Title: Future social housing rent policy from 2026-36: CPI+1% plus convergence options **IA No:** **RPC Reference No:** **Lead department or agency:** Ministry of Housing, Communities and Local Government **Other departments or agencies:**	Impact Assessment (IA) **Date:** 2 July 2025 **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Other

Summary: Intervention and Options

RPC Opinion:

Cost of Preferred (or more likely) Option (in 2025 prices, 2025 PV)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
£0**	£2,690.0m to £2,961.7m	-£312.5m to -£344.1m	Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

The Government's aim to improve the supply and quality of social housing relies on significant levels of investment by Registered Providers of social housing (RPs). The financial position of RPs has become weaker over the past decade, due to a combination of higher repair and maintenance costs, rising interest rates and real-terms rent cuts. Social housing rents are currently permitted to increase by up to CPI plus 1 percentage point (hereafter "CPI+1%") per annum, based on the CPI rate in the previous September. In light of the weakened financial position of the sector, if we continued with this CPI+1% policy for the next 10 years from April 2026, we do not think this would provide RPs with the financial capacity they need to improve the quality of social housing whilst also rapidly ramping up delivery of new supply, which is vital if we want to reduce pressure on temporary accommodation and ensure social housing tenants live in decent and safe homes.

What are the policy objectives of the action or intervention and the intended effects?

The government wants to provide the biggest boost to social and affordable housing in a generation, as well as ensure that all social homes are decent and safe, and residents are treated with the respect they deserve. The objective for future social housing rent policy from 2026 is therefore to provide private registered providers and local authority registered providers with the rental income and stability they need to be able to borrow and invest in both new and existing homes, while ensuring there are appropriate protections for both existing and future social housing tenants and taking account of the impact on the government's fiscal rules.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1. Do nothing: Do nothing - leave the CPI+1% policy unamended
2. Option 2: Continue to permit rents to increase by up to CPI+1% each year for 10 years from 2026-36, but also introduce a convergence mechanism that permits RPs to increase weekly rents on their Social Rent homes by a further £2 each year until those rents converge with formula rent (which is used to calculate the maximum rent that Social Rent homes can be first let at or re-let) - referred to as 'CPI+1% plus £2 convergence'.
3. Option 3: Continue to permit rents to increase by up to CPI+1% each year for 10 years from 2026-36, but also introduce a convergence mechanism that permits RPs to increase weekly rents on their Social Rent homes by a further £1 each year until those rents converge with formula rent (which is used to calculate the maximum rent that Social Rent homes can be first let at or re-let) - referred to as 'CPI+1% plus £1 convergence'.

We do not have a preferred option at this stage. A decision will be informed by responses to the consultation. We recognise that the non-monetised costs and benefits will play a crucial role in informing our decision. Options 2 and 3 would provide RPs with more rental income to invest in new and existing homes. The convergence mechanisms in Options 2 and 3 would only apply to Social Rent homes, and only those homes with actual rents that are below formula rents. This is especially prevalent amongst councils. It is important to note that households paying Affordable Rent would not see their rent levels impacted by the introduction of a convergence mechanism under Options 2 or 3.

Will the policy be reviewed? Yes **If applicable, set review date:** 2034

Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** Unquantified	**Non-traded:** Unquantified	

Summary: Analysis & Evidence — Policy Option 1: Do Nothing

Description:

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
2025	2026	10 years	Low: N/A	High: N/A	Best Estimate: 0.0

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	N/A		N/A	**N/A**
High	N/A		N/A	**N/A**
Best Estimate	N/A		0.0	**0.0**

Description and scale of key monetised costs by 'main affected groups'

As this is the do nothing counterfactual, there are no monetised costs.

Other key non-monetised costs by 'main affected groups'

As this is the do nothing counterfactual, there are no non-monetised costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A		N/A	**N/A**
High	N/A		N/A	**N/A**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised benefits by 'main affected groups'

As this is the do nothing counterfactual, there are no monetised benefits.

Other key non-monetised benefits by 'main affected groups'

As this is the do nothing counterfactual, there are no non-monetised benefits.

Key assumptions/sensitivities/risks	Discount rate	3.5%

The analysis assumes that RPs would choose to implement average rent increases of CPI+1% based on OBR CPI forecasts from March 2025. Estimated costs and benefits are sensitive to divergence between actual and forecast CPI levels, and the extent to which RPs implement the maximum rent increase – it is assumed for the purposes of analysis that all RPs increase rents by the maximum headline increase (but without any additional flexibility).

