council rents compare favourably to other rents charged across the wider social housing sector. In some local authority areas in London the average council rent can be as much as £30 a week less than the equivalent charged by Registered Providers.[13] Projecting formula rents into the future (tracking CPI+1%), we estimate that new and re-let council properties would be charged at a rent of £136 a week by 2024/25, which compares to Local Housing Allowance rates in London that currently range from £253.15 to £365.92.[14]

[13] Live Tables 702 and 704, Department for Levelling Up, Housing and Communities

[14] 'Guidance: Local Housing Allowance (LHA) rates applicable from April 2022 to March 2023', Valuation Office Agency, 31 January 2022

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

London Councils agrees that other forms of rented housing, such as specialist and supported housing, should not be subject to the cap. There has been a persistent shortage of specialist and supported housing, with viability challenges and other barriers discouraging the social housing sector to bring forward new supply at a time when there is a longer-term trend of decommissioning.[15] We fear that adding restrictions on such sites would further reduce the viability of projects and reduce the incentive to develop new schemes. It is vitally important that financial assistance is always available to cover the full costs of such schemes, including through the benefits system and social care budgets.

[15] 'Supported Housing in the Balance', London Assembly, November 2016, p.11

Consultation - Social housing rents - Hackney response

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We agree that social housing residents should be protected as much as possible from the effects of the cost of living crisis. However, the implications of the proposed rent caps upon the council and consequently the residents who depend and rely on our services will be drastic and far-reaching. Therefore, we support a cap to social housing rents on the condition of clear and full Government support for Councils and registered providers to cover the impact of any cap to services.

Implementing these rent caps will severely affect the Housing Revenue Account (HRA) for years to come, significantly impacting our ability to deliver essential services to our tenants. The service we can provide to our tenants is already drastically reduced as a result of previous Government funding decisions, in particular the four years of 1% rent reductions. This, combined with still recovering financially from a global pandemic and a cyberattack as well as having to factor in costs for necessary fire safety requirements, white paper requirements, construction cost inflation and net zero commitments means the service our tenants receive from us will be further impacted by any rent cap.

The rent policy, as it stands, is designed to ensure the HRA keeps pace with inflation pressures, staffing, energy and construction costs so we can continue to deliver for our tenants. Compensating Registered Providers for any loss of income will enable us to maintain a financially sustainable HRA which can support investment in our housing stock, the delivery of new homes, and also enable us to plan ahead. It has also been crucial in helping us to recover, to a small extent, the financial loss from the four year rent reduction. This policy means that we can continue to invest in core housing management services and carry out the essential investment in our housing stock to maintain standards in our tenants' homes.

If HRA rental income does not keep pace with inflation it will directly affect how we provide services to our residents, including delivering a responsive repairs service, improving the quality and energy efficiency of their homes and investing in new social housing. There is an acute need for social housing across London and we are already struggling to provide for those in health and housing need with our current stock, any impact upon our new build programme directly affects this. Furthermore, given the sharp rise in PWLB rates, a rent cap further restricts our capacity to build and invest in new homes as the increased cost of borrowing impacts the viability of our regeneration programmes both those already underway and our future plans. This then impacts on our ability to generate growth for our communities. Registered Providers and councils must be fully compensated for the introduction of these caps.

If any cap is introduced without proper support for councils to cover the inflationary pressures, it will mean that difficult choices will have to be made to maintain and improve our housing assets and support our response to net zero commitments. Limiting rent increases to below inflation will require a reduction in services. If this reduction were to be in capital investments, then this will lead to a rise in reactive repairs, more legal disrepair cases, more pressure on the repairs service, longer delays and a huge backlog of repairs that will impact on our ability to maintain our homes to the decent homes standard.

While putting a cap in place will provide a level of protection for some of the most vulnerable members of society from the impacts of the cost of living crisis; the fact is that a significant proportion of social housing tenants pay their rent either partly or completely through housing benefit or universal credit payments. An inflation level increase in rents would mean the Government having to significantly increase welfare spending. One could argue that the Government is aiming to push the financial pressures of the crisis away from themselves and on to Registered Providers. It should use these savings to support the Registered Providers who are implementing these caps.

<u>Question 2:</u> Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We agree that a cap should be put in place to protect those social housing residents not on housing benefit or universal credit, but that as a Local Authority Registered Provider it is vital that we are fully compensated by the Government to address the resultant HRA deficit.

If the 5% ceiling were to be imposed, the impact on council services will be severe and there will be a substantial amount of deficit to recover on the HRA from any of these proposed ceilings, both in the short term and in the 30 year business plan. The financial modelling of the impact over the next 5 years is included in the table below:

Rent Cap	2023/24	2024/25	2025/26	2026/27	2027/28
Rent Freeze	21,964	20,990	24,570	26,212	27,429
3%	18,421	17,293	20,871	22,438	23,580
5%	16,060	14,829	18,404	19,922	21,014
7%	13,698	12,364	15,938	17,406	18,448

If the 5% ceiling is imposed a first year deficit of £16m is incredibly significant in the context of council budgeting and will require a serious re-evaluation of how we deliver certain services. This would include a reduction in capital investment including new developments, a reduction in repairs, a reduction to services and a wider impact on housing stock as a whole, causing the stock condition to depreciate over time. In just 5 years ~ £90m will have been lost in investment in services to our tenants with no means of catching this up, both in service delivery and monetary terms.

Without the Government providing some sort of financial relief for social landlords to recoup the money lost, these caps will lead to hundreds of millions lost from our HRA business plans. If the Government wants to impose a cap to protect residents, then it should reinvest the money it will be saving through DWP payments to truly protect those in social housing from the long term impacts the imposition of a cap will have.

<u>Question 3:</u> Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

At this point, these caps should not be imposed for two years - the introduction of these caps for a second year should be reevaluated at a later date. With the implications of these proposed caps outlined above, any further extension of these caps would create a further deficit and prolong and exacerbate these issues that have been outlined. In lieu of any formal support from the Government, there is a risk that our ability to fulfil our statutory requirements may be compromised, especially in relation to investing in maintaining our housing stock, resulting from the long lasting impact of these caps that stretch well beyond the affected year.

The Government needs to subsidise the budget shortfall resulting from capped income, this will help to ensure financial stability for the Council in the long term.

The introduction of these rent caps will create a long term transfer from Council, Registered Provider and DLUHC budgets to DWP budgets through lower housing benefits, thus creating a trade off of lower housing benefit for fewer new homes. These DWP savings should be redistributed into further support for tenants and housing services as they will be the ones directly affected by such a significant cut to the HRA. Alternatively, this could be given as a grant for local authorities to fulfil building safety or net zero responsibilities, or even fund the delivery of new homes as all of these programmes are likely to be heavily affected by the introduction of these caps.

The current cost of living crisis is of a similar magnitude to the Covid pandemic, we feel that reinstating the £20 UC uplift is a proportionate response to this and shows that the Government is taking initiative to address the problem, rather than passing the buck to Registered Providers. In doing this, it would support tenants to pay their living costs and in turn reduce pressure on the HRA arising from increasing rent arrears.

<u>Question 4:</u> Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, this would follow existing practice and we should continue to follow the formula rent methodology when setting rents for new lets, this also reflects the costs of new build homes and recent refurbishments.

<u>Question 5:</u> We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Though we don't have any within our own portfolio, we know that there are Registered Providers in the borough who have supported living schemes that may wish to be excluded from these as there may be additional pressures upon this critical social tenure that supports the most vulnerable.

It is not only those in social housing who are going to be affected by the cost of living crisis. Shared Owners are not only going to be subject to a rental rise of RPI+0.5%, they are also going to be at the mercy of unprecedented interest rate rises in the mortgage market, service charge increases and potential fire safety remediation bills - leading to monthly outgoings increasing by up to £500. As well as this, private renters will be facing significant rent rises from an unregulated market. The risk of homelessness arising from these two sectors will be palpable and could place further pressure on local authorities.

DLUHC Social Housing Rents Consultation (31st August – 12th October)

Response from the London Borough of Camden

12th October 2022

FAO: The Social Housing Rents Office

In response to the context of consultation, we agree that further support is needed for our residents to help them deal with the Cost of Living Crisis. The combination of inflation driven cost rises for essentials such as energy, fuel and food with stagnation in real wages and cuts to welfare spending has left a significant number of our residents on the very edge of economic survival.

However, the way support is provided and how this is funded is incredibly important because it will determine whether residents actually benefit in the long term.

The Housing Revenue Account (HRA) is an independent, self-financing account for which we as the responsible authority are tasked with making prudent financial and investment decisions over a number of years to ensure its good management. Any external short-term and sudden decisions put significant strain on the financial stability of the HRA and indeed this has been the case on numerous occasions in recent years following a series of central government interventions. The outcome of such decisions is the creation of immense pressure on our ability to provide good quality housing services and fulfil our ambition to ensure that all residents in Camden have a safe, healthy and sustainable place to call home.

The policy options set out in this current consultation are a perfect example of a short-term and sudden intervention and as such, if it is agreed a cap should be introduced, then the impact should not fall on the HRA because there is no way a self-financing account can be expected to manage this sort of intervention and maintain the same quality of services for residents. Instead, the government will need to provide social landlords with a settlement that covers the loss of income for this year and future losses as a result of lower base indexes for future years rent setting. By doing so they will ensure that rents are kept low whilst maintaining the high quality of housing that everyone agrees residents deserve.

If the cap is enacted without funding provision, then it will be a piece of government intervention that leads to a reduction in the quality of the services provided to residents because you simply cannot continue to provide the same level of service with the reductions of income being forecast.

Whilst the consultation is a conversation about income it should also be stressed that it is set against a backdrop of rapidly increasing unit expenditure costs. In repairs alone, we have seen unit costs increase by 9.6% from September 2021 to September 2022 as a result of inflation. Therefore, an unfunded rent cap would see us managing reduced income at a time of significantly increasing expenditure further compounding the impacts on service quality for residents.

We appreciate this is a tough time across the public sector and that central government departments face many of their own pressures, but we believe that alongside a settlement for a rent cap there are a number of smart opportunities for us to work together to support strong future HRA finances and make progress towards a range of national priorities such as increasing the supply of housing, ensuring building safety and tackling the climate crisis.

Some of the opportunities include:

- The provision of Capital Investment for Retrofitting
Central government funding for the retrofitting and upgrading of our housing stock would significantly reduce the environmental impact of our assets whilst reducing the ongoing cost of maintenance and repairs alleviating pressure on our HRA. Retrofitting all of Camden Council's housing stock will need investment of at least £700m in the coming years and as a council we are working with pension providers, data scientists and banks to identify financial models that blend private finance, grants and Council resources to kickstart this investment. Institutional investors are ready to commit to long-term, high value, programmes providing that investment vehicles are robust and have the necessary guarantees. Ministerial support and commitment could readily unlock demonstrator projects and provide a blueprint for the housing sector that moves away from the limitations of targeted grants.

- Refinancing of Historical HRA Loans
Historic HRA debt from central government is currently fixed at rates higher than the current interest rate. If central government brought the repayment rates in line with current indexes, it would create some headroom to deal with the pressures facing the HRA account.

- Reducing the regulations around Capital Investment
Currently, the inability to combine right to buy receipts with grant funding from the greater London authority for investment in new homes is reducing our ability to invest in much needed new homes that are fit for purpose for families in the borough. Removing this regulation will not only increase investment in housing but also make it less likely that we need to borrow as part of our developments.

- The provision of burdens funding for new regulations
The Council is working closely with Government and is active in the early adopter groups for new fire and building safety regulations. We have submitted cost estimates setting out the impact on the HRA of the new and forthcoming regulations and would welcome dialogue on what new burdens funding can be made available to fulfil the regulations quickly and efficiently.

[redacted]

From: [redacted]>
Sent: 12 October 2022 23:29
To: Social Housing Rents
Subject: Response to consultation on a new Direction from the Secretary of State to the Regulator of Social Housing

You don't often get email from [redacted]. Learn why this is important

Dear consultation team,

I would like to respond to the consultation on a proposed direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy for 2023-24. I do so in my capacity as a private individual.

First, I commend the Department for Levelling Up, Housing and Communities for acting pre-emptively in this matter but do not believe its proposals extend far enough. I am disappointed that it has omitted from the consultation a formal, explicit option for either a zero percentage increase or net reduction in social housing rents for 2023-24. There are legitimate precedents for both: namely, recent legislation passed by the Scottish Parliament regarding the former and measures in the Welfare Reform and Work Act 2016, which resulted in a one per cent reduction per annum in social rents in the period 2016-20, regarding the latter. Whilst I acknowledge that the consultation document invites suggestions from respondents for ceilings other than the three, five and seven per cent limits cited in its paragraph 4, there is little realistic prospect of registered providers of social housing (registered providers) themselves proposing anything lower than the minima because of their vested self-interest in the matter, a point on which I will expand.

The Department identifies correctly that the current cost-of-living crisis is unprecedented in nature and profound in effect. Without doubt, this is particularly the case for low-income social tenant households, which comprise some of the poorest members of society. It would be unconscionable for such households to be forced further into financial hardship or poverty by the actions of registered providers setting unsustainable rents next spring, which would come as a hammer-blow just after emerging from the challenges of this winter. Set against this context, an unprecedented response is required which can only be, I suggest, either a rent freeze or reduction in real terms. Whilst I acknowledge also that flexibility to set lower-than-ceiling rent increases exists already within the Rent Standard itself, it is notable that not one single registered provider in England took advantage of this provision in either the last or current financial year (source: Resolution Foundation). My point is that registered providers do not exercise restraint voluntarily, the reason being their over-riding objective to ensure the liquidity of their Housing Revenue Account (HRA) at any cost. Although this may be understandable, it is largely an artificial construct (because levels of service outcomes can be modelled flexibly within business plans) and disregards the uniquely human aspects of social housing within the sphere of public policy: houses of whatever category of tenure are people's homes and serve an absolutely fundamental purpose in their lives. Affordability is the key factor in the ability of social tenants to live them to a decent standard on limited incomes, when compared to more affluent sectors of society.

By way of example, a local authority registered provider located near me is one whose approach to date in setting rents is demonstrably unrestrained. Before the 2016-20 reduction period, its increases ranged from 5.4 - 8.2 per cent per annum in the four financial years from 2012-13 to 2015-16 inclusive (representing a cumulative increase in excess of 25% over that period) but, importantly, this occurred at a time of historically-low inflation rates in the wake of the global financial collapse of 2008. During the initial part of this period the authority was not subject to the Rent Standard (as per other local authorities at that time) but, when it was, it imposed the maximum permitted annual increases every year thereafter. Thus, at the time of writing, the gains accruing to social tenants in its borough from the rent reduction period have now been completely eliminated. Therefore, by dint of their conflicted position regarding rent-setting, it is absolutely essential for the Department to impose restraint on registered providers via direction to the Regulator at a level commensurate with the seriousness of the current economic crisis.

I would like to mention three further important points. First, the cohort of social tenants that will suffer disproportionately should even a three per cent rent increase be imposed next year are those who work but do not claim benefits and therefore are unprotected from the effects of inflation on rent levels. Even disregarding the significant decrease in the housing element of Universal Credit, its recipients are at least insulated to a degree but, with wage increases currently not keeping pace with CPI/RPI, those tenants who are not will experience severe difficulty in meeting their rent payments next year if the latter are not capped adequately. It cannot be sensible by any method of assessment to impose a level of increase which could have the consequence of forcing such households into financial hardship or to claim benefits when previously they were not: to do so would smother aspiration, hard work and self-provision in a heartbeat. Sustainable economic growth requires individuals to be in productive employment and contribute to consumer spending, and so anything which would have the effect of dampening either activity amongst this cohort should be avoided.

Second, increasing social rents next year would result in the very burgeoning of housing benefit payments that the previous government intervention sought to prevent. I do not wish to sound disparaging because, similarly, it is merely a reflection of the situation in which registered providers find themselves but they do not care from where their rental income derives (either via tenants directly or their benefit payments), only that it is forthcoming when due. However, this disregards the significant cost of Universal Credit to the Exchequer in macro-economic terms, a price everyone pays and should be contained. Consequently, I find it difficult to see how upward pressure on UC payments as a consequence of increased social rents would be compatible with the Chancellor of the Exchequer’s many challenges in managing public finances effectively over the course of this autumn/winter and beyond.

Third, the recent adverse movements in the bond market have resulted in the prospect of mortgage-holders facing increased repayments when fixed-term products expire, creating a tsunami of disquiet. Since 2008, mortgage rates have been stable at historically low levels and home-owners have benefitted for well over a decade from the opportunity to make overpayments, release equity or utilise for other purposes the additional disposable income this prevailing situation has created. Whilst they have been fortunate in this respect, it is notable that it has taken only a relatively modest percentage increase in the cost of borrowing to elicit such widespread abreaction. Setting aside the 2016-20 window, it is equally notable that social tenants have had no choice but to endure above-inflation annual rent increases every single year within the same overall period of time. I suggest that, in making a final decision following this consultation exercise, the Department should have regard to this marked disparity and the hardship it has caused to many families whose only ‘crime’ is to lack the financial means necessary to purchase their own homes.

To conclude, social tenants are being disadvantaged disproportionately by registered providers purely in order to protect their HRAs, a situation which is untenable at current levels of inflation. Social providers could choose instead to deliver less, make efficiency gains and/or manage their tenants' expectations in the short term, should their HRA income reduce as a consequence of government intervention. It is my genuine belief that, given the seriousness of current economic circumstances, social tenants would understand completely and consider a corresponding and temporary reduction in those local housing services funded by HRA resources to be an acceptable trade-off. Accordingly, I urge the Department to give very careful consideration to incorporating into the proposed direction to the Regulator of Social Housing a rent freeze or real-term reduction for 2023-24.

Yours faithfully,

[redacted]

Sent with Proton Mail secure email.

Open Consultation on social housing rents

Response of Wandsworth Borough Council (as a large stock holding local authority)

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

Response: No.

Local authorities are in a different position to other registered providers in being subject to democratic accountability when setting rents, which highlights the problem with subjecting both to a common statutory regulatory regime for annual rent setting. From the perspective of the former, the Council argues against the imposition of additional ceilings (especially without an element of compensation) as a limitation on local democratic decision making. As an authority which voluntarily and uniquely froze tenant rents in 2022/23, it has already been demonstrated that the Council will take the responsibility towards current pressures on tenants seriously, and opposing such a cap should not be taken as an indication that the Council would otherwise seek to impose a maximum increase.

Since the ending of the subsidy system in 2012 (which involved the taking on of significant levels of new debt) the Council has taken advantage of the new freedoms and has developed and is implementing ambitious plans for both regeneration of housing estates and the delivery of new homes for social tenants. These plans are predicated on an expectation of future rental streams and importantly the confidence that these won't be routinely disrupted by Government intervention whether claiming to be seeking to protect tenants directly (a balance that Local authorities are capable of striking themselves) or to deliver savings to the Housing Benefit bill at a national level.

The consultation fails to offer remedies to the impact that inflationary linked increases on housing management costs (such as staffing pay award, energy and repair/maintenance as well as the impact that higher Bank of England base rates (increasing as a measure to tackle rising inflation)) will have on individual Registered Provider's business and investment plans. Contractually committed CPI linked increases and Public Works Loan Board interest rates can't be arbitrarily reduced in the same way that the consultation proposes that rent increases are now being subjected to.

It is therefore reasonable for the Council to request that if the Government pushes ahead with rent increase restrictions that it is fairly compensated for this limitation on rent increases. This request is reasonable given, a) the whole basis of the Housing Subsidy Buyout in 2012 was on future rent increases of then RPI+0.5% (now CPI+1%) which have been undermined from the outset through Government interference, specifically the 4 years of mandated rent reductions between 2016 and 2020, and b) that the Government will be realising 'savings' through restrictions on the 2023/24 rent increases for Housing Benefit/Universal Credit reliant tenants and could therefore recycle these national benefit bill ‘windfall’ savings in to Registered Providers. This would be critical to ensure long-term, strategic plans for new housing supply and estate regeneration remain affordable whilst ensuring existing tenants are in safe, secure accommodation and supporting the climate change agenda, and are not derailed by short term national decision making.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

Response: No.

As above as a general principle we favour increased flexibility to encourage democratic accountability and decisions based on local context rather than national politics, and local councillors should be trusted to be capable of striking the appropriate balance between affordability and the short term cost pressures on expenditure whilst maintaining long term viability of their business plans. However should a cap be imposed, and in the absence of compensatory measures, then we would favour this to be as high as possible ie. 7% of the suggested alternatives Again this shouldn’t be read as an indicator of the actual decision the Council would take when making its final decision.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

Response: Yes, if imposed, only to increases from 1 April 2023 to 31 March 2024

Given that the Council disagrees with the principle of the imposed ceiling it would naturally opt for it to be as short term as possible i.e. one year only. A decision which potentially limits providers in their ability to raise rents to cover increased costs and/or fund future investment programmes needs at least annual justification, subject to sufficient levels of advanced notice. At this stage it is not realistic to confidently ascertain how long the current inflationary pressures on tenants may persist. Providers will anyway have to adjust their expectations for the possibility that the Government might intervene again so there is no real benefit to any ‘certainty’ a predefined two year ceiling would bring. However an assurance that any extension of such a cap would not be lower than the mandated level would be welcomed.

Of far more value would be early indication of the Government’s longer term approach as and when inflation pressures begin to ease in future. In addition to the intention to only apply ceilings to current tenancies, one obvious suggestion to mitigate the medium term impact on Registered Provider’s business plans would be to (re)introduce arrangements to allow rents to migrate back towards higher Formula Rent levels over time (mirroring in reverse the current policy for existing rents above the Formula Rent level which restricts increases to CPI only). So for example in future years allowing existing rents that are below the Formula Rent level to be increased by up to CPI+2%

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Response: Yes

Notwithstanding the overall expressed position on a centrally mandated ceiling, the Council strongly welcome the proposal that it should not apply to properties on first let or relet for the following reasons:

- As referenced in the consultation document the stated aim of the proposed ceiling is to protect existing tenants which is not relevant for future lettings and therefore such an extension would be unnecessary. Any argument that this approach would create anomalies in rent charges between current and future tenants in similar properties is easily countered by this anyway being the current reality across social housing stock, as a result of varying historic variance in local and national policies for rent setting at the commencement of existing tenancies.

- Restricting the ceiling to current tenancies only would give a measure of protection to the long-term viability of business plans as rent levels gradually return to their initial trajectory as a result of natural stock turnover. It should be acknowledged that this is an important difference to the approach when the Government intervened in 2016-2020 in part in order to make long term savings to the Housing Benefit bill, albeit it is estimated that the short and medium term savings to the Government from these proposals will anyway be potentially considerable.

- There would be less impact on existing or future development activity to the extent that projects are underpinned by business models relying on assumptions on future new income streams being in line with current policy. The Council re-iterate the point made above however that the willingness of Government to intervene is in itself a potential barrier to future development as it impacts on the risk factors applied to business case modelling and potentially assessments of risk made if seeking financing from financial markets.

It should also be noted that this question does not really make sense in relation to Affordable Rent properties, since the statutory basis for determining such rents is linked to (variable) market value not a pre-established formula. As such there is no base figure for rent on the property against which a ceiling could be imposed (particularly for properties on first let). In such a context, in London, where rent on Affordable Rent properties often follows the Mayor's bespoke "London Affordable Rent" product, the Government should not seek to impose additional statutory restrictions which may conflict with locally determined grant agreements.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

Response: Maybe

Current local policy does not seek to make distinctions between categories of property when determining the level of rent increase to be applied. However, one area where we might argue that a clear exception could or should be made is in relation to newly developed properties, the business case/affordability for which has relied on an already assumed rent level. This would potentially send a message and set a principle that the Government does not seek to undermine self-contained business cases made for the expansion of social housing by local authorities.

From: [redacted]
To: Social Housing Rents
Subject: Shared Ownership
Date: 04 September 2022 18:41:03

Can I please ask why shared ownership is not included in this consultation process

As you are no doubt aware In Shared ownerships , Housing Associations are required to increase their rent by RPI (even higher than CPI)plus a sum at their discretion to a maximum of 2%. . Also you are no doubt aware shared owners are responsible for all maintenance costs to their property, therefore leaving the rent received to housing associations , available for other uses

With RPI in September set to top 11% I am looking at a 12% increase for my residence next year. This is supposed to. Affordable housing for goodness sake. We already are all aware of the rising cost of living with heating , ,fuel food etc , how on earth can I afford this as well,when my employer has only been able to offer me a 3% increase in my salary

Please can you reconsider as a matter of urgency and include shared ownership in this consultation

I look forward to hearing from you

[redacted]

Sent from my iPad

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	[redacted]
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Communities, Housing and Environment, Housing Leeds, Merrion House, Merrion Way, Leeds, LS2 2BB
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe **X**

Comment:
We recognise that there is a need for some control to be put in place to address the cost-of-living crisis. However, the impact of a ceiling at 5% compared with a CPI+1% increase would be a minimum of £11m of lost income to the HRA in Leeds in 2023/24 at a time when we are facing higher costs as a result of the level of inflation.

This is not just a one off but a compound impact and will seriously impact the HRA's ability to invest in and maintain its current stock, to build new social housing and will severely impact the level of services provided to tenants.

If a ceiling was not imposed, any rent increase is a decision for full Council and Members would be made aware of the implications on both tenants through an equality impact assessment and the wider HRA investment strategy and we would consult accordingly.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5% **X**
☐No
☐Maybe

Comment:
We agree that imposing a 5% ceiling would help mitigate some of the cost pressures that social renters would face if the current CPI+1% policy remained.
However, we feel that the government should consider further direct support to help address the impact a ceiling would have on the HRA's ability to invest in both current and new stock to meet governments objectives to increase the supply of social housing and improve the quality and energy performance of existing stock.

Some suggestions are: -

- Additional grant funding to support existing and future Decarbonisation works – Gov't (BEIS) have provided some funding but contributions could be greater to deal with rising costs. In one scheme alone in Leeds on Wave 1 of Social Housing Decarbonisation, returned tender prices were significantly (>£4m) in excess than bid applications. No additional funding has been forthcoming to help with these cost pressures which means to continue this scheme, other investment needs are impacted.

- Further relaxation of RtB receipts. Perhaps extend the period of 5 years which may help longer term planning should new build be stalled due to rising interest rates / pressures within the sector

- Allow the use of RtB receipts where Councils have major regeneration schemes to finance. For example, this could include demolition / rebuild High Rise properties where there is no net stock increase?

- Should new build programmes stall due to capacity issues in the market, it would be helpful if the acquisitions cap could be revisited, perhaps a rolling 3 year figure?

- Consideration of specific PWLB rate for social housing growth programmes to help address viability issues.

  The 2016-2020 rent reduction policy is estimated to have cost Leeds over £300m in lost income and Councils have not been compensated for lost income. Whilst this cap will not have the same scale of effect, it will undoubtedly limit our HRA ambitions which will be to the detriment of tenants and indeed could start to undo the billions of £ of investment that the Government provided to make Council homes across the country decent.

  At a 5% rent cap, we would need to reduce our investment plan from £92m to £86m for 23/24 alone. A 2-year cap may have a similar implication.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe **X**

Comment:
Whilst an agreed ceiling for 2 years would provide more certainty to help with the HRA business planning process, given that the CPI forecasts for September 2023 are currently 9.5% it is likely that if a two-year ceiling is not agreed as part of this consultation then this process would have to be repeated next year.

A two-year ceiling would however exacerbate the investment issues outlined above.

However, we recognise from a tenant perspective, a ceiling would provide some certainty of cost increases within their own budgets.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes **X**
☐No
☐Maybe

Comment:
Although the impact would not be hugely significant for us, we agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when properties are first let and re-let.

Our plans would assume on new build homes for example, rents would be set at 80% of local market rents.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes **X**
☐No
☐Maybe

Comment:
During the rent reduction period from 2016 PFI properties were exempt from the policy, for the same reason we propose that any new build or off the shelf property acquisitions could be exempt from the rent ceiling policy. Tenants in these properties benefit from being in a new build home with, in many cases, the most energy efficient measures in them when compared to some of our ageing stock.

Some issues that would need consideration would be around whether this creates additional administration, is it equitable for tenants and also what date would new build apply from?

The Leeds Council House Growth programme sets rents at affordable rent - 80% of the equivalent market rent and imposing a ceiling rent on these new properties could put them immediately out of line with the market rent and impact the ability to service the increasing cost of the debt associated with the borrowing on these new builds.

Social Housing Rents Consultation
LB Sutton Response

Preface

We are pleased to have the opportunity to respond to this consultation, and acknowledge that high inflation is driving a severe cost-of-living crisis, which is impacting households across the country. Given the scale of the crisis, it is important that steps are taken to protect financially the least well off, in particular social housing tenants who often represent the most vulnerable in society. However, we do not agree that such protection should be afforded through the fettering of local discretion on rent setting policy and believe that local authorities can be trusted to make appropriate decisions on rent levels in consultation and partnership with their tenants.

We are concerned that the government's proposed approach does not sufficiently consider HRA business plan viability, and without additional government support it will be challenging for some councils, particularly those in London, to deliver basic services and ensure tenants' safety in their homes. Moreover, HRA finances have already been significantly undermined by the decision to cut social rents by 1% a year from 2016/17 through to 2019/20, as well as the financial implications of the pandemic and the difficulties created by high building cost inflation.

The funding position facing HRAs, and the possible implications of a rent ceiling, will therefore make it difficult for social landlords to maintain adequate management standards and capital investment including meeting the proposed revised decent homes standard. It should also be remembered that providers (particularly local authorities) deliver a wider support role for tenants beyond their immediate landlord functions. This often includes services such as employment and financial advice, as well as supporting the roles of health and social care in a number of ways. These are the very functions most likely to be curtailed if resources are reduced.

Should the Government decide to go ahead with the proposed cap (at whatever level it is set) we would strongly argue that there should be a 'catch up' mechanism put in place once the cap is lifted to allow providers to recoup their losses over a reasonable time period (certainly no more than 10 years).

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?*

No. We believe that rent increases should be a local decision given the different circumstances and positions of each provider. A better way to support those tenants currently not in receipt of Housing Benefit or Universal Credit who would be adversely affected by a rent increase would be to offer them direct support though increasing the (means tested) Discretionary Housing Payments pot.

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We believe many would have no choice but to go for CPI + 1%. However, the extent of each increase would be dependent upon the specific position and circumstances of each provider, but we believe every effort would be made to minimise necessary increases.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling?*

No, we disagree with the RSH imposing any cap. Of the three options we would prefer 7%.

Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

The Government's own analysis indicates that a 5% cap would result in the loss of income to the social housing sector amounting to £7.4bn over the five year period 2023/24 to 2027/28. This could have a devastating impact on services to residents and stock investment. It would also significantly undermine the sector's ability to achieve the Government's policy objectives in relation to home energy efficiency and net zero carbon. It would also impact upon new affordable housing supply and the ability of providers to address building safety and compliance issues risking a potential repeat of the Grenfell fire. The cut may even put in jeopardy the viability of some providers. Given this, we would strongly advocate that any funding gap created as a result of a rent increase cap be made good via Government grant.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

We don't think it should be applied at all, and certainly not for two years.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Yes.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

We agree that specialist and supported housing should not be subject to the cap. There has been a persistent shortage of such housing in recent years, with viability challenges and other barriers discouraging the social housing sector from bringing forward new supply at a time when there is an increasing need. Capping rent increases for these properties would only exacerbate the situation.

From: [redacted]
[redacted] Social Housing Rents
Subject: Questions
Date: 09 October 2022 13:44:45

You don't often get email from [redacted]. Learn why this is important

Hi,

I have seen the proposal for capping the rent on social housing which I completely agree with. However please can you add shared ownership rents to the legislation? We also have to pay rent and the rise will also affect us hugely

Thank you

[redacted]

Sent from my Galaxy

Social Housing Rents

Introduction of a rent ceiling from 1 April 2023 to 31 March 2024

Consultation Response

October 2022

Organisation: Shelter

Address: 88 Old Street, London EC1V 9HU

Email Address: public_affairs@shelter.org.uk

Telephone: 0300 3391234

Introduction

Shelter is concerned that rising rents could make social housing - which is meant to be the most affordable tenure - unaffordable for tenants. In the context of a cost-of-living crisis and a weakening economy, it is critical that low-income people have someone that they can afford to live. Without Government intervention, the harsh reality and answers to those questions are homelessness and temporary accommodation. With over a million households on the waitlists, sharp increases to social rents can exacerbate the housing emergency by causing financial difficulty for current tenants and creating additional affordability barriers for those waiting for homes. This important consultation comes at a time when many are being crushed by the cost-of-living crisis. Those who are financially disadvantaged and have limited incomes will experience more difficult times ahead. Renters need significant help, protection, and stability. The first line of defence is social rented housing.

In the Economic Impact Assessment (Annex D), DLUHC has assessed that there would be a taxpayer savings of £3-6.1billion with each cap that the Department is examining. The savings is significant and should be reinvested back into the sector to assist Providers in maintaining the safety and integrity of existing stock and increase the supply of social rented homes. With a 3% cap, savings of **£6.1 billion in taxpayer savings can provide grant funding to create over 33,000 social rent homes.**[1]

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Shelter strongly agrees with a new direction that would create a ceiling for social housing rent increases for the 2023/2024 period. Without Government intervention, many social tenants will face significant financial challenges with rent increases tied to CPI+1%. The consequences of a sharp increase can be severe for tenants and families while already battling hardships of the housing emergency engulfed in economic shock and a cost-of-living crisis. **With August's CPI reaching 9.9%, tenants could potentially see a hefty increase of at 10.9%**.[2]

Data published by Inside Housing **showed that 91% of UK wide housing associations increased rents in April 2022 to the maximum allowed of 4.1%. Similarly, 81% of English councils did the same**.[3] Without Government intervention, it is likely that Registered Providers would follow suit for the 2023/2024 rental period. This would be devastating to tenants given the cost-of-living crisis and an inadequate and restrictive benefits' system.

Shelter has calculated that 30% of social housing residents do not claim benefits and will be forced to face drastic rent increases when wages have not increased with inflation.[4] Six in ten **(59%) social renters who do not receive benefits are in the lowest two**

---

[1] Shelter analysis of NHF modelling. NHF, Capital grant required to meet social housing need in England 2021-2031, June 2019
[2] ONS, Consumer price inflation, UK: August 2022
[3] "Revealed: Inside Housing's guide to how social landlords have implemented rent rises", Caroline Thorpe, Inside Housing, April 7, 2022. Data is based on a survey of 243 UK social landlords.
[4] Shelter analysis of DWP and 2020/21 DLUHC data. DWP data is up to May 2022 and sourced from Stat-xplore.

income quintiles[5]. Further, when compared to private renters in the same position, social renters who do not claim benefits are more likely to be on lower incomes.[6] And the Resolution Foundation has reported that claimants living in the South East, South West and London are "less likely" to be in receipt of housing benefit.[7] The Foundation assessed that these households were the most at risk by the now implemented increases that went enforced April.

In the last quarter, the number of households threatened with homelessness due to the end of a social rented tenancy doubled.[8] Those at risk of homelessness due to social rent arrears increased by 153% during that same time.[9] These alarming figures along with an already large spend on temporary accommodations indicates that further pressures from an increase in those figures can exacerbate and worsen the housing emergency.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Shelter is advocating for a 3% ceiling. While we understand that relatively lower rental income will cause concern for Registered Providers, a solution is needed to stop financial consequences that plummets tenants and families into severe debt and poverty, which could contribute to further homelessness and temporary accommodation placements. **In 2020/21 councils spent £2.14 billion on homelessness, including £1.45 billion on providing temporary accommodation.**[10] . With over a third of social tenants in the lowest income bracket, any increase would cause financial hardship

---

[5] Shelter analysis of 2019/20 DLUHC English Housing Survey data.
[6] Shelter analysis of 2019/20 DLUHC English Housing Survey data. 39% of private renters not receiving housing benefit are in the two lowest income groups.
[7] Resolution Foundation, Housing Outlook Q4 2021: The impact of higher inflation on social renters' housing costs, December 2021
[8] The number of households at risk of homelessness due to the ending of a social rented tenancy increased by 114% between 2021 Q4 and 2022 Q1. DLUHC, Live tables on homelessness, Statutory homelessness live tables, Table A2P
[9] DLUHC, Live tables on homelessness, Statutory homelessness live tables, Table A2P
[10] The temporary accommodation spend increases to £1.58 billion when temporary accommodation administration is included. DLUHC, Local authority revenue expenditure and financing England: 2020 to 2021, Revenue outturn housing services (RO4) 2020 to 2021

to many renters, however, the higher two options of 5% and 7% would have a significant impact.

However, we acknowledge that Providers have a mandate to maintain the safety and integrity of their current stock. They have a vital role in building a new generation of genuinely affordable social rented homes, which is the only way to end the housing emergency. And providers need funding to address deplorable conditions in their housing stock – and to ensure that they can invest in upkeep of existing social housing. Because capping social rents will leave providers out of pocked, **Shelter strongly urges the Government to reinvest the savings of £3-6.1billion that were identified in the Economic Impact Assessment (Annex D) back into the sector and to adequately fund social housing supply through the affordable homes programme.** The savings from a 3-7% cap would not only **provide financial support that Providers need to alleviate their rising costs,** but would help them to address repairs and safety, as well as continue plans to build and develop social rented homes. **DLUHC calculated the savings from a 3% ceiling to be £6.1billion. Shelter estimates that over 33,000 social rented homes could be created if welfare savings were reinvested in social housing supply.**[11]

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Economic forecasts show that inflation and the cost-of-living crisis will not resolve itself September 2023, when the next social rent increase for 2024/2025 is expected to be adjudicated. The Bank of England predicts that inflation could remain as high as 9.5% in 2023 Q3.[12] **In addition, with the current CPI+1% formula set to expire in March 2025, and no alternative policy to calculate rents, social tenants will again be faced with the possibility of a large rent increase for a fourth straight year since the start of the COVID pandemic.**

Due to the possible economic hardships that tenants will still face, and the financial health of Registered Providers, an extended ceiling should be conditional based on

---

[11] Shelter analysis of NHF modelling. NHF, Capital grant required to meet social housing need in England 2021-2031, June 2019

[12] Bank of England, Monetary Policy Report, August 2022

inflation, unemployment, wage growth and systematic changes like additional grant funding and welfare reform. **Careful consideration should be given to previous increases and should not exceed those that have been implemented in previous years.** Regardless, Shelter strongly suggests that DWP and DLUHC develop further economic impact assessments to thoroughly understand the benefits and effects on social tenants and Providers' responsibilities as social landlords.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

No. **The ceiling should be applied to the maximum Initial rents charged.** Truly affordable initial rents are crucial in prospective tenants gaining access to social housing. **If a ceiling is not applied to initial rents, tenants will likely fail affordability checks for, what should be, the most affordable type of tenure.** This set back will contribute to individuals and families remaining homeless and in temporary accommodations. **More than half (54%) of households new to social housing were previously living with family, friends or in temporary accommodation, this includes over a fifth (22%) who were living in temporary accommodation.**[13] Others will be left in overcrowded and unsafe homes due to disrepairs and/or bad acting landlords in the private rental sector.

Access to a secure and genuinely affordable social home is significant and vital to socio-economic opportunities. Households moving into a new social tenancy spend more than a third (36%) of their income on rent whilst all social tenants spend just over a quarter (27%) of their income on rent.[14] This suggests that households moving into a social tenancy could be more at risk from increasing social rents.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

---

[13] Shelter analysis of DLUHC data. DLUHC, Social housing lettings in England, April 2020 to March 2021, Table 3f

[14] DLUHC, Social housing lettings in England, April 2020 to March 2021, Table 3l and DLUHC, English Housing Survey, 2020 to 2021: social rented sector, Annex Table 3.9

The **economic profile of those in supported housing** illustrates serious considerations that need to be recognised in deciding an exemption. With only 7% of new supported housing tenants in part-time and full-time work, 29% retired and another 22% not able to work due to illness[15], an increase, even on benefits, would be significant. This is **an example of why it is crucial for the Government to provide more grant funding so Registered Providers can build more social rented homes and improve services, conditions and accessibility. Shelter understands from other charities that there is a fear and risk of Providers ending their role in providing supported housing.**

Lastly, while the scope of the consultation does not include **those in intermediate homes, including low-cost ownership products**, it is just as critical to consider their unique challenges and difficulties. **Depending how severe the economic situation becomes, they will also be at risk for displacement, homelessness and placement in temporary accommodation.**

[15] Shelter analysis of DLUHC data. DLUHC, Social housing lettings in England, April 2020 to March 2021, Table 3c

Johnnie Johnson Housing – Response to the Rent Consultation 12th October 2022

Please find below the response of Johnnie Johnson Housing to the government proposals to the rent cap. We are a Housing Provider who specialises in providing older persons' accommodation including Sheltered Accommodation for the over 55's. We want to invest in our homes, many of them 30-40 years old, some bedsit accommodation AND we want to build new homes for older people that are fit for the future – this means building in infrastructure for shared communal spaces to support communities, building safety, wifi and telecare. Our vision is all about helping people to "Live Longer, Live Better" in their own homes. Consequently are costs are higher and organisations like us, will be hit harder if there is a cap on rents.

As a responsible business we put our Customers First and so we were already making a provision for below the Rent Formula increase, with the understanding it should be our Boards that would be responsible for the decisions they would make, and then accountable to the Regulator of Social Housing.

However, we all recognise that to provide a good home with appropriate services for our older residents they cost more due to:

- Building in, and running, managing and maintaining larger buildings e.g. scooter facilities, shared grounds
- Building in, and running, managing and maintaining internal communal spaces such as lounges, laundry facilities, care and support worker space, shared utilities e.g. water, electric, gas for these larger buildings
- Building in and maintaining additional building safety works and checks that come with communal buildings e.g. Fire Doors and Compartmentation work
- Providing on site support with colleagues being able to support our residents go about their daily lives

And so we must think about making sure our business is sustainable – not just for 2023/24 but for the future. A rent cap is not a decision that just affects one year, but one that affects our next few years – and longer into the future.

Here is our response to the 5 questions below:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No. We are not in favour of a legally forced cap.

As providers of Older Persons Housing the implications for our businesses plan will be detrimental to a most vulnerable sector of the population from a business perspective. This includes those with mobility issues, dementia, health deficiencies, those who live on their own, maybe without a family network to support them.

Our Business Plan, our homes and services, are different for each of us who specialise in this area and therefore each landlord should be responsible for their own decision, based on their knowledge of their customers, their proportion of self payers, their micro economic climate, their contractual environment, their homes and their services that they provide.

Working out the actual cost of inflation rises for such a business providing homes and services for an older community, proves, for us, and the majority of specialist providers, to be between 7% and 9%. We know this because we Chair the National Housing Federation's Older Persons Housing Group. This level of rent, whilst still impacting the business, would enable basic services to be provided, but reflecting the current position facing tenants in terms of the cost of living. Anything lower than 7% leads to significant pressures. These are outlined in Question 2 below.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

No, we do not agree with an imposed ceiling of 5%. 3% would be disastrous for our most vulnerable people. 7% is a challenge as outlined above.

Likely Impact of a Cap, especially below 7%, for JJH as a specialist Provider in Older Persons Accommodation, would lead to Pressures to:

- maintain current quality and decency of our homes especially the delivery of our Stock Condition Surveys
- investment in Building Safety such as new Fire Doors and Compartmentation across our schemes – whilst being prioritised, would be prioritised within reduced resources
- the ability to meet EPCC targets, never mind any zero carbon retrofitting
- [redacted]
- maintain our reputation and our credit rating with funders and investors. Any chances could lead to an increase in the cost of debt
- build new homes already on site – we are already seeing an impact of cost rises on the viability of existing new build schemes which are already on site. These are already under strain due to inflation on construction costs.
- build new homes that are in development pipelines, or in plans – Boards will be nervous in making longer term decisions or decisions which indicate significant investment in the future
- retain skilled staff will be more difficult – we have already seen pressures in sectors that care for residents and the community
- make the analogue to Digital switchover which has to be completed by 2025 – this is in relation to Technology Enabled Care and the emergency services that housing providers deliver when our residents e.g. fall, or have an incident
- continue with digital investment plans, both for residents for self-service (driving efficiencies and also improved accessibility) and also for colleagues in delivering technology based processes
- continue with current transformation/business improvement/innovation programmes which are aimed at driving efficiencies and improving our services
- any delivery of a new "Decent Homes 2 Standard"

We have homes with an affordable rent structure.

An affordable "rent" is inclusive of service charges. Service charges include day to day repairs, utilities, colleague costs of support, technology enabled care, building safety checks and fixes, emergency doors and lighting etc. Any cap on "rent" is therefore a huge cap on service charges. This is a "double whammy" for us given we provide shared accommodation with communal internal and external spaces because the cap on affordable rent is highly likely to mean our service charge costs are not covered by the reduced rent.

[redacted]

[redacted]

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes, we agree that, should there be any alternative arrangements, that this should be for one year only. This is because the financial environment is changing so much, so quickly. This includes inflation rates, interest rates, building costs and utility costs.

However, what we would ask for is to work together on the 2024/25 Rent Settlement quickly so that we can give our businesses some stability and not delay decision making.

We would also ask for the ability for convergence in the model, so that if there is a cap, this reduction is not felt in future years – that this is a temporary intervention.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We are supportive of full rent being charged for re-lettings or new lettings and believe this process could be speeded up by the return of rent restructuring.

Clearly on new accommodation we are experiencing increased building costs and so capping rent could mean an unviable scheme.

All residents go through a thorough affordability assessment before becoming a resident so naturally we would make sure that they could afford their home.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Yes – We believe that Supported and Sheltered housing should be exempt from the rent cap as should service charges, as these need to reflect real cost, for many reasons given in our responses to the above.

From:	[redacted]
To:	Social Housing Rents
Subject:	Consultation Response: Introduction of a ceiling on annual rent increases
Date:	12 October 2022 09:18:06
Attachments:	image001.png image002.png image003.png image005.png

You don't often get email from [redacted]. Learn why this is important

Dear Sir Madam,

On behalf of the Council and our tenant representatives who we met on this matter on 10 October 2022, I have set out below the views received as well as the wider Council landlord perspective.

For clarity and context, the Government's proposed direction would make the CPI+1% policy subject to a 5% ceiling from 1 April 2023 to 31 March 2024. This would mean that, for rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, Registered Providers would be permitted to increase rents by up to CPI+1% or by 5%, whichever is lower. This ceiling would apply to both Social Rent and Affordable Rent homes.

The Government is proposing to apply this ceiling to maximum rent increases due to the very high rate of CPI inflation. CPI is currently considerably higher than anticipated at the time when CPI+1% policy was set in February 2019. At that time, the most recent version of the Office for Budget Responsibility's Economic and Fiscal Outlook had forecast that CPI would be 2.1% in 2022 and 2.0% in 2023. 1. CPI was 10.1% in July 2022. If CPI remains at or above this level in September, this would permit social housing rent increases from 1 April 2023 to 31 March 2024 of 11.1% or more.

I will respond in terms of each question set out in the consultation document:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

The Council and its tenant representatives recognise the need to provide additional regulation to limit rent increases below inflation. Clearly there are additional inflationary costs experienced by social landlords in delivering their services and it would be helpful to temper this with appropriate temporary regulations.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

There is a difficult balance to be struck. From the initial work in preparing the

Housing Revenue Budget for 2023/24 a 3% increase would only cover increased staffing costs before even looking at the cost of energy, contractor labour and the cost of materials. A 3% rise would in effect mean a reduction in service. A 5% rent increase option is being considered for these reasons but the Council and its tenant representatives are equally concerned with the overall cost of living increases that will impact on tenants in 2023/24 including the cost of energy, water and food.

The current average rent for Swindon's council housing tenants is £86.07 per week

A 3% rent increase would increase an average rent to £88.65 per week

A 5% rent increase would increase an average rent to £90.37 per week

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Guidance and regulation over a 2 year period would be helpful. This would provide flexibility to social landlords should there be a marked decrease in inflation to set a rent slightly above inflation to counter balance a lower rent increase set for 2023/24

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Tenant representatives felt strongly that not applying it to relets and first time lets would cause hardship. The Council is also mindful of this and would need to consider the impact carefully including what additional measures it can take (including existing affordability assessments) and ensure incoming tenants can truly afford the higher rent level before making a final decision.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?
The Council and its tenant representatives did not consider it appropriate to make exceptions on this occasion. However it is also important to note that the Council and our tenants are concerned about the increase in service charges relating to communal areas in sheltered & supported housing, which are all costs that neither individual tenants nor the Council can control as these are set at commercial rates (e.g.: stairwell lighting) and cannot do without for reasons of health & safety, particularly as there is currently no cap on these charges by the energy providers.
If you would like further clarity on any of these points please do come back to me.
Kind regards

[redacted]

[redacted]

Adults, Health and Housing
Swindon Borough Council

[redacted]

www.swindon.gov.uk

The views expressed in this email are personal and may not necessarily reflect those of Swindon Borough Council unless explicitly stated otherwise. This email and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this email in error, please notify me immediately. If you are not the intended recipient of this email, you should not copy it for any purpose, or disclose its contents to any other person. Senders and recipients of email should be aware that, under the Data Protection Act 2018 and Freedom of Information Act 2000, the contents may have to be disclosed. The contents may be subject to recording and/or monitoring in accordance with relevant legislation This footnote also confirms that this email has been swept by Anti-Virus software for the presence of computer viruses. However, Swindon Borough Council cannot accept liability for viruses that may be in this email and we recommend that you check all emails with an appropriate virus scanner.

....

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	London Borough of Hounslow
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Hounslow House, 7 Bath Road, Hounslow, TW3 3EB
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
xNo
☐Maybe

Comment:

The Government have previously emphasised that setting rents (within the regulatory framework set out in the Rent Standard) remains a decision for each local authority. However, imposing additional ceilings on rent increases undermines the local decision-making process.

As a provider we were initially modelling a rent increase of 9%. We have an ambitious New Build and Investment Capital programmes that requires a high level of borrowing that needs to be financed.

A cap applied to the rent increases reduces our ability to borrow the amount required and may compromise our ability to deliver additional New Build units and on the various statutory and regulatory requirements that are imposed on us to deliver by Government, including carbon reduction, building safety and the new Decent Homes standard to be introduced through the Social Housing Regulation Bill.

The authority would have weighed up the rent increase with the need to deliver more social housing including replacement of units lost through RTB, investment in existing stock, other inflationary pressures and the need to deliver a viable HRA Business plan.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
xNo
☐Maybe

Comment:

There is no indication in the consultation that the Government plan to provide any support to compensate local authorities for the ceiling on rents, so effectively local authorities will be expected to meet inflationary pressure on expenditure budgets from existing resources wherever this is more than the ceiling on rents.

To ensure that the HRA business plan remains viable this will mean expenditure will need to be controlled well within inflation which may not be achievable.

In our modelling we initially had CPI at 8%, the loss of income to the HRA over 30 years as a result of the 5% cap for two years is approx. £80m. As CPI is currently higher the actual impact of the cap would be higher. In our current modelling we would need to control the majority of our expenditure including repairs (capital and revenue) spend within inflation of 5% in year 1 and 2% over the remaining years. It is currently unclear whether this is achievable.

The continued restrictions placed on rent with no additional support to deliver on regulatory requirements in addition to increasing interest rates on borrowing increase the risk that we will not be able to operate a viable 30 year HRA business plan.

Furthermore, the proposed percentage ceilings are all relatively low, so provide minimal cash savings to tenants (some 85% of whom are in receipt of at least partial benefits, in any case) while having a disproportionate cumulative impact on our HRA cash flows and finances, multiplied across our stock and compounded over the lifetime of our business plan. Even without these ceilings, our council rents would still compare favourably to other forms of social rent.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

xYes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

If a cap is imposed, this should be reviewed annually.

When self-financing was introduced for local authorities in 2012, the debt settlement was based on a 30-year net present value calculation, which assumed that rent increases would continue until convergence was achieved with formula rents subject to a limit of 0.5% + £2 above inflation (as defined by the Retail Price Index).

After self financing, the additional rent above inflation was effectively removed by the limit of CPI + 1% imposed from 2015/16, rent reductions were imposed for the period 2016/17 to 2019/20 and a further ceiling is proposed 2023/24 (and possibly 2024/25).

There is no indication in the consultation that the Government plan to provide any support to compensate local authorities for the ceiling on rents, so effectively local authorities will be expected to meet inflationary pressure on expenditure budgets from existing resources wherever this is more than the ceiling on rents. Any extension to the ceiling will impose further pressure on the HRA and our ability to have a viable HRA business plan.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

xYes
☐No
☐Maybe

Comment:

We agree that new lets and re-lets should not be subject to the cap, and that the formula rent policy should apply to these properties. Applying ceilings to actual rent increases but retaining the existing approach to formula rents is that significant variances will occur between actual rents and the formula rents with which they were anticipated to converge.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
xNo
☐Maybe

Comment:

We do not propose any other exceptions to those detailed in the draft policy statement.

Response from Greatwell Homes LTD

8. Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

- ○ Yes
- ○ No
- ○ Maybe

NO

We do not agree with a specific ceiling. We believe it is the Board's responsibility to make decisions that are in the best interests of our customers and maintain the financial health of our business and it should be they who decide the rent increase to be applied in 2023-24 within the existing CPI + 1% limit. Our forecast was for a rent increase of 8.5% and, without intervention, this is the rent increase that would most likely be applied. An increase at this level would minimise any disruption to our investment plans and maintain consistency in rents for new customers. We consider a customer assistance fund is a more targeted way of helping those most affected by the rent increase rather than a blanket cap for all.

9. Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

- ○ Yes, you agree with imposing a ceiling of 5%
- ○ No
- ○ Maybe

NO

We do not agree with imposing any ceiling. We believe the Board will consider what is in the best interests of our current and future customers when deciding on the rent increase to be applied in 2023-24 within the existing CPI + 1% limits. With higher cost inflation, the imposition of a 5% rent cap would curtail our ability to invest in estates and it will delay works that will reduce the energy bills for our customers by improving the energy efficiency of their homes. [redacted] works to the value of £2.5m would have to be cancelled or postponed. [redacted]

10. Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

○ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

○ No

○ Maybe

Yes

We do not agree with imposing a ceiling in either 2023-24 or 2024-25. We believe the Board will consider what is in the best interests of our current and future customers if they are allowed to decide the rent increase to be applied in both years within the existing CPI + 1% limits. If a ceiling must be applied, we believe it should be for one year only as circumstances beyond that are currently unknown.

11. Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

○ Yes

○ No

○ Maybe

Yes, we agree in principle that, if there must be a ceiling, it should not be applied on first let or re-lets however, this will impact rent convergence as customers in the same size property in the same area will be charged different rents.

12. We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

○ Yes

○ No

○ Maybe

YES

We believe that specialist supported housing should be excluded from any rent cap to maintain the financial viability of the scheme.

Social Housing Rent Consultation: Greater Manchester Combined Authority response

Summary

1. As a starting point, it is vital that any reduction in rent increases should be considered as one element of a wider package of measures to protect the vulnerable from the consequences of cost of living crises. Interventions such as eviction prevention, investment in affordable warmth, increasing the Local Housing Allowance (LHA) rate in line with median rents, and ensuring that welfare benefits are raised in line with inflation, are necessary to further support households on low incomes.
2. This consultation and the impact of a possible unfunded rent cap highlights the structural issues around housing funding, with the dependence of crucial GM and national priorities on rents paid by social housing tenants. We do need to think differently as a system about how innovation and market shaping in areas such as net-zero housing delivery, which will ultimately benefit society as a whole, is funded.
3. In the short-term, modelling by DLUHC and GMCA clearly shows that Treasury will be the main beneficiaries of this policy through savings to DWP in terms of welfare benefits. We therefore recommend that:
    a. **Government fully funds any proposed rent caps**, so that social landlords are protected from the short and long term financial burden an unfunded cap will impose upon them;
    b. Alternatively, that **as a minimum the savings to DWP are redistributed to housing providers and local authorities** in order to at least partially protect current and future provision of social housing, activity around net zero carbon new build and retrofitting, and continued vital supported and specialist housing. These activities are more important than ever to support people through an energy and cost of living crisis.
    c. Government should also recognise that the impact of sub-inflation rent increases on RP finances – even for one year - will extend over the long term, even if short term additional funding is made available, and consider further interventions.
4. There is a diverse social housing sector in Greater Manchester, including stock holding local authorities. GMCA are assured that Registered Providers of Social Housing (RPs) in the Greater Manchester Housing Provider Partnership (GMHP) – including the stock holding authorities - would not be considering such an increase, but an uplift of CPI+1% would be untenable for many social housing tenants. Therefore a fully funded cap would be welcomed as protection for all social tenants, particularly those who are not in receipt of housing related support, and so would need to cover the cost of a rent increase themselves.
5. The complexity of the housing system, as well as current national economic uncertainty, mean that it is difficult for GMCA to take an evidenced based, reasoned approach to supporting a specific figure for a rent cap that is not fully funded by Government.
6. GMCA does not support new lets and/or relets being exempt from any rent cap, as those residents are likely to be as vulnerable (or even more so) than existing residents, and there does not seem to be any reason to withhold this protection from new tenants.
7. Likewise, GMCA does not support the exemption of Supported Housing from any cap. It is important to note that these schemes can be very costly to run, often on very tight margins, and for many RPs are already being subsidised by general needs rent. Although a high proportion of residents of supported housing will be in receipt of housing welfare payments, as these tenants are amongst our most vulnerable residents, they must also receive the protection of a rent cap, alongside general needs tenants.

8. However, given the inflationary pressures adding to the additional costs associated with supported housing schemes, it is imperative that Government provides additional funding support for supported accommodation schemes, to offset the loss of income through an unfunded rent cap if that is pursued.
9. Shared Ownership rents are not in the scope of this consultation; there are around 5,000 shared owners in Greater Manchester, who are very likely to be paying the full cost of their rent, as well as a mortgage which is likely to have increased given recent interest rate rises. GMCA would encourage Government to consider what support they could offer those living in shared ownership homes to help with these rising costs, which may involve inclusion in any rent cap.

Context and cost of living crisis:

10. Rents are only part of the rising costs social tenants are facing. Despite the announcement of the Energy Price Guarantee on 8th September, the average household will still face energy bills of £2,500 per year, with households on the lowest incomes, including many social tenants, paying a greater proportion of their income in energy bills. For those on communal heating systems that are not treated as domestic customers, it has been announced that comparable support will be available through a discretionary fund; we await more detail on what the impact of this will be.
11. Analysis by the Resolution Foundation shows that the total package of government support now in place for 2022-23 provides equal support to poorer and richer households, with an average gain of around £2,200 across all income levels.[1]
12. Although the Consumer Price Index (CPI) reduced to 9.9% in August 2022, this is still over three times higher than the figure in August 2021 (3.2%). Food inflation of 13.1%, a 14 year high, will mean extra pressure on lower income households. In comparison, household incomes increased by only 2% between 2020 and 2021, clearly showing that people are unable to keep up with such rapid inflationary pressure.[2]
13. Any reduction in rent increases should be considered as one element of a wider package of measures to protect the vulnerable from consequences of cost of living crises. Interventions such as eviction prevention, investment in affordable warmth, increasing the Local Housing Allowance (LHA) rate in line with median rents, and ensuring that welfare benefits are raised in line with inflation, would be welcome to further support households on low incomes.

Impact modelling

14. As part of the consultation, DLUHC have issued an Impact Assessment of Implementing an unfunded ceiling on social housing rent increases in 2023-24.
15. The analysis shows that 62% of the rent shortfall would be returned to Treasury via savings to DWP due to reduced housing welfare payments.
16. This means that an unfunded cap on rent increase of 7% generates reduced rental income of £4.9bn for RPs nationally, but only £1.9bn of that actually translates into reduced rent payments by those households, the remaining £3bn being savings to welfare benefit payments from DWP, due to reduced Universal Credit (Housing Element) and Housing Benefit payments.

---

[1] Resolution Foundation, 'A Blank Cheque: An analysis of the new cap on energy prices', September 2022 A-blank-cheque.pdf (resolutionfoundation.org)

[2] Office for National Statistics, Average household income, UK: financial year ending 2021 Average household income, UK - Office for National Statistics (ons.gov.uk)

17. GMCA have produced modelling to replicate this analysis for the city region, applying DWP data on housing welfare claimants in Greater Manchester to the estimated rent roll reduction in Greater Manchester in the first year of a rent cap.
18. The analysis models both the savings to DWP suggested in the DLUHC impact assessment, 62% of the total rent reduction, and a higher level of savings, based on the modelled proportion of social tenants in Greater Manchester in receipt of housing welfare support (72%).
19. This modelling shows that DWP stand to make savings of between £29m and £34m in the first year of an unfunded 7% rent cap, based on savings to housing welfare payments in Greater Manchester. In the event of a 3% cap, these savings to Treasury would increase to between an estimated £57m and £66m.

Table 1: rent roll reduction and estimated savings to tenants and Treasury for Greater Manchester, 2022-2023

Scenario	Estimated rent roll reduction in GM, 2022-2023	DLUHC modelling- 62% of savings to DWP		GMCA modelling- 72% of savings to DWP	
		Rent saved by tenants	Savings to Treasury/ DWP	Rent saved by tenants	Savings to Treasury/ DWP
3% cap	£92m	£35m	£57m	£26m	£66m
5% cap	£69m	£26m	£43m	£19m	£50m
7% cap	£47m	£18m	£29m	£13m	£34m

Sources: Regulator of Social Housing, Private registered provider social housing stock and rents in England 2020 to 2021; Regulator of Social Housing, Local authority registered provider social housing stock and rents in England 2020 to 2021; ONS CPI Inflation Indicators, September 2020-2021; DLUHC Impact Assessment: Implementing a ceiling on social housing rent increases in 2023-24; DWP Stat Xplore, Housing Benefit Claimants in Social Housing, Universal Credit Households in receipt of the Housing Element in Social Housing, March 2021.

Structural issues related to housing funding

20. This consultation and the impact of a possible unfunded cap on rent increases highlights the dependence of some crucial GM and national priorities on rents paid by social housing tenants.
21. For example, RPs' role in leading the residential element of transition to net zero new build and comprehensive retrofit of existing homes is crucial in building the capacity, knowledge and supply chains needed for the remainder of the housing stock to follow – ultimately benefitting owner occupiers and private landlords and tenants. However, this innovation will largely be funded through the rental income from social tenants.
22. The new burdens and work created as a consequence of new building regulations, a new fire safety order & consequently a new regulatory environment post-Grenfell are a significant area of work for Housing Associations & Local Authorities. This vital activity should be financed via the Revenue Support Grant in Local Government, but it seems that currently there is no financial mechanism for supporting Housing Associations with these costs and therefore such costs are passported onto rents.
23. Furthermore, local authority budgets in the north of England have been hit hard by 12 years of austerity, with cities seeing an average of a 20% cut in spending between 2009 and 2017.[3] This, paired with the removal of previous funding initiatives such as Housing Market Renewal and Single Regeneration Budgets, and the inadequacies in the Affordable Homes Programme and green funding initiatives, leaves local authorities and the wider public sector poorly placed to fund this vital work.

---

[3] Centre for Cities, Cities Outlook 2019 [A decade of austerity | Centre for Cities]

24. This presents us with an opportunity to think differently as a system about how such innovation and market shaping, which will ultimately benefit society as a whole, is funded.
25. In the short-term, modelling by DLUHC and GMCA clearly shows that Treasury will be the main beneficiaries of this policy through savings to DWP in terms of welfare benefits.
26. GMCA therefore asks that – if the costs of rent capping are not to be met in full – then at least these savings are redistributed to housing providers and Local Authorities in order to enable crucial activity around net zero carbon new build and retrofitting to continue apace, and to protect the provision of vital supported and specialist housing. These activities are more important than ever to support people through an energy and cost of living crisis.
27. There is also a concern that without a funded rent cap, a greater degree of divergence could be seen within the social housing sector, and in particular between RP and local authority rents. Without such a cap, more financially stressed or commercially minded RPs may be inclined to raise rents to CPI+ 1%, whereas many others, including stock holding local authorities with direct local accountability, are unlikely to do so.

Social housing provider commitments/pressures

28. There are a number of challenges which social housing providers collectively and individually are currently facing, which a cap on rent increases will exacerbate:

(a) The continuing need to invest in **building safety** as the lessons from Grenfell and the failings of the building safety regulation, product testing and enforcement regimes continue to emerge, and Government's financial response continues to fall short. This impacts on individual RPs differently depending on the nature of their housing stock, particularly (though not solely) on those with significant numbers of high rise homes. These costs are coming out of existing resources;

(b) The need to plan and commence the **retrofit** of their stock to meet our 2038 targets, to reduce carbon emissions, tackle fuel poverty, and to provide their residents with homes resilient to the changing climate. If the cross-tenure estimate produced for GM by Parity Projects of an average £13,000 per home to achieve cost-effective near net-zero retrofit applied to all social homes, this would represent a programme well in excess of £3 billion. Importantly, there is no mechanism for charging tenants to recover savings on household bills which energy efficiency improvements will generate, so the full cost again falls on RPs' existing resources;

(c) The increasing pressure to **deliver more new homes**, given the growing need for social and affordable housing and the continued loss of existing homes to Right to Buy/Right to Acquire. The new Affordable Homes Programme provides a degree of certainty over grant funding for 5-7 years ahead, and GMHP are keen to maximise delivery as a result – but that requires substantial capital contributions from their own resources.

(d) In delivering those new homes, they are also pressed to maximise the number of **social rent homes**, while the Homes England Affordable Homes Programme is set nationally to achieve 50% affordable home ownership units and with a default assumption that rented units will be grant funded to meet the lower development costs of ‘Affordable Rent’ rather than social rent. Homes England will grant fund social rent delivery only in exceptional circumstances, though RPs can choose to use their own resources to fill the funding gap left to achieve social rent.

(e) An associated challenge is the acknowledged need to move to **net zero carbon new homes**. This is widely seen as being achievable only by a switch to modern methods of construction (MMC). Proposals are being developed for a joint venture by a number of GM and other northern RPs to procure a manufacturing partner to supply new MMC homes directly to RPs. This will be funded by capital investment by the RP partners. Ultimately, an objective is to achieve mass rollout of zero carbon homes at costs no greater than traditional construction methods, but until that is being done reliably and at scale, delivery of net zero new homes will come at a financial premium. This premium will not be covered by Homes England grant, and will largely come from RPs’ own resources.

(f) There are also **revenue costs** to RPs associated with supporting **GM homelessness programmes** such as A Bed Every Night, Rough Sleepers Accommodation Programme, and Housing First.

29. Any rent cap will have a long-term impact on social housing providers’ business plans, even in the case of a 1-year cap, as income is foregone, and savings realised for Treasury, for all future years, not just for the year in which a cap is imposed. This means that these strategic priorities, many of which require long-term investment, are at significant risk if the funding cannot be recouped from Treasury.

From:	[redacted] on behalf of [redacted]
[redacted]	[redacted] Social Housing Rents
Subject:	Rent Consultation
Date:	07 October 2022 14:35:17
Attachments:	image001.png image016.png image017.png image018.png image019.jpg image020.jpg image021.png Rents model inc DLUHC modelling.xlsx

To whom it may concern,

Please find below the response of the GMHP partnership to the government proposals to the rent cap.

The GMHP partnership covers 24 different social landlords including housing associations, ALMO's and LA with retained stock. This is our collective response.

All the Social landlords in Greater Manchester where already making a provision for below the Rent Formula increase, with the understanding it should be our Boards that would be responsible for the decisions they would make, and then accountable to the RSH.

We all recognise the cost of living pressures for our customers of a CPI plus 1 rent increase and are proposing to make a decision that this would not be sustainable for the financial year 23/24.

We are not in favour of a legally forced cap as the implications for the businesses plans are different for each of us and across the sector, therefore each landlord should be responsible for their own decision.

Other general points we would like to make are :

We agree that supported housing should be exempt from the rent cap as should service charges, as these need to reflect real cost. Unless service charges reflect actual costs incurred other tenants that do not receive the services would be subsidising those that do, this would be unfair. We also believe that the rent cap should only be for one year rather than two. Particularly as the government believes changes on the economy will control inflation, as such we should not need a cap in 24/25.

We are supportive of full rent being charged for re lettings or new lettings and believe this process could be speeded up by the return of rent restructuring.

Likely Impact

Having just come out of 4 years rent reduction a rent cap that does not quickly catch back up with the rent formula would severely impact business plans generally and would mean a real reduction in the provision of new and existing stock.

It would also be worth reflecting that for stock transfers in particular that transferred around 10 years ago there have been very few years were the promised rent formula has actually been adhered to.

Any rent cap impacts on the issues below, the more severe the rent cap the greater the impact on business plans and government targets

1} Pressure to maintain decent homes standard, as Building Safety investment must be prioritised within reduced resources

2} It will make meeting targets on carbon reduction extremely difficult and the lower the cap almost impossible.

[redacted]

4} It impacts on our reputation and our credit rating with funders and investors this will impact on the cost of debt available to the sector organisations and sector

5} This will impact on viability of existing new build schemes already on site which are already under strain due to inflation on construction costs. It will also impact on the viability for the schemes coming for appraisal

6} Retention of skilled staff will be more difficult

7} All housing providers in Greater Manchester support their local area in purchasing and sub-contracting activity. A long term reduction in income means SMEs and local businesses suffer as well as tenants not getting the improvements originally proposed.

This is a long term loss to business plans , not just a one year hit, and we are already subject to inflation as businesses on fuel, materials etc. Medium and longer term investments could be halted at the detriment to the business over the next 12/24 months

Asks/mitigations

There are a number of things that could help protect vulnerable tenants, and also help mitigate the impact on the organisations and investment.

1} We believe there should be a Return to rent restructuring which would allow the sector to catch up more quickly on costs incurred due to the rent cap. This would allow the sector to build and maintain existing homes and build new ones.

2} We believe by lifting the benefit cap it would be advantageous in mitigating some of the above

3} We believe a lift LHA rates would also be advantageous for the organisation to get back to full investment more quickly

4}We believe a reduction on major VAT on Capital works would also mitigate as above

5} Given that the biggest recipient on the biggest cap would be HM Treasury it should be possible to reimburse housing providers through additional grants or subsidy of existing stock.

6} We also believe that the government should explore introducing warm rents where investments can reduce heating costs for customers shared between the customer and housing provider, to be reinvested in further energy serving methods. This would mean that the requirement for future public subsidiary could be reduced.

We would therefore say any cap should be 7%, with Rent Restructuring returned and any of the mitigations above, to ensure minimal impact on Services and investment, but reflecting the current position facing tenants in terms of the cost of living.

Many of our members are submitting responses additionally in their own right.

We append figures by GMCA by the impact to back up these arguments. (Attached and below)

Those headline numbers are as follows (all for GM as a whole):

- Rent roll for 2023 with **CPI (10.1%) + 1%** is £1,261,028,609.47
- Rent roll for 2023 with **3%** is £1,169,090,430.02, which is a shortfall of £91,938,179.45
- Rent roll for 2023 with **5%** is £1,191,791,215.07, which is a shortfall of £69,237,394.40
- Rent roll for 2023 with **7%** is £1,214,492,000.12, which is a shortfall of £46,536,609.35

We've also modelled the split of those shortfalls between savings to tenants who pay their rent and those to DWP/Treasury from reduced costs of rent covered through the benefits system. This suggests that the share of savings to Government are relatively greater in GM than nationally.

Scenario	**Estimated rent roll reduction in GM, 2022-2023**	**DLUHC modelling- 62% of savings to DWP**		**GMCA modelling- 72% of savings to DWP**	
		Rent saved by tenants	**Savings to Treasury/ DWP**	**Rent saved by tenants**	**Savings to Treasury/ DWP**
3% cap	£92m	£35m	£57m	£26m	£66m
5% cap	£69m	£26m	£43m	£19m	£50m
7% cap	£47m	£18m	£29m	£13m	£34m

All of these numbers are for one year only.

Regards

[redacted]

From: [redacted]>

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Gentoo Group
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Emperor House, 2 Emperor Way, Sunderland. SR3 3XR
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

Given the significant cost of living pressures facing our customers, the Group would likely implement a rent ceiling to help mitigate these concerns. The Group would want the ability to determine the level of that ceiling, however, to help to balance the impact on customers against the significant challenge of continuing to invest in building new homes and maintaining and improving existing homes whilst also addressing the challenges presented through the building safety, energy retrofit and zero carbon agendas.

Following detailed modelling on the impact of inflationary pressures, it will be impossible to maintain investment in line with our business plan at existing levels under a rent ceiling of either 3% or 5% with a rent ceiling of 7% still presenting financial challenges in light of cost and interest rate inflation.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☓ No
☐Maybe

Comment:

The Group's preference would be to establish a local rent ceiling that balances customer need whilst limiting the negative impact of inflation on the Group's finances as far as possible.

The Group has undertaken modelling on scenarios of a rent ceiling of 3%, 5% and 7%

- At 3%
    - A reduction of up to 25% in the level of new affordable development in the next 5 years with the Group seeking additional grant from Homes England to limit this reduction and considering alternative sources of funding.
    - A reduction of up to 25% in the level of retrofit planned in the next 5 years.
    - The Group is massively focussed on delivering on its building safety requirements, however, a rent ceiling of 3% would result in an estimated reduction of up to 25% in planned building safety work over the next 5 years.
    - A reduction of up to 25% would be expected in planned major repairs.
    - A reduction in responsive repairs would be required.
    - Other front-line services to tenants would be reduced, including support services.
    - Significant cuts would be expected to existing workforce levels with substantial one-off staff exit costs.
- At 5%
    - A reduction of up to 25% in the level of new affordable development in the next 5 years with the Group seeking additional grant from Homes England to limit this reduction and considering alternative sources of funding.
    - A reduction of up to 25% in the level of retrofit planned in the next 5 years.
    - It is hoped that existing plans for building safety works could be maintained.
    - A reduction of up to 25% would be expected in planned major repairs.
    - Reductions to responsive repairs, other front-line services and staffing levels considered.

- At 7%
    - It is hoped that the planned level of new affordable development could be maintained.
    - It is hoped that the planned level of retrofit could be maintained.
    - It is hoped that existing plans for building safety works could be maintained.
    - A reduction of up to 25% would be expected in planned major repairs.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☒ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

The rent ceiling should be limited to 31st March 2024 to enable providers to recover some of the lost revenue resulting from the ceiling.

To further enable providers to recover lost revenues and to bolster business plans, it would be helpful to confirm that rent settlements beyond 2025 can be applied at CPI+1%.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒ Yes
☐No
☐Maybe

Comment:

This is essential in ensuring that existing and future affordable development schemes remain financially viable, with protection only afforded to existing customers.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓ Yes
☐No
☐Maybe

Comment:

Supported housing schemes are more costly to operate and so are impacted to a greater extent through high inflation.

Appendix B

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Gloucester City Homes
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Railway House, Bruton Way, Gloucester, GL1 1DG
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

Based on discussions with sector colleagues, there has clearly been deep concern about CPI levels and what that could mean for rent increases if CPI+1% was applied. At GCH, the Board established a Rents Task & Finish group specifically to consider the increase and to determine a rent increase that would be affordable for those tenants affected, allow GCH to still deliver key services, invest in existing and new homes and deliver improvements to ensure all properties achieve EPC Band C.

There has been throughout discussions held a strong view that increases should not be at the full CPI+1%, with a potential increase of approximately 8% being considered as a maximum level. Hence, GCH like others was already working towards a self-imposed ceiling. As part of this work, we were investigating options for smoothing out the increase over 2 years, hence providing for an element of catch up in the 2024/25 rent increase to partially offset the impact on services that a below inflation increase in 2023/24 would have if left unmitigated.

Giving the sector this flexibility would result in rent increases being kept at more affordable levels and no long-term impact on the services provided to some of the most vulnerable in society. If the Regulator were to support a catch-up mechanism, similar to the convergence mechanism used to achieve target rents, this would provide greater certainty for the sector as it plans investment for new and existing homes. We would be keen to see if a mechanism like this could also work for shared ownership properties which fall outside the Rent Standard to ensure that these customers are also supported at this time.

However, it also needs to be noted that some organisations may be in a position whereby higher increases are needed to deliver services so as not to have a detrimental impact on their tenants, many of whom will not actually benefit in monetary terms from an imposed ceiling on rent increases due to being in receipt of housing support.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

If a ceiling were to be imposed, an increase of 7% would be preferable. This would give providers more flexibility in managing the impact of rising costs in delivering repairs, improvements to existing homes and invest in much needed new housing. It would also provide more assurance to investors in the sector in terms of the capacity for providers to manage any loan funding in place. For GCH, an increase of 7% would be close to the level of increase being considered for modelling as referenced in question 1 above.

For GCH, a ceiling of 7% compared to 5% would result in an additional £450,000 income per annum. With GCH being a stock transfer organisation from 2015 and our covenant performance now beginning to move into sector norm levels, this additional 2% on the ceiling would allow us to maintain services without impacting directly on our customers, many of whom are the most vulnerable in society. Otherwise, an option may be to extend the time allowed to deliver EPC Band C or provide greater certainty on funding of these much-needed works.

With approximately 71% of GCH tenants being in receipt of housing support, only £130,500 would be funded directly by tenants with £319,500 funded through welfare benefits.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

With uncertainty over economic forecasts, in part following the recent Government announcement to freeze domestic energy prices at an average £2,500 for the next two years but particularly following the budget with market volatility and the impact on interest rates, it would seem prudent not to set any further ceilings on rent increases at this time. This will allow for the impact of this freeze to be reflected in CPI over time plus it allows time for the impact of CPI on repairs and improvements to be assessed.

As an example of the impact of market changes and their impact on our work, following the changes in interest rates, we have now had to re-profile our planned investment to deliver EPC Band C in all our properties so that instead of completing works by 2030, this will now be completed by 2035. We will endeavour to complete this work sooner but that will be dependent on future rent increases, economic conditions and the availability of grant funding.

If a ceiling is to be imposed, it needs to be done when there is greater understanding of the economic forecasts for 2024/2025 and what they might mean for both tenants and the housing sector. It is vital for example that the sector can continue to invest in its properties to ensure they are safe, decent, and fit for the future.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

GCH undertakes full affordability assessments for all applicants for social rent and affordable rent properties and would not offer a property where it would not be beneficial to the applicant in terms of their financial capacity.

Of 26 applicants refused accommodation in 2021/22, we supported them to improve their financial capacity. As a result, 19 of these applicants eventually became GCH tenants.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

A potential exception may be for properties which are not yet at target rent. GCH currently has approximately 300 properties below target rent hence this exception would allow us to align these rents to those of other GCH tenants. As approximately 71% of our tenants are in receipt of housing support, the impact of this exception would mostly not be on our tenants. However, it would support GCH in full delivery of target rents.

409-413 Mile End Road
London E3 4PB
Telephone 020 8709 4300
enquiries@gatewayhousing.org.uk
www.gatewayhousing.org.uk

Social Housing Rents
Fry Building
2 Marsham Street
London
SW1P 4DF

socialhousingrents@levellingup.gov.uk

10 October 2022

Dear Sir / Madam

Consultation on a direction on social rent policy

Thank you for the opportunity to comment on the consultation on social rent policy setting.