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0.0	**Benefits:** 0.0	**Net:** 0.0	0

Summary: Analysis & Evidence Policy Option 2: CPI+1% plus convergence of £2 per week

Description:

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
2025	**2026**	**10 years**	**Low: N/A**	**High: N/A**	**Best Estimate:0****

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	N/A		N/A	**N/A**
High	N/A		N/A	**N/A**
Best Estimate	2.4	1	865.8	**7,367.0**

Description and scale of key monetised costs by 'main affected groups'

There would be monetised costs to social housing tenants who either (a) pay their rents without assistance from Housing Support (approximately one third of social rented sector households - 1.3m); or (b) receive Housing Support but are subject to the benefit cap (approximately 40,000 households as of November 2024) or the removal of the spare room subsidy (RSRS – approximately 470,000 social rented sector households as of November 2024). We estimate that these households would pay approximately £2.0bn (2025 prices, PV) more in rent over the period 2026-36. As many of these households would have below average income, adjusting higher rents paid to reflect welfare weights would add an additional £1.3bn in lost utility.

However, convergence would only affect households currently paying less than formula rent (i.e. below the maximum that could be charged if their home was re-let to a new tenant). Convergence would, over time, achieve greater fairness between the rents paid by tenants of Social Rent homes, with rents remaining much more affordable than the private rented sector. In 2023-24, the average general needs formula rent was £112.11 per week for PRPs and £104.98 for LARPs, compared to an average private rented sector rent of £295.12. Social tenants would benefit where higher rent increases result in higher levels of investment by RPs to deliver improvements to the quality and energy efficiency of their homes.

There would also be a cost to taxpayers of £4.0bn (2025 prices, PV) in higher social security spending (compared to the 'do nothing' counterfactual) over the same period. This arises from government having to pay more in Housing Support to cover the higher rents. However, where a household is in receipt of social security payments in the private rented sector and is able to move into the social rented sector as a result of an increase in supply facilitated by higher rent levels, this would result in savings to the taxpayer.

There would be a small familiarisation cost of £2.4m (2025 prices, PV) to account for RPs understanding and implementing the new policy (for example in assessing which dwellings within each RPs' respective stock convergence applies to).

Other key non-monetised costs by 'main affected groups'

There are non-monetised costs to tenants in the form of impacts on wellbeing due to lower disposable income. We have estimated the impact on affordability of social housing rents for those households not in receipt of housing support. For working households not in receipt of housing support, we forecast rents to peak at 17.1% of income nationally, and 20.4% in London. For pensioners not in receipt of housing support, we forecast rents to peak at 26.6% of income nationally, and 36.9% in London. We think the impact on those subject to RSRS would be marginal and we think it would impact those on the benefit cap in a limited number of cases.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	N/A		N/A	**N/A**
High	N/A		N/A	**N/A**
Best Estimate	0.0		710.0	**6,039.9**

Description and scale of key monetised benefits by 'main affected groups'

Compared to the 'do nothing' option we estimate that this would result in registered providers of social housing receiving £6.0bn (2025 prices, PV) more in rental income over the period 2026-36 than would otherwise be the case. This comprises £3.0bn (2025 prices, PV) for private registered providers and £3.1bn (2025 prices, PV) for local authorities.

Other key non-monetised benefits by 'main affected groups'

****The NPV is presented as zero which reflects switching analysis which suggests that 22k (valued using Land Value Uplift) need to be supported by rent convergence income in order for the benefits to offset the costs. The number of homes that the income from convergence can support is dependent on grant availability, however our estimate is in the range of 15,000 to 40,000 homes. Therefore, given the switching analysis, our assessment is that the benefits are very likely to outweigh the costs.**

An increase in supply would result in savings for prospective social tenants who would have otherwise remained in the private rented sector. Where a household is in receipt of social security payments and is able to move into the social rented sector as a result of the increase in supply, this would result in savings to the taxpayer. It is unclear to what extent such savings may outweigh some of the monetised costs discussed in the monetised costs section.

The higher rental income compared to the 'do nothing' counterfactual may also be used to improve the quality and energy efficiency of their existing social homes or providing services to their tenants.

Key assumptions/sensitivities/risks	**Discount rate**	3.5%

The analysis assumes that registered providers of social housing would choose to implement average rent increases of CPI+1% based on OBR CPI forecasts from March 2025, plus convergence where applicable. Estimated costs and benefits are sensitive to divergence between actual and forecast CPI levels, and the extent to which RPs implement the maximum rent increase – it is assumed for the purposes of analysis that all RPs increase rents by the maximum headline increase (but without any additional flexibility).