We are pleased to provide our response to the consultation on behalf of Gateway Housing Association, our response was considered by the Gateway Board on 5 October 2022.

By way of context Gateway is a small registered provider based in East London. Gateway owns approximately 3,000 homes, a mix of general needs, housing for older people, leasehold and low cost home ownership. Gateway operates predominantly in the London Borough of Tower Hamlets, including some of the most deprived areas of the City. We have a development programme targeting an average annual growth of approximately 100 new homes for rent and low cost ownership.

We are very concerned for the impact of the current economic climate on our customers and we support initiatives to improve affordability. In setting rents boards need to take into account many considerations, including economic forecasts, investment requirements, and affordability of increases to customers and the hardship that excessive increases could cause. This also includes the cost of delivering services in this current climate and the costs of achieving building safety requirements. Our view is that boards will make these considerations in setting rent policy.

At the point of responding September 2022 CPI is not yet published but we anticipate that it will be at or close to 10%. We do not consider that Boards generally will seek to increase rents in line with the rent direction in current circumstances.

Our responses to the consultation questions in summary:

- ***Q1. Do we agree that rent increases by social providers should be subject to a limit.***

- We support in principle measures to limit the adverse impact of inflationary cost of living and other pressures on our customers, who are some of the most vulnerable individuals and households. Our view is that most providers who are able to would seek to restrict increases to below the current level of inflation. We believe that individual Boards should be able to make decisions taking into account their own viability and their investment requirements and to be accountable to the Regulator for the decisions made.

- To assist this we consider that the ability to smooth overall rent increases over a number or periods would be beneficial by restricting increases in the current period(s) of high inflation but by maintaining increases at greater than CPI in subsequent periods until the equivalent overall position is achieved. This is akin to a model of rent convergence to an equivalent target or benchmark rent over a maximum period of say 5 years.

- ***Q2. Do we agree with a cap at 5% or an alternative level.***

- If a rent cap is the chosen policy approach then we could support a cap at 5% or higher. [redacted]

- Further detail and analysis is provided below.

- ***Q3. Do we agree with a cap for a single or for more than one period.***

- We would support a one year cap for April 2023 only.

- We have considered whether a cap should be implemented for a single year in 2023 or for longer. In our opinion any rent cap should be limited at this time to a single period. The level of uncertainty and fluctuation in economic measures is significant and our opinion is that such decisions should be made one year at a time given the level of volatility being experienced.

- ***Q4. Application of limits to initial rents on first let and re-lets***

- We do not agree that the limits should apply to new and relets.

- ***Q5. Exceptions for particular categories of social housing.***

- We do not consider that there is a need for exceptions for categories of social housing.

How we have assessed the impact in arriving at our response

In assessing the options for capping rent increases we have used our existing approved financial plan, as submitted as a Financial Forecast Return 2022. We have modelled rent increases at 3%, 5%, 7% and at CPI+1% in line with the existing rent policy direction. We have updated the underlying financial assumptions for inflation and funding costs to reflect the current market and in consultation with our financial and treasury advisors for forecast periods. In considering inflation we have reflected the current year position at 10% and returning to the long term Bank of England target of 2% within 2 years.

[redacted]

[redacted]

[redacted].

Long term impact of rent policy restrictions:

The nature of indexed increases to rent is that each increase is based upon the previous position, and therefore any restriction in one period causes a consequent loss to future periods. When assessed over a typical 30 year period of a financial forecast this deficit in forecast income can be significant.

We have assessed the deficit in total forecast income of each cap option against the basic assumption of the current rent direction. This shows the following positions over a 30 year forecast period:

[redacted]

These amounts restrict future investment capacbility to achieve the policy initiatives of zero carbon and new home delivery.

Our preference is that providers should be able to recover any shortfall in rent increase arising from a restriction this year through a higher level of increase in a future period where inflation has returned to lower levels. This will have the impact of balancing or smoothing increases over a number of periods and maintaining the funding available to achieve investment policy goals. This would be equivalent to a form of convergence against what rent would have been in the absence of a cap, and ideally implemented over a period not exceeding 5 years.

Other risk considerations:

- Gateway is in the process of undertaking a stock condition survey and assessing the full impact of achieving EPC C compliance and zero carbon by 2050. Whilst some provision has been made for this the full investment requirement is not yet known and therefore has not been fully incorporated. Restrictions to forecast income therefore may limit the organisation's ability to full achieve these policy initiatives.

- Gateway has a development programme including a medium term ambition to deliver 100 new homes per year on average, as a mix of rented and low cost home ownership homes. New build delivery is experiencing significant cost pressure at present.

- Whilst we have modelled the impact of rent cap options we have not combined this with other stress scenarios including sales market impacts – Gateway's financial forecasts include £23m of forecast proceeds of shared ownership sales in the next 5 years and a downturn in sales market is likely to impact this further.

[redacted]

Yours faithfully

[redacted]

Appendix – Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

12 October 2022

Dear Sir or Madam

Social Housing Rents Consultation - response of Canterbury City Council

This reply to the consultation on Social Housing Rents is made on behalf of Canterbury City Council. It consists of a Position Statement, which explains the context of the Council's response and is key to understanding its answers to your specific questions that follow.

My contact details are:
[redacted]

Introductory Position Statement
Superficially, Canterbury appears prosperous and comfortable, masking a reality of high housing costs, a housing market that is distorted by a large student population and second home ownership, and low wage employment. Canterbury City Council's housing stock is a vital resource for supporting a vibrant local economy by addressing local housing needs and promoting social inclusion for low income households.

We are desperately short of council homes to meet the needs of the 2961 households on the Housing Needs Register and the 872 households that approached us as homeless in 2021/22. A programme to build new council homes is an important part of our response to this crisis.

Our existing council housing is in fair condition compared to properties in the private rented sector, but is of an age that requires sustained long term investment in planned maintenance and urgent remedies to tackle poor energy efficiency, heat decarbonisation and fuel poverty.

canterbury.gov.uk
01227 862 000
DX99713 CANTERBURY 3
Printed on recycled paper

Canterbury City Council
Military Road
Canterbury
CT1 1YW

To meet these serious challenges, the Council desperately needs a long term, stable and reliable source of income to fund its housing activities. This should come from rental income, but the housing stock continues to shrink because of the Right to Buy and rents for the remaining 5,081 council homes are already the lowest in the district, at about 40% of private market rents.

The Council is concerned that short term approaches and frequent changes by the Government to rent setting policy and housing finance severely hampers its ability to manage its homes efficiently and effectively, to build new accommodation and further distorts the local housing market in Canterbury district.

The Council's Housing Revenue Account (HRA) has never recovered from the financial impact of the 1% per annum rent reduction policy required by the Government between 2016/17 and 2019/20. The compounded effects of this policy equated to a 12% loss of rental income in real terms, estimated cumulatively at about £2.8 million a year. In the meantime, the cost to the HRA of managing and maintaining its stock, and building new homes continues to rise more steeply than the headline rates of inflation. [redacted]

The council agrees in principle with the Government's policy objectives on social housing rents, but does not agree that the proposed rent cap will achieve them:

- Protecting tenants. Our tenants will not be protected by the proposed measure because;
    - We would not be able to afford all essential repairs, maintenance and modernisation of our homes;
    - Approximately 18 fewer new council homes could be built each year for local people in serious housing need who cannot afford market housing;
    - It puts the future financial sustainability of the council's Housing Revenue Account at serious risk.
- Protecting taxpayers (by limiting the welfare costs associated with social housing rents):
    - 75% of the council's tenants receive Housing Benefit or Universal Credit, so limiting rent increases will limit welfare spending, but it does nothing to address welfare benefits and rent levels in the much larger private rented sector, where rents are more than double Council rents.
    - The interests of taxpayers will not be served if the council's HRA is not financially sustainable.
- Supporting the delivery of new social homes and the management and maintenance of existing properties. Our ability to do this will be severely adversely affected because:
    - Rent is the primary source of income to pay for the management and maintenance of our existing housing stock and enables us to borrow and repay loans to build new homes.
    - It is estimated that the proposed rent cap of 5% will reduce the council's rental income by approximately £2.24 million. This means that the council will have to reduce its programme of new council homes by about 18 per year. Therefore, the Council will have to place homeless families in private sector accommodation at much greater cost to the public finances.

- Reduced rental income also limits the amount that the council can afford to spend on repairs, maintenance and modernisation of its existing homes.

Responses to your questions
Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

The Council does not agree that it should be subject to a Government-imposed ceiling in addition to the existing CPI+1% limit. It believes that the Government should adhere to the principles in the Policy Statement on Rents for Social Housing of February 2019 to enable the Council to make effective long term financial and business plans.

The HRA is still feeling the financial repercussions of the rent reduction policy of 2016-20, which reduced income to the HRA by approximately £2.8 million a year. In the meantime, the cost of managing and maintaining our stock continues to rise at rates much higher than CPI, particularly maintenance costs, utilities, and skilled professional staff. A stable and reliable approach to rent setting is vital to enable us to manage our HRA as an efficient and effective business.

If no ceiling is imposed by Government, councillors would have the opportunity to consider adopting a self-imposed ceiling during the budget setting process, which is about to start, and which would take an evidence-based decision focusing on:

- CPI
- The inflation rates that affect core costs, such as the anticipated 50% increase in fuel costs and an annual inflation rate of approximately 17% per annum for combined repairs and maintenance costs
- The poor financial state of the Council's Housing Revenue Account
- Fully modelled projections of the short, medium and long term impact on the HRA Business Plan
- The combined effects of previous rent reduction policy between 2016/17 and 2019/20, from which the HRA has never recovered
- An assessment of affordability for tenants
- The impact of the proposals on the already distorted housing market in Canterbury
- The need to invest to improve the condition of the existing housing stock
- The Council's programme to invest in new homes.
- Financial risks to the HRA

A national rent ceiling does not take these important factors into consideration.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

The Council does not agree that any ceiling should be imposed. This "one-size-fits-all" approach takes not account of local factors, such as:

- [redacted]

- The need for investment in fire safety and other compliance issues
- The condition of the housing stock and the need for significant capital investment
- Local affordability
- The impact on our ability to borrow and repay capital to invest in new Council housing to meet local housing needs.

If a ceiling is imposed, it should be a minimum of 7%. This would result in an estimated reduction in rental income of £1.74 million per annum compared to CPI+1%. This is the least damaging of the three options, which would enable the council to budget and manage its housing stock reasonably effectively, and perhaps provide modest scope to consider voluntary adoption of a lower local ceiling.

We estimate that the imposition of a 5% ceiling instead of CPI+1% would result in a reduction in rental income of approximately £2.24 million per annum, which will never be recovered. The council would be obliged to focus on investing in core activities, such as fire safety and compliance issues and either defer or cancel proposed investment in planned maintenance and new homes.

A ceiling of 3% instead of CPI+1% would result in a reduction in rental income of approximately £2.74 million per annum,[redacted]

Any Government intervention should be matched by equivalent financial compensation to local authorities under the new burdens doctrine.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

The Council does not agree that any artificial ceiling should apply to social housing rent increases for any period, and that the Government should adhere to the Policy Statement on Rents for Social Housing. Restraint within CPI+1% should be left to the discretion of individual councils based on the local circumstances, local knowledge and evidence. The reasons have been articulated in the Position Statement to this response and in the answers to Questions 1 and 2.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Soc al Rent and Affordable Rent properties are first let and subsequently re-let?*

The Council agrees that the proposed ceiling should not apply to the maximum initial rent when properties are first let and subsequently relet.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

As stated in the answers to previous questions, the Council does not agree with the Government's proposals to impose a ceiling on rent increases. However, if a ceiling is imposed, exceptions should apply to specific categories of rented social housing, such as supported housing for people with special needs, older people, disabled people or rough sleepers. The rising cost of fuel bills and the difficulties of recruiting and retaining skilled professional staff are likely to have a disproportionate impact on the provision of safe and effective services for these client groups and their long term financial viability.

Social housing rent policy from 2025-26

The Council will welcome the opportunity for meaningful input into the future of social housing rent policy from 2025-26 onwards to ensure a fair, equitable and transparent system that will eliminate ad hoc changes to policy, provide long term financial certainty for local housing authorities and their tenants, enable the Council to meet local housing needs and ensure the financial viability of the HRA.

If you would like further information or clarification, please do not hesitate to contact me.

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Fairhive Homes Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Fairfax House 69 Buckingham Street Aylesbury Bucks HP20 2NJ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

No we do not agree. Boards should be making the decision on rent increases as they are best placed to assess the unique combination of pressures for their own business and residents. We carefully considered impact on our residents in view of significant cost of living increases and to ensure affordability and tenants' sustainability. We included hardship fund in the business plan to support our residents and increased housing management resources to assist our residents with Universal Credit application. We are conscious that changes to the Universal Credit due to be announced in December can exacerbate the situation for our residents if the UC will not rise in line with inflation.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

No a ceiling of 5% should not be imposed. Following the announcement of government consultation, we assessed the impact of various options both for 2023/24 financial year and for the duration of the 30 year plan. The immediate impact for the 2023/24 will necessitate reduction of expenditure across the organisation, including scaling down the development programme, deferring property investment works and overheads including staffing costs. The impact over the 30 year business plan is huge as it is compounded.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

We would want any ceiling to apply to one year only so any deferred expenditure can be phased out from the following year.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

As development costs are increasing significantly, therefore setting the rent level at the optimal amount is necessary to achieve value for money for the resident, a positive NPV for the scheme, and hence provide new housing supply.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

Consistent approach across the stock tenure would be easier to manage and administer.

Alternative response:

Yes – supported housing is coming under intense financial pressure with commissioning services cutting budgets. An exemption for supported housing would be essential for current services to be delivered and for homes to be maintained.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	[redacted]
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Units 3 & 4 Pinkers Court, Briarlands Office park, Gloucester Road, Rudgeway, bristol BS35 3QH
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Comment:

Elim had not yet made a decision about the rent rise for next year. The Board and Executive Team are deeply concerned about impact of the Cost of Living upon our customers and also the impact of inflation upon our organisation and the ability to carry out the repairs, improvements, planned maintenance and decarbonisation work.
We would expect to apply increases of around 5-7%.
We would have liked the freedom to increase some of our lower rents at a greater percentage and cap our higher rents at a lower level allowing for a level of convergence. A flat percentage across all homes adversely affects those with

already higher rents the most. In Wales the rent cap is applied to the ‘rent envelope’ (with qualifications) rather than individual rents, we would welcome this flexibility. We are also concerned about the rent rises for shared owners and would also restrict their rise below the contract formula.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐No

Comment:

> As mentioned in question 1 we would welcome the ability to set rents within the overall envelope rather than at a set percentage for everyone, with a range of rent rises say between 3 and 7% but averaging at 5%. This doesn’t directly change upon the impact assessment however it produces more equitable increases, fairer rents and allows us to deal with disparities in historic rents.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐No

Comment:

We feel that there is too much volatility in costs to make a decision for more than one year.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes

Comment:

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes

Comment:

We provide a significant number of supported homes for people who have experienced or are threatened with homelessness. These services are partly commissioned by local authorities and partly funded through rents and service charges. We are not anticipating that our local authority partners will be able to fund increases in their funding leaving the rising costs of services falling upon the rents.

The properties for supported housing, tend to be larger, older, with far more shared space than other properties. They experience a much higher usage with resulting wear and tear and even damage, this makes them more expensive to maintain

Post covid we are already experiencing issues in the recruitment and retention of employees in these services and to ensure continuity of service we will need to implement pay rises which keep these low paid roles competitive in the market and also to meet the rising cost of living for our employees.

We do not think it is in the best interests of the government, society or people threatened with or experiencing homelessness to put services like these under threat through a rent cap.

From: [redacted]
To: Social Housing Rents
Subject: Levelling up
Date: 02 September 2022 13:16:24

On line survey. Truedto complete it as a tenant and to be honest all thus CPI+1% and ceiling language us way above my financial knowledge.

It would have been nice to fill out a survey in plain English if you get my gist that ask if another rent increase would worry me.

Please do a survey with a mindset of a resident/tenant. I live in social housing an housing association property and would only ve too happy to complete a survey I understood.

Keep it simple keep it responsive and more relevant to us than thr business Please

[redacted]

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	East Devon District Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	East Devon District Council Blackdown House Border Road Heathpark Industrial Estate EX14, 1EJ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

We consulted with both involved and not involved tenants on the proposal as well as our Board and detail our response below which applies across all the questions:

The Board and tenants advised regardless of the proposed rent cap they would make decisions regarding decreasing, freezing or increasing rents based on the current climate, impact on residents and the impact on the business.

These decisions would be based on a number of factors which included:

- The funding required to sustain the current level of service taking into account increases in cost. They would wish the current levels of service to continue.
- The impact on our major, cyclical and planned works programme
- The impact on our development plans and increasing our housing provision
- Health & safety repairs/ improvements that are required to meet regulations
- Consider efficiency saving we are able to make

Making a decision and working with or without a ceiling would be made a through exploring the options and scenario planning

Residents have raised concerns around any rent increase in the current climate and the impact / affordability for tenants.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

Disability Rights UK response to:

"Social housing rents"

Open consultation 2022

Disability Rights UK is a national organisation led by Disabled people. Our vision is a world where Disabled people have equal rights, opportunities, and access to power. Our work is rooted in the lived experience of Disabled people. We are a membership organisation and work closely with organisations led by Disabled people across the UK.

Our response outlines our demand to see a full rent freeze and a freeze on service charges across the Social Housing Sector (SHS). We also outline our desire to see the Government take further action to ensure Social Housing providers can provide high-quality housing and services.

We want to see this action ahead of what will be a very difficult winter for millions of us.

Disabled people are disproportionately impacted by inequalities – ranging from a greater likelihood of living in poverty to being less likely to be able to access education and employment, amongst other things.[1]

Disabled people are very reliant on SHS. In the year to June 2021, just over half (53.3%) of non-disabled people owned their own homes, compared to 39.7% of Disabled people. At the same time, a quarter (24.9%) of Disabled people rented social housing, compared to 7.9% of non-disabled people.

The housing sector is a dangerous mess for Disabled people. Rents across all tenures are outstripping salaries, and benefits continue to rise. Right now, 54% of all renters share that they are worried about their ability to pay the rent[2]. The Government is responsible for using its power to protect tenants from the dangerous consequences of this crisis.

Key recommendation: The Government imposes a Rent Freeze on all social housing, affordable housing rents and service charges.

---

[1] Outcomes for disabled people in the UK: 2021, ONS, 2022, https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/disability/articles/outcomesfordisabledpeopleintheuk/2021

[2] Tenants should not pay if rents go up next year, SHAC says, Inside Housing, 2022 https://www.insidehousing.co.uk/news/tenants-should-not-pay-if-rents-go-up-next-year-sahc-says-77671

There is no acceptable, just, or fair way to raise tenant rents or service charges.

Disabled renters must be protected from the dangerous consequences of the cost-of-living crisis. We do not agree that Registered Providers should be permitted to increase rents by up to CPI+1% or by 5%. The Government must impose emergency measures that stop rents or service charges from rising at all.

We strongly agree with the response from other Disabled People's Organisations, such as Inclusion London, that social housing, affordable rents and service charges should not only be frozen next year but the freeze should be extended up to 31 March 2025.

When half of all people living in poverty are either Disabled people or have a Disabled person in the household, then there is no way in which a rent rise, especially as the Government has yet to announce concrete plans to uprate benefits, can be justified. Disabled renters should not be left to cover the increased costs of housing providers through their own pockets.

The Government should focus on protecting tenants from the dangerous consequences of this crisis. Social Rented housing is often a lifeline for Disabled people. Data analysis[3] by Habinteg showed that households, including a Disabled person, are more likely to be in the social rented sector than other households.

Even before the COVID pandemic and the cost-of-living crisis, rent arrears among housing association tenants and residents were building at around 10% annually. Between March 2018 and March 2021, rent arrears grew from £591m to £704m[4].

If no cap is imposed, more Disabled tenants will be forced to leave their homes and look to finding solutions within the private rented sector.

Here they will encounter many dangerous, demoralising and unfair barriers. From the formal and informal policies and practices from private landlords and letting agents in regard to those who receive benefits (Disabled people are

[3] Habinteg: The Hidden Housing Market, 2016, https://www.habinteg.org.uk/hidden-housing-market/

[4] Tenants should not pay if rents go up next year, SHAC says, Inside Housing, 2022, https://www.insidehousing.co.uk/news/news/tenants-should-not-pay-if-rents-go-up-next-year-shac-says-77671

three times more likely to be in receipt) to the fact that only 9% of homes in the UK provide features that are accessible[5], this option is simply unsustainable for most Disabled people.

Furthermore, the Disability Employment Gap continues to rise, now standing at 28% (54% of disabled people are employed and 82% of non-disabled people)[6]. And we know how important a good quality consistent housing situation is in closing this gap.

As the EHRC detailed in 2018[7], Disabled people reported improved health and well-being and enhanced prospects for employment and study where their homes met their accessibility requirements. Disabled people living in inaccessible homes are four times more likely to be unemployed.

We support a Rent Freeze because Disabled tenants could still see their service charges go up even if social housing rent increases were capped, thus offsetting the benefits of any rent cap.

We know that social landlords could face an increase in costs to be able to invest in existing and new housing stock and could be, therefore inclined to roll their costs into service charges for tenants. This would make any rent cap redundant, further tighten Disabled people's household finances and increase the cost of housing benefits.

A rent freeze will keep Disabled people in their homes or allow them to move into new social rented ones. Disabled people deserve a safe, accessible home in which their lives can flourish, and a rent and service charge freeze is the best solution to giving us this platform.

Recommendation 2: The Government distributes a capital grant to social housing providers so they can increase the level of service, maintenance and repair in properties.

Despite needing urgent reforms, and with much work to do to improve standards, the social housing sector has higher accessibility and quality standards than the private rented sector.

---

[5] Accessibility of English homes - English Housing Survey, 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898205/2018-19_EHS_Adaptations_and_Accessability_Fact_Sheet.pdf

[6] Disability pay gaps in the UK: 2021, ONS, 2022. https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/disability/articles/disabilitypaygapsintheuk/2021#:~:text=1.-,Main%20points,less%20than%20non%2Ddisabled%20employees

[7] Housing and disabled people Britain's hidden crisis, EHRC, 2018,https://www.equalityhumanrights.com/sites/default/files/housing-and-disabled-people-britains-hidden-crisis-main-report_0.pdf

Many providers in the sector have reported that the current crisis is driving up their costs and will lead them to be unable to provide the level of service or maintenance required to keep Disabled tenants safe.

Shockingly 13% of privately rented homes had a Category 1 hazard in 2019, compared with 5% of all social rented homes[8]. We cannot allow Disabled people to be at the mercy of the poor standards and practices of the private rented sector or allow standards in the social rented sector slip.

We deserve to live in safe, affordable and accessible homes and the Government must support providers to create them.

We want to see the Government allocate funding to social housing providers so they can carry on their statutory duties. And even invest further in creating more accessible, more thermally efficient and safer homes for Disabled and non-disabled tenants.

Recommendation 3: Abolish the bedroom tax.

With the Government proposing a CPI+1% policy subject to a 5% ceiling from 1 April 2023 to 31 March 2024 what needs to be remembered is that many social housing tenants were already in financial difficulty before the cost-of-living crisis began. This is partly due to the introduction in 2013 of the 'bedroom tax' ("spare room subsidy").

The bedroom tax restricts the size of accommodation that universal credit or housing benefits can cover the social housing rental costs based on the number of people in a household.

If under these rules, it is decided that you have one or more spare bedrooms, your total 'eligible rent' (the maximum amount that could be covered by the universal credit housing costs amount or by housing benefit) will be reduced by:

- 14% if you have one spare bedroom; and
- 25% if you have two or more spare bedrooms.

A parliamentary written answer of 5 September 2022 by Baroness Stedman-Scott outlined that a total of 48,100 tenants were subject to the bedroom tax.

[8] Commons Library Report, 2022, https://commonslibrary.parliament.uk/research-briefings/cbp-7328/

Disabled people form most of those who are affected by the bedroom tax. More than two thirds of those housing benefit claimants subject to the bedroom tax are in receipt of a sickness or disability benefit.

Yet Disabled people are more likely to need their own room and to rely on benefits. They are less able to move to different adapted or suitable accommodations given the shortage of these social providers.

Any increase in rent to this group increases the rent shortfall they need to make up. While a Discretionary Housing Payment (DHP) support scheme is operated by local councils, it is cash limited by Government. And subject to other calls, for example, by those affected by the benefit cap or local housing allowance restrictions.

In addition, any DHP award is time limited and often needs to be applied for annually. We want to see the Bedroom Tax abolished so that Disabled people can access the housing we deserve.

Recommendation 4: Build more social rented homes.

Despite a recent review undertaken by the Charted Institute of Housing showing that the Government has not been building enough Social Rented homes to cover the current shortfall, the current consultation makes no effort to address the connection between rent levels and a lack of supply[9]. Implementing the Right to Buy policy has meant that those "who cannot afford to buy, are unable to access housing locally or are limited to accommodation that fails to meet their needs."

In 2018, the Joseph Roundtree Foundation (JRF), released a report which showed that nearly 600 additional low-cost rented homes need to be built every week "in order to fix the broken housing market and help low-income families escape poverty"[10]. We want to see the Government take urgent action to support local councils and housing associations to build social rented homes across the country.

The current targets are too low. And we urgently need to build new, accessible and affordable homes. Social rented homes provide Disabled tenants with

[9] UK Housing Review 2022 shows England's Right to Buy is a "strategic failure" and will exacerbate inequalities if left unchecked, CIH, 2022, https://www.cih.org/news/uk-housing-review-2022-shows-england-s-right-to-buy-is-a-strategic-failure-and-will-exacerbate-inequalities-if-left-unchecked

[10] Government plans fall short of 600 extra low-cost rented homes a week needed ,JRF, 2018, https://www.jrf.org.uk/press/government-plans-fall-short-600-extra-low-cost-rented-homes-week-needed

security of tenure. This allows them to request the adaptations they need without the outsized risk of eviction they face in the private rented sector.

Over 1 million households are waiting for social homes[11]. Disabled people rely more on the social housing system than non-Disabled people, and we want to see urgent action to tackle the social housing deficit, cut waiting times and finally provide Disabled people with the homes we deserve.

[11] Social housing deficit, Shelter, 2018, https://england.shelter.org.uk/support_us/campaigns/social_housing_deficit

Social Housing Rents Consultation – Response from Derby Homes Ltd

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?

To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Whilst another Government intervention (i.e., the 2016 4-year rent freeze) on the Rent Standard formula adds to uncertainty and reduced confidence for Providers (and their funders) in their long-term financial modelling, it is understandable that such extreme inflationary pressures and the cost-of-living crisis has necessitated the intervention this time.

In Derby, the ALMO Derby Homes has been working alongside colleagues at Derby City Council on the Housing Revenue Account (HRA) business planning process. At the time of drafting this response. (Late Sept 2022) the Council has not decided on a specific rent increase. However, with the recognition of the hardship that a CPI+1% rent increase could place on paying tenants (non-benefits), modelling across a range of options - 11.1% (CPI+1% at that point), 9%, 7%, 5% and 3% has been undertaken.

The Council's Cabinet has discounted proposing to Council anything above 7% to avoid tenant hardship (for rent payers) and are now concentrating on modelling between the 3% to 7% range.

Ideally, the Council's Cabinet preference would be to limit the rent increase to 3%, but this would result in the HRA Business Plan being unsustainable and compromise longer term ambitions and legislative requirements.

A 7% increase with targeted financial in year support to tenants by way of a 'Hardship Fund' has also been considered. This would help to alleviate rent arrears for those eligible, whilst mitigating (but not removing) the inevitable impact on investment in the HRA stock and services to tenants that the rent ceiling cap for 2023/24 would bring. We estimated that circa £1m a year more funding towards this mitigation would be available with a 7% increase than possible with the Governments preferred increase of 5%.

The Council's Cabinet is considering proposing to Council a 5% increase (linked to the Governments preferred rent ceiling) as a balance between affordability to tenants, the welfare bill and resources required for delivering quality homes and services to its tenants over the long term.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

There is no doubt that there will be significant financial implications on Providers from the intervention, at whatever rent ceiling is imposed. Significant challenges will be placed on providers to reshape future services to tenants and their homes. The suggested 5% figure is one that is most likely to be pragmatically tolerable.

In Derby we have been modelling at a number of levels. Our draft figures for Derby suggest that if current investment plans remain unaltered then the impact of various rent ceilings (compared to the Rent Standard for 2023/24 assumed at 11.1%) are:

[redacted]

The Governments own figures state income to Providers will be circa £7bn lower across 2023-28 than maintaining the Rent Standard principal. Over a 30-year business plan this is significantly more.

The impact on Derby's HRA through a rent cap for 2023/24 only is a loss of income of circa £140m at 5% cap (£90m at 7% rent cap) over the 30-year business plan period. That equates to over £11,000 per property (over £7,000 at 7%) less resources for investment in tenants' services and their home over the business plan period. Annually this equates to average of over £350 (at 5% rent ceiling) or over £230 (at 7% rent ceiling) less funds for tenant's services and their home.

This is at a time where this is recognised future pressures and obligations around:

- An increasing level of tenants needs to help sustain their tenancy
- Requirements of the Future Homes Standard
- De-carbonisation plans for the housing stock
- Increasing borrowing costs

Additionally, approx.20% of the annual HRA expenditure is 'fixed' on debt interest (approximate £10m pa). This limits the options where savings can be made, so in effect, compared against the Rent Standard increase of say 11.1%:

- A 7% rent cap = a 5% cut on "controllable" expenditure to maintain the status quo.
- A 5% rent cap = a 7.5% cut on "controllable" expenditure to maintain the status quo.

Consequently, the Council and its ALMO Derby Homes, in consultation with tenants will have to consider options on how to rebalance the HRA Business Plan and services to tenants and their homes, if the rent ceiling plans are introduced in 2023/24. In anticipation of this, the Council is currently modelling the savings from:

- Reducing the new build and acquisitions programme by circa 60% of that previously planned. This will mean a net loss of stock of around 115 homes annually for 30 years.
- Stretching the replacement periods for standard components, such as kitchens, bathrooms, boilers etc.
- Delaying proactive decarbonisation improvements to properties (concentrating on meeting EPC C by 2030). For example, installing solar panels to a property can save the tenant over £250 a year in reduced electricity costs.
- A significant reduction in its annual management fee to Derby Homes, which is likely to impact on services to tenants and their homes.

A longer-term view must be maintained to aid with investment into new builds and acquisition for social housing. Demand for social housing is far outstripping supply. Historically the PWLB borrowing rate for investment in affordable housing was limited to 0.25% above base rate which subsequently was increased to 1% in 2012 (0.8% under specific conditions) has meant an additional cost of £40m to Derby's HRA. We would advocate Government support by way of limiting the PWLB margin to 0.25% which will allow additional social housing.

The debt settlement as part of self-financing (2012) was based on a 30-year NPV calculation, which assumed that rent increases would continue until convergence was achieved with formula rents subject to a limit of RPI+0.5% + £2. From 2015/16, rent reductions were imposed for the period 2016/17 to 2019/20 and a further ceiling is proposed 2023/24 (and possibly 2024/25).

We would encourage and welcome Government to provide support to compensate local authorities for the ceiling on rents by reopening the self- financing settlements and support the ceiling on rents through a removal/reduction in debt.

It is noteworthy that for Derby:

- Average weekly rents (£84.52 in 2022/23) are less than 60% of market rents
- Around two thirds of rent is supported by Housing Benefit or Universal Credit
- Through the ALMO, Derby Homes, we have dedicated Money Advice, Welfare Reform and Energy Advice teams to support tenants in addition to the general support available to them as members of public from the Council.
- In 2022/23 rents were increased by 4.1% by the HRA. Costs pressures incurred by Derby Homes in the year include over 7% for staff pay rises and over 10% for non-pay costs. Many of the materials and contractor contracts are CPI inflation linked, plus other non-pay costs such as utilities and diesel have increased significantly more than 10%. This puts further pressure on current HRA and ALMO budgets, even before the rent intervention planned for 2023/24.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

Financially the impact of a one-year rent ceiling is extremely damaging on the HRA Business Plan, like it will be for plans for all Providers. The Governments own figures supplied in the consultation papers note this impact. Therefore, in the longer-term interests of all stakeholders the support should be limited to one year.

With the Governments intervention on utility prices, this is likely to bring inflation back to more tolerable levels in 2023 – with the British Chamber of Commerce reporting 5% by the end of 2023 in their 1st September 2022 update. Inflation at these levels should not require the Government to amend the current Rent Standard plans for 2024/25.

There is recognition (from Government) that Business Plans will be materially impacted from a one or two year rent ceiling. Providers will need to recover some of this lost income in the longer term to meet the mutually agreed objectives and obligations on social housing providers.

Whilst the Social Rent Policy 2025/26 onwards is not part of this consultation exercise, an obvious opportunity is to smooth the (23/24 and possible 24/25) income loss to providers (by imposing a rent ceiling) by adding to the existing post 2025/26 social rent plans (whether that be CPI plus 0.5% or CPI plus 1% etc) a recovery add on to future years rent increases. This would be consistent in principle with Government interventions in other sectors (Energy). The Governments own figures indicate that the preferred 5% rent ceiling saves the Welfare payments by £4.8bn compared to tenants £2.8bn over 5 years, so we would argue that a fair way of redistributing those shorter-term welfare savings would be to reinvest them into the sector by allowing higher rents as part of the post 2025/26 Rent Standard settlement.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes – acceptance that the underlying target rent for a property should continue to rise in line with the Rent Standard, whilst the actual rent charged on the property is capped, does meet the short-term objective of support to tenants (and the welfare bill) is met, whilst keeping the "true" underlying target rent figure for when the property is first let / re-let.

It is arguable that new tenants rather than existing tenants require the most financial support. With access to social housing being so difficult, it is only those people / families most in need on the housing register that would be allocated a property. It is these new tenants who are likely to experience financial hardship, in particular if the start on tenancy is linked to a new Universal Credit claim and the five-week delay in receipt of benefit.

To provide support to new tenants (and existing tenants) we would still look to provide dedicated Money Advice, Welfare Reform and Energy Advice teams to support tenants in addition to the general support available as members of public from the Council.

Rent standard 2016 required a period of 4 years that reduced rents by 1% (13% in real terms). This reduction took circa £290m out of the HRA and the current cap (at 5%) will take a further £140m out. To allow the HRA to undertake the required investment into the social housing stock and somewhat recover, we would strongly advocate the consideration of restoring the true underlying target rent by reinstating the previous rent reduction (2016/17 – 2019/20) on properties at re-let.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We believe that a blanket approach of no exceptions is inappropriate, in particular on those properties which are yet to reach rent convergence.

One of the stated aims of Government from the rent ceiling is "to provide a backstop of protection for social housing tenants from significant nominal-terms rent increases". That is understandable. But a blanket percentage-based ceiling unintentionally impacts, in direct cash terms, more on those tenants paying higher affordable rents compared to those tenants on social rent plus service charges.

Additionally, there is a minority of social rent tenants who have remained in their home for a long period and the rents are still below social (target) rent levels. These tenants are paying anything up to 40% lower than similar tenants in properties more recently acquired and let at affordable rent. Using Derby as an example, there are over 2,000 tenants (out of 12,500) on Basic Rent at an average of £83.11 a week, with the average target rent on these properties 7% higher at £89.25 per week.

Government policy is to strike a balance between protecting tenants, taxpayers (by limiting welfare payments) and supporting providers to manage & maintain existing homes and provide new social housing. All laudable outcomes. For this specific group, **existing tenants below rent convergence**, we would suggest that the previous allowance of **applying the rent (ceiling) increase plus up to £2 a week extra (until target rent is met)** would be appropriate and in line with the Government aims on social rents & welfare policy.

It is estimated that the additional income for Derby would be £0.165m in 23/24, which in the context of a £57m annual rent debit figure is small, but the principal of rent convergence is fair and sound.

From: [redacted]
To: Social Housing Rents
Subject: Shared Ownership Rent Cap
Date: 01 September 2022 22:51:04

Dear Mr Clark,

After reading your consultation on limiting Social Rent I would urge you to consider capping the rent on shared ownership properties. A increase of 11% plus would be unaffordable for many households should a cap not be implemented especially those households on a single income. Housing associations will increase the amount allowed by the maximum which will then become extremely unaffordable people within this sector also need support during these extremely difficult circumstances we find ourselves in.
A cap of 7% would be affordable for most households but with the threat of a 11% plus is unjustifiable to the extent of me having to write this email to you to bring to your attention the concerns as a Shared Ownership property owner.
This programme is fantastic, it has enabled me to be able to gain access to the property ladder.
While I understand that rent does need to increase with inflation rate, The government does need to step in to ensure that it this program remains affordable rather than being overlooked.

Thank you for your time and reading this email and I hope this is taken into consideration.

Your sincerely,

[redacted]

[redacted]

From: [redacted]
To: Social Housing Rents
Subject: [redacted]
Date: 05 September 2022 19:43:46

Dear Social Housing Rents Team,

I have just completed the online consultation form and am now writing to elaborate on my comments about including shared ownership rents in the price cap.

My landlord is [redacted] - they are landlord to both social tenants and shared ownership tenants on my estate in north London. I am a shared ownership tenant - I have a mortgage on 25% of my flat and I rent the remaining 75% from [redacted]. Each year my rent increases in line with RPI + 0.5%. In July 2021 the RPI was 3.8% and currently my rent payments are affordable. In July this year the RPI had already increased to 12.3% and I am extremely nervous about next year's rent increase if a cap is not introduced.

There are 24 shared ownership affordable housing flats in my block - all occupied by people on low-middle incomes; there was an income limit in order to be eligible to join the scheme, which was designed to enable people like myself (I am a teacher) to continue to live in the area where we worked which we would otherwise be priced out of.

In addition to feeling great anxiety about a rent increase inline with the soaring RPI myself and all other residents here are currently caught up in the Building Safety Crisis and Cladding Scandal - our homes are not safe enough to pass the necessary EWS inspection, remediation work has been promised for nearly 2 years but is yet to start and our homes are completely unsaleable. As shared ownership tenants we do not even have the option to move if we can't afford the rent - we don't have the option to move at all.

Please please include shared ownership tenants and landlords in this consultation. As for many, our affordable home ownership dreams have been shattered by the cladding scandal - if our rent increases with the RPI next year our homes will not be affordable at all.

Very best regards,

[redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Citizen
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Citizen, 4040 Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham B37 7YN
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit?
To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
X **Maybe**

Comment:
Citizen would welcome the certainty that a government- imposed ceiling would bring for providers. Although housing providers have always had to consider whether they will apply a maximum increase, with CPI+1% potentially meaning a choice from 0% to 11% increase, there were certainly concerns that this disparity between providers could create issues with competition, for example with development bids, that may not be beneficial for the sector.

Citizen would more importantly welcome the certainty any rent increase cap would bring for customers who will have concerns around the increasing cost of household bills including rents. Given these concerns for our customers Citizen had begun deliberating our response and were considering for the impacts of a below-inflation increase in rents, as well as discussing what support we can provide for customers facing difficulties paying rent and household bills. Our stress testing modelled multiple scenarios, but a formal decision on any rent increase level had not been reached by the Board.

Any below-inflation rent increase will of course affect our financial plan and our ability to continue to invest and comply with loan covenants and this needed to be fully considered before a decision could be reached; given the timing of the consultation (before September's CPI release) we are not in a position to advise what Citizen's approach would be without government intervention.

Whether Citizen supports the specific ceiling imposed of course depends on the level and length of time, i.e. the financial implications for Citizen and our customers, and we would welcome a swift decision from the government on the rent cap as we will shortly be into budget setting for 2023/24, and this will be key to decision making.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

☐Yes, you agree with imposing a ceiling of 5%
X **No**
☐Maybe

Comment:

Although any rent cap will mean that we have to make alterations to our existing financial and business plans, a [redacted].

Ultimately the less income we have the less we can do. We are considering all areas of spend where efficiency savings may be achieved, but our non pay costs are expected to increase by 10% and given the cost-of-living pressures staff are experiencing as well as customers we have to strongly consider the impact on staff when it comes to any pay increase or freeze for 2023/24.

Any surplus we generate is reinvested in homes and services. Our financial modelling shows that with any of the proposed caps, alongside our anticipated cost inflation, the reduction in the amount of projected operating surplus ranges from £2.4m (with a 7% rent increase cap) to £8.5m (with a 3% rent increase cap) and it is highly unlikely that this shortfall could be found through efficiencies alone, so this means less money is available to invest in services and homes. The impact of a rent cap within Associations' financial plans is cumulative over 30 years with the cumulative reduction in operating surplus over 30 years for Citizen ranging from £42m (with a 7% rent increase cap) to £338m (with a 3% rent increase cap). This is recognised in the impact assessment provided with this consultation, but we want to be clear this will be the case for Citizen.

The government has set challenging targets for social housing providers to invest in existing homes to meet building safety, and energy performance requirements, as well as the need to collectively build 300,000 new homes each year to tackle the UK's housing shortage. Citizen has 38 high rise tower blocks, and homes in some of the most deprived neighbourhoods in the Midlands; our plans to meet safety requirements in and around homes requires substantial investment now and in the immediate future.

Wave 2 of the funding for Social Housing Decarbonisation has just been released, which although represents welcome investment from government also requires a minimum 50% contribution from providers. Given the cost of meeting just the minimum legal and regulatory requirements, we would suggest that Citizen and other housing providers will have to consider carefully whether initiatives that take us beyond EPC C, designed to help meet the government's overall decarbonisation targets as well as improve thermal efficiency for customers, are still financially viable.

Our own modelling shows us that the greatest impact on customers' disposable income over the next year is going to be the energy price increase (both in relative and absolute costs terms) so these will be difficult but necessary decisions for Citizen to make with any rent cap.

Some illustration of the impact modelling Citizen has considered is provided below.

Rent and household income

The ONS considers that to be affordable rent and/or mortgage payments should be no more than 35% of a household income. Citizen's own modelling shows that even with an inflation- linked increase up to 11% our rents would not exceed 35% of household income. This will be the case for many similar providers, as our benchmarking reveals Citizen to be close to the median rent in most of our regions.

The consultation's impact assessment states by imposing a cap on rent increases tenants will benefit from increased disposable income. However, analysis of our customer data would suggest this is not the case. 80% of our customers have some or all their rent paid by housing related benefits and other benefit income. If the Treasury maintains their commitment to increasing benefits by inflation in April 2023 the rent increase would have a minimal impact on their disposable income.

However, if benefit inflation is linked to earnings (4.7% Q1 2022) not CPI this will have a significant impact on households with all tenants facing double digit percent increases in the cost of living and benefit uplift worth half of CPI based on the ONS' latest data. Even with a cap on rents tenants will still be facing hard decisions on heating or eating next year with some financial institutions predicting CPI increases of up to 12% in 2023, and inflation on food already over 13% and not expected to decrease quickly over the coming year.

The 20% of our customers who have no known benefits would see the greatest impact on their household budgets; the data we have shows these households have a median household income of c. £21,000 which is well below the ONS average of £31,400 and will potentially be seeing real terms cuts in salaries according to the ONS.

Energy

Citizen's average SAP band C customer (around 74% of our customers) saw energy prices increase by 89% from April 2021 to October 2022 prices, which is around £1,000 increase per year. With rises expected again next year, energy costs will be the single biggest contributor to household cost increases for most of our customers.

Although the UK Government moved their definition of fuel poverty to exclude households living in properties of EPC band C or above, this is designed to focus affordable warmth strategy on improving homes rather than assessing the affordability of energy overall. If we apply the previously held definition (Ofgem), which considered spending more than more than 10% of income on energy to be placing a household in an untenable position, our modelling shows that this will be the case for all customer archetypes we have considered to apply to our customer base, with between 13% and 36% of their income going to pay for energy bills even when discounts are applied.

The way in which providers of social housing can help with increasing energy bills is to increase the thermal efficiency of our properties and provide support services that help address financial hardship; we have a program in place to do this that could potentially be impacted by any rent cap. Although we will still achieve EPC C ratings on target this year, any ambitions to speed up delivery, bring more properties to a higher standard, or directly support customers could be affected.

Groceries

In July 2022 year on year CPI had increased by 12.6% and is expected to peak in quarter 4 of 2022/23 at 14% (British Chambers of Commerce). Consumer data estimates the average household spend on groceries in July 2022 was £103 per week. If inflation does rise as predicted by April 2023, a household with an income of £21,000 would be spending 29% of their income on groceries alone.

Illustration
Using this data, we have modelled the impact on the rent increase on a typical family with no known benefits from Worcester living in a 3-bed gas heated property with an annual household income of £18,000 in April 2023. The table shows the annual cost and the percentage of household income this equates to in each rent increase scenario. A rental increase of 11% only represents an additional 2% of annual income when compared to a 3% or 5% increase, representing a very small impact on household income when compared to energy and groceries.

	3%		5%		7%		11%	
Rent	£5,868.15	33%	£5,982.09	33%	£6,096.04	34%	£6,323.93	35%
Energy	£2,305.28	13%	£2,305.28	13%	£2,305.28	13%	£2,305.28	13%
Food	£6,093.30	34%	£6,093.30	34%	£6,093.30	34%	£6,093.30	34%
Total	£14,266.73	80%	£14,380.67	80%	£14,494.62	81%	£14,722.51	82%
Remainder	£3,733.27	20%	£3,619.33	20%	£ 3,505.38	19%	£3,277.49	18%

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
We agree that the cap should only be applied for one year.

As described above any rent cap will affect our business and financial plans, a longer rent cap and the compound impact will be felt for longer, reduce our ability to deliver investment, new homes and better services and will increase the likelihood of breaching existing loan covenants. Our modelling shows that with expected increases in costs we may be able to withstand some level of rent cap for a year, but longer than that places further pressure on investment in our services, existing homes and capacity to build new homes.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
X No
☐Maybe

Comment:

Although there is some financial benefit to exempting the relet and first lets rents from the proposed ceiling, we believe this to be unequitable; those customers who take a tenancy before 1 April 2023 benefit from a lower rent, but those customers who take a tenancy from 1 April 2023 do not benefit and will have potentially have an 11% (or higher) rent in the rent cap year.

This approach also contravenes the target rent approach where identical properties should have identical rents charged which would not hold true if relet and first let rents were exempted. In addition, any financial benefit will be negated by an increased administrative burden and an increased risk for organisations to apply an incorrect rent and breach the 2020 Rent Standard.

For the sake of equity and simplicity Citizen would not support this proposal.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:

<u>Supported Housing</u>
Citizen has small portfolio of supported housing and could potentially absorb a short-term cap on rents for those properties. However, other providers with larger or exclusively supported portfolios may face financial viability issues with the proposed caps. Supported housing operates on much smaller margins than general needs social housing and smaller providers may face serious financial viability issues if their rents aren't increased inline with inflation.

This poses a risk to those extremely vulnerable tenants who may face homelessness without access to these properties. This could cause an increase in the use of private sector temporary and exempt accommodation which has come under scrutiny by the regulator who rightly has concerns about the financial models used by companies and the quality of the services provided. The consultation does state that exceptions will be made where financial viability is at risk, but we would welcome more information on how this would be defined, what the parameters would be and how you might reduce the administrative burden on these important and often much smaller providers.

Shared Owners

We support the proposal that shared owners should be excluded from any caps. Shared owners' rent increases are dictated by the terms of their leases and applying any cap will create administrative and potentially legal complexity. We are sympathetic to the fact they could be facing increases in the cost of mortgage payments but will look to support individuals on a case-by-case basis.

From: [redacted]
To: Social Housing Rents [redacted]
Subject: Social Housing Rents Consultation
Date: 09 October 2022 21:30:04

You don't often get email from [redacted]. Learn why this is important

Good evening,

I have seen the latest consultation regarding social housing rents being capped due to the increase in RPI.

However, no reference is made to Shared Ownership housing and capping the rental portion of these properties.

These houses were bought by many people under the premise of it being 'affordable housing'. However with most leases stating that rents with go up with RPI +0.5% each year, for many it will become unaffordable.

I implore you to look into this as you have with social housing. I appreciate that costs do increase but with my NHS wage only increasing by 4% and other bills going up by far more than this, I fear that I will have to eventually give up my home.

Please, something needs to be done about housing associations increasing rent for shared ownership tenants astronomically. Let affordable housing stay affordable.

Warm regards

[redacted]

Response to Open Consultation on Social Housing Rents.

From [redacted] Berrow Cottage Homes
– Registered Provider no 5051 – A small Almshouse charity – Charity no 1175027.
Address: Mary Galloway House, 2 Kenilworth Road, Knowle, Solihull, West Midlands B93 0JA.
E-mail: [redacted]
Contact telephone no : [redacted]

Question1.

To put a specific ceiling on the maximum social housing rent increase in addition to the existing CPI+1% limit, is wrong in my view. Each registered provider, will have its own set of financial circumstances, and have a board, whether it be of directors or trustees, who will make decisions on behalf of their organization, primarily taking into account its financial position. I do not believe a "one size fits all approach' is the correct approach.

My reasons for the above statement are:

- Most responsible officials will be well aware of the cost of living crisis, and will make decisions on rent increases, based on their organizations expected cost profile, so that their expenditure is covered by their income.

- Registered Providers, who have in the past taken out loans to finance improvements to their housing stock are facing significant increases in loan interest payments of over and above any of the ceiling options. The bank rate having increased in the last year from 0.1% to 2.25% currently, with forecasts indicating it might rise to 6% by the end of 2023. This forecast increase, in percentage terms, far exceeds any of the options considered in the consultation.

- Each Registered Provider's circumstances will be different. Small registered providers such as small almshouse charities will not have the flexibility of larger providers, meaning that they will be limited in their ability to adjust their costs base.

- The age and location profile of each Registered Providers housing stock will be different. For example, the costs/difficulties associated with repairing/improving listed properties in conservation areas, are considerably higher than those for standard repairs.

- The major costs for small social housing charities are generally, employee salaries; repair costs; and amounts set aside into sinking funds for future cyclical maintenance and extraordinary repairs. While salary increases can be set so that they reflect any ceiling, building costs are less controllable, except by way of delaying planned non-routine maintenance works.

- The inability to put money aside into sinking funds, will lead to there being less scope for organizations to improve the living standards of their tenants/residents, including upgrading properties to comply with recent legislation (e.g. EPC ratings) and any revised Decent Homes Standards, which could have a knock-on effect on occupancy rates in the long run.

- Capping the level of rent increases will detrimentally effect the ability of organizations to invest in their housing stock in the future, and will require external finance to be raised to fund any such schemes. Given the predicted level of future interest rates, finance through commercial loans, will not be an option for many entities, and therefore, a greater demand for Government support by way of Homes England grants might result.

Question 2

As indicated in the answer to question 1, I believe a ceiling set an increase of 5% is too low, for the following reasons:

- Registered providers on-going costs are likely to rise by more than 5%, especially maintenance costs, and finance costs.

- The restriction of rent increases to 5% will affect adversely the provider’s ability to invest in improvements in their housing stock, and also planned new investments in social housing stock. The lower the ceiling, the greater will be the impact on both the current and future abilities of providers.

- Small registered providers are likely to be impacted more by a low ceiling to rent increases than larger providers.

- A 7% ceiling would go some way to addressing this concern, as it would give providers added flexibility in managing their finances.

- The ability to request an exemption must be included so that organizations with debt finance can apply to be exempted, if necessary, to enable the rising costs of servicing their borrowings, to be met.

Question 3

I believe that any ceiling to the level of increases in rent should only apply for one year. My reasoning is that financial situation may have changed in a year’s time as:

- Inflation, as measured by the Consumer Price Index, is a measure of increases/decreases in the cost of a basket of goods and services measured over a twelve-month period, and therefore the quoted levels may be significantly different in 12 months’ time.

- The bank base rate may also be significantly different.

Question 4

The proposed ceiling should not apply when Social Rent and Affordable Rent properties are first let, or subsequently re-let as:

- it gives the registered providers a flexibility to increase their income stream, and to more accurately reflect their changing cost base in the rents charged.

- Registered Providers should be given the choice whether to charge new tenants/residents different rents, depending on their organizations circumstances - it may be easier for multi-sited providers to choose to charge higher rents to new tenants.

Question 5

As registered housing providers cover a large spectrum, from large housing associations to small providers, I believe that exceptions should be made for small providers, with fewer than a specified number of properties, such as Almshouse Charities, who provide "Social Housing by way of Almshouses".

The reasons for this belief are:

- Small Almshouse charities are likely to have been set up by way of trusts left as legacies. In a number of cases the trusts will be asset rich, due to the capital value of the bequeathed property, but not cash rich, and therefore reliant on the income from their properties to cover their annual and future expenditures.

- The housing stock of small Almshouse charities tend to have a different profile to large registered providers in that their portfolio of properties. They are more likely to own older properties, located in areas which give rise to increased maintenance costs, for example properties which are either listed buildings or situated in conservation areas, or both.

CAMPBELL
TICKELL

Social housing rents consultation

Response from Campbell Tickell

Introduction

1. Campbell Tickell is a multidisciplinary management consultancy, operating across the UK, and working with government departments and agencies, regulators, local authorities, housing associations, and other statutory and non-profit entities. Our primary areas of expertise are in housing and regeneration, health and social care. We are grateful to have the opportunity to respond to this consultation.

Overall

2. Overall, we consider that the position regarding the setting of rents for Registered Providers has reached a position of such complexity that it has become hard to comprehend, and almost impossible to implement without the risk of error. Working for one major landlord in London, we discovered almost 20 different rent setting regimes, each with its own anomalies and complexities.

3. We therefore – in the future - would like to see a substantial deregulation of this area, leaving it largely to the discretion of not-for profit landlords, as charitable entities, to set their own rents according to the needs of their residents and prospective tenants, the local housing market and the dictates of the benefit system. Rent setting affects every aspect of a tenancy, from affordability to the level of services provided, along with ability to provide new homes for people in housing need. Therefore, we would propose this decision should be made in consultation with major stakeholders, specifically tenants and local authorities.

4. That said, we also recognise that tenants need to be protected in the immediate future against the cost of living crisis. However, this should not be done in such as way as to threaten the financial viability of Registered Providers, nor to reduce their ability to invest in new homes, and to maintain their existing stock in good repair while also investing in decarbonisation.

The current proposal

5. We recognise of course the need to protect social housing residents, who are already experiencing major increases in their costs of living (and commonly higher inflation than is reflected in the overall CPI figures), from the significant rent rises that could follow from maintaining the current rent settlement.

6. We note that the government is most likely minded to implement a 5% cap on social housing rents. This would involve disregarding the final two years of the current CPI +1% settlement, and we note that the government's consultation includes whether the cap should run for two years.

7. When the agreed cap was last scrapped, in 2015, the sector was just two years into a 10 year settlement, when the government unexpectedly opted to require a 1% per annum cash reduction for four years (which equated to around CPI -3%). A two-year rent cap will mean that the inflation-linking of social rents will have been broken for six years out of nine.

8. This lack of certainty for social housing providers is destabilising to the markets, particularly in relation to investment in both existing and new housing stock, and affects the prospects for investment from newer sources. If each time a rent settlement is agreed, it is then overturned, this does not assist financial planning. Pension funds in particular place considerable emphasis on the inflation-linked aspect of housing associations' business models and the consequent confidence in their long-term credit-worthiness as counterparties. These have been the major investors in social housing in the last decade and any aspiration to build more social and affordable homes in the future will depend in part on their willingness to continue to see the sector as attractive.

9. In our work supporting a large number of housing associations with their business planning and financial modelling, we are aware that very many organisations were already considering sub-CPI+1% increases. Without a rent cap, the Board of each organisation would agree their own levels of restraint based on their detailed understanding of their residents' economic circumstances and their neighbourhood concentrations of poverty. Each Board would balance these needs with their room for manoeuvre against their specific loan covenants and long-term financial sustainability.

How best to help?

10. The key questions, however, are what is the wider cost of that help, are there unintended consequences, and who is to pay in order to keep rents relatively more affordable?

11. We note firstly that the proposed rent cap would, while providing significant benefit to tenants, also channel rather more in savings back to the Treasury. We suggest that any such savings to the public purse should be reinvested in support for Registered Providers to mitigate the adverse effects of a rent settlement that has again been set aside.

12. We have recently discussed the position with a major national housing association. The organisation had been modelling the potential effect of a 5% cap. They had established this would lead to a reduction of between a quarter and a third in their annual surplus.

13. What this means in practice is that the organisation expects to cut back significantly on their programme of building new homes to address housing need. We have found this reflected in discussions with other social landlords.

14. We recognise that the RP sector collectively generates several billion pounds of surplus a year. That does not however mean that the surpluses individual organisations generate represent money that is freely available. The surpluses are needed to fund major repairs and reinvestment programmes, including decarbonisation, and to enable new housing development.

15. For some organisations, meeting their loan covenants – critical to their continued viability as well as funding new-build schemes – require that they generate surpluses above certain levels on a continuing basis.

The likely effect of a 5% cap

16. Rental income is fundamental to the continued financial health of social landlords. From our recent discussions with housing associations and local authorities, a 5% rent cap – especially if implemented for two years – is highly likely to lead to a number of outcomes:

    - Losses of rental income compared to pre-cap expectations will be reduced for the duration of the cap AND in perpetuity, as future rent increases will start from a lower base, unless allowance is made for catch-up;
    - Planned maintenance programmes will be lengthened, and major works will be delayed;
    - Decarbonisation works will be put on hold – and we note that it has been estimated that it will cost £104bn to achieve net zero across UK social housing by 2050;
    - New development will fall significantly – recognising that RPs typically provide one-fifth of new supply each year – at a time when homelessness, including street homelessness, is rising;
    - There is a risk of affordable housing being lost from the sector, with some registered providers potentially considering disposals where they are able to maximise returns in order to plug the gap caused by a rent cap;
    - The picture will be more severe for local authorities, which lack the reserves that some RPs have to draw upon;
    - Many smaller RPs, especially though by no means exclusively supported housing providers, will be in danger of becoming unviable – while the number of larger RPs willing and able to bale them out will diminish, leading to a risk of some RPs becoming insolvent.

17. Having accepted that social housing residents should not reasonably be expected to face what could be rent increases of up to 12% next year, we strongly believe government should look seriously at what funding can be made available to social landlords, to enable them to continue providing good quality homes and support, and develop the new homes the country needs.

18. We know that government is committed to ensuring the country's social housing stock is safe and fireproof, and should be of good quality, alongside a continuation of the drive towards net zero, the eradication of fuel poverty, and the need to develop new homes to meet demand and address homelessness.

19. As noted above, we consider that any savings to the Treasury arising from the rent cap should be reinvested to mitigate the range of problems outlined above.

Other approaches

20. We believe that different approaches are possible and should urgently be considered as a part of the package of measures.

    - Grant support being made available to enable social landlords to keep rents low while meeting their safety and new supply expectations.
    - A ‘catch-up’ mechanism, allowing higher rent rises over a five or even 10 year period following the initial limitation period.
    - Or funds being sourced from other potential pots. We appreciate that government’s preference is not to apply a ‘windfall tax’ on energy companies. However, we believe that funding support to social landlords in this way would be preferable to applying what would in effect be a windfall tax on non-profit and largely charitable social landlords.

Specific questions asked

21. We set out below our responses to the specific questions asked in this consultation.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

22. We – somewhat reluctantly - accept the need for measures to be taken in response to the immediate cost of living crisis. We consider that, if left to their own devices, those Registered Providers that are charitable would exercise the maximum restraint possible in any case.
23. As noted above, we also consider that any savings to the Treasury arising from a rent cap should be reinvested into social housing with immediate effect to reduce the instability arising from a further departure from agreed rent setting guidelines.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

24. We would prefer a ceiling of 7%, with encouragement for Registered Providers to consider lower increases where possible. This would enable, for example, a differential increase for higher Affordable rents. We also favour the possibility of ‘catch up’ increases being allowed once the cap comes to an end.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

25. We would favour one year in the first instance, with encouragement and support for voluntary restraint thereafter.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

26. Agreed.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

27. We consider that supported housing must be exempt from the rent cap, given the low financial margins for such activity, its huge importance to vulnerable people, and the likely unintended knock-on effects on health, crime and neighbourhoods of financial failure and withdrawal of providers.

[redacted]

[redacted]

Campbell Tickell, Laystall House, 8 Rosebery Avenue, London WC1R 4TD

[redacted]

From:	Labour Campaign for Council Housing
To:	Social Housing Rents
Subject:	social housing rent consultation
Date:	12 October 2022 18:18:00

You don't often get email from [redacted] Learn why this is important

Labour Campaign for Council Housing

Submission to the government's social housing rent consultation

Question 1: *Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

Clearly any maximum pinned to CPI+1% is unaffordable given the extraordinarily high inflation rate. Without action on rent then the likelihood would have been that a majority of landlords would have raised rents to such a level that it would have significantly impacted tenants who are struggling month to month to survive. Only a minority of tenants have their full rent covered by housing benefit. Even with the ceiling set on unit prices for energy, the increased prices are unaffordable for many. Increasing rent under these circumstances is a further pressure under exceptionally difficult circumstances.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

We believe that there is a strong case for a rent freeze for social housing. One has recently been introduced in Scotland. A survey by Nationwide has shown 17% of respondents facing a decision to 'heat or eat'. 8% turned off their heating entirely because they can't afford it, a third are only turning their heating on for a few hours a day. This wasn't a survey of social renters exclusively but it gives an indication of the scale of the problem. The survey predated big increases in energy costs. The numbers of social housing tenants would be greater than the Nationwide results.

The English Housing Survey reported that in 20/21 the number of full-time employees living in social rented properties fell from 31% to 25%. Those in part-time work fell slightly from 14% to 13%. Unemployment rose from 6% to 11% for social tenants. Half (51%) of social renters were retired, in full-time education or ‘inactive’; a group which includes those who have a long-term illness or disability and those who were looking after the family or home. Over half (55%) of households in the social rented sector had one or more household member with a long-term illness or disability. No less than 76% of social renters are in the lowest two income quintiles.

The government should fund the freeze so that the income of landlords does not fall to the detriment of the service they can provide to tenants.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?*

We think a freeze should apply for two years. There are no expectations of a significant fall in inflation for the second year. The Bank of England Monetary Policy Report expects inflation “to remain at elevated levels throughout much of 2023.”

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

We are strongly opposed to this because it would cause anomalies in the social rent and affordable rent housing stock. It would be used by landlords as a means of pushing up rents in some properties to mitigate against the impact of a rent maximum on their income. Given the increase in arrears referred to above, such increases are only likely to exacerbate the situation and impose unaffordable rents on tenants.

The text of the consultation says that the measures are “narrowly focussed on existing tenants”, which implies, without spelling it out that, CPI+1% could be applied to voids. We would strongly oppose this, as well, since it would be another means of driving up rent on tenants who are often very poor, and creating a two tier system for 'social rent' homes.

We are opposed to landlords being given the power to apply CPI+1% to the formula rent, which would also be a means of pushing up rents to unaffordable levels.

Whatever ceiling is applied it should be applied to all properties without exception.

Question 5: *We are not proposing to make exceptions for particular categories of* *rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

No we do not think there should be exceptions.

Two additional points

1) If landlords can apply for an exemption then it is likely that many will. If a freeze were applied, funded by the government, then there would be no need for exemptions. If the “preferred option” were applied then the government should fund the difference between that and inflation.

2) Whatever maximum is determined, the income of council housing revenue accounts collect will pay for less work as a result of the level of inflation. This raises the need for a review of their finances and in particular, the 2012 'debt settlement'. Under the Localism Act 2011 the government has the power to readjust debt set in 2012 if income or expenditure was higher than planned for. Since housing revenue accounts are under-funded and burdened with nearly £26 billion debt they have insufficient resources to maintain and renew existing stock, or to fund retro-fitting of existing homes.

--

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Solo Housing East Anglia
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	[redacted]
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment: We are predominantly a supported housing provider – working towards 156 units of supported accommodation for single people (adults) with support needs.
The accommodation is temporary (e.g. 18mths to 2 years)
We also provide 4 general needs flats
Our board as part of our budget setting process for 2023 to 24 will be analysing our overall rents and service charges in relation to both our costs for 2022/23 and projected costs for 23/24

We have in line with regulation managed the levels of our core rents and service charges with an average of £78.88 per week for general needs accommodation and £80.88 for supported accommodation for 22/23
As part of our budgeting and rent setting process we would assess CPI & inflation costs for 22/23 and 23/24 – however we would not automatically assume that there would be an increase in rents equal to CPI plus 1% Or 11.1% (based on CPI July 2022 figures). Decisions about the level of increase up to the existing standard of CPI plus 1% would be made on projected costs for 23/24 - so far in 22/23 we have seen an increase in costs for spending on property condition and essential works of 15% and we are expecting this to increase. In addition our overall lending costs have increased by 4% at the time of submitting this response and again we expect interest rate rises to increase further
The majority of our residents while in supported housing have both the rent and most of their service charges paid for by Housing Benefit – we do not implement any changes to our charges each year without prior agreement with the relevant HB depts
Where our residents transition into work, as part of their transition away from supported housing, we currently provide some hardship support from our own funds to cushion the cost of supported housing for those keen and able to work (on average 7% of our residents move into work before moving on). If rents are capped at lower levels by the proposed regulations, we will not have the resources to provide any hardship assistance in future.
As a smaller housing association, predominantly delivering supported accommodation, we operate on very tight margins already and our ability to build up reserves to cushion us from the proposed restrictions on rents is limited – we may therefore find ourselves unviable. If we are not viable this will have a significant impact on single homelessness in the areas in which we operate in, as we provide 66 beds of supported accommodation in Norfolk and 43 beds in Suffolk contracted by the county councils. In addition we have specialist projects providing supported accommodation for rough sleepers and for women in the criminal justice system who are homeless. These projects could be lost, so increasing the overall levels of single homelessness in these rural areas quite significantly. The cost of additional numbers of homeless people in the area will need to be covered by the local authorities, who are already seeing increasing levels of presentations.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment: see also comments in q1
Based on an assessment of our costs during 22/23 (which have all been impacted by inflation pressures) at this time we do not believe a 5% increase will be sufficient. We are currently investing in our accommodation in relation to the following areas:
Cost of living crisis including energy efficiency measures/net zero carbon objectives

Updating fire & building safety protection
Undertaking cyclical maintenance and repairs to upgrade our accommodation
The development of move on accommodation

In addition we have provided staff pay award towards the cost of living. If the rent increases are capped we will not be able to provide pay awards linked to cost of living for 23/24, this will impact on staff morale, turnover and recruitment (which in turn will add to our costs burdens & make it harder to deliver quality services).

As stated above our average rents are not high – a 5% increase would make our general needs rents £82.82 and our supported accommodation rents £84.40
A 7% increase would be equal to £84.40 for general needs and £86 for supported accommodation
We would prefer the flexibility to have the option apply at least 7% or to be able to apply an increase between 7% and 11.1% where it is clear inflation will continue to challenge our business and impact on further planned works or improvements
Even if we applied an increase of 11.1% our social rents would still only be £89.85 – significantly below 'affordable' rents or PRS rents in the area

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
X Maybe

Comment: There a pros and cons to setting it for two years. It would give an element of certainty for two years however it could also be very limiting for a two-year period depending on what happens to inflation in 2024/25 – if the issues continue in relation to inflation into 24/25 this will have a significant impact on investment in our accommodation and potentially viability – we will need flexibility in 24/25.

We would suggest perhaps only fixing it if there is an additional direction which indicates that if inflation for 24/25 is going to be equal to or exceed 23/24 levels then the fix must be reviewed prior to 24/25 commencement

On the other hand fixing it for two years gives no more certainty or reassurance regarding investment and development decisions, as we need to make investment decisions for a 20/25-year period

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment: we agree that new lets and relets rents should not be restricted to any agreed ceiling so that we may calculate rents based on the expected costs of that accommodation
We would add however that in the rural areas were we operate supported housing turnover is relatively low – with an average of 13% of our residents moving on per annum – this is due to the lack of suitable accommodation available for them to move into in rural areas – so not having restrictions on new lets or relets is likely to only impact about 18/20 of our allocations a year

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☓ No
☐Maybe

Comment:

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Shropshire Rural Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Maltings, 59, Lythwood Road, Bayston Hill, Shrewsbury, Shropshire, SY3 0NA
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:We would have proposed limiting the increase below the maximum but had yet to discuss it with our Board when the consultation was announced , and am aware of others that were proposing to do this.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:7% would be preferable, this would require savings of £60k per year and costs the plan £2.5 million over its life
[redacted].
This would require savings of £121k per year and cost £5.2 m over the life.
In order to make the necessary savings ontop of having a cost saving drive and trying to make our repairs as efficient as possible,we are proposing cutting our new build programme by around 20%, and staff cuts of 12%. Whilst trying to retain EPC C by 2030 we will have reduced funds to try and achieve zero carbon and is likely to lead to delays in improvement works.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:We do not know the landscape we will be operating in for year to 2025. So do not agree with this being extended.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No

☐Maybe

Comment:This would seem unfair to new tenants to be paying a different rent to their neighbours and we would not increase this .

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:
We would not be applying for exeption but there may be other organisations such as care homes and supported who will need to and I would support this.

From: [redacted]
To: Social Housing Rents
Subject: [redacted]
Date: 05 October 2022 17:49:30
Attachments: image001.png
image002.png
image003.png
image004.png
image005.png
image006.png
image007.png
image008.png

You don't often get email from [redacted]. Learn why this is important

Dear Social Housing Rent Consultation

In the response to the consultation submitted question 11

"Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?" was answered as Yes.

However on further examination of the policy guidance it is clear that it is expected that the formula rents and rent caps will continue to increase by CPI plus 1% or 1.5%. This does not seem to make sense as it will result in additional complexity between new lets and existing tenancies at different levels (which can be problematic when residents are living in a community or scheme as is the case for older people's accommodation). This would also seem to favour organisations with high resident turnover over those with a more stable resident base (which is generally positive for provision for older people).

Although this proposal will help organisations recover to the rent levels previously envisaged by their business plans (albeit at different rates) it does then bake the costs of what hopefully is a transitory period of high inflation back into the cost base of the housing association sector.

So on reflection the response to this question is No. Re-lets should still be made with higher % increases where the previous rent was below the formula rent but the formula rent level itself should also be limited by the 5% ceiling.

Thank you for your consideration of this point.

Bruce

[redacted]

[redacted]

[redacted]

DF

LGBT

This message is intended solely for the addressee and may contain confidential information. If you have received this message in error, please send it back to us, and immediately and permanently delete it. Do not use, copy or disclose the information contained in this message or in any attachment.

Although Housing 21 has taken reasonable precautions to ensure no viruses are present in this email, it cannot accept responsibility for any loss or damage sustained as a result of computer viruses and the recipient must ensure that the email (and attachments) are virus free. For information about how we process data and monitor communications a copy of our Privacy policy can be read at www.housing21.org.uk.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Phoenix Community Housing
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Green Man, 355 Bromley Road, London SE6 2RP
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

We not believe a ceiling should be applied in addition to the CPI + 1% limit as rent increases should be a matter for individual Boards to decide taking into account the circumstances of their organisation, and the views of residents. The application of a ceiling will undermine confidence of lenders in the sector and will likely result in more expensive funding for future new homes, which in turn will reduce the number of new homes built and increase the future universal credit / housing benefit costs to government as potential future residents seek accommodation in the private rented sector. It will also impact of the quality of our homes and services for existing residents, including our plans to increase the energy efficiency of our homes .

Boards will take into account the affordability implications of any increase given the context of the current 'cost of living crisis' e.g. the extent to which reducing the rent increase would impact on our ability to provide support to our most vulnerable residents. Our Board has already indicated that it is minded not to apply the full permitted increase, assuming September CPI is around 10%, but would wish to consult residents before deciding on the rent increase.

If a ceiling is applied one mitigation we would like the Department to consider is the ability to converge rents to formula rent over time in addition to the permitted increase in rent. This could reassure lenders and maintain confidence in the long term viability of the sector.

Flat rate percentage increases penalise landlords with historically low rents and can be unfair to residents i.e. those residents already paying the highest rents will have a larger increase than those on the lowest rents.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

See comments to Question 1.

We are modelling the impact of the different options noted above on our financial plan taking into account the impact of cost inflation on the organisation's expenditure, particularly in the areas of maintenance and development of new homes. The lower the cap the greater the impact on the financial plan as noted below:

3% reduces projected rental income in 2023/24 by £2.3 million or 6% or and £171 million loss of projected future rental income over the life of the plan (40 years)
5% reduces projected rental income in 2023/24 by £1.6 million or 4% and £114 million loss of projected future rental income over the life of the plan (40 years)
7% reduces projected rental income in 2023/24 by £0.8 million or 2% and £58 million loss of projected future rental income over the life of the plan (40 years)

To respond to the potential loss of income in the plan Phoenix will review its activities to identify where further savings can be made but the scale of the loss will mean that the development of new homes will be scaled back, and proposed improvements to the quality of our homes, planned maintenance, community engagement activities and plans to achieve EPC C and Net Zero Carbon will be affected. Any reductions in expenditure to achieve EPC C and NZC will mean that some residents will not benefit from potentially lower energy costs in the future.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☓Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

If a ceiling is applied this should only be for one year given the current economic uncertainty.

If a 5% cap was applied for 2 years the loss of projected rental income in 2024/25 would be £3.8 million and £156 million over 40 years.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☓ Yes
☐No
☐Maybe

Comment:

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓ Yes
☐No
☐Maybe

Comment:

Supported housing providers should be exempt from any ceiling given the generally lower operating margin on their activities and that the majority of their residents will be on full housing benefit / universal credit, so a rent increase within the current permitted maximum increase will be mostly covered by government support rather than causing further financial stress.

If supported housing providers have to close or reduce operations as a result of a lower rent increase and not being to be able to cover their increased costs, the likely cost to other public services will be much higher.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Freebridge Community Housing
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Juniper House, Austin Street, King's Lynn, Norfolk. PE30 1DZ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

The current rent settlement gives providers certainty of a parity between rent increases and costs that the business is exposed to. A ceiling or cap in effect breaks this relationship, which has been the basis on which funders have lent to the sector.

A flat ceiling restriction also does not reflect the variation between Providers, in respect of management costs, customer base and local economics. Freebridge operates exclusively in an area of low average earnings which has contributed to our average social formula rents already being considerably lower than other Providers in our region - c£6-10 per week lower.

A ceiling or ratio in relation to the formula rent caps themselves would allow Providers more discretion to set rents according to the local affordability context in which they operate.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X **No**
☐Maybe

Comment:

At 5% the cap would remove c£1.9m from our business plan in 2023/24 and £77.1m over the life of the plan – this represents approx. 75% of the provision we have made to date for our expected net zero commitment costs as best they are understood currently, and ahead of the future revised Homes Standard obligations.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X **Yes**, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Whilst current predictions suggest that CPI may remain unusually high in September 2023, a ceiling applied now for two years will limit future flexibility in what is currently an abnormal financial climate.

We remain concerned that a limit imposed now for two years may not provide adequate capacity to mitigate against rising interest costs to ensure covenant compliance without further compromises to spend on new homes, repairs and maintenance and decarbonisation.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
X **No**
☐Maybe

Comment:

This would affect approx. 450 of our new customers, causing movement away from rent convergence for those properties and inequity in our offer.

This approach would also significantly and disproportionately disadvantage new customers, who will likely be experiencing the same cost of living pressures as existing customers.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
X No
☐Maybe

Comment:

(*Freebridge do not have any supported stock with higher management/maintenance costs other than sheltered housing).*

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Individual
What is the name of your organisation (if applicable)?	N/A
What is your position in the organisation (if applicable)?	N/A
What is your address, including postcode?	[redacted]
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

X Yes
☐No
☐Maybe

Comment:

The estimate relating to the possible CPI figure if considered for rent increases in January 2023 due to take place in April 2023 could result in rent increases ranging from 18% to 22% which would be due to the expected increase in inflation following the price cap review in January which will be set at the end of November. The likely cost of rent will not only impact upon the tenants who receive benefits but those who pay themselves having already been hit with increases across the board. The increase if based on inflation plus 1% will also severely impact the revenues and benefits budget for 2023/24 and could lead to more evictions due to inability to pay. Although not mentioned another major concern is the fact that the rent element of a shared ownership scheme for encouraging low cost home ownership is based on the RPI inflation figure as decided by Government. This in theory could result in rent increases for low income shared ownership households of 25% or more and be a serious deterrent in attracting future home owners.

It has to be noted that the housing associations do not need to increase staff salaries and those of their Chief Executives by these high inflation figures and nor does the rent pay towards any mortgage costs as those which are outstanding have been bought on fixed rates.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

X Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

If the figure of 5% remained in place it would enable the housing association to budget accordingly

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
X No
☐Maybe

Comment:

It should apply for 2 years and be reviewed but the RPI increase for shared ownership needs looking at and changing to the CPI figure and remain so

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☓ Maybe

Comment:

It has to be considered but this will create different rent levels for the same property and would benefit the association for existing tenants to be moved out.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓ Yes
☐No
☐Maybe

Comment:

As outlined above, the RPI higher inflation rate has continued to be used for setting the rents for low cost shared ownership schemes. If the projected RPI figures for January 2023 are correct it could result in rent increases upto 25% being imposed on properties from April 2023 as well as higher mortgage costs. This could make reletting and new schemes unaffordable and unattractive to those wanting to get on the property ladder.

RESPONSE TO SOCIAL HOUSING RENTS CONSULTATION PUBLISHED 31 AUGUST 2022

BY DEPARTMENT FOR LEVELLING UP, HOUSING AND COMMUNITIES

WHITE HORSE
HOUSING

WHITE HORSE HOUSING ASSOCIATION LIMITED

Lowbourne House,

Lowbourne,

Melksham SN12 7DZ

CONTENTS

INTRODUCTION

House prices and private rents in rural villages are out of the reach of many on low incomes. Indeed, according to the guidance issued by the Department for Levelling Up, Housing and Communities and Ministry of Housing:

'*People living in rural areas can face particular challenges in terms of housing supply and affordability, while the location of new housing can also be important for the broader sustainability of rural communities'*[1].

This is confirmed in a Parliamentary Research briefing which states that house prices are often less affordable in rural areas. In 2021, the average lower-quartile house price in predominantly rural areas was 9.2 times higher than average lower-quartile earnings, compared with 8 times in predominantly urban areas outside of London. The briefing goes on to say that options for those on low incomes seeking social rented housing are limited in small rural settlements and according to the Centre for Rural Economy, 12% of the rural housing stock in England is social housing compared with 19% in urban areas. Although the supply of new homes in rural areas has increased in recent years, affordable housing supply is considered to be well below housing need. However it is noted that:

'*The availability of affordable housing underpins the vitality and sustainability of rural communities*.[2]'

White Horse Housing Association (WHHA) are committed to providing these much needed affordable homes for local people in housing need in the rural communities of Wiltshire, Swindon, Somerset and the surrounding areas and currently have homes in over 50 rural locations. Our key objective is to contribute to the long-term sustainability of those villages and hamlets to maintain vibrant and thriving communities and we have been doing exactly this for over 30 years. We focus on building homes to high environmental and space standards and all of our 412 homes (including 25 shared ownership) are let at rents that are affordable to local people.