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: **0.2**	**Benefits:** **344.3**	**Net:** **-344.1**	**N/A**

Summary: Analysis & Evidence Policy Option 3: CPI+1% plus convergence of £1 per week

Description:

FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
2025	**2026**	**10 years**	**Low: N/A**	**High: N/A**	**Best Estimate:0****

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	N/A		N/A	**N/A**
High	N/A		N/A	**N/A**
Best Estimate	2.4	1	774.2	**6,496.0**

Description and scale of key monetised costs by 'main affected groups'

There would be monetised costs to social housing tenants who either (a) pay their rents without assistance from Housing Support (approximately one third of social rented sector households - 1.3m); or (b) receive Housing Support but are subject to the benefit cap (approximately 40,000 households as of November 2024) or the removal of the spare room subsidy (RSRS – approximately 470,000 social rented sector households as of November 2024). We estimate that these households would pay approximately £1.8bn (2025 prices, PV) more in rent over the period 2026-36. As many of these households would have below average income, adjusting higher rents paid to reflect welfare weights would add an additional £1.2bn in lost utility.

However, convergence would only affect households currently paying less than formula rent (i.e. below the maximum that could be charged if their home was re-let to a new tenant). Convergence would, over time, achieve greater fairness between the rents paid by tenants of Social Rent homes, with rents remaining much more affordable than the private rented sector. In 2023-24, the average general needs formula rent was £112.11 per week for PRPs and £104.98 for LARPs, compared to an average private rented sector rent of £295.12. Social tenants would benefit where higher rent increases result in higher levels of investment by RPs to deliver improvements to the quality and energy efficiency of their homes.

There would also be a cost to taxpayers of £3.6bn (2025 prices, PV) in higher social security spending (compared to the 'do nothing' counterfactual) over the same period. This arises from government having to pay more in Housing Support to cover the higher rents. However, where a household is in receipt of social security payments in the private rented sector and is able to move into the social rented sector as a result of an increase in supply facilitated by higher rent levels, this would result in savings to the taxpayer.

There would be a small familiarisation cost of £2.4m (2025 prices, PV) to account for RPs understanding and implementing the new policy (for example in assessing which dwellings within each RPs' respective stock convergence applies to).

Other key non-monetised costs by 'main affected groups'
There are non-monetised costs to tenants in the form of impacts on wellbeing due to lower disposable income. We have estimated the impact on affordability of social housing rents for those households not in receipt of housing support. For working households not in receipt of housing support, we forecast rents to peak at 17.1% of income nationally, and 20.4% in London. For pensioners not in receipt of housing support, we forecast rents to peak at 26.5% of income nationally, and 36.7% in London. We think the impact on those subject to RSRS would be marginal and we think it would impact those on the benefit cap in a limited number of cases.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A		N/A	**N/A**
High	N/A		N/A	**N/A**
Best Estimate	0.0		635.0	**5,325.6**

Description and scale of key monetised benefits by 'main affected groups'

Compared to the 'do nothing' option we estimate that this would result in registered providers of social housing receiving £5.3bn (2025 prices, PV) more in rental income over the period 2026-36 than would otherwise be the case. This comprises £2.7bn (2025 prices, PV) for private registered providers and £2.6bn (2025 prices, PV) for local authorities.

Other key non-monetised benefits by 'main affected groups'

****The NPV is presented as zero which reflects switching analysis which suggests that 19k (valued using Land Value Uplift) need to be supported by rent convergence income in order for the benefits to offset the costs. The number of homes that the income from convergence can support is dependent on grant availability, however our estimate is in the range of 15,000 to 40,000 homes. Therefore, given the switching analysis, our assessment is that the benefits are very likely to outweigh the costs.**

An increase in supply would result in savings for prospective social tenants who would have otherwise remained in the private rented sector. Where a household is in receipt of social security payments and is able to move into the social rented sector as a result of the increase in supply, this would result in savings to the taxpayer. It is unclear to what extent such savings may outweigh some of the monetised costs discussed in the monetised costs section.

The higher rental income compared to the 'do nothing' counterfactual may also be used to improve the quality and energy efficiency of their existing social homes or providing services to their tenants.

Key assumptions/sensitivities/risks	Discount rate	3.5%

The analysis assumes that registered providers of social housing would choose to implement average rent increases of CPI+1% based on OBR CPI forecasts from March 2025, plus convergence where applicable. Estimated costs and benefits are sensitive to divergence between actual and forecast CPI levels, and the extent to which RPs implement the maximum rent increase – it is assumed for the purposes of analysis that all RPs increase rents by the maximum headline increase (but without any additional flexibility).

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs:	Benefits:	Net:	
0.2	312.7	-312.5	N/A

Evidence Base

Problem under consideration and rationale for intervention

The Government is committed to the biggest increase in social and affordable housebuilding in a generation, and to ensuring that tenants can live in homes that are safe, decent and warm.