In order to meet increasing need we have ambitious development plans. We are currently on site at three locations building a total of 18 new properties which are expected to complete in the summer of 2023. We have other schemes which will provide a further 26 new properties that are progressing but have yet to receive formal Board approval or to go into contract. Of course, we rely on rental and service charge income in order to support these plans, along with secured borrowing, capital receipts from the sale of shared ownership homes and Affordable Housing Grant. We also rely on this income to ensure our existing housing stock remains of high standard in terms of repair and, more recently, with a focus on the decarbonising agenda set out by Government.

In this consultation we are also making our case that due to the challenge of providing rural affordable housing which has been acknowledged by the Government in previous publications, rural housing associations need to be considered differently to larger predominantly urban focused housing associations when setting a rent cap for 2023/24 and a higher rent cap than the Government's preference is needed by such associations.

---

[1] Department for Levelling Up, Housing and Communities and Ministry of Housing, Communities & Local Government Published 22 July 2019 Last updated 24 May 2021. Paragraph: 009 Reference ID: 67-009-20190722

[2] https://commonslibrary.parliament.uk/research-briefings/cbp-9312/

RESPONSE TO CONSULTATION QUESTION 1

Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

All social housing providers understand the pressure on costs for our tenants. We help, support and advise our tenants on daily basis, helping them to budget, claim the benefits they are entitled too and gain access to employment opportunities.

At White Horse Housing Association our 'Tenancy Plus' service provides personal 1-2-1 support for our vulnerable tenants and helps them navigate a wide range of problems to help them sustain their tenancies and live a full and happy life. Therefore, we were already well aware of the potential issues with the 2023-24 rent rise given the current CPI+1% rent formula and the predictions for long-term double digit inflation.

As a result, the Association had already started modelling a number of different scenarios – prior to the publication of this consultation - to fully understand what a below inflation rent rise would mean for our finances and the wide range of services we provide. Therefore, we were already looking to recommend to our Board a rent increase BELOW the current CPI+1 formula in order to limit the impact on our tenants. We believe this approach demonstrates prudent management of the Association's business, together with the welfare of our tenants, balanced against the over-riding need to maintain our financial viability.

However, it was clear that in order to maintain services at a level we desire, and to continue developing much needed homes across our rural communities, the level of the rent increase required for 2023-24 would need to be between 8% and 9%, depending on economic conditions at the time the final decision is made. Any increase lower than this level would have significant impacts and result in reductions of services that we believe are unacceptable.

White Horse Housing - Tenants view:

The Association also consulted its Resident Scrutiny Panel on this issue in July 2022. The panel consists of a cross-section of tenants from across our operational area who are both economically active and retired. We explained the current rent setting process and our desire to limit rent increases next year given the huge cost of living crisis they faced. Their response was unanimous:

Scrutiny Panel members said they have high quality homes in lovely areas and they have a reasonable rent at present. Our average social weekly rent is £104.65 and our average affordable weekly rent is currently £139.81. The panel understood that our costs will be increasing significantly (and have been for some time) and that they would rather have the same level of service they have now and accept a higher rent increase rather than see a drop in the number of repairs or improvements that we can afford to carry out.

Given the Government's recent Social Housing White Paper which seeks to strengthen the links between landlords and their tenants and ensure they are included in strategic decision making as well as day-today operational issues it seems hypocritical for the Government to now impose a rent cap against our own tenants wishes.

RESPONSE TO CONSULTATION QUESTION 2

Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment.

As a small housing association meeting the needs of the rural population we face very different challenges to those larger Associations who are servicing predominately urban populations, specifically in the type of housing we provide such as:

- availability and cost of land;
- increased cost of building smaller developments;
- spread of housing stock over geographically large areas (to use Government Statistical Service classification, we cover 'sparse' and 'not sparse' rural output areas ranging from the edges of towns to villages and hamlets);
- inflated market rents linked to the house price disparity between predominantly rural areas and predominantly urban areas (excluding London).

Thus not only does it cost more to build good quality housing stock on small rural developments, it also costs more to service and improve existing housing stock. This is due to smaller contract sizes, the lack of benefit from economies of scale, and the cost of the scattered positioning of our housing stock which adds a significant amount to our costs in travel time and other expenses. In addition, even though we are able to set rents for our affordable housing at 80% of market rent, in practice we have been unable to due to the high, and unaffordable, level of market rents. Therefore, we set rents at a lower rate (often reflecting the Local Housing Allowance rate) to ensure our tenants are not priced out of their local community.

We have spent considerable time prior to the publication of this consultation, modelling for significant sustainability improvements across our housing stock in order to meet the Government's carbon reduction targets. Like every other housing association we are already seeing the impact on our costs of current inflation, increasing interest rates and the unstable economic conditions. Data commissioned from the Centre for Economics and Business Research by the National Housing Federation shows that it is 12.3% more expensive to build new homes than it was last year, and material costs for repairs and maintenance have increased by 14%. But, like every other housing association we are working hard to ensure we continue to maintain the same high levels of service to our tenants whilst working towards our housing development targets.

Our preference out of the three options provided is for a rent cap of 7%. All three options will have an impact on the level of repairs and maintenance, capital improvements and investment in meeting the Government's targets for decarbonisation as well as our development plans. However, a 7% increase would allow us to mitigate that impact, in part, and help us address the particular challenges that rural social housing provides.

It should be made clear that the 3% rent cap is not an option for small housing associations, even ones that are financially secure with robust business plans such as ours. Such a scenario would create a number of difficult viability issues and would result in severe cuts to staffing and services. At a time when our tenants need our help and support more than ever, such a scenario should not be considered.

It also needs to be remembered that between 2016-2020 all housing associations had to *decrease* their rents by -1% each year resulting in 14% of income being wiped from our Business Plan forever. Whilst this policy may have pushed some associations to find new ways to deliver services, most mitigated the rent decreases by cutting services, delaying repairs and improvements and building fewer homes. Whilst a rent cap may help some tenants in the short term (but mainly the Government's welfare benefit bill, of course) this policy will ultimately result in less services for tenants, poorer repairs and maintenance services and a reduction in the number of new affordable homes that are built. It will also severely cut any plans associations have to decarbonise their homes.

In terms of meeting our main strategic objective - the development of much needed new homes – the Association would not breach our main loan covenants (interest cover, gearing and income to borrowing ratios), with either the 5% or 7% options. However, the major impact would be the level of available cash over the next 10 years. Our modelling shows that the difference between a 7% rent increase and a 5% rent increase over a 10 year period is a loss of £522,000 as opposed to implementing a CPI +1% rent increase, as per current government guidelines. A 5% rent cap will lose the association £1.542m in the first 10 years versus a £1.02m loss with a 7% increase. In the full 30 years of our business plan a 5% cap versus CPI + 1% will result in £6.23m less cash while a 7% increase will result in a loss of £4.12m. So the difference to WHHA between a 7% cap and a 5% cap is £2.11m over the whole life of our business plan. – an amount that will be lost forever.

These amounts are not insignificant to a small rural focussed housing association and will result, out of necessity, in a reduction of service by some level. As the head of the National Housing Federation, Kate Henderson stated:

"It is inevitable that, without additional funding, any limit to [rent] increases will lead to difficult decisions about what to prioritise and compromises about what to fund"[3]

For White Horse Housing Association the main compromises will be not only be a slowdown in the delivery of desperately needed affordable rural homes to local communities, but also a reduction in our capital improvement programme for existing properties, including works in support of the decarbonisation agenda.

Specifically a 5% rent cap would result in:

1. A postponement of our current development programme, meaning at least 30 new homes would be cancelled over the next 2 years;
2. A significant reduction in our development programme in the medium term as a result of a lower rent base meaning less surpluses to invest in new homes;
3. The need to extend the current lifecycles of components in order to delay significant capital investment in modernising our homes;
4. A reduction in our carbon reduction ambitions resulting in the Association only seeking to meet the minimum standards rather than meeting our stated aim of becoming a leader amongst our peers.

The difference to our tenants between a 5% increase and a 7% increase is £2.09 on social rents and £2.79 on affordable rents.

We understand the Government plans to consult the sector on the rent increase formula for 2025 onwards sometime during 2023. At this stage both the housing association sector and the Government have an ideal opportunity to discuss a rent formula that not only supports future growth across the sector but also seeks to re-gain the losses made as a result of any 2023/24 rent cap. Such a formula would seek to increase rents over a 5 year period by an above inflation amount and allow associations to use this additional cash to fund those development schemes and capital programmes that were cut as a result of the rent cap.

[3] https://www.insidehousing.co.uk/comment/comment/if-housing-associations-limit-rent-increases-this-year-they-will-have-to-compromise-on-what-to-fund-77895

RESPONSE TO CONSULTATION QUESTION 3

Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Whilst all businesses, including housing associations, like to work in an environment with a high degree of certainty, and therefore may welcome some indication of the level rent rise allowable in the following year, it is clear that the current economic uncertainty is going to last many months – or years – to come. It is therefore not appropriate to 'second guess' what is going to happen to the economy, inflation and interest rates by this time next year and, therefore, it is not appropriate to set a rent cap for 2024/25. Indeed, we believe the best people to make this decisions are the housing associations themselves who have a far greater insight into their Business Plans and their tenants ability to pay than central Government.

As we have explained in our answer to Question 1, all associations are acutely aware of the financial issues facing our residents and will do whatever we can to prevent adding to their burden. But, these same association's do need to remain financially viable if they are to build new homes and deliver the essential services they provide.

We therefore believe that any decision on whether or not to impose a further rent cap for 2024/25 should be delayed until next summer when there is a greater understanding of the economic situation at that time.

RESPONSE TO CONSULTATION QUESTION 4

Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes we do.

There is a very clear formula for calculating social and affordable rents at first let (and subsequent re-lets) and we do not believe this should change or be altered in any way.

If a rent cap is imposed the money lost to the association's business plan is forever – unless some sort of rent convergence regime is agreed to bring rents back to where they should be in future years. Therefore, maintaining the mechanism that allows the calculated formula rent to be charged for first lets and re-lets will help, in a small way, to mitigate the losses incurred through capping the rent increase for existing tenants.

RESPONSE TO CONSULTATION QUESTION 5

We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

White Horse Housing does not provide supported housing but believe this type of housing, and the services that maintain it, have, overall, greater costs than general needs housing and therefore any rent cap to these properties will significantly impact the services tenants receive. Given that most tenants in supported housing are vulnerable and rely on benefits to pay for their accommodation, the increase in rents required to maintain these services will not determinantal impact on the tenants themselves.

We also believe some consideration should be made to Affordable Rents. Unlike Social Rents where a separate 'service charge' can be levied to pay for the communal services enjoyed by tenants, such charges are included within the affordable rent regime and are therefore not levied separately. The calculations made when the scheme is first appraised ensures that future service charges are covered within the rent – within the limits set (i.e. 80% of market rent). However, a rent cap on affordable rents will alter these calculations and limit our ability to pay for communal area services in the future.

From: [redacted]
[redacted]
Subject: Social rent rise proposalss
Date: 07 October 2022 09:32:35

You don't often get email from [redacted]. Learn why this is important

I write as a [redacted] for Victoria Ward in the London Borough of Hackney, where approximately [redacted] the housing is social housing and where a chronic housing crisis is affecting residents living in all tenures of housing (social, private rented, shared and mortgaged ownership). The shortage of housing across all sectors has forced prices up, and now combined with hikes in food and fuel costs, people in social housing - some of the poorest in our ward - face desperate times.

I am asking the government to impose a rent freeze on all social rents. Any of the three proposed options, 3 per cent, 5 per cent or 7 per cent, would place an intolerable additional burden on already impoverished people. We have already had an over 4 per cent rise in our rents this year.

The rent freeze should apply to all social rented properties. I disagree with the proposal that councils should have the power to increase rent for voids (empty properties) by CPI+%. Allowing councils and housing associations to do this would create anomalies in social rent homes and would drive up rents now and in the long term.

It is important, however, that councils and housing associations should have enough income to maintain all homes to a good standard, especially in the face of the effects of inflation on the cost of building works. I am therefore asking the government to fully fund all council and housing association landlords with an amount equivalent to the level of inflation, in accordance with the number of their social rented homes.

If the government fails to protect people in social housing from rent rises, they will face impossible choices between food and fuel, with untold suffering and needless deaths resulting.
Yours,
[redacted].

[redacted]

From:	[redacted]
To:	Social Housing Rents
Subject:	Consultation on rent cap
Date:	07 October 2022 10:25:23
Attachments:	image001.png image002.png image003.png

You don't often get email from [redacted]. Learn why this is important

Dear sirs,
As requested, please find attached our response to your recent consultation on a 5% rent cap for social housing in April 2023.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Durham Aged Mineworkers' Homes Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Grove, 168 Front Street, Chester-le-Street, Co. Durham. DH3 3YH
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes

X No

☐Maybe

Comment:

As independent organisations "co-regulated" by the RSH and the Board I feel that Boards should have the final say in the levels of rent charged within a pre-existing agreement. The unilateral termination of a pre-existing agreement removes from the Board the ability to manage the business for which they are responsible, with potentially difficult implications for residents and the long-term delivery of other commitments – to decarbonise and to develop new stock.
It is my understanding that most Boards take the affordability of their homes with extreme seriousness and ours certainly does. Many, including ours, were already considering increasing rents at below permitted levels next year, but doing so at levels that we knew we could afford, and which also reflected the wishes and preferences of residents. In addition many, possibly a majority, of our residents are in receipt of full

Housing Benefit and so will see no improvement in their circumstances from a "real" rent reduction. They may, therefore, be reluctant to see a real rent cut if that could mean the Housing Association had to cut services in some way. Also, it should be noted that in the North East, rents are much lower than in many regions, and so the impact of a real cut of, say, 6% is perhaps in the order of £5 or less in many cases – and the level of perceived benefit to residents on their cost of living of such a saving will likely be marginal in many cases.
Having this imposed without consultation or opportunity for tailoring by Boards to the specific circumstances of our residents seems to be unfairly detrimental and a "broad brush" which may have unintended consequences.
In addition, of concern is a perceived increased willingness of the government to unilaterally terminate existing long-term agreements on rents. This brings new uncertainty into our business models that did not exist before – undermining one of the key advantages of Housing Associations – the ability to access low-cost private finance for new development. If a government guarantee is no longer reliable, then lenders and other potential investors will naturally see the sector as inherently riskier, and therefore less attractive, further increasing borrowing costs and reducing associations' capacity to develop in the longer term. We have refinanced very recently (April 2022) and so have avoided this for the time being, but increased uncertainty has now been inserted into our business model in relation to future financing costs.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

X No

☐Maybe

Comment:

We were considering consulting with our residents to see whether they would prefer a rent increase below the maximum permitted once the implication on the business plan was understood. A mandatory cap will remove this as an option.
If a cap is to be imposed, then the highest-level option (i.e., 7%) would be preferable to give maximum flexibility to organisations to manage the impact on their business – many will likely still choose to increase at below 7% or even less in any case. Indeed, we have two schemes where we have not increased rents at all for three years because of scheme-specific circumstances.
[redacted]

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

☐No

☐Maybe

Comment:

I believe the greatest flexibility should be retained by Boards to pursue the true interests of their residents, and those on housing waiting lists in need of new social housing, to the best of their understanding. Minimising the duration of the mandatory ceiling would therefore support that.
In the long term some ability to implement a balancing "collar" to rent increases in periods in the future when inflation is low could enable Associations to recover lost ground in their business models. Alternatively, more generous capital funding for development could sever the dependency of HAs on persisting with above-CPI rent increases in the long term.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable

Rent properties are first let and subsequently re-let?

X Yes

☐No

☐Maybe

Comment:

Being able to relet at full formula rent or affordable rent levels if Boards deem it appropriate, is essential to minimise the long-term impact of a cap.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes

☐No

☐Maybe

Comment:

Supported housing is facing additional inflationary cost increases based around their higher per capita staff costs – due to National Living Wage regulations, and so limitations on their rents may well push many schemes into unviability leading to a crisis of supply.

Given Housing Benefit underwrites the ability to pay the rent for most supported housing residents and so the argument of protecting residents from cost-of-living increases does not actually apply and so the Treasury needs to consider balancing the impact of a short-term saving in benefit payments against the very significant costs (probably to the NHS, the police and Local Authorities) associated with the likely closure of unviable facilities.

It should be noted that DAMHA does not possess any such schemes.

Kind regards

[redacted]

[redacted]

Follow us:

PO Box 31, The Grove, 168 Front Street, Chester le Street, County Durham DH3 3YH
Registered Charity: 1191033
Company Limited by Guarantee No. 12758375

This email and its attachments are intended for the addressee only and may be confidential or privileged. If this email has come to you in error, you should take no act on based on it and return t to the sender immediately, then delete t.
Unless expressly stated, opinions in this message are those of the individual sender and not of Durham Aged Mineworkers' Homes Associat on.
You should be aware that this email, and any reply to it, may need to be made public under the right to know legislation, or in connection w th litigation.
Emails may also be mon tored in accordance w th our legal responsibilities.
While all outgoing and incoming mails, and their attachments, are scanned for security threats, including computer viruses, by Exchange Online Protect on, we have no responsibility for any damage which you may sustain as a result of any such viruses.
You are advised to carry out your own virus checks before opening any attachments.

From: [redacted]
To: Social Housing Rents
Cc: [redacted]; [redacted]
Subject: Social housing rents
Date: 20 September 2022 15:07:35

You don't often get email from [redacted] Learn why this is important

Dear sir/ madam, I want to reply to your consultation about capping social housing rents.
I am [redacted] of Leathermarket JMB, we are England's only self-financing Tenant Management Organisation. This places us in the same position as councils with a retained housing stock. We have a ring-fenced housing revenue account, which means that we use tenants' rents and homeowners' service charges to pay off the historic debt on our properties, provide services and undertake major works.
In the attached blog [redacted] tried to explain the complexity of council housing finances, from the perspective of a council tenant, living on a mid-range housing estate in Bermondsey, South London
https://redbrickblog.co.uk/2022/02/the-secret-of-council-housing-self-financing/
The Localism Act HRA settlement is unravelling for the reasons described in the blog and ideally the residual debt should be written off.
The majority of our residents whose full rent is not covered by Universal Credit will benefit from a rent cap. However, the same tenants need their blocks to be fire safe, for their lifts and communal heating systems to continue working and thermal comfort to be improved. If the Government decides to cap rents, it needs to meet the funding gap. One way to partially address this is to write-off the residual debts.
If you wish to talk through my mobile number is [redacted] and my direct line number is below.
Warmest regards

[redacted],
26 Leathermarket Street,
London,
SE1 3HN
Tel [redacted]

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Believe Housing
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Coast House, Spectrum 4, Spectrum Business Park, Seaham, SR7 7TT
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

We agree in principle that there should be a ceiling in place for the social housing rent increase for 2023/24, however we would have preferred to retain some control over the ceiling and impose it ourselves allowing for a consideration of issues as they directly affect our customers and business.

We had not yet made the decision on the rent increase for 2023/24, but we have been actively engaging with our Board for some months on the potential level of inflation forecast for September and the consequential impact of a full CPI+1% increase on our customers. Whilst no decision had been made by the Board, there was a clear direction that a rent increase 10%+ would not be appropriate and therefore we needed to consider what was best in terms of meeting cost pressures facing the business and affordability challenges facing customers.

Our 30 year Business Plan included a rent increase of 7.75%, based on the economic forecasts available at the time of drafting. This is now significantly lower than the expected CPI position for September. We had already started modelling the impact of a rent increase of between 5% and 7% and assessing the impact against our initial planning.

Based on benchmarking against our peers locally, our social rent levels are the lowest in the region and therefore we needed to understand the impact of a capped rent level on our financial plans, taking account of capacity issues, increases in material costs and supply chain challenges and other emerging cost pressures.

We understand the impact of rent increases on our customers and are closely monitoring and considering the affordability of our rents alongside the other financial challenges being faced by our business. Affordability for our customers alongside how our rents compared to others in the region were all key considerations in this year's rent setting discussions prior to applying the 4.1% increase the rent standard allowed. This analysis showed that:

our social rents are significantly lower than market rents in the County Durham area;

our average general needs social housing rent is between 80% and 91% of other local registered providers; and

our average weekly rents were around 18% of the average weekly income in the region.

The increases in the 2022/23 rent were partly used to invest more in the support we provide to customers through hardship funds and additional resource into our customer facing teams. We have also been able to provide increased support to charities and community groups through our community investment programme. Demand in these areas continues to grow and to ensure we can maintain the level of support needed, our investment levels need to grow in line with these pressures.

Believe housing was created from a stock transfer that completed in April 2015. The first four years of our existence required us to meet the demand of the four-year rent reduction stripping c£20m directly from our plans and an estimated £360m over the 30-year business plan period. We were able to manage the rent reduction by looking at achieving operating efficiencies and reducing our operating cost base whilst maintaining service to customers. Now, with only two years of rental growth since the end of the rent reduction, it will be much harder to find cost efficiencies to bridge any shortfall in income, creating a risk of cuts to services and investment.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

As stated above, we were already considering a rent increase of between 5% and 7%, factoring in cost pressures and our current rent levels compared to our peers. We have been refining and updating our latest approved 30-year business plan to reflect the latest economic assumptions and modelling the impact of different rent levels.

The table below sets out these revised business plan forecasts and summarises the impact on our operating surplus and operating margin of a one year rent cap at 3%, 5% and 7%, when compared to our latest approved 30-year business plan submitted to the Regulator of Social Housing in June 2022.

	3% cap	5% cap	7% cap
Reduction in operating surplus in 2023-24	-£4.9m	-£3.5m	-£2.1m
Reduction in operating margin in 2023-24	-5.4%	-3.9%	-2.4%
Reduction in operating surplus – cumulative 30 years to 2053	-£174.4m	-£110.9m	-£47.3m
Average reduction in annual operating margin 2023-2053	-4.5%	-3.0%	-1.6%

A 3% rent cap would have a significant detrimental impact on our financial plans and would require cost savings at a point where a number of our fixed and unavoidable costs are increasing due to external economic factors. [redacted] we would need to take steps to mitigate the impact, which would affect the delivery of services and support available to customers.

The impact of a 5% and 7% rent cap does not require any mitigations to ensure [redacted] however the financial impact of both the 5% and the 7% caps are still substantial.

In the short term we can manage the financial impact of a 5% or 7% rent cap, but it is likely to require delaying some capital investment costs and revisiting the timing of EPC C retrofit investment which could have a longer term detrimental impact. In addition, we are concerned about employment pressures and the need to agree a pay award in a period of high inflation where cost of living pressures are impacting on staff as well as customers. Demand on customer support services is also increasing leading to the need, in some parts of the organisation, to employ additional staff. We have managed to accommodate this by utilising headroom or in year savings, however, our ability to do this will be eroded if a limit is placed on future rental increases.

The longer term impact of a 5% or 7% rent cap is of greater concern. The compound impact of the rent cap means there is fewer resources available for future investment in our customers' homes and the services we provide. To contextualise the impact of the surplus reductions set out in the table above, we are currently forecasting investment in our business in the following areas over the period to 2053:

Energy efficiency measures to achieve EPC C for all properties	£24.3m
Energy efficiency measures to achieve net zero carbon emissions for all properties	£315.3m
Stock investment programme	£942.7m
Development of new properties	£121.4m
Community investment and employability support to our customers	£35.5m

Whilst we haven't specifically identified where we would need to achieve savings as a result of the rent cap, the areas highlighted above are likely to be subject to a reduction in investment.

It is also harder to react quickly to reduce costs where there are unavoidable cost increases in areas like pensions, insurance, energy costs where these pressures will have to be absorbed. These are areas where the impact for 2023/24 is still unknown and budget forecasts may well be underestimated. Measures put in place by government to date, to help with areas like energy costs, will help for the 2022/23 financial year, but as currently set out would not be available for 2023/24 when the rent cap would impact requiring estimates to reflect full cost forecasts.

Additionally, 86% of our supply base is small or medium enterprises who are more reliant upon our business as a key source of their income. Reducing costs, or not allowing inflationary pressures they are experiencing to be factored into our rates will increase the risk of these smaller suppliers experiencing financial difficulty.

We note in the Impact Assessment that the 'benefit' of a rent cap will not be directly seen by all social housing customers, as a significant proportion of the benefit is a reduction in the welfare bill. We agree that this will be the case and from our own customer base, over a third of customers are on housing benefit and just over half of this number receive full housing benefit which means they will not see the benefit of a rent cap.

As explained above we agree with the Impact Assessment that providing new social housing, improving the quality and energy performance of existing social homes or providing services to tenants will all be affected by a rent cap being imposed.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Yes, we agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024. We do not believe that the ceiling should apply for two years and consider that the decision on the level of rent increase to be applied post March 2024 should be left for Board's to determine the best and most appropriate option for their business and customers.

Whilst we have highlighted in Question 2 the impact of a one year rent cap, a two year rent cap will have a more significant impact on our financial plans, particularly if inflation continues to be high. The table below sets out the additional impact on our forecast operating surplus when compared to a one year cap at 3% or 5%.

	3% cap	5% cap
Additional reduction in operating surplus in 2024-25	-£2.6m	-£1.1m
Additional reduction in operating surplus versus a one year cap – cumulative 30 years to 2053	-£105.1m	-£45.9m

Our updated inflation assumptions do not have CPI inflation in 2024-25 of greater than 7% and so a two year cap at 7% would have no additional impact compared to a one year cap at this level.

This would require us to revisit our investment decisions and consider our ability to continue to invest in customer support services if income is lower.

The compound impact of the reductions in revenue streams would have major and lasting impact in future years beyond that highlighted in question 2.

However, if it appears levels of inflation are continuing to increase, and a further year's rent cap is considered necessary, we ask that this is communicated earlier so it can be brought into financial plans.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

Based on the impact of previous policy decisions and the withdrawal of rent convergence a high proportion of our stock was being let at rents below formula levels at the point it was transferred in 2015. Whilst we have moved properties to formula rent on relet we still have more than 50% of our properties below formula rent level. This impacts on our overall rental yield by approximately £1.2m per year. Therefore, we agree that on re-let the proposed ceiling should not apply to the maximum initial rent charged on first letting or re-let.

We would also ask that consideration be given to a process to catch up lost revenue to meet future investment needs.

Early confirmation of the continuation of a CPI+1% or similar annual indexation post 2024/25 would be a significant help in terms of financial planning and a clear understanding of revenue expectation alongside cost and investment requirements. Applying an active mechanism to the future indexing arrangements would also allow for lost income to be recovered over the longer term. This could be similar to the previous rent convergence regime with a small addition to the CPI +1% uplift to again ensure that affordability considerations are taken into account. We would expect that this would start to apply when inflation has returned to a lower level in line with forecasts.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:
We understand that the proposed ceiling may cause significant challenges for supported housing providers in particular, but this does not directly impact us and therefore we are unable to comment further.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	First Priority Housing Association Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Innovation Centre, Hornbeam Business Park, Harrogate, HG2 8QT
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

XYes
☐No
☐Maybe

Comment:
Contractually we would have no alternative but to apply the maximum increase as properties are financed through leases.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

Yes, you agree with imposing a ceiling of 5%
☐No
☓Maybe

Comment:

> We agree where the impact is felt by tenants, however, that is not true for all tenures.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☓ Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

> Market is currently very volatile and suggest it would be better to reconsider position next year as there are too many variables to predict confidently the state of the economy next year

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☓ No
☐Maybe

Comment:

While from a financial point of view we can see the logic such a system would create inequalities and favour existing social housing tenants rather than all tenants who are likely to be in the same position. There would also be significant issues in terms of managing this, particularly where accommodation is shared

A more appropriate solution would be to set out some convergence for future years.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☓Yes
☐No
☐Maybe

Comment:

Supported Housing already operates on very thin margins and would be concerned that a cap on such housing would lead to the closure of schemes as they became unviable. This is likely to increase costs elsewhere within public services, particularly where schemes are directly addressing street homelessness.

In addition, the vast majority of tenants are HB beneficiaries (typically over 90%) and consequently introducing the cap to supported housing would not achieve policy aims of addressing cost of living for tenants but would primarily benefit the state.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	As an organisation
What is the name of your organisation (if applicable)?	UNISON the union
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	NW1 2AY
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

INTRODUCTION

UNISON welcomes the opportunity to respond to the consultation on Social Housing Rents.

UNISON is a major union in the housing sector, representing 100,000 of our members working in local government and the community and voluntary sector, including private registered providers (housing associations), that provide a wide range of services including housing management, housing related social care, housing advice to private sector tenants, repair work and administrative support. This gives us a unique knowledge of the issues affecting social housing providers, tenants, quality service provision and people working in housing.

Social housing providers, including Housing Associations and local authorities, face huge challenges as a result of inflation. They like other business have seen repairs, maintenance and construction costs go up. They also face other challenges, including decarbonisation and building safety costs, and delivering a building programme to meet the demand for new social homes.

We have canvassed the views of our members working for social housing providers to find out more about how the proposed caps on social rents will impact on their providers' business operations and what can be done to mitigate this. Their views are reflected in our response below.

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No, or only if there are corresponding rent restriction in the private rented sector and the effect is fully compensated, including compounding effects, by Government.

Comment:
This is an inappropriate binary question and we are answering no as we do not wish to be counted as supporting this when announced by Ministers or analysed by the Department or others. In fact we see the clear need for support for social housing tenants in the context of the present cost of living crisis; many members or retired members of UNISON are social housing tenants of course. If a rent freeze was accompanied by monies from Government making up the shortfall against expected income, it might be that this is an effective way of supporting this group. For consistency and to provide support to tenants in the private rented sector, many of whom have even more severe financial constraints than many in the socially rented sector, any freeze should also be applied to those tenants, as the Scottish Government is doing.

However, direct payments would be equally effective and would avoid a number of the negative impacts of the freeze proposal outlined below. The direct payment could be made via the landlord for administrative simplicity. This would also mean that all tenants, not just those whose rent is not paid through housing benefit, would be supported; we understand from the consultation document that this is the policy intention of the Government.

The proposed rent freeze, not mitigated, will have many consequences:

1. It will reduce resources available for the upkeep and maintenance of properties and estates.
2. It will mean that intended investments in building or acquiring properties by Housing Associations and local authorities will not proceed, both intensifying the chronic shortage of genuinely affordable social housing, and reducing economic activity in future years, when it is our understanding that the Government seeks to raise the medium-term economic growth rate. Given the likely sharp slowdown in construction activity in the near term, housing provider spend is critical to maintaining project flow for contractors and retaining the skilled construction labour required for when better times eventually return.
3. It will send a durable signal to Housing Associations that Government may at short notice change the system of rent calculation, where they had been given clear assurances that there was a formula for calculation upon which they

could rely until 2025, on the basis of which long-term financing decisions could be made. The proposed freeze will reduce the long-run rental income of housing associations substantially as it is compounded in future years. This undermines all investment activity as Housing Associations raise finance for building against revenues from existing property. So prudent boards will significantly increase the hurdle rate of return. The rent freeze will direct investment into for-profit property development as there is no interference at short notice with revenues from these projects.

4. It will reduce resources available for energy efficiency investments, keeping carbon emissions higher than if they proceeded, and costing tenants not benefiting from them.
5. It will reduce resources available for carrying out fire safety remedial works to make homes safe for residents.
6. It will reduce resources available for community-building and support activities, as housing maintenance has to be prioritised.
7. It will remove resources housing providers need to use to attract and retain the right staff, at a time when all those we deal with already have numerous staffing difficulties.
8. As demonstrated in the Impact Assessment (IA), the main beneficiaries are not the social housing tenants, whose rent will be an aggregate £2.8bn lower over five years, but central government, which will save £4.6bn in housing benefit and other welfare payments. In order to save tenants £2.8bn, £7.4bn in investment in housing is prevented. This is an effect that continues beyond the five year horizon of the IA. If the Government is serious about tackling the housing crisis, it is essential that this shortfall is made good.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

Not unless mitigated by capital grants equal to the revenue reduction created.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

We don’t agree it should apply for any years, unless mitigated. The negative impacts may be accentuated if this were continued for a second year, depending on the trajectory of inflation. The British Chamber of Commerce expect inflation of around 5% in 2023, and if that is borne out in reality, it might mean the ceiling would not be engaged, depending on where it is set. But who knows where inflation is going? Even the Bank of England might be right. In which case, a much larger investment deficit would be created.

As a general principle, if the Government is going to disapply the formula for rents at short notice, it is desirable from the point of view of regulatory consistency that this should be for the shortest time possible.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐No

This would create incentives to terminate tenancies in order to secure new and improved rent levels; would lead to neighbours in identical properties paying different levels of rent; and would produce complexity in administration. Especially if continued across a second year.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Not applicable. We do not think this should be done unless fully mitigated, which we do not see appearing anywhere in your consultation. However if there are sub-sectors in social housing whose viability would be threatened, we would expect them to evidence this, and Government to take this into account.

CONCLUSION

Our response shows that capping social rents will have a significant impact on the business operations of social housing providers and will lead to even fewer social homes being built, at a time when housing development should become an integral part of helping to boost the economy. Social housing providers get most of their income from rent, a reduction would mean that they face huge challenges in maintaining existing homes. They are already facing financial pressures from building safety and decarbonisation programmes, and delivering a building programme.

If the proposals go ahead, they need to be mitigated by capital grants equal to the revenue reduction created, to safeguard the delivery of housing services, which tenants depend on, and the development of new homes, which are urgently needed to tackle the worsening housing crisis.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Progress Housing Group
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Sumner House, 21 King Street, Leyland PR25 2LW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
✕**No**
☐Maybe

Comment:

No. A blanket rent increase would primarily deliver savings in the public sector housing benefit bill, rather than counter cost of living rises for our tenants. In view of the cost of living challenges faced by our tenants, our board would not be proposing a CPI increase. We do, however, believe we should have the ability to determine what increase is appropriate for our tenants and to apply it flexibly to maintain our agreed service standards, property improvement works, support services and new housing provision. All our income is invested in existing stock, services and new housing provision. Our commitment would be to a significantly below CPI increase. A blanket cap would be inappropriate and give no recognition to assessment of affordability, individual organisation business plan outputs or agreed service standards. A blanket increase may also force housing associations to provide services at below cost where the service charge is an integral part of the rent, such as affordable rent accommodation.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
×No
☐Maybe

Comment:

No. We would suggest organisations are provided with a range to operate within, say 5% to 8 or 9%. Exempt accommodation should remain exempt as it has not relied on any or significant public subsidy to supply it. Other short term or emergency supported housing should be excluded from this range if support services and housing security may be put at risk. Every 1% of a cap takes out £800,000 of Turnover. The Department of Health has an objective to reduce the numbers of people with learning disabilities in institutional care following the Winterbourne Review Report. Development of new supported living accommodation for this group will fall if there is a 5% cap.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

×Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Yes. Any limitations or ceiling should only apply for one year. It is highly likely that high inflation will continue to increase costs for a protracted period. There are too many uncertainties in our operating environment to commit to two year real term cuts and would be lost from the business plan forever, impacting significantly on agreed service standards and business plan outputs. A two year impact of this nature would mean substantially more severe cuts today in property investment, services and new housing provision.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:

It is difficult to see the logic in this proposal as it is the same customer base of people moving into new accommodation as in our existing accommodation. The simple problem is that grant rates are not high enough to deliver homes at the rent levels desired. If rents are capped under the proposal to 3, 5 or 7% we would have to take the opportunity to re-let and first let at a higher maximum level of rent.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

× Yes
☐No
☐Maybe

Comment:

Yes. Exceptions are absolutely required for Specialist Supported Housing (SSH) exempt accommodation as this provision operates at very low margins and has high levels of maintenance expenditure, which is subject to significant inflationary pressure. It has been developed with very little or no public grant. These schemes provide effective value for money against other alternatives such as nursing homes and hospitals and offer a saving to the public purse.

We would suggest that temporary and homeless accommodation, PFI accommodation and intermediate rent accommodation is exempt as this accommodation provides additional services here people are particularly vulnerable. We would not want to put these schemes, or occupants, at risk.

More generally Chapter 5 of the draft rent policy statement has a list of property types which are 'excepted' from the rent framework, for very good reasons. These should continue to be exempted. We would also suggest supported housing, such as extra care and independent living, is excluded from the cap as these schemes are providing more effective value for money against other alternatives.

General overall comment

We are an organisation with a strong social purpose and an absolute commitment to supporting those most vulnerable in our society.

We are deeply concerned that an arbitrary maximum percentage increase is being proposed. This seems to have no relationship to affordability assessments, comparable market rents, individual circumstances of RPs or the fact that social rents are the lowest rents across all sectors. Our tenants want good quality well maintained homes and good support services. They want us to invest in their homes, delivering property safety and compliance works, invest in our neighbourhoods, support those at most risk, deliver environmental targets and build new homes. This will simply not be possible with 3, 5 or 7% rent increases. RPs are currently experiencing inflation for materials at above RPI and have already suffered real term cuts of at least 5% in revenue, due to the lag in inflation applying to rent. Interest rates are climbing rapidly following the Government's mini budget which will significantly increase costs. If Government were to restrain increases to 3, 5 or 7% we would need capital grants of over 80% to build new homes. We are seeing construction cost inflation in double digits already. The Group will prioritise property safety measures, which will mean delays to other property maintenance programmes. The cap will lead to deferral of property maintenance programmes and make it more difficult to commit to environmental works. The timeline and nature of this consultation does not enable appropriate and sincere tenant consultation on this matter. Something we would want to undertake.

The impact in lost income on the social housing sector's finances will be significant, with credit rating agencies warning of declining ratings which could lead to a higher cost of funds, on top of rising interest rates caused by pressures on gilts following the mini budget.

The Group has had declining operating margins due to previous rent cuts and increasing property maintenance and compliance costs. As a result, caps on social housing rents which are substantially below current inflation, can only lead to more cuts in costs and more trade-offs between levels of new output, maintenance and investment in net zero carbon commitments.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Simply Affordable Homes RP Limited
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Simply Affordable Homes 33 Margaret Street, W1G 0JD London
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment: We believe that the social housing sector faces multiple challenges at the present time which are severely impacting business plans and have the potential to substantially reduce the ability of the sector to develop more desperately needed new homes. These include the cash expenditure needed for safety remediation measures, the cash expenditure for net zero and EPC targets, costs inflation and the increase in debt servicing costs caused by rises (recent and over the past year) of interest rates.

At the same time, government finances are under severe strain with the likely result that grant subsidy to encourage new development is highly unlikely to rise substantially and may come under future pressure. As a result, the sector has a real need to keep open the channels for direct investment from institutional investors, a trend that has recently started but needs to be encouraged, not shut down in its infancy, and has the potential to bring in billions of much needed new capital into the sector.

We have had multiple conversations with investors over the past few years and believe that any cap / ceiling will be viewed as a negative by investors, raise further questions about a key risk of investing in the sector (that of continual government interference) and likely discourage some new investors from entering the sector.

We also note that the many housing associations have warned that a rent cap would result in less capital to invest in the sector over multiple years which we do not believe would be best for the sector's long term interests. A recent article in 'Inside Housing' on 6th October suggested that just amongst the G15 a rent cap of 5% would see more than £13.5bn removed from the money they could invest in new and existing stock over the next 30 years.

With no stock we don't think we are best positioned to answer the second part of the question on the extent to which existing providers will increase rents next year.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment: Please reference our answer to Q1. We believe that any ceiling will have a negative impact on attracting much needed private capital into the sector and on the sector in general.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment: As per Q1, we believe that any ceiling will be detrimental, but if it is decided to impose one then we would suggest that the period is as short as possible, and that there is a 'catch up' in subsequent years to mitigate the effect on long-term investors.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:
As per Q3 and trying to mitigate the effect for investors as much as possible, we believe that not applying the ceiling in these circumstances would help (but only marginally).

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:
As per Q3 and Q4, we believe that any ceiling would be detrimental to investor interest in the sector and therefore that there would be benefits in minimising the scope of any ceilings as much as possible.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Lambeth and Southwark Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	21 Claylands Place, London SW8 1NL
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☓ No
☐Maybe

Comment:

The board are best placed to determine this, within the existing CPI + 1% limit.

We are a small housing association, proud of our heritage which dates back to 1927. We know our tenants and we would seek to reach a decision on our rent increase by balancing the needs of our tenants and affordability, with the impact on our business plan of increasing costs – not only due to unforeseen increases in inflation but also due to more recent volatility in funding markets which has a significant impact on the cost of finance. We estimate a rent increase of no more than 7% at this stage.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

The board are best placed to determine this based on our business plan and affordability for tenants. 3% brings our association [redacted] and at both 3% and 5% we would need to make savings within the year to safeguard our viability. This could include delaying major, planned or cyclical works in 2023/24 and 2024/25 which would have longer term implications, one of which would be the deferral of zero carbon initiatives. Community investment work may have to be reduced.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Given the level of economic uncertainty, any cap imposed should be for one year. It is difficult to forecast now what inflation and interest rates will be in September 2023 with any degree of certainty.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:

Housing Associations need flexibility to set new and re-let properties at the appropriate level of the property and the area. Many community-based RPs like LSHA have rents that are towards the lower end. We need the flexibility to adapt rents for new properties and re-lets in order to maintain a sustainable business model.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
X Maybe

Comment:

As a general needs provider, this question does not apply to us directly.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Castles & Coasts Housing Association Ltd
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	5 Paternoster Row, Carlisle, CA3 8TT
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☒Maybe

Comment:

In reviewing the rent increase CCHA would consider:

- The impact on our residents and the financial hardship currently experienced and likely to be experienced in the future, for costs both within and outside the control of CCHA.

- The impact of cost inflation on CCHA itself and acknowledge the fact that, whilst third parties pass inflationary costs on to us, not all of those inflationary factors can be passed on via rent and service charges.
- The impact of the mid-year budget 2022/23 review, which saw:
    - o An 18% increase from 2021/22 in our cash operating cost base (operating cost including capitalised major repairs but excluding property depreciation) due to inflation and increasing compliance requirements
    - o EBITDA-MRI falling from 204% in 2021/22 to an estimated 110% in 2022/23
    - o Operating margin falling from 22.3% in 2021/22 to an estimated 12.5% in 2022/23
- Future economy predictions – at the time of writing, cost inflation for 2023/24 is predicting to be 10% before returning to a more stable 2%.
- Reviewing the resilience of the Financial Plan, particularly over the next five years.
- Other options to a rent cut, e.g. enhancing the resident financial assistance pot.
- The priorities of the Board in delivering a service to both current and future residents.
- Obtaining peer group information to ensure CCHA's rent remained comparable.

In summary, CCHA would look to increase its rents at a level which meant it could continue delivering its social objectives. If possible, CCHA would look to charge a below inflationary increase.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☒Maybe

Comment:

Assuming cost inflation of 10% in 2023/24 and 2% thereafter, the proposed rent cap will have an adverse effect on CCHA's finances. The figures below are based on the RSH definitions.

Rent cap	RSH EBITDA-MRI		RSH Gearing		Operating margin	
	2023/24	2026/27	2023/24	2026/27	2023/24	2026/27
7% rent cap	95%	64%	36%	39%	18%	15%

5% rent cap	82%	50%	36%	39%	17%	13%
3% rent cap	69%	38%	37%	40%	16%	12%

CCHA, at the end of 2021/22, is financially strong and had negotiated favourable loan covenants across all funders and, as such, CCHA may well be better placed to weather the storm of cost inflation. Despite this strong starting position, the Board is not underestimating the potential impact of costs outstripping inflation for both 2022/23 and 2023/24 has on the cost base, as this position is unsustainable in the mid- to long-term. As such, the Board will be commencing a review of its operations, identifying areas of economy and efficiency: this will include some hard choices and prioritising the services provided to residents and the future delivery of new housing supply.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☒Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

The rent increase mechanism works in arrears. As such, the increase for 2022/23 was 4.1% against cost base increases of 18% (inflation and additional compliance requirements). The cost inflation for 2023/24 is anticipated to be 10% against a proposed rent cap. Any further rent cap beyond 2023/24 will have a significantly material impact on CCHA's ability to deliver its social purpose.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☒Yes
☐No
☐Maybe

Comment:

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☒Yes
☐No
☐Maybe

Comment:

Supported housing, including sheltered housing, carries material service charges. For CCHA, the majority of our sheltered stock charges a social rent, however for those RPs charging an affordable rent, having services restricted to the rent cap is likely to result in a significant unrecoverable shortfall. This would also be true of any general needs stock charging an affordable tenure and which has material service charges.

Refuge

For women and children.
Against domestic violence.

Refuge response: Department for Levelling Up, Housing & Communities consultation on Social housing rents
Contact: [redacted]
October 2022

About Refuge
Refuge is the largest specialist provider of gender-based violence services in the country supporting thousands of women and children on any given day. Refuge opened the world's first refuge in 1971 in Chiswick, and 50 years later, provides: a national network of 44 refuges, community outreach services, child support services, and acts as independent advocates for those experiencing domestic, sexual, and other gender-based violence. We also run specialist services for survivors of modern slavery, 'honour'-based violence, tech abuse and female genital mutilation. Refuge provides the National Domestic Abuse Helpline which receives hundreds of calls and contacts a day across the Helpline and associated platforms.

Summary

Refuge welcomes the opportunity to respond to this consultation to outline the impact of the proposed social housing rent cap on accommodation-based domestic abuse services. Refuge provides specialist refuges to survivors of domestic abuse across the country. These services provide a lifeline for women in crisis and their children, offering immediate safety and protection from their perpetrators and tailored support to help them rebuild their lives. Our refuges are delivered through exempt accommodation; a type of supported housing that is 'exempt' from caps on Local Housing Allowance to cover the costs of providing tailored support to the people they house. It is not clear from the consultation exactly what types of social homes are within scope of the proposed cap but, if delivered without exemptions, the proposed cap will reduce the ability of refuges to continue providing safe and quality services for survivors of domestic abuse, at a time when perpetrators' opportunities to abuse increase as a result of the cost-of-living crisis. In effect, the proposed rent cap will limit the income of supported housing providers at a time when the costs of services are rising due to inflation and increasing utility bills. **Refuge estimates that it will cost an additional £1 million to continue running our frontline services over the next year, due to the cost-of-living crisis.** Imposing a ceiling of either 3%, 5% or 7% would significantly reduce the income of Refuge's accommodation-based services, forcing them to redirect reserves to meet the shortfall in resources that enable them to deliver lifesaving services to women and children. **Refuge is therefore strongly calling for supported housing to be exempt from the proposed cap on social housing rents.**

This section addresses the following questions:

- Do you agree that the maximum social housing rent increase from 1 April 2023 to 21 March 2024 should be subject to a specific ceiling in addition to the existing CPI +1% limit? To what extent would RPs be likely to increase rents in that year if the government did not impose a specific ceiling?

- Do you agree with imposing a ceiling of 5% or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in the Impact Assessment?
- We are not proposing the make exceptions for particular categories of rented social housing. Do you think any such exemptions should apply and what are your arguments/evidence for this?

Refuge acknowledges the need to introduce measures to support social housing tenants with the rising cost of living. Survivors of domestic abuse are some of the worst affected by the cost-of-living crisis. In addition to the widespread difficulties facing people across the UK, the crisis is making it increasingly difficult for survivors to flee to safety and creating opportunities for economic abuse[1]; a common form of domestic abuse involving an abuser restricting a person's ability to acquire, use and maintain money or other economic resources[2].

In a recent survey of Refuge's frontline staff, 88% reported that the cost-of-living crisis is impacting survivors' mental health; 73% said it was increasing barriers to leaving for survivors; and 61% said they were seeing an increase in economic abuse[3]. This is reflected in referrals to Refuge's specialist economic abuse service, which have increased threefold over the past few months. Referrals to our partner debt advice service are also steadily rising. The nature of support our frontline workers are providing in refuges is also changing as a result of the cost-of-living crisis, with 85% of staff surveyed reporting spending more time supporting survivors with debts and 76% spending more time helping survivors access essentials like food[4]. The disproportionate impact of the cost-of-living crisis on survivors of domestic abuse means that the specialist, tailored support available to survivors in refuges is particularly vital at this time. If implemented without exceptions, the proposed rent cap will significantly disrupt the ability of frontline domestic abuse services to provide this support. **Refuge is therefore strongly calling for a blanket exemption for all supported housing schemes from the proposed social housing rent cap.**

The property and housing management related costs for refuges are far higher than those experienced by social and private landlords because they provide tailored, quality support to the women and children they house. Due to the nature of services provided in refuge buildings, they are often large, older properties that require significant maintenance to ensure compliance with the Decent Homes Standard. They also require high building security and trauma-informed environments, in addition to experiencing high tenant turnover, including many children; all of which result in increased costs. The nature of the services provided in refuge buildings is reflected through their exempt accommodation status, which recognises the vital role these services play in supporting a vulnerable group with limited housing options and allows higher rents which are covered by the DWP through Housing Benefit. This 'exempt' status essentially enables refuges to provide vital services to survivors without them having to foot the bill directly. If introduced without exemptions, the proposed cap risks reducing Refuge's ability to continue providing safe and quality services to survivors at a time when perpetrator's opportunities to abuse are increasing. In effect, it will limit the income of refuges, forcing them to redirect reserves and raise additional funds to meet the shortfall in resource. This comes at a time when refuges are already facing significant financial pressure and uncertainty as the cost of running services increases without a corresponding increase in the value of contracts; Refuge estimates that it will cost an additional £1 million to continue running our frontline services over the next year. The

[1] Refuge data shows how cost of living crisis is impacting survivors of abuse – Refuge
[2] Know-Economic-Abuse-Report-2020.pdf (refuge.org.uk)
[3] Refuge data shows how cost of living crisis is impacting survivors of abuse – Refuge
[4] Refuge data shows how cost of living crisis is impacting survivors of abuse – Refuge

proposed cap would only exacerbate this further. **Refuge is therefore calling for a blanket exemption for all supported housing schemes from the proposed rent cap.**

Despite recent funding commitments for accommodation-based services through the Part 4 duty, introduced in the Domestic Abuse Act in 2021, the reality is that most refuges continue to operate within an insecure funding landscape due to historic funding cuts during austerity and, more recently, the Covid-19 pandemic, which significantly increased demand for refuge bedspaces and forced many services to rely on charity reserves. Since 2011, Refuge has experienced cuts to 80% of its services, with our refuge service funding cut by an average of 50%. In addition, the rising cost-of-living coupled with high inflation rates has created a shortfall in the funding provided by DLUHC for the Part 4 duty compared to the estimated funding need for commissioning specialist accommodation-based domestic abuse services, which has not yet been matched. Services are also under pressure due to a crisis in recruitment at all levels within the specialist domestic abuse sector. We are seeing a cyclical pattern whereby the shortage in staff is putting additional pressure on frontline teams and consequently leading to issues retaining staff and their valuable experience. This must be seen within the context of staff shortages within the wider eco-system of support which survivors rely upon such as mental health services, which is further increasing the burden on frontline teams in refuges. The consultation paper assumes that Registered Providers in scope would choose to implement the maximum rent increase permitted by the CPI+1% policy. However, as a not-for-profit provider, Refuge already ensures that our rents are as low as possible. Outside of this, we use donations and charitable reserves to support survivors within our refuges and other services with their food, heating, and other basic needs. If introduced without exemptions, the proposed social housing rent cap would put significant strain on a sector already facing financial pressure and uncertainty. In the long term, the viability of the refuge model will be at risk if the social housing rent cap were to be applied to supported housing schemes. These are vital, lifesaving services and so in effect the cap would put survivors at increased risk of further harm and homicide. **Refuge is therefore calling for a blanket exemption for all supported housing schemes from the proposed rent cap.**

Case study

Refuge examined the impact the proposed rent cap would have on an average size (8 bedroom) refuge property in London. Assuming services charges are within scope of the cap, we estimate that:

- A 3% rent cap would reduce the total gross annual income of the service by **7.2%**.
- A 5% rent cap would reduce the total gross annual income by **5.4%.**
- A 7% rent cap would reduce the total gross annual income by **3.6%**.

When these figures are combined with an average 16.8% increase in materials for repairs and maintenance works, an average 225% increase in electricity costs and an average 573% increase in gas costs for social housing providers[5], these reductions in gross annual income would have a significant impact on the ability of Refuge's accommodation-based services to continue delivering vital and quality services to survivors of domestic abuse. **Refuge is therefore strongly calling for supported housing to be exempt from the proposed cap on social housing rents.**

[5] G15 | G15 members' update on rent setting

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	City of Bradford Metropolitan District Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	8th Floor, Margaret McMillan Tower, Princes Way, Bradford, BD1 1NN
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

We are preparing to open a Housing Revenue Account (HRA) in April 2023. Based on the financial modelling recently undertaken, we require a 5% rent increase or above to ensure a sustainable and viable HRA for Bradford. An increase below that level would render the HRA unviable and would require us to seek a further s74 Direction from DLUHC – permitting us to hold stock outside a HRA.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

We require a minimum of 5%.
We are preparing to open a Housing Revenue Account (HRA) in April 2023. Based on the financial modelling recently undertaken, we require a 5% rent increase or above to ensure a sustainable and viable HRA for Bradford. An increase below that level would render the HRA unviable and would require us to seek a further s74 Direction from DLUHC – permitting us to hold stock outside a HRA.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

Not applicable

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

We are preparing to open a Housing Revenue Account (HRA) in April 2023. Based on the financial modelling recently undertaken, we require a 5% rent increase or above to ensure a sustainable and viable HRA for Bradford. An increase below that level would render the HRA unviable and would require us to seek a further s74 Direction from DLUHC – permitting us to hold stock outside a HRA or to be treated as an exception and permitted to apply a higher rent level. Our preference, both corporately and politically, would be to avoid any exceptions.

Enquiries to:
[redacted]
Finance
T: [redacted]
E: [redacted]

CAMBRIDGE CITY COUNCIL

DLUHC
By e-mail

10 October 2022

Dear DLUHC,

Cambridge City Council Response to the DLUHC Social Housing Rents Consultation

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Cambridge City Council understands the government's intention in proposing a ceiling on rent increases, recognising there is currently significant financial pressure on many households.

However, our view is that in light of HRA self-financing, and the associated promised freedoms and flexibilities, that local authorities should be left to decide the level of rent increase that it is appropriate or necessary to impose from April 2023. The current rent standard allows for increase of 'up to' CPI plus 1%, thus allowing authorities to impose rent increases of between 0% and CPI plus 1% (an estimated 10.9% based upon August's CPI). Local authorities are acutely aware of the financial pressure on tenants in the midst of a cost of living crisis, but also of their responsibility to deliver quality housing to those in most need, at a time when pay, utilities, maintenance and borrowing costs are increasing significantly. There is also clear understanding amongst local authorities of the link between rent increases and rent arrears and bad debt. Each local authority will need to balance their rent setting decision taking into account the local tenant demographic, alongside the impact on their business plan, and their ability to ensure that existing homes are maintained to current standards, meet all health and safety requirements and are improved in the coming years to enhanced levels of energy efficiency. There is also the need to consider the delivery of new homes to meet both existing and future housing need.

If government were not to impose a specific ceiling, Cambridge City Council would not expect to impose a rent increase of CPI plus 1%, as there is recognition locally that this would introduce affordability issues for those who meet their rent costs themselves. The authority incorporated assumed rent increases of 3% from April 2023 in its HRA Medium Term Financial Strategy but may need to review this in light of subsequent increases in both inflation and interest rates.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

See response to question 1, where the recommendation would be to allow local authorities to use their own local judgement. Having listened to the views of a number of other local authorities, if a ceiling is imposed, then 7% cap would allow authorities to make their own judgement to the greatest degree.

The financial impact on our current 30 year business plan of rent increases lower than CPI plus 1%, assuming that CPI is 9.9%, so a maximum rent increase would be 10.9%, is:

7% - loss of £90 million
5% - loss of £136 million
3% - loss of £182 million

Our current business plan sees Cambridge City Council commit all revenue reserves (above a minimum £3m balance) and any future rent surpluses to maintain the housing stock at the decency standard and borrow significantly to deliver 1,000 net new homes over the next 10 years. The business plan does not currently allow for retrofit of the housing stock, or even energy improvement to EPC standard ‘C’, as this investment will also require borrowing, but without the revenue stream (as with new build) required to help support the interest payments on the borrowing. Any rent increase below the level of assumed inflation on expenditure will negatively impact the business plan and require us to revisit current commitments. Cambridge City Council do however expect to do this, as it accepted that an increase of 10.9% is not affordable for tenants, in spite of the impact it will have on the delivery of services and investment in existing or future housing stock.

Delivery of affordable housing in Cambridge is critical, with the salary to house price ratio in Cambridge meaning buying housing is out of reach for many, placing pressure on the delivery of low cost rental accommodation. Build cost are also well above the national average, already making it difficult to demonstrate viability in new build affordable homes.

It is also imperative, to mitigate the impact of any rent ceiling, that benefits (housing benefit and housing element of Universal Credit) are uprated in line with rent increases.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

In line with responses to previous questions, Cambridge City Council are of the opinion that local authorities should also be able to make local judgements about the level of rent increase from April 2024.

If a rent ceiling were to be applied for 2024/25, it is imperative that rent policy from 2025/26 onwards recognises the need to retain an above CPI annual increase (ie; CPI plus 1%) for the longer-term to allow local authorities to maintain services, deliver energy improvements and consider delivery of new build housing.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

The ability for local authorities to charge formula rents on first lets of new homes is critical in ensuing financial viability for new build. An inability to increase rents by CPI plus 1% from April 2023 for affordability reasons alone, coupled with the increase in interest rates for borrowing significantly hamper local authorities' ability to deliver any new homes currently.

The ability for local authorities to charge CPI plus 1% on re-lets, so that existing tenants are protected, and new tenants take on homes at higher advertised rent levels does mitigate the impact of the rent ceiling to a marginal degree but is still welcomed. The rate at which transitional social rents have been moving to formula rents over the last 10 years indicates that it will be many years before convergence with formula rent is achieved and consistency is evident between identical neighbouring properties.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

There is an argument for sheltered, supported or temporary housing within the HRA to be exempted from the ceiling on rent increases, recognising the increased costs (both management and maintenance) in the provision of this accommodation.

There is also an argument for social rents that are still below formula rent levels to be exempted from any ceiling that may be applied. Cambridge City Council suffers an annual loss in the region of £1.15 million from housing stock that is still occupied by tenants who were in situ prior to the introduction of rent restructuring and are still paying transitional rents. There is an argument that the £2.00 per week additional increase could be re-introduced to avoid these rents moving even further away from formula rent, particularly formula rents will still increase by CPI plus 1%.

Government could also consider allowing more flexibility to local authority landlords in respect of the rent levels that can be charged in all cases (social rents versus affordable rents at up to 80% of market rent), removing some of the remaining constraints in respect of the ability to re-invest retained right to buy receipts, for example allowing them to be spent on regeneration of existing homes as well as net new homes, and consider making available grant for redevelopment of existing homes through Homes England.

If you have any other questions regarding this response, please do not hesitate to contact me on [redacted]
.

Yours sincerely

[redacted]

[redacted]
On behalf of Cambridge City Council

From:	[redacted]
To:	Social Housing Rents
Subject:	response to the social housing consultation - deadline 12th October 2022
Date:	11 October 2022 19:20:59

You don't often get email from [redacted]. Learn why this is important

I would like to submit a response to the following consultation:
Social housing rents - GOV.UK (www.gov.uk)
Rent cap on social housing to protect millions of tenants from rising cost of living

A consultation has been launched today (Wednesday 31 August) to invite views from social housing tenants and landlords on a proposed rent cap to understand how best to support households with the cost of living.

My response: Tenant of Housing Association - Housing for Women (link: https://www.hfw.org.uk/)

During the serious and ongoing cost of living crisis my housing assoication has used the 'loop hole/ gap' in the proposals to cap housing rent but allow the service charges to incase.

My housing assoicaiton in previous years increased the service charges by under ten pounds each year but following the recommendations they have used the opportunity to increase the service charge by an execessive amount (nearly £60 each month) so they can get round the lack of rent increase suggested. Overall this enable the housing assoicaiton to increae overall payments by an execessive amount without any regard for their tenants.
The Housing Assoications response to the concerns by its tenants to the increasing cost of living has been to threatened them with evict it they approach them and raise their concerns in advance.
Housing for Women, is failing to carry out repairs, only has one housing officer permanent (and none on a temporary basis) but over 900 homes in the London area. One Housing Officer is not able to oversee more thatn 900 home and more than 900 tenants.
The housing assoication is failing in its due of care and is failing to complie with nornal standards of pacticse in social housing.
Responder:
[redacted]
Housing for Women tenant

11th October 2022

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Dear sirs

On 31st August 2022 the Government issued a consultation consultation asking housing providers to respond to the following questions in relation to the proposed ceiling for rent increases effective from 1st April 2023. The responses from Kirklees Council are summarised below:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Yes, we agree that due to the current uncertainty with rising inflation that a ceiling should be put in place from 1st April 2023 to 31st March 2024 only. Kirklees have modelled 4%, 5%, 6%, and 7% increases and found that based on current assumptions with a 7% increase for two years there would be a balanced business plan over the 30-year life of the plan, but inflationary pressures continue to increase and the only way that this can be managed is by reprofiling planned expenditure. Further to discussions with Board and our Portfolio holder, [redacted], the view is that we need to consider the impact of any increase on the affordability of the delivery of the housing service as well as for our tenants and so we were proposing to recommend an increase of 7%.

There are 28.7% of our tenants who are not in receipt of any benefits and 10.1% who are in receipt of partial benefits, claimed either via Universal Credit, or Housing Benefit and so we will continue to support these tenants with money advice, claiming benefits or with support from the Housing Support Fund or a Hardship Fund which has been set aside.

We were expecting that there would be an opportunity to recover some of the lost income from the formula rent increase charged in future years, so that any decision would not have a detrimental impact on the long-term viability of the business plan. The average rent charged by Kirklees Council continues to be one of the lowest in the country and a number of our tenants are still charged a rent below target rent (Formula rent), so we believe that there should have been a consideration to increase all rents to target.

We believe that this intervention affects the market and that rents should be agreed locally. This is the second time within the past ten years that government have made an agreement in relation to social rents and then intervened and proposed changes before the agreement has expired, which undermines the stability of the housing sector with external funders and stakeholders.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

We've modelled an increase of 4% which leaves an unfunded capital shortfall of £120m, an increase of 5% which leaves an unfunded capital shortfall of 59m, an increase of 6% which leaves an unfunded capital shortfall of £9m and an increase of 7% which reports a balanced position over 30 years, based on current assumptions applied. From the options suggested, we would like the ceiling to be agreed at 7% as this would support the requirements within our current business plan but would still not address the issue of rising inflation and the underlying inflation assumptions, primarily in relation to planned capital maintenance, repairs, and development costs.

The main consideration with imposing a ceiling of 5% would be the cumulative effect of the lost income from not increasing rents by CPI + 1%, whilst inflation is increasing, costs are increasing and the need to invest in our stock to maintain a decent standard continues. From the modelling carried out the implications of increasing rents by 5% compared to 7% is that we would need to borrow an additional £91m and the unfunded capital would increase by at least £59m. This would mean that we would have to cut back on our investment plans, mainly from new supply, planned maintenance and expenditure in relation to retrofits to properties and would mean our targets for decarbonisation would not be achieved. This would result in the quality standards being reduced within our properties.

To achieve a balanced business plan, we would have to reprofile our plan now, revise our proposed budgets and reconsider whether approvals already made are still viable. We have committed to demolishing two of our high-rise tower blocks, circa 200 properties where we would like to regenerate the area by providing an improved housing offer to that community. With limited resources we may have to reconsider our options and invest only in essential compliance works to ensure existing tenants remain safe or otherwise consider whether other parties could take on this project.

We would also have to slow down our development programme as resources would have to be invested into our existing properties. We've planned to development properties which are greener and more efficient for the future in line with the carbon reduction agenda, but we may have to consider cheaper options. We currently lose circa 200 properties per year through the right to buy and so the viability of our business plan is compromised and relies on the income from new supplies for sustainability of the long-term plan.

We continue to review and update our business plan based on the increased costs arising from increasing inflation and the impact this has on the increased cost of borrowing. If the increase is capped at 5% this will limit the amount of borrowing available [redacted].

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

Yes, the ceiling should only apply for one year. There is no indication in the consultation that the Government plan to provide any support to compensate local authorities for the proposed ceiling on rents, so effectively local authorities will be expected to meet inflationary pressures on expenditure budgets from existing resources. Any extension to the ceiling will impose further pressure on the HRA and once a ceiling is in place this will limit the flexibility housing providers have to manage budgets. With uncertain rising inflation forecasts we need to have the flexibility to review and agree rents on an annual basis.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes, as Kirklees currently charge a target (Formula) rent on new lettings and on all existing properties which are relet, as a number of existing properties are still charged a rent below target. A consequence of not applying the ceiling to rents for new letting or for properties which are relet would mean significant differences in the rent charged to existing and new tenants, making the rents of neighbouring properties quite different. The main purpose of rent convergence, setting target (formula) rents was to try to align rents charged to similar properties.

Question 5: We are not proposing to make exceptions for categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We agree that any ceiling imposed should just relate to social rents and exclude service charges, as especially with PFI/extra care schemes there are increasing costs for district heating schemes and other care related service charges, which we are reviewing, and which may be subject to increased charges.

If you have any queries or require any further information, please don’t hesitate to contact me.

[redacted]

[redacted] – Kirklees Homes and Neighbourhoods

Kirklees Council

[redacted]

Tel [redacted]

Appendix 1: Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Stoke-on-Trent City Council
What is your position in the organisation (if applicable)?	[redacted] Housing and Community Safety
What is your address, including postcode?	Civic Centre Glebe Street Stoke-on-Trent ST4 1HH
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☑Maybe

Comment:

HRA Business Plans have been predicated on the existing rents policy of CPI+1%, having followed four years of social rent reductions, with this authority having renewed its Business Plan in March 2022.

Our current Business Plan sets out an aspiration to build a further 1,241 new homes over the next 10 years, which will both help to replace homes lost through Right to Buy and increase the number of homes particularly for those in need of supported housing. We also want to invest in remodelling our estates, to improve existing council housing and council estates, impacting on around 9,000 homes. In this regard Stoke-on-Trent City Council has just concluded a consultation with its residents on the proposed redevelopment of ten of its HRA tower blocks which were financially modelled within our last Business Plan review and deemed affordable. These targets will undoubtedly be compromised with the proposed ceiling on rent increases – at a time when, as a result of our new Housing Strategy 2022-27, we have entered into an informal partnership arrangement with Homes England to work together on a comprehensive housing delivery plan over the next five years, aimed at boosting confidence in Stoke-on-Trent's housing market, and to provide greater assurance around site completions.

The proposed rents cap will ultimately impact on the investment in new housing and in the management and improvement of existing homes, which ultimately over the longer term will increase costs to tenants, councils and national government. The impact of capping rents for one, or possibly two, year/s will effectively reduce the rent base in perpetuity, with a lasting impact on planned investment programmes and creating further disparity across the social housing rented sector - similarly the result of previous four-year rent reductions and where Stoke-on-Trent currently has some of the lowest average rents to its similar local authority comparators and is some £14 per week lower than the England average.

Stoke-on-Trent City Council is currently considering the financial impact of such burdens on its 30 Year HRA Business Plan, with these impacts expected to be:

- Reductions in planned maintenance and improvement spending over the longer term, which will inevitably lead to a shift in focus towards responsive repairs which are less cost-effective because problems are not tackled when they can be prevented, or tackled more cheaply but only when they become unavoidable, as well as economies of scale (where we are introducing an estate/area-based approach) cannot be achieved. Landlords may also become more vulnerable to disrepair claims which can lead to a major diversion of resources from repair work to legal fees. Whilst Stoke-on-Trent maintains a low level of non-decency in its stock, capping rents will impact on decency levels, notwithstanding that an enhanced standard is soon to be introduced, creating additional financial pressures on the HRA.

- Reductions in management spending, by reducing staffing levels, which may compromise the council's ability to identify and advise tenants at risk of falling into arrears and to chase and recover arrears that do arise. Potentially this could mean councils collect a reduced percentage of capped rent, compounding the effect of the rent cap. There may also be less scope to operate hardship funds or other such arrangements to provide help to tenants particularly hard-hit by cost of living increases including energy costs, where this council introduced a £100K Financial Independence Fund in 2022, with uptake evidencing demonstrable need.

- Reductions in new-build programmes, meaning a reduced supply of new council housing at a time when demand is rising and likely to rise further, with the council's existing Business Plan intending to deliver 1,241 new council homes over the next ten years of which 135 units will have been delivered at the end of this financial year. There appears to be no proposals to cap private sector rents, therefore it is likely that there will be a growing number of private tenants struggling with both rising rents and energy costs who may be forced to leave the private rented sector and seek council or other social housing, together with increases in homelessness more generally. The impact on new-build programmes will further be impacted by the maximum five-year timeframe in which Right to Buy receipts are to be spent, where it is requested that the Government might consider an extension to this time limit for the period over which the rent cap will apply.

- Restrictions on delivery against key Government policy in respect of increasing the thermal efficiency of all social homes to EPC Band C by 2030, and net zero by 2050. This will have the converse effect of further worsening tenants' finances by not benefitting from such investment which would likely see substantial reductions in their energy bills, which in many cases would outweigh the reductions in rent they may expect from the proposed rent cap.

Further, if the ultimate objective of capping rents is to help tenant households cope with the rising cost of living, it should be noted that some tenants will be affected worse than others, and be in greater need of help. Household budgets will vary dependent on income, rents and energy costs, with tenants on the lowest incomes normally in receipt of Housing Benefit or Universal Credit, making up around 70.1% (36.6% Universal Credit, 33.5% Housing Benefit) of council tenants. Most will receive an increase in housing cost benefits commensurate with any rent increase, so that the rent cap policy is unlikely to affect their finances. An increase may also push tenants over the benefit cap limit if this remains frozen, and housing costs are the first element of benefits to be reduced. However, their basic entitlement for Universal Credit has not kept pace with the increase in energy costs, although they may be eligible for the additional £1,200 assistance made by Government for vulnerable households. Around 40% of tenants who are not in receipt of Housing Benefit or Universal Credit will be helped financially by a rent cap, but the amount of help they get and the extent to which they need it, will depend on both their household income and the rent they pay, both of which may vary.

Tenant households will also face variable energy costs (taking account of variations in household size and lifestyle) because their homes vary in the efficiency with which they use energy. In many cases, the most cost-effective way to limit or reduce their household outgoings may be to insulate their homes, rather than to cap their rents. Unlike rents, energy costs do not vary regionally or locally, therefore a tenant paying a high rent increased by 5% rather than potentially 10% receives less help towards these costs than a lower-rent tenant facing the same energy costs. Therefore, to increase investment programmes on energy efficiency would likely have a greater impact on tenants' financial outgoings than to reduce rent.

In respect of the second part of Question 1, high level conversations were already ongoing at this council around the likely impact of inflating rents by the current

CPI+1%, with consideration to local solutions so as not to over-burden vulnerable tenants which did not involve an increase of this level. In view of the complexities set out above, considerations have been with regard primarily to the rent levels required to reconcile the Housing Revenue Account cost demands against a reasonable affordable level of rent increase but minimising the impact as far as possible. We think therefore a rent cap is not sophisticated enough to accommodate the many varying elements of the Business Plans of different providers. We will be carrying out equality impact assessment work on these options as part of our rent setting preparations. This sensitively focused local approach would allow a rent increase plan matched by an appropriate system of relief for those worst affected by the combination of rent and energy cost increases.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☑Maybe

Comment:

The impacts of imposing a ceiling at 3%, 5% and 7% have been considered against Stoke-on-Trent City Council's forecasts in its HRA 30 Year Business Plan, with all three options leading to a funding gap, and affecting HRA reserves to manage future risks, without significant interventions. These are detailed further below:

The proposed cap would not only adversely affect the services funded from the revenue account, it would also limit the potential of the capital programme to deliver much needed investment to decarbonise our homes, regenerate our communities and provide new homes in the city.

A 5% cap on rent increases would reduce HRA rental income by £34.0m over 10 years and by £90.6m over 30 years. This significantly reduces our ability to deliver the capital programme by reducing potential financing from direct revenue contributions or servicing of interest on borrowing. We estimate that a 5% rent cap would require savings in our 30-year capital programme of around £151m.

Capping rents at 7% would ease the situation but would still result in lost rental income of £23.1m over 10 years rising to £61.6m over 30 years, resulting in a reduction of £104m in the 30-year HRA capital programme.

Limiting the rent increase to 3% in 2023/24 would have a severe impact on our ability to deliver. The HRA would forego rental income of £44.7m over the next 10 years rising to £119.4m over the 30-business planning timeframe. Capital expenditure would also need to be reduced by £197m over this period.

Our preferred approach for tenants would have been to apply a general rent increase no greater than 5%, however it is considered that the impact of a 7% cap on the HRA Business Plan is preferable in terms of delivering a more effective level of repairs, capital investment and new build over the longer term and supporting tenants through our financial independence fund.

Under any of these scenarios there will need to be either financial support provided by Government to offset the long-term impact of the reduction in income or alternatively a sustained period of real inflationary rent increases in the future to help recover the rental income foregone by adhering to the cap.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☑Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

If a ceiling is to be applied, then our preference is for this to be one year only. Stoke-on-Trent City Council has modelled the impacts of both a one and two-year cap and implementing a two-year cap compounds the problem for the HRA at a 3% and 5% rent increase. A 7% increase over two years is less of an issue, as modelling a 7% increase would still be greater than the CPI plus 1% assumed.

To improve our housing stock, provide high quality new homes and regenerate our communities we need certainty about future rent increases, so that we can plan for the long term. In recent years, we have had four years of 1% rent reductions, which were not reconcilable with the principles of the self-financing settlement, that were intended to improve our ability to invest in the city. The national rent policy is meant to give certainty until at least 2025, however the current circumstances and proposals potentially present us with further restrictions on our ability to generate the income needed to deliver our services and planned investment.

Unfortunately, a rent cap does not just affect our plans for next year, it permanently reduces resources in the future unless subsequent rent increases are set at levels which allow the income foregone to be recovered. A two-year rent cap would only exacerbate the problems that we face in trying to satisfy competing financial pressures on both revenue and capital.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☑Yes
☐No

☐Maybe

Comment:

In agreeing to this statement, it is noted that there is not a substantial benefit brought by retaining this ability to charge formula rent; the major detrimental impacts arise from the broader policy of capping all other rents.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☑Maybe

Comment:

We are conscious that some parts of the social housing sector such as supported housing may, due to their operating margins or business models, be less resilient to financial pressures. If any substantive concerns with viability are effectively evidenced from the sector we believe an exception should be reasonably considered. We do not have any evidence to offer in this respect ourselves.

Hartlepool Table
Referred to in cell F750 in the Excel document.

From: [redacted]
To: Social Housing Rents
Subject: Response ID: [redacted]
Date: 11 October 2022 22:59:54
Attachments: image001.png

You don't often get email from [redacted] Learn why this is important

Response ID: [redacted]
Q9

- Please amend See Q1 to See Q8'
- In my on-line response to Q9 I could not include the following table, please include in our response :

RENT INCREASE	INCOME	EXPENSES	(SURPLUS) / DEFICIT
			2023/24
	£'000	£'000	£'000
5%	(1 557)	1 557	0
Preferred 3%	(1 527)	1 567	40
7%	(1 587)	1 567	(20)

Kind regards

[redacted] | Group Accountant, Neighbourhoods & Regulatory Services
Hartlepool Borough Council
Tel: [redacted]
Email: [redacted]
Web: hartlepool.gov.uk
Facebook: facebook.com/hartlepoolcouncil
Twitter: twitter.com/HpoolCouncil
cid image001 png@01D7E77D E408F700

-----Original Message-----
From: dluhc@mail1 citizenspace com <dluhc@mail1 citizenspace com>
Sent: 11 October 2022 22:47
To [redacted]
Subject: Rent Consultation : Response received - Response ID: [redacted]
Thank you for your response Please send any additional evidence you may have to Socialhousingrents@levellingup gov uk, quoting your response ID in the email subject line
Your response ID is [redacted] Please have this ID available if you need to contact us about your response If you would like to download a PDF copy of your responses, please click the link below, or copy and paste it into your browser's address bar
[redacted]
This link is unique to you Please save this email and do not forward it on to anyone else, as it provides access to view all the answers you have submitted
If you believe this email to be SPAM, do not reply and please delete it from your mailbox [HBC-1022]<www hartlepool gov uk>

Please consider the environment before printing this e-mail

This document is strictly confidential and is intended only for the use by the addressee If you are not the intended recipient, any disclosure, copying, distribution or other action taken in reliance of the information contained in this email is strictly prohibited Hartlepool Borough Council will handle your personal information in accordance with the General Data Protection Regulation and the Data Protection Act 2018 To find out how the Council collect, use, store and retain your personal data, please see our privacy notice(s) at www hartlepool gov uk/privacy-notices Any views expressed by the sender of this message are not necessarily those of Hartlepool Borough Council If you have received this transmission in error, please use the reply function to tell us and then permanently delete what you have received This message has been scanned for malware by Websense www websense com

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Anchor
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	The Heal's Building, Suites A & B, Third Floor, 22-24 Torrington Pl, London WC1E 7HJ
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

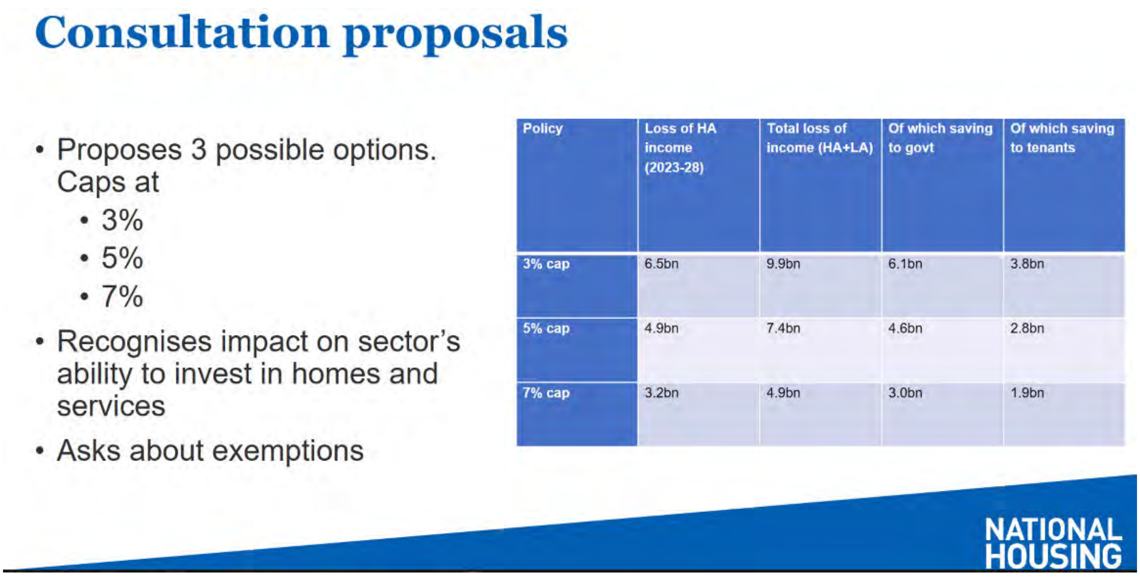
Comment:
A specific ceiling would offer a uniform approach across the sector and on face value appear for residents to be a good thing. However, supported housing incurs greater costs for providers which are rising and need to be covered. Anchor are of the view that providers themselves are best placed to self-impose limits on uplifts, based on their circumstances.

Not all residents receive full or any benefits and those that do not would feel the impact if a cap wasn't put in place by either the Government or the provider.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:
From the table shown, which summarises information from the Annex D document about savings generated by the cap and who benefits from the savings, it shows the biggest gain is by Government and in the longer term, or through service charge costs, it may be that residents suffer a negative impact from a cap.



Policy	Loss of HA income (2023-28)	Total loss of income (HA+LA)	Of which saving to govt	Of which saving to tenants
3% cap	6.5bn	9.9bn	6.1bn	3.8bn
5% cap	4.9bn	7.4bn	4.6bn	2.8bn
7% cap	3.2bn	4.9bn	3.0bn	1.9bn

For residents in receipt of benefit a higher or lower percentage would have a smaller/minimal saving for them as the benefit would increase with the rent. A cap on the uplift may lead to a negative impact on residents as providers are hit by rising costs and rent not being maximised creating a squeeze and decisions being made by providers on where savings could be made.

Services covered by rental income could, by some providers, be moved to service charges in order to maintain levels, meaning the perceived saving for residents of a cap on rent uplift results in higher service charges and residents being hit in the pocket through the recharging of greater service charge amounts.

For providers the impact would be felt in costs such as:

- Cost of borrowing through increased interest rates affecting developments

- Property investment (increased costs for improved energy consumption, EPC's, building safety)
- Property upkeep (increased cost of fire safety or other areas that need spending could delay redecorations and cyclical works leading to lower living standards)
- Investment in staff (living wage cost has increased by 10.1%, remuneration needs to maintain a level to attract/retain quality staff)

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
The situation is not a stable one and in a year's time CPI could be greatly reduced or be even higher. If a percentage to cap uplifts is agreed now for a second year of uplift it could mean an even greater squeeze for providers if inflation continues rising. With the consultation taking place this year the learning from that process could be used in a year's time for a further consultation but basing it on the position as it will be in 11-12 months' time. Therefore, a one-year approach would seem to appear more sensible.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐No

Comment:
Anchor are concerned about the disparity this will create between our tenants with some paying significantly higher rents than others.

Though the current proposals will alleviate some of the financial impact of capping rises below the CPI+1 rate for existing tenants, we are concerned that this will cause significant unrest amongst new tenants and increasing the number of disputes between Anchor and our residents.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

The cap proposal is only on the uplift percentage and not proposing to look at property types that would usually fall into the exemptions. Therefore, if a cap is imposed, the exemptions that are currently applicable would be sufficient and not need adding to.

Existing exemptions

- Shared ownership low cost rental accommodation
- Intermediate rent accommodation
- Specialised supported housing
- Relevant local authority accommodation
- Student accommodation
- PFI social housing
- Temporary social housing
- Care homes

Eastbourne Borough Council
Town Hall
Grove Road
Eastbourne
BN21 4UG

12th October 2022

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Socialhousingrents@levellingup.gov.uk

Social housing rents consultation

1. Introduction

1.1. This is a formal response to the social housing rents consultation launched on 31st August 2022 by the Department for Levelling Up, Housing & Communities to set a new regulatory standard on rents that will apply to Registered Providers (RP) of social housing, introducing an upper limit rent ceiling from 1 April 2023 to 31 March 2024.

2. Background

2.1. Eastbourne Borough Council (EBC) is a local authority within East Sussex and RP with a total housing stock of 3,400 social and affordable homes across the borough. Eastbourne Homes Limited (EHL), an Arm's Length Management Organisation (ALMO), has the responsibility for the management and maintenance of the stock.

2.2. We have developed a growing pipeline and housing development programme to maximise land (including brownfield) for public benefit and to help meet local needs, reducing the significant pressures of homelessness in the town.

2.3. In addition to a track record of delivery, we have also responded to the government's national request to increase the use of Modern Methods of Construction (MMC) and have worked in partnership with Lewes District Council (LDC) to create a public sector framework for modular housing construction across East and West Sussex.

3. Wider Economic Context

3.1. We recognise the need to protect social housing residents in the current circumstances, where rent increases in-line with inflation will only add to the financial challenges already faced by local people and the additional hardship this would cause in this cost-of-living crisis.

3.2. We have already created specific hardship funds within our limited financial capacity, considering the impacts of the global pandemic, to support local people and therefore recognise the mitigations to residents that these proposals seek to resolve.

3.3. However, although we agree that residents should be protected, the financial consequences to the Council from these proposals, and in the context of the wider current economic environment, have a significant and compounded impact on our ability to deliver core services for our residents.

3.4. The crippling effects of current inflation on costs, together with the increases to borrowing rates from the Public Works Loan Board (PWLB), are already having significant and detrimental impacts on our ability to maintain current stock and build new homes. When considering the proposals in this broader context, the government must recognise that RPs can only be stretched so far before there is a breaking point.

3.5. The Charter for Social Housing Residents: Social Housing White Paper made emphasis of the importance for landlords to provide quality homes and neighbourhoods, that are safe, secure, and underpinned by good performance when it comes to repairs and maintenance. These proposals will undermine that charter without alternative and sustainable financial solutions to support social landlords.

4. Current Proposal

4.1. The consultation sets out proposals to introduce a social housing rent cap for 2023/24 based on 3%, 5%, and 7% scenarios. This would involve disregarding the final years of the current CPI +1% settlement. The government is minded to implement a 5% cap based on the Impact Analysis undertaken and supporting the proposals.

4.2. When modelling all three scenarios within our Housing Revenue Account (HRA) 30-year Business Plan, there is a significant impact regardless, but that increases at 5% and 3%. Our ability to undertake the necessary and core maintenance works to the housing stock are reduced by up to 50%, which becomes compounded if the cap is introduced any longer than by one year and without any future recourse for recovery.

4.3. Rental income is fundamental to the continued financial health and sustainability of the authority, which, with these proposals, will likely lead to the following:

- Long-term losses of income (compared to pre-cap expectations) will continue in perpetuity as future rent increases will start from a lower base position, unless allowance is made for “catch-up”;
- Planned and preventative maintenance programmes will be lengthened, and essential major works delayed;
- Decarbonisation works will be put on hold;
- New build development will fall significantly, if not stop altogether;
- A reduction in the total number of available social homes.

4.4. The position of local authorities will be far more impacted than other RPs, which will typically have a greater pool of reserves to draw upon. We are already facing so many pressures that these additional financial challenges cannot be reasonably sustained if implemented without alternative solutions.

4.5. A delay in capital maintenance programmes, also when considering the additional costs that will likely arise as a result of new fire safety requirements, will only increase the revenue burdens to the authority on responsive repairs, voids, and likely increase the risk of disrepair.

4.6. It has been estimated that it will cost £104bn to achieve net zero carbon across UK social housing by 2050 and any delays to decarbonisation programmes now will greatly undermine the sector's ability to achieve this target. In addition, the reduction in sustainability interventions will have a knock-on impact on our residents when it comes to the cost of energy and household bills, which must also be considered in the context of a rent cap intended to reduce costs.

4.7. The impact on the new build programme will not only impact on government's housing targets but reduce our ability to generate new income streams and meet the ever-rising demands of homelessness. The financial impact of homelessness in Eastbourne, specifically the cost of temporary and emergency accommodation, will only be exacerbated further by these proposals.

4.8. We will have no choice but to consider more extreme ways of supporting the budget, which could include the disposal of assets to maximise returns and plug the gap caused by the sole implementation of the cap.

4.9. Other implications arising from the above include increases in resident complaints, further pressures on Council officers, and the costs with the associated activities.

5. Alternative Options

5.1. In continuing to recognise that the solution should not be to increase rents to CPI +1%, we strongly urge government to consider other approaches to support RPs and to minimise the impacts set out above by:

- Increasing grant funding opportunities to enable social landlords to both maintain properties and increase supply, whilst keeping rents low and meeting expectations for sustainability, safety, and quality.
- Implementing a "catch-up" mechanism, allowing higher rent rises over a longer-term period (5-10 years) following the initial cap.
- Reintroducing a reduction on PWLB borrowing, as done previously (1%), for the purposes of housing, which will help to counteract the effects of rising costs and income reductions from these proposals.

6. Specific Questions

The following addresses the specific questions raised as part of the consultation:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

- In the current cost of living crisis, we understand the measures being proposed to try to support residents. We however have a responsibility to set a balanced budget and a duty to our residents to provide quality, safe, and well-maintained homes, which would have all been factors in our consideration to increase rents outside of these proposals.

- However, as noted above, we consider that the government has the ability and responsibility to support RPs in other ways, where the importance of reinvesting in social housing and increasing affordable supply of homes remains crucial.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

- A 7% ceiling has the least amount of impact on the authority financially, although remains an unviable option in the long-term without additional support.

- If implemented, the need for some form of "catch-up" will be necessary once the cap comes to an end to enable RPs to manage the housing programme.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

- We would favour one year in the first instance, with encouragement and support for individual voluntary restraint thereafter.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

- Agreed.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

- We consider that supported housing should be exempt from the proposals, given the low financial margins, its importance to vulnerable people, and the likely unintended consequences to health services, crime, and neighbourhoods.

7. Conclusion(s)

As set out above, although we recognise the need to protect residents, we cannot stress enough how much of an impact these proposals will have if implemented on the Council, when also taking into account other current financial pressures, and without additional support from government.

We implore government to carefully consider the sector-wide responses to this consultation and to, in addition to residents, protect the ability of social landlords to provide the much-needed housing, that will become even more fundamental as the cost-of-living crisis continues to impact on local people.

[redacted]

Cc

[redacted]

Social Housing Rents consultation response

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Bromford
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Shannon Way Ashchurch Tewkesbury Gloucestershire GL20 8ND
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

Comment:

Our purpose is to invest in homes and relationships so people can thrive. We think we should be left to determine what the right rent increase is to balance this range of competing demands on our resources. We have invested significantly in our capacity to coach, connect and support our customers through our neighbourhood coaches and income teams. We help community groups and charities raise significant levels of funding to continue and grow their activities across the communities where our customers live.

As the consultation scope says, registered providers are in a difficult position. We are acutely aware of the financial pressure many of our customers are under as we navigate the current cost of living crisis. Any significant increase in rents will add to that pressure.

But we are also aware that many of our costs are also rising and rising ahead of CPI in many cases (materials costs are running at 14% inflation and development costs at 12%, for example). It is important that we can continue to maintain our customers' homes so that they continue to be safe and warm. Our social purpose also includes building more new affordable homes for those who currently live in overcrowded or insecure housing or are experiencing homelessness. Demand for these homes shows no sign of abating, and in many areas is increasing.

Against the threat of climate change we are working hard to make our least energy efficient homes better insulated and have developed a plan to ensure that all our homes achieve net zero. This will not only ensure we play our part in helping the Government achieve its target of net zero by 2050 but also help ensure all our customers can afford to keep their homes warm into the future.

***Question 2:* Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

No

Comment:

In our 30-year business plan we had assumed a 7.75% rent increase in 2023, falling back to 5.5% in 2024. We have conducted extensive modelling of the impact of a 3%, 5% or 7% ceiling on our 30-year plan.

Even with a 7% ceiling there will be a £1.4m impact on our investment capacity in 2023. To mitigate this, we will need to reprofile our investment in existing homes which will mean many customers having to wait longer for new boilers, kitchens and bathrooms.

At 5% the gap between income and planned investments increases to £5.7m in 2023 and income reduces by £265m across the life of our plan. There would be a significant near-term impact on investment in existing homes, investment plans and operating expenditure in the order of tens of millions.

At 3%, we will have lost income of £366m over the life of the plan. We will have to reduce the scale of our new homes' delivery well in excess of 1,000 homes, including those committed as part of the strategic partnership, meaning less affordable homes for those in urgent housing need. There would be a significant impact on our capacity to invest in our existing homes. We would need to remove cost from our wider operating expenditure which would inevitably impact on the level of services we can provide to our customers.

If there is to be a ceiling, then we would urge that a mechanism is put in place to allow housing associations to recoup the lost revenue in subsequent years by increasing rents at a level above CPI+1% until income lost in 2023-24 has been recovered.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Yes, we agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024

Comment:

We don't think the ceiling should be applied at all. However, in answer to the question we think the ceiling should only be applied for one year with a further impact assessment and consultation before any extension into a second year. The current environment is too volatile to accurately predict what the situation might look like in a year's time. As stated in our answer to Question 2 we also think that there should be a mechanism for recovering the income lost in year one because of any ceiling. If the ceiling were to be extended into a second year, then this recovery mechanism should be adjusted accordingly.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes

Comment:

We think this is the right approach. Being able to maximise our initial rents and rents on re-lets will help protect our income to some degree. We have assumed that this is the case in all our modelling thus far. If the ceiling were applied more broadly then the impact on investment in existing and new homes would be even more significant.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

No

Comment:

Applying the cap consistently across all forms of rented social housing is clearly the simplest approach administratively but for those specialist providers who have only or largely supported housing provision, where staffing and other service costs can be significantly higher, there may be a case for taking a different approach, or providing some form of additional support to offset the impact of the cap.

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

We agree the maximum rent should be subject to a 7% ceiling. This will ensure residents getting a good service with adequate investment in health and safety, fire improvements and maintaining our stock.

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

If a ceiling is to be imposed, IDS would support a 7% ceiling. We feel this would remain affordable for our customers whilst maintaining our covenants. Details are provided below.

Business impact

- Capping rents at 3% would result in significant losses [redacted]
- Capping rents at 5% [redacted] However, it generates a loss from 2032. IDS would potentially need to make savings [redacted]
- Capping rents at 7% would be the preferred option [redacted] and generating surpluses, and is therefore our preferred ceiling.

Customer impact

IDS rents are far below the LHA levels with social rents across the vast majority of our stock. We have outlined below the impact on customers should our rents increase by 3%, 5% or 7%.

Bedroom	2022/23	3% increase	5% increase	7% increase
0	83.10	85.59	87.26	88.92
1	97.54	100.47	102.42	104.37
2	107.48	110.70	112.85	115.00
3	121.62	125.27	127.70	130.13
4	147.48	151.90	154.85	157.80
5	0	0	0.00	0.00
6 or more	166.77	171.77	175.11	178.44

Average weighted rent	**107.68**	**110.91**	**113.06**	**115.22**

We have also considered the impact on those in receipt of Universal Credit. Our findings are that a single UC claimant with a basic claim could manage a 7% increase (no money loss) as long as they don't have 5 or more children and for a couple in the same circumstances, they could manage the 7% increase if they had no more than 4 children. This assumes the cap is not increased for inflation by the Government.

Staff impact

The cost of living crisis also affects staff, therefore recruitment and retention is aided by increases salaries at a higher level than originally anticipated to keep in line with inflation.

Building Safety and Works Costs

The Increased costs of building safety and compliance, and inflationary costs of labour and materials across all trades/works have had a significant impact on business plans.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

We feel this should apply for two years to give some stability to our business plans

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

We would agree to maximising rent on first and subsequent relets for both social and affordable rented properties and therefore the ceiling should not apply.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

We feel there should be a general increase to all categories.

From: [redacted]
To: Social Housing Rents
Subject: Comment on consultation on Introduction of a ceiling on annual rent increases
Date: 12 October 2022 20:08:12

You don't often get email from [redacted] Learn why this is important

To whom it may concern,

Swindon Borough Council has already responded to the questions posed in the consultation. I ask that you please accept this additional comment from me in my capacity a [redacted], in response to the consultation on the introduction of a ceiling on annual rent increases,

It is my view that Government needs to raise benefits, and as an absolute minimum this should be in line with wage increases. Everyone's bills are increasing, including utilities, food, rent, fuel/ public bus or train travel, communal heating & lighting costs etc. However, people on benefits are not seeing their benefits rise in line with their outgoings, fuel & travel costs are not capped, and the utility companies are not capped in their charges for heating to communal areas. Whilst the utility companies pay out dividends on their profits, HRAs do not make a profit and many, like Swindon Borough Council's, are still paying off the debt after it was redistributed/ resettled back in 2012 – Swindon Borough Council's currently stands at £95m. It should not be for HRAs to have to, in effect, subsidise profit making utility companies by reducing council rents to enable tenants to afford to pay their utility bills because their benefits have not been increased, as the handouts from Government do not cover the inflationary increases. Many tenants have no other source of income, and many in Swindon are on the lowest wages. Increasing their outgoings without increasing the housing element of their UC/ Housing benefit, or without additional financial help for low wage earners, could well put some tenants & residents and their families including children and elderly & disabled dependents into poverty and/ or deep poverty, with all the associated health risks which this carries, as well as the additional impact on Council services, and services such as the NHS. Thankyou.

Yours,

[redacted]
Wroughton & Wichelstowe Ward
Swindon Borough Council
Mobile: [redacted]

The views expressed in this email are personal and may not necessarily reflect those of Swindon Borough Council unless explicitly stated otherwise. This email and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this email in error, please notify me immediately. If you are not the intended recipient of this email, you should not copy it for any purpose, or disclose its contents to any other person. Senders and recipients of email should be aware that, under the Data Protection Act 2018 and Freedom of Information Act 2000, the contents may have to be disclosed. The contents may be subject to recording and/or monitoring in accordance with relevant legislation This footnote also confirms that this email has been swept by Anti-Virus software for the presence of computer viruses. However, Swindon Borough Council cannot accept liability for viruses that may be in this email and we recommend that you check all emails with an appropriate virus scanner.

....

From: [redacted]
To: Social Housing Rents
Subject: Response on rent proposals
Date: 07 October 2022 07:42:57

[You don't often get email from [redacted]. Learn why this is important at https://aka ms/LearnAboutSenderIdentification]

Dear Sir or Madam

[redacted]. I am also the chair of the tenants' and residents' association on the four-landlord estate where I live.

At our meetings recently tenants, many of whom are on low incomes, have voiced their serious concerns about making ends meet in the current cost of living crisis. We know that people are facing impossible choices for themselves and their families between eating, heating and paying the rent.

For this reason I am asking the government to impose a rent freeze on all social rents. Any of the three proposed options, 3 per cent, 5 per cent or 7 per cent, would place an intolerable additional burden on already impoverished people. We have already had an over 4 per cent rise in our rents this year.

The rent freeze should apply to all social rented properties. I disagree with the proposal that councils should have the power to increase rent for voids (empty properties) by CPI+%. Allowing councils and housing associations to do this would create anomalies in social rent homes and would drive up rents now and in the long term.

It is important, however, that councils and housing associations should have enough income to maintain all homes to a good standard, especially in the face of the effects of inflation on the cost of building works. I am therefore asking the government to fully fund all council and housing association landlords with an amount equivalent to the level of inflation, in accordance with the number of their social rented homes.

In so doing the government would be fulfilling its responsibilities to some of the most impoverished members of the electorate, those likely to suffer the greatest hardship in the current situation.

Yours sincerely

[redacted]

From: [redacted]
To: Social Housing Rents
Subject: Social Housing Rents Consultation
Date: 03 September 2022 12:06:21

Hello,

The policy is very welcomed, however, as a shared owner I feel it is extremely unfair not to be included as part of the policy. We are shared owners because we aren't able to afford a property on the open market, our incomes are also lower and we are being significantly impacted by the increasing cost of living. I strongly believe that this policy should also included shared owners. It is frightening to think the increase to our rent if we are not included. We are also being impacted by the rise in our mortgages and having to manage that on top of bill increases. Even if inflation eventually drops this level of increase will raise our rents so high it is going to cause long term financial stress and hardship. It gives me great anxiety to the long term impact to shared owners, when this scheme is meant to be about helping to get onto the housing market. The implication of our rents not being included in this policy may result in arrears and increased pressures for social landlords having to manage this when they should have the resource to support their customers through these very tough times, not to mention our mental health. Please please give consideration for shared owners to be included, I don't want to have to sell my home because I can no longer afford it. I would become homeless.

Kind regards,
[redacted]

[Social housing rents - GOV.UK (www.gov.uk)](www.gov.uk)

Open consultation

Social housing rents

Published 31 August 2022

You may respond by completing an online survey.

Alternatively, you can email your response to the questions in this consultation to:

Socialhousingrents@levellingup.gov.uk

If you are responding in writing, please make it clear which questions you are responding to.

Written responses should be sent to:

Social Housing Rents
Floor 3 (Mailpoint B12)
Fry Building
2 Marsham Street
London
SW1P 4DF

Please submit your response through only one of the above routes.

When you reply it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include

[redacted] [redacted]

[redacted] [redacted]

[redacted]

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Yes at 3%

Question 2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?

I have been a social housing tenant for over 25 years. During that time my wages have not kept up in line with CPI never mind CPI + 1%. The largest rent increase has been from 2009 -2020 when the rent has increased by 20.8%. My wages linked to the NJC has increased by no more than about 10% over the past decade or so. For many tenants who have worked in low paid industries, they have not seen an increase in their wages for over a decade. The reduced social rent between the years of 2016-2020 was necessary because housing benefit would not cover the full social housing rent. And with raising number of tenants in work having to claim for housing benefits there should be a concern that many tenants will find it harder to pay for their rent. Anyone who is in full-time paid work must be able to pay their rent and all their bills and have disposable income to cover some nice things in life enjoyed as a single person, couple, friends' or with family. Social Housing rent should be set at a level that allows the following:

1) Full-time paid workers (whatever their wage) to pay for their bills including rent without having to rely on housing benefit.
2) Part-time workers (whatever their wages) can reasonably expect a combination of wages and housing benefit can pay their rent and all their bills.
3) Anyone on housing benefits and other benefits levels will cover their rent and all their bills.
4) Whatever category of tenants, they have a reasonable standard of living that allows them to have disposable income which allows them to have a life.

So social rent level must reflect a level that allows renters to maintain a good quality of standard of living. Given that social housing tenants are more likely to be on benefits or in low paid jobs, it is essential that the rent increase is set at a minimum level. For many tenants their wages have and continue not keep up in cost of living inflation. So many social tenants take-home pay will reduce in real terms pretty substantially. I doubt many tenants' wages and benefit levels have increased by 5% to cover the cost of rents and all the other cost of living increases such as energy, food and public transport. The last time that social housing rent increased substantially, the Government had to reduce the rent in future years because housing benefit level did not cover the inflation busting rent increases that took place during the early 2010s.

We need to have a social rent increase cap to be at 3% rather than 5 or 7%. The Government should provide funding for actual properties requiring substantial repair or maintenance work. That way the social rents raises can be limited whilst the Government cover some of the larger maintenance and repair project work of properties – a similar scheme like [redacted] help out to eat out programme. It will mean that tenants could use their money to offset the extra cost of living expenditure.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

It should be for two years and beyond.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

Yes absolutely, all social housing tenants whatever their tenure should be covered – and should not be expected to pay more than 3% of rent increase. Market rents are unaffordable and not moral. Market rents and increases should not be influenced by Government housing policy, scarcity of property or the Estate Agents bonus schemes and alike. Also, tenants living in co-ownership properties will be saddled with the major increase of mortgage interest rates.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

I see that supported living schemes will be permitted to increase their rent by 10%. That is unacceptable – rent increase should be same for everyone. It cannot be assumed that local authorities will have the funding to cover the additional costs incurred by supported living schemes. Also disabled people are in work whilst residing supported living accommodation are very unlikely to have a pay raise that will cover the additional costs.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	North West Leicestershire District Council
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	NWLDC, PO Box 11051, Coalville, LE67 OFW
What is your email address?	[redacted]
What is your contact telephone number?	[redacted])

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
☐No
☐Maybe

Comment:

Our likely increase would be 3.3 + 1%= **4.3%**

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
☐Maybe

Comment:

Our planned 4.3% is 0.7% short of 5% which would add a mere 50p per week to the rent if we matched the 5% ceiling.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:

Two years would be meaningful support towards the challenges of increased cost of living and the remains of Covid19. However, another year of the ceiling would have an impact on our Housing Revenue Account business plan which factors in expenditure for the net zero agenda, house building/development, cyclical, disrepair and responsive maintenance of our existing homes the increase of materials spiralling to 14% and compliance which is a high priority for our service.

More work is required to bottom out the financial requirements as we work towards budget setting for 2023/24. It would be helpful to have the flexibility to marginally increase rents in 2024/25 and maintain the social landlord obligation of supporting tenants.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
☐Maybe

Comment:

All tenants should be treated the same whether existing or new. The socio-economic challenges are affecting many whom we have a duty to award a home in the social housing sector.

The application of the ceiling should be evident to all tenants.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

☐Yes
☐No
☐Maybe

Comment:

BeST: Social Housing Rents Consultation

Question	Comments
Q1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if government did not impose a specific ceiling?	We agree that there should be some form of ceiling in place in order to balance affordability. But this ceiling should be applied with some form of differential for the provision of different forms of housing. The consultation paper is silent on application to supported housing and does not recognise the additional costs associated with that provision. It also does not recognise that a significant proportion of the supported housing sector works within a lease based model and this constrains the flexibility around rent levels. In the lease based sector superior landlords will have loans on a commercial basis that are linked to interest rates which have risen and are planning to rise further. Implementing the ceiling on rents will increase the risk of business failure. We appreciate the pressures on our tenants in relation to the cost of living but as a supported housing provider, BeST recognises that our housing, particularly that which provides specialised supported housing costs more to deliver. We, like many other providers are being faced with rising costs; repairs and maintenance of properties has felt the inflationary pressure currently in the economy more acutely than other sectors of the economy, building material inflation and fuel inflation are running higher than other measures of inflation meaning the impact is higher in our sector. Much of this increase cannot be passed through the rent charge and as margins for supported housing are already extremely tight, any level of cap could result in some tough decisions around service closures which will impact those most vulnerable in our housing portfolio and more broadly in society. Service closures will ultimately put pressure and costs back on local authorities who have a statutory duty to accommodate such vulnerable individuals – this cost will be passed back to the public purse and we suspect there will be far worse outcomes for vulnerable individuals.
Q2: Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?	No, we do not agree. Any level of ceiling will have a significant impact on our provision and ongoing viability and there are limited mitigations to address this. If a ceiling is to be imposed, we would expect there to be some difference in the ceiling to reflect supported housing costs and this would need to be higher than 7%.

Q3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?	We agree that if there is a ceiling it should apply only to 2023/24. We consider that it is too soon to decide on application over two years, as the social and economic landscape is changing rapidly (often daily). If any decision is made should only be for first year. We anticipate that demand for the sort of provision we have will increase over the next 12 – 24 months, but we would be unable to meet this demand if a ceiling is implemented.
Q4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social and Affordable Rent properties are first let and subsequently re-let?	No, we do not agree. Applying the ceiling for existing tenants but not for new tenants will cause rent disparity amongst tenants living in similar properties (sometimes in the case of supported housing this will be in the same scheme). This is something which previous rent policy has sought to address.
Q5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?	We do think there should be exceptions. Supported housing should be included in one of the exceptions or at the very least have a different level of ceiling apply. Current social rent policy allows for rent flexibility of an additional 5% from general needs in recognition of the additional costs of providing such accommodation. In research commissioned by DWP and DCLG in 2016, the Supported Accommodation Review, the scale, scope and cost of the supported housing sector recognised the additional costs of providing supported housing (see section 4.3 of that report). This position has not changed.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Housing for Women
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	6th Floor, Blue Star House, 234-244 Stockwell Road
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

As a Registered Provider we believe our Board is best placed to decide on any rent increase, balancing affordability for our residents with our organisational capacity for investment in homes and services.

Any government limit to the increase will inevitably impact on our capacity to invest in our homes and may ultimately impact on lender confidence and higher costs of borrowing.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
X No
☐Maybe

Comment:

We do not feel that the social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling. However, if there is to be a cap, we would ask that it was set at 7% as this would give more latitude to our Board when deciding on the level of rent increase appropriate for our organisation.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
X No
☐Maybe

Comment:
We do not feel that the social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling.
However, if a ceiling were applied whether for 1 or 2 years, this must come together with a mechanism to 'catch-up'/converge, allowing higher rent rises over say a five year period following the initial 1 or 2 year ceiling, so that rent levels can return to 'real' levels once rates of inflation have reduced. The government should also provide financial support/ grants to landlords to support investment in homes and services.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
☐No
X Maybe

Comment:
This approach will lead to temporary protection for existing tenants in an exceptional year with arguably no protection for new tenants.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:

Both Supported and Sheltered housing operate on very low margins and on this basis, we would ask that both these categories be exempt from any rent limitations in order to protect their viability.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Peter Bedford Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Kingsland Hub, 242 Kingsland Road, London, E8 4DG
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

☐Yes
X No
☐Maybe

Comment:

Peter Bedford HA is a small, supported housing Registered Provider operating in Northeast London. We offer 285 homes across Hackney, Islington and more recently Newham in a range of self-contained and shared homes. We house single people with support needs and offer around 25% of our homes for general needs. Our turnover in 2021-22 was £2,940,000.

We believe that as a Registered provider, our Board is most aware of the specific circumstances of our tenants and their ability to afford a rent increase. Given that CPI is likely to be in the region of 10%, a rent increase linked to CPI when wages are generally not keeping track with inflation would be very difficult for working tenants and in these circumstances, our Board would not raise the rent by CPI +1%. However, in our case, as a Supported Housing provider, 75% of our tenants are not in employment and as such are entitled to full Housing Benefit or Universal Credit. Of the 25% who are in work, a high proportion receive partial Housing Benefit or Universal credit as they are in low or insecure employment. The question of affordability of rents is a moot point for those in receipt of welfare benefits.

If we could set our own rents in 2023-24, we would choose to increase rents by CPI +1%, and would provide a Hardship Fund to adjust the rents downwards for working tenants to a rent which was increased by 5% to 7%.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%

X No

☐Maybe

Comment:
A 9% rent increase for one year would mean we could maintain our existing plans for investment in PBHA's homes as well as continue with our Housing development plans. If the rents need to be capped, without an exemption for Supported Housing, this would be our preferred option.

If rents were capped at 5% we would have significant difficulties funding our stock investment beyond 2024-25, and we would need to bring forward plans to dispose of stock in high value areas and re-provide these homes in lower value areas from 2028-29. This would lead to less social housing for homeless people in these areas and a reduction in mixed communities in high value London areas. This would negatively affect both Hackney and Islington's ability to house single homeless people with support needs in their boroughs. We anticipate we would lose £878,000 from our plans over 10 years with a one-year cap and £1,550,000 if a two-year cap was introduced. This is the equivalent of delaying our stock investment plans by 2 and 4 years respectively.

A 3% rent cap would be more difficult still, and we would immediately need to consider whether we would need to ask the Regulator of Social Housing for an exemption from the Rent Standard. We anticipate we would lose £1,256,000 from our plans over 10 years with a one-year cap and £2,122,000 if a two-year cap was introduced. This is the equivalent of delaying our stock investment plans by 3 and 6 years respectively.

A cap of 7% would require us to make changes to our plans but this would give us more time to make the adjustments needed. We anticipate we would lose £622,000 from our plans over 10 years with a one-year cap and £1,079,000 if a two-year cap was introduced. Therefore, of the 3 options, 7% is preferable. This is the equivalent of delaying our stock investment plans by 1.5 and 2.5 years respectively.

We have been working extremely hard to be able to achieve the surpluses required to invest in PBHA's homes and adhere to our Stock Condition Survey recommendations. We managed to claw back historical under investment between 2017 and 2021, and had planned to make sure under-investment does not recur. If any one of the rent cap scenarios is introduced, there is a significant risk that our tenants will experience a return of under investment, delays to our plans to make our homes more environmentally sustainable, and a reduction in service delivery.

If a rent cap is introduced, we also would want to see rents converging in the future to catch back up to the level they would have been had there not been a cap. For instance, a future rent settlement could look like CPI + 1% + £3 until convergence was achieved. If the rent increase was capped at 5% over 2 years, it would take 7 years for us to converge.

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

☐Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
X No
☐Maybe

Comment:
We do not agree that there should be a ceiling to rent increases for social housing. However, in the scenario where this is implemented, we believe it should be for 1 year with an option to extend if inflation remains above 5%. This is due to the severe impact a 2 year cap would have on PBHA as explained in Q2 above.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

X Yes
☐No
☐Maybe

Comment:
We carry out affordability checks on all new lettings and so can ensure that properties are not let to people who cannot afford the rents. Increasing the rents by CPI + 1% for these properties would go some way towards mitigating the reduction in income (we re-let approximately 20% of all our properties each year as they are relatively short lets). However, we would be concerned that we will therefore let to fewer working people as they will be more likely to fail the affordability check.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:
We strongly believe there should be an exemption for Supported Housing as we have demonstrated above, our margins are so low that we cannot generate the surpluses required to reinvest in homes without resorting to disposal and re-provision. Any shortfall in the income we have planned for makes our already precarious situation worse and puts at risk homes for the most vulnerable in society. The desired outcome of capping rent increases to limit hardship experienced by tenants will not be achieved by capping rent increases for those on welfare benefits in supported housing. The significant majority are claiming welfare benefits to pay their rents. A rent cap for supported housing will only benefit the public purse.

The lack of investment in supported housing since 2012 has significantly affected Peter Bedford HA as a number of our services have been decommissioned. This had a negative effect in our most recent year when we achieved only a break-even position and is likely to continue into the current year. While we have some resilience to withstand such shocks, we do not have enough resilience to withstand continual shocks without this radically changing the service we offer.

The pressure on our workforce is also immense as they are already paid relatively low wages. This is due to the sector’s terms and conditions having been consistently lowered as local authorities have reduced funding available to commission these services. If we cannot afford to increase our colleagues’ wages by CPI, we will likely lose many of them to other unrelated but better paid sectors or push them into hardship by having to use foodbanks etc.

Crisis' Submission to DLUHC consultation on social housing rent policy from April 2023. *October 2022*

Crisis is the national charity for people facing homelessness. We know that homelessness is not inevitable, and we know that together, we can end it. Crisis is dedicated to ending homelessness by delivering life-changing services and campaigning for change.

Every year we work directly with thousands of people experiencing homelessness in 11 areas across England, Scotland and Wales. We provide vital help so people can rebuild their lives and are supported out of homelessness for good. We use research to find out how best to improve our services, but also to find wider solutions to end homelessness for good.

Homelessness has a significant financial and social cost; as well as the £1.1 billion councils spend each year on temporary accommodation and measures to mitigate homelessness, there are wider costs to public services.[1] In June 2018 Crisis published Everybody In: How to end homelessness in Great Britain setting out a long-term strategy for national governments. Building more homes at social rent levels is central to this strategy, alongside measures to improve access to good quality affordable homes and to reform the way support services are funded.

Increases in inflation in the past year create the very real possibility that next year's social rent increases could be in the region of 10%, with a potentially significant impact on rent levels that will impact on the 2.4 million social housing tenants who pay some or all of their rent.[2] A ceiling on the level of rent increase to bring it below the rate of inflation will however have a significant impact on social landlords' business plans at a time when there has never been a more pressing need to invest in building new homes and improving the energy efficiency of existing homes. Crisis welcomes the opportunity to respond to the Government's consultation on how to balance the competing demands of rental affordability and investment in new and existing homes.

We have responded to the consultation questions below, and wish to highlight the following key points:

- **Crisis supports the case for a temporary limit on social rent increases for tenants in general needs social housing to protect people from the full impact of inflation linked rent rises,** but subject to mitigations to ensure the continuing viability of providers operating within the tightest margins including providers of supported housing (as outlined in our response to the consultation questions below). With many social housing tenants already struggling to meet the cost of rent and other household bills, a ceiling on rent increases should be part of the package of protections introduced by Government to minimise the risk of homelessness.
- In addition to limiting social sector rents, **it will be critical that Government honours the pledge the former Chancellor made in April 2022 to uprate benefits in line with inflation in April 2023**. Failure to do so would significantly undermine the benefit of any limit on rent increases to social housing tenants who are working and paying some rent while in receipt of Universal Credit, as well as having a hugely damaging effect more widely on the lives of those in receipt of benefits.
- While we believe there is a strong case for a temporary limit to keep rent increases at levels manageable for low-income households whose rent is not fully covered by Housing Benefit, rental income is also central to social landlords' ability to maintain and improve the homes

---

[redacted]

they manage and to deliver investment to make homes more energy efficient and cost-effective to run. Critically it also helps fund new social rent homes which are desperately needed after decades of under-supply and the erosion of the existing stock as a consequence of the Right to Buy.

- Crisis was already deeply concerned about the impact of recent inflation trends on construction costs and social landlords' ability to deliver the number of new social rent homes promised by Government.[3] Some social housing providers have suggested that the rent increase ceiling will lead to further reductions in the scale of new development.[4] This is all the more problematic given that the Government's promise of 32,000 additional social rented homes in the period 2021-2026 is in itself woefully inadequate to meet the identified scale of need, which stands at 90,000 social rented homes per annum.[5] Analysis by Heriot Watt University for Crisis projects that failure to put in place a package of measures designed to address the chronic shortage of housing will contribute to sustained increases in homelessness,[6] at enormous cost to individual lives and to the economy.
- **Crisis therefore recommends that as well as introducing a temporary limit on social rent increases, Government should:**
    - **Increase grant funding into the Affordable Housing Programme** to boost investment in new social rented housing. As a minimum, this should be **equivalent to the benefit to the taxpayer from the ceiling on social rent increases**. Crisis also urges the Government to go beyond this and put in place an investment plan capable of delivering a step change in social rent supply to meet the target of 90,000 additional social rent homes each year as recommended by the Levelling Up, Communities and. Housing Select Committee.[7]
    - Help limit the risk of homelessness from the private rented sector and **reduce the pressure on demand for additional social rent homes by restoring the link between Local Housing Allowance Rates and the 30th percentile of local rents**. This would represent an appropriate response to the cost-of-living emergency, echoing the measures rightly introduced by Government during the pandemic.

Our responses to consultation questions 1, 3, 4 and 5 are set out below:

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

Crisis supports the proposal to introduce a temporary ceiling on social housing rent increases in order to provide protection and assurance for the estimated 2.4 million social housing tenants who pay some or all of their rent. As the cost of living continues to increase dramatically and people face exceptional challenges managing the rising cost of food, fuel and other household basics, we believe it is right that this Government should take steps to protect these households.

[3] https://hansard.parliament.uk/Commons/2021-05-18/debates/166C2766-C6CC-4607-995A-7D1021DBA486/AffordableAndSafeHousingForAll#contribution-CD4F1B1E-F894-47BF-980E-D62C5E8C1CEF
[4] *The rent cap: the decisions and effects*. Inside Housing, September 2022
[5] https://researchbriefings.files.parliament.uk/documents/CBP-8963/CBP-8963.pdf
[6] Watts, B, Bramley, G, Pawson, H., Young, G., Fitzpatrick, S. and McMordie L (2022) *The Homelessness Monitor: England 2022*. London: Crisis.
[7] https://publications.parliament.uk/pa/cm5801/cmselect/cmcomloc/173/17303.htm#_idTextAnchor000

Good quality, well managed social rented housing provides people with safe and settled homes at rents affordable to those in low paid work and can be a buffer against homelessness in times of financial or other difficulty.[8] The way social housing rents are set has a critical impact on people's ability to sustain their tenancies and on their wider wellbeing, as well as protecting them from the risk of homelessness. This is particularly the case for those with pensions or paid employment who pay their rent either fully or partially and those whose Housing Benefit is restricted by the Benefit Cap or Spare Room Subsidy. Together these groups make up nearly 2.4 million households, or 60% of all social housing tenants.[9]

It is critical, however, that the ceiling is accompanied by the power for the regulator to grant exemptions to the Rent Standard as adjusted by the ceiling, where the viability of providers is threatened. We are particularly concerned that the ceiling will be problematic for supported housing providers, and support calls for mitigations for the supported housing sector (see response to Question 5 below).

Question 3:** D**o you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

Given the expected continuation of volatility in interest rates and the potential impact of any ceiling on social housing providers' investment plans, Crisis would support a one year ceiling, with a review of the case for an extension next year.

Question 4: ***Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?***

Crisis accepts that there may be a case for disapplying any ceiling to the first letting of social rent homes given the wider funding constraints on social housing development and the significant unmet need for social housing.

With regard to affordable rents, we have significant concerns about the affordability of homes let at affordable rent levels, particularly in London and other areas with the highest differential between market rents and social rents. Market linked, affordable rents have been shown to be unaffordable to people on the national living wage,[10] and market-linked rents can also have a damaging impact on the ability of people experiencing homelessness and others on low incomes to access social housing.[11] We are concerned that if the ceiling does not apply to initial affordable rents charged, this will further exacerbate existing access barriers. In 2020/21, 23,800 new affordable rent properties were delivered compared with just 6,051 homes at social rents. In the same year, average monthly affordable rents were £690 in London and £450 in the rest of England.[12] Allowing affordable rents to increase at CPI plus 1% risks exacerbating affordability challenges for households accessing these properties as well as creating increased barriers for those subject to social landlords' affordability tests. Consequently we would like to see the ceiling applied to the initial rent chargeable on affordable rent housing. In

---

[8] https://s3.eu-west-2.amazonaws.com/jfd-g15/Living-a-Life-in-Social-Housing-Real-London-Lives-UoY-Report.pdf
[9] DLUHC (2022) English Housing Survey, 2020-2021: social housing sector
[10] Affordable Housing Commission (2020) *Making Housing Affordable Again: Rebalancing the Nation's Housing System*
[11] Hickman, P, Pattison, B and Preece, J (2018) *The impact of welfare reforms on housing associations*. Glasgow: University of Glasgow
[12] https://www.trustforlondon.org.uk/data/rent-affordability/

the longer term we believe there is a case for reviewing the role of affordable rent homes in meeting housing need.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

Crisis is concerned about the impact the rent increase ceiling may have for landlords providing supported housing, and particularly for those providing accommodation for people who have experienced homelessness and multiple disadvantage.

During our recent consultation to support the introduction of Bob Blackman's private members bill on the regulation of supported exempt housing we have heard that margins for social housing providers are typically much tighter than is the case in general needs housing. In its submission to the Department's consultation, the National Housing Federation has outlined evidence demonstrating that operating margins are on average 8% lower for supported housing schemes than for social lettings overall. Crisis is concerned that there is a risk imposition of the proposed rent ceiling would threaten the viability of some providers and, in turn, the availability of transitional housing in the supported exempt sector for people at risk of homelessness.

We therefore urge Government to consider an exemption to the cap for supported housing providers. However any exemption should be accompanied by guidance encouraging housing association boards to adhere to the cap and minimise the scale of rent increase to the greatest extent possible. Board decisions should take full account of the impact of decisions on tenants, and particularly those not fully protected by Housing Benefit from the impact of rent increases.

Response template: Social Housing Rents consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	[redacted]
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Trinity Housing Association
What is your position in the organisation (if applicable)?	[redacted]
What is your address, including postcode?	Jensen House Shaftesbury Street West Bromwich B70 9QD
What is your email address?	[redacted]
What is your contact telephone number?	[redacted]

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

X Yes
☐No
☐Maybe

Comment:
As a lease-based HA providing Specialist Supported Housing we would have to apply the maximum increase as contractually increases in our properties are linked to inflation.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

☐Yes, you agree with imposing a ceiling of 5%
☐No
X Maybe

Comment:
We agree where the impact is felt by tenants

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e. up to 31 March 2025)?

X Yes, you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024
☐No
☐Maybe

Comment:
The market is currently very volatile and suggest it would be better to reconsider the position next year

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

☐Yes
X No
☐Maybe

Comment:

This would create inequalities and create issues in managing this.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

X Yes
☐No
☐Maybe

Comment:

Supported Housing needs to be excluded.
Supported Housing already operates on very thin margins and a cap on such housing will almost certainly make schemes unviable and lead to closure with significant impact on already very vulnerable residents. This is likely to increase costs elsewhere within public services.
Given that the vast majority of tenants are HB beneficiaries introducing the cap to supported housing would not achieve policy aims of addressing cost of living for tenants.

Housing Association

Rent rise caps proposed

The UK government has proposed a 5% cap on social rent rises for FY24. The government's impact analysis suggests HAs could lose £4.9bn in revenues over the next five years, while the government could save £4.6bn in welfare spending. If implemented, such a cap could shrink operating margins but we would expect few downgrades

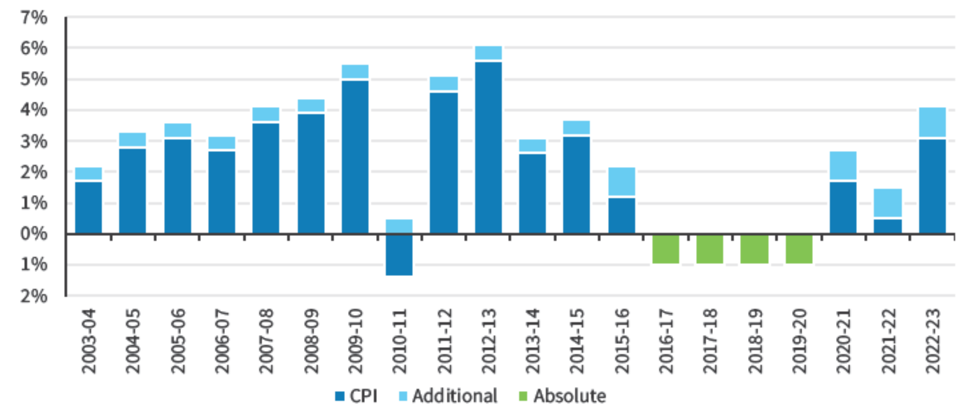
CORE

[redacted]

[redacted]

In England, Housing Associations (HAs) are not-for-profit entities that are regulated by the Regulator for Social Housing (RSH) and the rent policy for social and affordable housing is set by the government. Following four years of regulated rents for social housing being set at -1% from April 2016 to March 2020, the UK government set a five-year rent policy in 2019 allowing rents to increase by CPI+1% per annum from April 2020 through March 2025. This allowed for rents to rise by 2.7% from April 2020, 1.5% from April 2021 and 4.1% from April 2022 (linked to CPI prints in the previous September). The rise in April 2022 was the highest rent rise in a decade.

FIGURE 1. **Allowable social housing rent rises**



Source: RSH

Looking ahead, with CPI printing in July 2022 at 10.1% (its highest in 40 years) and the Bank of England (as of August 2022) forecasting CPI at 9.9% in Q3 22, social rents could increase by nearly 11% from April 2023. This would be significantly higher than at any time in recent history. HAs, social housing newswires and even rating agencies have all highlighted the difficulties in passing on the entire impact of inflation to tenants, and have long assumed a need for a lower rental rise than CPI+1%.

This document is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors under U.S. FINRA Rule 2242. Barclays trades the securities covered in this report for its own account and on a discretionary basis on behalf of certain clients. Such trading interests may be contrary to the recommendations offered in this report.

Please see analyst certifications and important disclosures beginning on page 7 .
Completed: 02-Sep-22, 08:59 GMT Released: 02-Sep-22, 09:00 GMT Restricted - External

However, the government now sees the need to temporarily cap the CPI+1% rent rise policy. On 31 August 2022, the Department for Levelling up, Housing and Communities (LUHC) announced a proposal that rent rises from 1 April 2023 to 31 March 2024 at CPI+1% should be capped at an upper limit, and it is consulting on options for the upper limit (3%, 5% or 7%, with the government preferring 5%) and whether the cap should remain for one year or two years. The consultation is open for six weeks from 31 August 2022 to 12 October 2022.

We understand that rent policy exists to ensure uniformity across social housing, and hence the proposal is meant to ensure no dispersion of implementation if left to HAs to not raise rents by the fully allowed CPI+1%. However, we think the proposal is negative for HAs for a number of reasons:

1. The five-year policy measure enabling HAs to see rent growth of CPI+1% has been very important in helping HAs to stabilise margins. Following the government's austerity policy that included -1% rent cuts to social housing in April 2016 to March 2020, HAs have struggled with margins. Many HAs resorted to market sales, which added to cash flow volatility and led to ratings downgrades. The average rating across the sector was downgraded from AA to A in April 2016 (though partly due to the sovereign downgrade on the back of Brexit), where it has since remained. Additionally, the Grenfell Tower tragedy in June 2017 added to fire safety remediation costs for HAs.
2. Costs are rising due to inflation, and HAs are not-for-profit entities that need to be able to absorb the cost inflation. The National Housing Federation published recently that construction cost inflation was 9.6% y/y in June 2022, while the cost of new housing rose by 12.3% in June 2022 and even repair and maintenance costs rose by 14% in July 2022. All of these increases are higher than the respective monthly CPI prints (9.4% in June 2022 and 10.1% in July 2022). Statistics from the Department for Business, Energy and Industrial Strategy suggest that construction material costs rose by 23% y/y for new housing and 26% y/y for repairs and maintenance in June 2022.
3. The rent cap would help the government disproportionately (alongside helping some vulnerable tenants), at the cost of the HAs losing out on revenue. The majority of social housing rents are directly paid by the UK government to the HAs. Therefore, they mainly save government spending rather than ease the cost-of-living crisis for vulnerable tenants. In its own impact analysis, the government consultation shows the savings from the rent cut are 62% for the government and 38% for tenants.

Therefore, we view the policy proposal as broadly negative for the sector since the potential 5% cap is arguably a lower increase than HAs would have pursued on their own. However, since HAs have never expected double-digit rent rises (with expectations more likely at 5-10% at most), we think the proposed policy cap would not be shockingly negative for the sector. Moreover, if the consultation results in a 7% cap, that would be certainly be more in line with HAs pre-proposal expectations.

We are somewhat surprised by the timing of the announcement considering a new Prime Minister (and cabinet) is due to be announced on Monday and housing policy tends to be a key government policy. However, given any policy decision would need a six-week consultation period and the rent rises are set against the September 2022 CPI print (published mid October), we understand why the government felt the need to act now. In any case, we see increased uncertainty over policy for HAs in general, taking into account the June 2022 announcement by Prime Minister Boris Johnson of the extension of the Right to Buy scheme to tenants of HAs (The right to buy HA property, 23 June 2022).

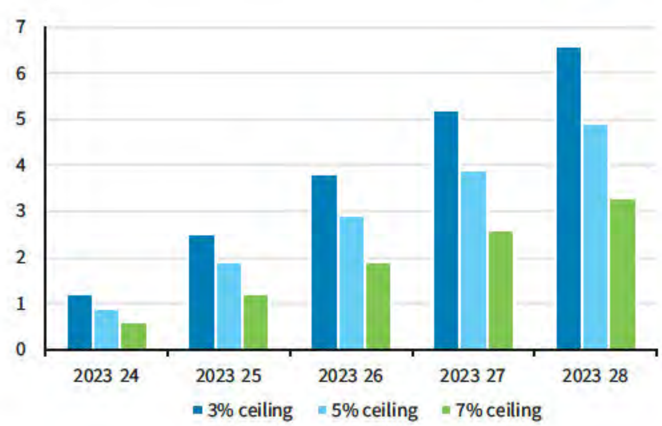
Impact of LUHC proposals

The LUHC published an impact assessment of the various options under the proposed rental ceilings. Under the most restrictive option of a 3% rent ceiling, social housing Registered Providers (RP, which includes HAs and local councils) are estimated to lose approximately £1.8bn in FY24 from lower rents, compared to a no-ceiling scenario. Even though the current ceiling proposal is only for FY24 (1 April 2023 to 31 March 2024), the impact is likely to be felt over subsequent years given the compounding effect, with RP having to raise rents over a lower base. Hence, the above-mentioned loss of £1.8bn compounds to a loss of £9.9bn for the five year period 2023 to 2028.

Under the proposal, the government prefers a 5% ceiling, under which Private Registered Providers (PRP, which are mainly HAs but also include for-profit providers) are expected to lose £4.9bn in the next five years, starting with a loss of £0.9bn in FY24 (Figure 2). The annual loss in rent is likely to be c.4% of group turnover in FY21 (£22.1bn) and 17% of the operating surplus in FY21 (£4.9bn) for the largest 209 PRPs (managing more than 1,000 social homes each, and together accounting for 95% of social housing). The government is also seeking views on extending the cap to FY25 (1 April 2024 to 31 March 2025), which if implemented could take the losses for PRPs over five years from £4.9bn to £8.4bn under a 5% ceiling scenario.

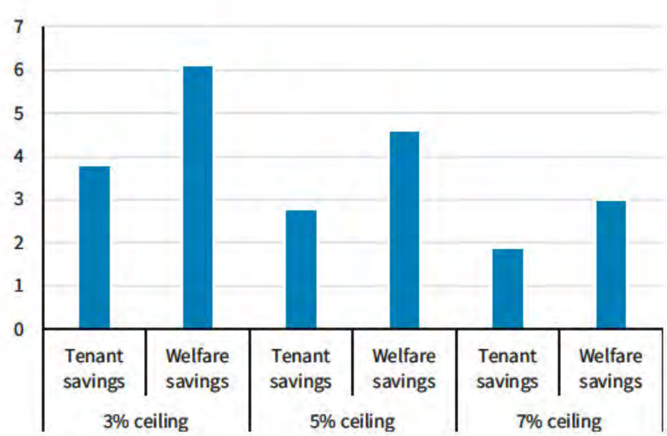
Given that a large part of social housing rent is paid by the UK government, the government is the biggest beneficiary of the proposed cap through lower welfare expenditure. For example, with a 5% rent ceiling in FY24, the LUHC estimates the welfare savings for the government at £4.6bn over five years but only £2.8bn for tenants (Figure 3). On average, the benefit from the cap across the LUHC's various scenarios is split 62% in government welfare savings and 38% in tenant rental cost savings.

FIGURE 2. **Cumulative loss in rental income of PRPs from FY24 rental cap (£bn)**



Source: Department for LUHC, Barclays Research

FIGURE 3. **Benefits of FY24 rental cap over five year period (£bn)**



Source: Department for LUHC, Barclays Research

While the LUHC does not expect an increase in administrative costs for implementing the proposed cap, it does acknowledge that the scheme is likely to adversely impact the financial position of HAs. Operating costs for HAs have already increased materially this year and are expected to rise further next year, in line with or even more than CPI. This increased cost will impact operating margins. However, the impact analysis from the LUHC does not take into account any cost rises. The consultation talks about potential exemption from the ceiling for HAs whose financial viability is likely to be jeopardised, but there are currently no details on the criteria and the magnitude of the exemption. The LUHC acknowledges that the proposed scheme could negatively affect the borrowing capacity of various HAs due to reduced rental expectations.

Pressure on operating margins

We think that the proposed rent cap is likely to impact most HAs by reducing operating margins. Considering that already in the current year (FY23, from 1 April 2022 to 31 March 2023), the rent rises are set to the September 2021 inflation print at 4.1% while the costs of fire safety, maintenance and new construction are all seeing higher inflation (especially considering building and material costs have overshot CPI), margins are expected to compress. Therefore, if rents next year do not catch up with costs, margins will compress further.

For example, if social housing lettings turnover goes up by 5% but operating costs go up by 15%, HAs with a 25% operating margin could see their margin compress to 18% and their operating surplus fall by 25%. A fall in operating surplus implies an equal fall in social housing lettings operating surplus ICR (SHL ICR) assuming interest costs stay constant. Which means HAs going into this environment would need an SHL ICR of at least 1.33x to withstand the drop in surplus such that the SHL ICR are at least 1x. Of the 63 HAs we analysed for FY20/21 in Housing Associations Outlook 2022: Home improvement (11 January 2022, Figure 15), 27 have an SHL ICR of less than 1.33x. The original SHL ICR needs to be higher if the margins are lower than 25% to begin with. We assume interest expenses do not rise. With 81% of drawn debt being fixed rate and 72% having a maturity of more than five years, HAs are relatively insulated from higher interest costs, at least on existing debt (The right to buy HA property, 23 June 2022). Given that interest rates are also higher in a higher inflationary environment, any HA that needs to raise debt would see interest costs go up, further lowering their SHL ICR.

Therefore, a number of HAs would be stressed if they did not take mitigating action, which is mainly to cut costs. However, fire safety remediation and repairs and maintenance expenses are seen as essential expenses and cannot be dramatically reduced. HAs can reduce investments into their existing portfolio to improve energy efficiency (ESG Research: Housing Associations: ‘C’-ing it through, 11 January 2022). Many HAs were aiming to improve social housing energy efficiency up to EPC C by 2030, which HAs might feel inclined to postpone. This would be counterproductive since improving EPC ratings of properties helps directly save energy costs for tenants. HAs can also reduce construction activity by postponing planned starts but projects underway would still need to be completed and so we do not see active cost savings here that would provide immediate help.

Ratings pressure would rise but be contained

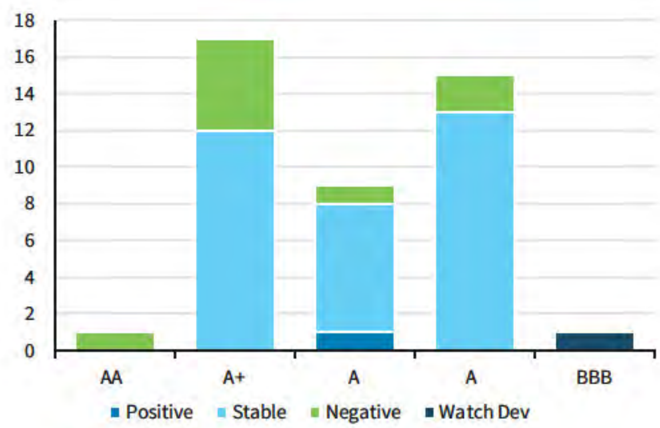
With pressure on operating margins comes pressure on ratings. The investor base of HA debt is sensitive to ratings, particularly downgrades from A- to BBB+ which incur a significantly higher capital charge for insurer investors. Therefore, the rating impact of this policy proposal could increase the cost of raising new debt for HAs dramatically, if it were to trigger a downgrade from A- to BBB+, in an already high interest rate environment. However, at present, we think that ratings pressure on the back of the proposal is contained. We would expect 9-12 downgrades from S&P and very few from Moody’s, and very few downgrades from A- to BBB+ (or A3 to Baa1).

HAs have a rating uplift from implicit government support. Rating agencies view this support as essential to the sector and have previously downgraded HAs that were pursuing activities away from policy (such as market sales) even when non-traditional activities supported operating margins. This suggests to us that the opposite would also be true. If policy measures lead to weaker operating margins, as long as HAs continue to pursue policy measures, we think rating agencies are likely to remain supportive of ratings. In other words, we do not expect policy-driven weakness to lead to a wave of downgrades.

S&P published a month ago that currently in FY23 (1 April 22 to 31 March 23), with rent rises set at 4.1% and forecast inflation averaging 8.7%, rent rises would undershoot inflationary costs by 4.6pp thereby stressing the margins of UK HAs. If this inflation gap persists in FY24, S&P sees ratings on nine of the 43 HAs it rates as likely to come under pressure, and if the inflation gap were to worsen, ratings on 12 HAs could come under pressure. S&P did not mention which nine or 12 HAs would see pressure but we note eight HAs have a negative outlook: Local Space; Aster; EMH; Incommunities; RHP; Stonewater; Lincoln; and Chelmer. Of these, only Chelmer is A- rated (and so potentially at risk of downgrade to BBB+).

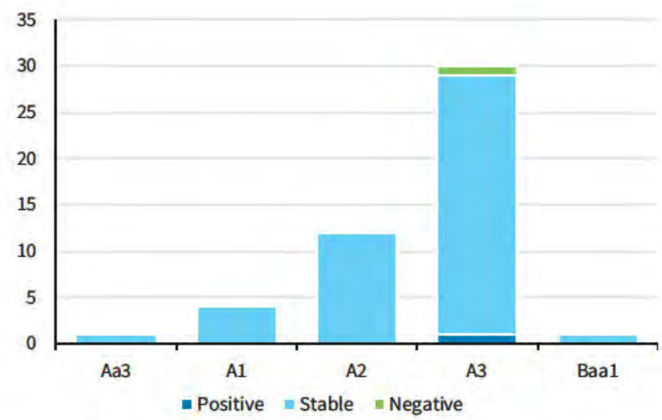
We see the policy proposal as being closer to S&P's bear-case scenario, and hence expect 9-12 downgrades from S&P. But we also note that S&P does not make any assumptions on what mitigating actions management can take. Following the announcement of the policy proposal, S&P stated that a rent cap would result in a sustained gap between rent increases and cost inflation and adds uncertainty to creditworthiness across the sector.

FIGURE 4. **S&P ratings dispersion with outlook**



Source: S&P

FIGURE 5. **Moody's ratings dispersion with outlook**



Source: Moody's

Moody's published following the announcement of the new proposal that if implemented, the proposal would put negative pressure on A3 rated HAs due to their weaker margins and lower social housing lettings interest coverage. Moody's has noticed a decline in operating margins for A3 rated peers over the past few years such that the FY21 median operating margin stands at 24% while the median for A2 rated peers is above 27%. Similarly, the median social housing lettings interest cover for A3 rated peers is c.1.3x while it is above 1.6x for A2 rated peers. That said, Moody's has not suggested outright downgrades. Moody's has a negative outlook on only one HA, Southern, and it is rated A3, putting it at threat of downgrade to Baa1. But we note that Southern is in the process of merging with Optivo, which is rated A3 Stable by Moody's.

Fitch rates far fewer HAs than S&P or Moody's and does not have any public A- ratings in UK HA space.

As mentioned, HAs as well as rating agencies were generally of the view that a double-digit rent rise would be unlikely to be implemented in April 2023 due to the headline risk and hence such steep rent rises would not have been factored in rating agency analysis. Therefore, we do not expect material changes to rating agency views on the back of this proposal. However, given the rating-sensitive investor base, we list all HAs rated A- by S&P and/or A3 by Moody's. We also list those supported by a stronger Fitch rating in spite of being rated A- by S&P or A3 by Moody's.

Additionally, HA ratings carry rating uplift from government support and hence, changes to the government rating or outlook could impact their ratings and outlooks as well. The UK government is currently rated Aa3 Stable by Moody's, AA Stable by S&P and AA- Stable by Fitch.

FIGURE 6. HAs rated A by S&P and/or A3 by Moody's

Housing Association	Moody's rating	S&P rating	Fitch rating
Rated A and/or A3 only			
Abri	A3 Stable		
Catalyst*		A Stable	
Chelmer		A Negative	
Clarion	A3 Stable	A Stable	
Connexus Housing	A3 Stable		
Grand Union	A3 Stable		
Guinness	A3 Stable	A Stable	
Hastoe	A3 Stable		
Hexagon Housing		A Stable	
Home Group		A Stable	
Housing 21		A Stable	
Longhurst	A3 Stable		
Optivo**	A3 Stable		
Orbit	A3 Stable		
Paragon Asra	A3 Stable	A Stable	
Peabody*	A3 Stable		
Saffron	A3 Stable		
Saxon Weald	A3 Stable		
Together	A3 Stable		
Walsall	A3 Stable		
Yorkshire	A3 Stable		
Rated A or A3 but supported by Fitch			
Great Places	A3 Stable		A+ Stable
L&Q	A3 Stable	A Stable	A+ Stable
MTVH		A Stable	A Stable
Notting Hill Genesis		A Stable	A Stable
Southern**	A3 Negative		A Stable

*Peabody and Catalyst have merged; **Southern and Optivo expect to complete merger by end of 2022.
Source: Barclays Research, S&P, Moody's, Fitch

Analyst(s) Certification(s):
We, Pranava Boyidapu and Neeraj Kumar, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures:
This document is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors under U.S. FINRA Rule 2242. Barclays trades the securities covered in this report for its own account and on a discretionary basis on behalf of certain clients. Such trading interests may be contrary to the recommendations offered in this report.

Barclays Research is produced by the Investment Bank of Barclays Bank PLC and its affiliates (collectively and each individually, “Barclays”).

All authors contributing to this research report are Research Analysts unless otherwise indicated. The publication date at the top of the report reflects the local time where the report was produced and may differ from the release date provided in GMT.

Availability of Disclosures:
For current important disclosures regarding any issuers which are the subject of this research report please refer to https://publicresearch.barclays.com or alternatively send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 13th Floor, New York, NY 10019 or call +1 212 526 1072.

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Barclays may have a conflict of interest that could affect the objectivity of this report. Barclays Capital Inc. and/or one of its affiliates regularly trades, generally deals as principal and generally provides liquidity (as market maker or otherwise) in the debt securities that are the subject of this research report (and related derivatives thereof). Barclays trading desks may have either a long and / or short position in such securities, other financial instruments and / or derivatives, which may pose a conflict with the interests of investing customers. Where permitted and subject to appropriate information barrier restrictions, Barclays fixed income research analysts regularly interact with its trading desk personnel regarding current market conditions and prices. Barclays fixed income research analysts receive compensation based on various factors including, but not limited to, the quality of their work, the overall performance of the firm (including the profitability of the Investment Banking Department), the profitability and revenues of the Markets business and the potential interest of the firm’s investing clients in research with respect to the asset class covered by the analyst. To the extent that any historical pricing information was obtained from Barclays trading desks, the firm makes no representation that it is accurate or complete. All levels, prices and spreads are historical and do not necessarily represent current market levels, prices or spreads, some or all of which may have changed since the publication of this document. Barclays Research Department produces various types of research including, but not limited to, fundamental analysis, equity linked analysis, quantitative analysis, and trade ideas. Recommendations and trade ideas contained in one type of Barclays Research may differ from those contained in other types of Barclays Research, whether as a result of differing time horizons, methodologies, or otherwise.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to https://publicresearch.barcap.com/S/RD.htm. In order to access Barclays Research Conflict Management Policy Statement, please refer to: https://publicresearch.barcap.com/S/CM.htm.

Disclosure(s) regarding Information Sources
Copyright © (2022) Sustainalytics. Sustainalytics retains ownership and all intellectual property rights in its proprietary information and data that may be included in this report. Any Sustainalytics’ information and data included herein may not be copied or redistributed, is intended for informational purposes only, does not constitute investment advice and is not warranted to be complete, timely and accurate. Sustainalytics’ information and data is subject to conditions available at https://www.sustainalytics.com/legal disclaimers/

Bloomberg® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”) and the Bloomberg Indices are trademarks of Bloomberg. Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material, or guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, Bloomberg shall have no liability or responsibility for injury or damages arising in connection therewith.

All pricing information is indicative only. Unless otherwise indicated, prices are sourced from Refinitiv and reflect the closing price in the relevant trading market, which may not be the last available price at the time of publication.

Types of investment recommendations produced by Barclays FICC Research:
In addition to any ratings assigned under Barclays’ formal rating systems, this publication may contain investment recommendations in the form of trade ideas, thematic screens, scorecards or portfolio recommendations that have been produced by analysts in FICC Research. Any such investment recommendations produced by non Credit Research teams shall remain open until they are subsequently amended, rebalanced or closed in a future research report. Any such investment recommendations produced by the Credit Research teams are valid at current market conditions and may not be otherwise relied upon.

Disclosure of other investment recommendations produced by Barclays FICC Research:
Barclays FICC Research may have published other investment recommendations in respect of the same securities/instruments recommended in this research report during the preceding 12 months. To view all investment recommendations published by Barclays FICC Research in the preceding 12 months please refer to https://live.barcap.com/go/research/Recommendations.

Barclays does not assign ratings to asset backed securities. Barclays Capital Inc. and/or one of its affiliates may have acted as an underwriter for public offerings of any asset backed securities that are otherwise recommended in trade ideas contained within its securitised research reports.

Legal entities involved in producing Barclays Research:
Barclays Bank PLC (Barclays, UK)

Barclays Capital Inc. (BCI, US)

Barclays Bank Ireland PLC, Frankfurt Branch (BBI, Frankfurt)

Barclays Bank Ireland PLC, Paris Branch (BBI, Paris)

Barclays Bank Ireland PLC, Milan Branch (BBI, Milan)

Barclays Securities Japan Limited (BSJL, Japan)

Barclays Bank PLC, Hong Kong Branch (Barclays Bank, Hong Kong)

Barclays Capital Canada Inc. (BCCI, Canada)

Barclays Bank Mexico, S.A. (BBMX, Mexico)

Barclays Capital Casa de Bolsa, S.A. de C.V. (BCCB, Mexico)

Barclays Securities (India) Private Limited (BSIPL, India)

Barclays Bank PLC, India Branch (Barclays Bank, India)

Barclays Bank PLC, Singapore Branch (Barclays Bank, Singapore)

Barclays Bank PLC, DIFC Branch (Barclays Bank, DIFC)

Disclaimer:
This publication has been produced by Barclays Research Department in the Investment Bank of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, “Barclays”).

It has been prepared for institutional investors and not for retail investors. It has been distributed by one or more Barclays affiliated legal entities listed below or by an independent and non affiliated third party entity (as may be communicated to you by such third party entity in its communications with you). It is provided for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. To the extent that this publication states on the front page that it is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors under U.S. FINRA Rule 2242, it is an “institutional debt research report” and distribution to retail investors is strictly prohibited. Barclays also distributes such institutional debt research reports to various issuers, media, regulatory and academic organisations for their own internal informational news gathering, regulatory or academic purposes and not for the purpose of making investment decisions regarding any debt securities. Media organisations are prohibited from re publishing any opinion or recommendation concerning a debt issuer or debt security contained in any Barclays institutional debt research report. Any such recipients that do not want to continue receiving Barclays institutional debt research reports should contact debtresearch@barclays.com. Clients that are subscribed to receive equity research reports, will not receive certain cross asset research reports co authored by equity and FICC research analysts that are distributed as “institutional debt research reports” unless they have agreed to accept such reports. Eligible clients may get access to such cross asset reports by contacting debtresearch@barclays.com. Barclays will not treat unauthorized recipients of this report as its clients and accepts no liability for use by them of the contents which may not be suitable for their personal use. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the information or opinions contained in any written, electronic, audio or video presentations of third parties that are accessible via a direct hyperlink in this publication or via a hyperlink to a third party web site (‘Third Party Content’). Any such Third Party Content has not been adopted or endorsed by Barclays, does not represent the views or opinions of Barclays, and is not incorporated by reference into this publication. Third Party Content is provided for information purposes only and Barclays has not independently verified its accuracy or completeness.

The views in this publication are solely and exclusively those of the authoring analyst(s) and are subject to change, and Barclays Research has no obligation to update its opinions or the information in this publication. Unless otherwise disclosed herein, the analysts who authored this report have not received any compensation from the subject companies in the past 12 months. If this publication contains recommendations, they are general recommendations that were prepared independently of any other interests, including those of Barclays and/or its affiliates, and/or the subject companies. This publication does not contain personal investment recommendations or investment advice or take into account the individual financial circumstances or investment objectives of the clients who receive it. Barclays is not a fiduciary to any recipient of this publication. The securities and other investments discussed herein may not be suitable for all investors and may not be available for purchase in all jurisdictions. The United States imposed sanctions on certain Chinese companies (https://home.treasury.gov/policy issues/financial sanctions/sanctions programs and country information/chinese military companies sanctions), which may restrict U.S. persons from purchasing securities issued by those companies. Investors must independently evaluate the merits and risks of the investments discussed herein, including any sanctions restrictions that may apply, consult any independent advisors they believe necessary, and exercise independent judgment with regard to any investment decision. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results. The information provided does not constitute a financial benchmark and should not be used as a submission or contribution of input data for the purposes of determining a financial benchmark.

Third Party Distribution: Any views expressed in this communication are solely those of Barclays and have not been adopted or endorsed by any third party distributor.

United Kingdom: This document is being distributed (1) only by or with the approval of an authorised person (Barclays Bank PLC) or (2) to, and is directed at (a) persons in the United Kingdom having professional experience in matters relating to investments and who fall within the definition of

"investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (b) high net worth companies, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order; or (c) other persons to whom it may otherwise lawfully be communicated (all such persons being "Relevant Persons"). Any investment or investment activity to which this communication relates is only available to and will only be engaged in with Relevant Persons. Any other persons who receive this communication should not rely on or act upon it. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

European Economic Area ("EEA"): This material is being distributed to any "Authorised User" located in a Restricted EEA Country by Barclays Bank Ireland PLC. The Restricted EEA Countries are Austria, Bulgaria, Estonia, Finland, Hungary, Iceland, Liechtenstein, Lithuania, Luxembourg, Malta, Portugal, Romania, Slovakia and Slovenia. For any other "Authorised User" located in a country of the European Economic Area, this material is being distributed by Barclays Bank PLC. Barclays Bank Ireland PLC is a bank authorised by the Central Bank of Ireland whose registered office is at 1 Molesworth Street, Dublin 2, Ireland. Barclays Bank PLC is not registered in France with the Autorité des marchés financiers or the Autorité de contrôle prudentiel. Authorised User means each individual associated with the Client who is notified by the Client to Barclays and authorised to use the Research Services. The Restricted EEA Countries will be amended if required.

Finland: Notwithstanding Finland's status as a Restricted EEA Country, Research Services may also be provided by Barclays Bank PLC where permitted by the terms of its cross border license.

Americas: The Investment Bank of Barclays Bank PLC undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer, a Dealer Member of IIROC (www.iiroc.ca), and a Member of the Canadian Investor Protection Fund (CIPF).

This material is distributed in Mexico by Barclays Bank Mexico, S.A. and/or Barclays Capital Casa de Bolsa, S.A. de C.V. This material is distributed in the Cayman Islands and in the Bahamas by Barclays Capital Inc., which it is not licensed or registered to conduct and does not conduct business in, from or within those jurisdictions and has not filed this material with any regulatory body in those jurisdictions.

Japan: This material is being distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint stock company incorporated in Japan with registered office of 6 10 1 Roppongi, Minato ku, Tokyo 106 6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Asia Pacific (excluding Japan): Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

All Indian securities related research and other equity research produced by Barclays' Investment Bank are distributed in India by Barclays Securities (India) Private Limited (BSIPL). BSIPL is a company incorporated under the Companies Act, 1956 having CIN U67120MH2006PTC161063. BSIPL is registered and regulated by the Securities and Exchange Board of India (SEBI) as a Research Analyst: INH000001519; Portfolio Manager INP000002585; Stock Broker INZ000269539 (member of NSE and BSE); Depository Participant with the National Securities & Depositories Limited (NSDL): DP ID: IN DP NSDL 299 2008; Investment Adviser: INA000000391. BSIPL is also registered as a Mutual Fund Advisor having AMFI ARN No. 53308.The registered office of BSIPL is at 208, Ceejay House, Shivsagar Estate, Dr. A. Besant Road, Worli, Mumbai 400 018, India. Telephone No: +91 22 67196363. Fax number: +91 22 67196399. Any other reports produced by Barclays' Investment Bank are distributed in India by Barclays Bank PLC, India Branch, an associate of BSIPL in India that is registered with Reserve Bank of India (RBI) as a Banking Company under the provisions of The Banking Regulation Act, 1949 (Regn No BOM43) and registered with SEBI as Merchant Banker (Regn No INM000002129) and also as Banker to the Issue (Regn No INBI00000950). Barclays Investments and Loans (India) Limited, registered with RBI as Non Banking Financial Company (Regn No RBI CoR 07 00258), and Barclays Wealth Trustees (India) Private Limited, registered with Registrar of Companies (CIN U93000MH2008PTC188438), are associates of BSIPL in India that are not authorised to distribute any reports produced by Barclays' Investment Bank.

This material is distributed in Singapore by the Singapore Branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this material, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is 10 Marina Boulevard, #23 01 Marina Bay Financial Centre Tower 2, Singapore 018983.

This material, where distributed to persons in Australia, is produced or provided by Barclays Bank PLC.

This communication is directed at persons who are a "Wholesale Client" as defined by the Australian Corporations Act 2001.

Please note that the Australian Securities and Investments Commission (ASIC) has provided certain exemptions to Barclays Bank PLC (BBPLC) under paragraph 911A(2)(l) of the Corporations Act 2001 from the requirement to hold an Australian financial services licence (AFSL) in respect of financial services provided to Australian Wholesale Clients, on the basis that BBPLC is authorised by the Prudential Regulation Authority of the United Kingdom (PRA) and regulated by the Financial Conduct Authority (FCA) of the United Kingdom and the PRA under United Kingdom laws. The United Kingdom has laws which differ from Australian laws. To the extent that this communication involves the provision of financial services by BBPLC to Australian Wholesale Clients, BBPLC relies on the relevant exemption from the requirement to hold an AFSL. Accordingly, BBPLC does not hold an AFSL.

This communication may be distributed to you by either: (i) Barclays Bank PLC directly or (ii) Barrenjoey Markets Pty Limited (ACN 636 976 059, "Barrenjoey"), the holder of Australian Financial Services Licence (AFSL) 521800, a non affiliated third party distributor, where clearly identified to you by Barrenjoey. Barrenjoey is not an agent of Barclays Bank PLC.

This material, where distributed in New Zealand, is produced or provided by Barclays Bank PLC. Barclays Bank PLC is not registered, filed with or approved by any New Zealand regulatory authority. This material is not provided under or in accordance with the Financial Markets Conduct Act of 2013 ("FMCA"), and is not a disclosure document or "financial advice" under the FMCA. This material is distributed to you by either: (i) Barclays Bank PLC directly or (ii) Barrenjoey Markets Pty Limited ("Barrenjoey"), a non affiliated third party distributor, where clearly identified to you by Barrenjoey.

Barrenjoey is not an agent of Barclays Bank PLC. This material may only be distributed to “wholesale investors” that meet the “investment business”, “investment activity”, “large”, or “government agency” criteria specified in Schedule 1 of the FMCA.

Middle East: Nothing herein should be considered investment advice as defined in the Israeli Regulation of Investment Advisory, Investment Marketing and Portfolio Management Law, 1995 (“Advisory Law”). This document is being made to eligible clients (as defined under the Advisory Law) only. Barclays Israeli branch previously held an investment marketing license with the Israel Securities Authority but it cancelled such license on 30/11/2014 as it solely provides its services to eligible clients pursuant to available exemptions under the Advisory Law, therefore a license with the Israel Securities Authority is not required. Accordingly, Barclays does not maintain an insurance coverage pursuant to the Advisory Law.

This material is distributed in the United Arab Emirates (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC. Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority. Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi). This material does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products in the UAE (including the Dubai International Financial Centre) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority or any other relevant licensing authority or governmental agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank or Dubai Financial Services Authority. Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

Russia: This material is not intended for investors who are not Qualified Investors according to the laws of the Russian Federation as it might contain information about or description of the features of financial instruments not admitted for public offering and/or circulation in the Russian Federation and thus not eligible for non Qualified Investors. If you are not a Qualified Investor according to the laws of the Russian Federation, please dispose of any copy of this material in your possession.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2022). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.

BRCF2242