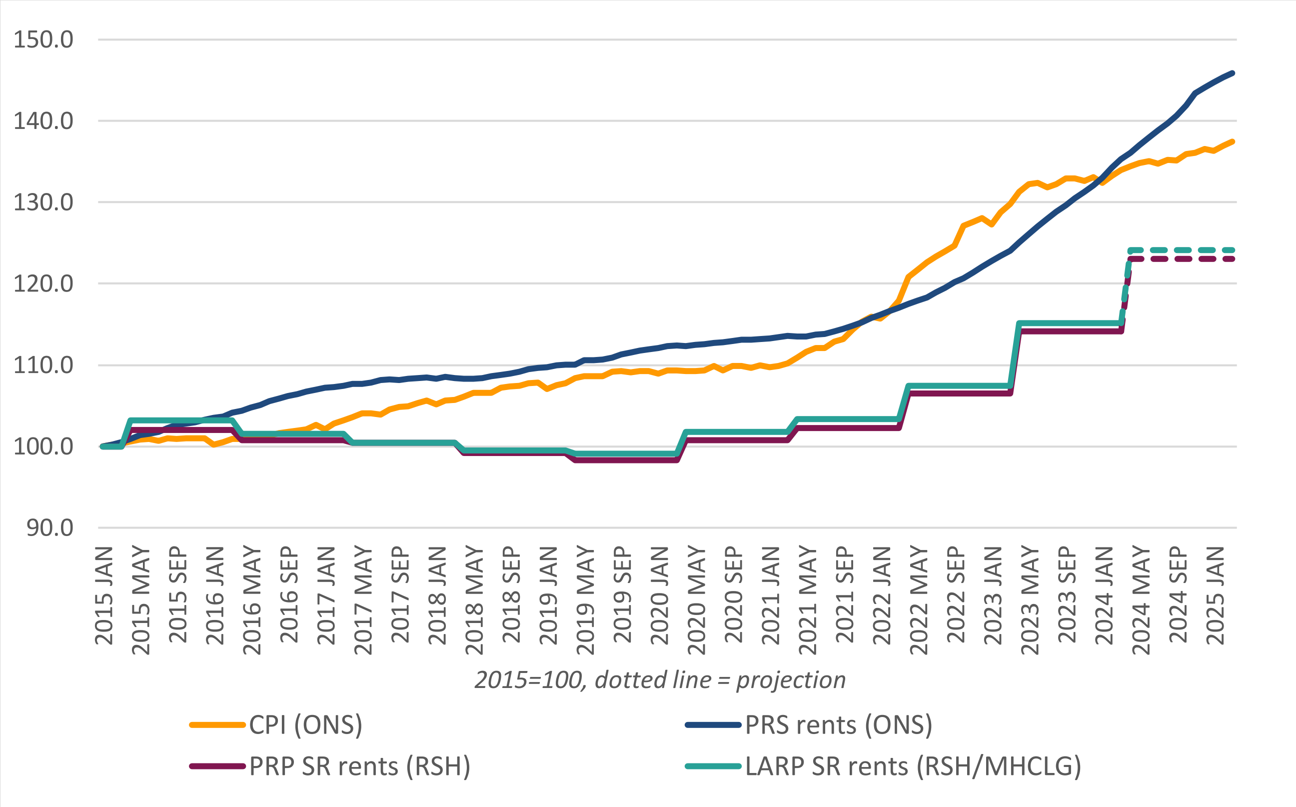
At the Spending Review, the government set out the main elements of our social and affordable housing investment strategy in this Parliament. This includes a new Social and Affordable Homes Programme that will provide the biggest boost to social and affordable housing investment in a generation, as well as giving social landlords equal access to government remediation funding schemes.

Alongside government investment, significant investment by Registered Providers (RPs) of social housing – these are comprised of private Registered Providers (PRPs) such as housing associations, charities and for-profit organisations, and local authority Registered Providers (LARPs) - will be required to improve the quality and supply of social and affordable housing. However, RPs' financial capacity has weakened over recent years. This has been due to a combination of rising repairs and maintenance costs, including the cost of decarbonisation and of remediating building safety defects, increasing interest costs and real-terms rent cuts implemented by the previous government.

Figure 1 demonstrates how growth in social housing rents for private Registered Providers (PRPs) and local authority Registered Providers (LARPs) has lagged both CPI (and private rents) in part as a result of these cuts. Since 2015, both CPI and Private Rented Sector (PRS) rents have risen steadily. From January 2024 onward, PRS rents have increased at a faster rate than CPI, reaching an average of £321 per week by April 2025. This contrasts with trends in the social rented sector. Rents for both PRPs and LARPs decreased from 2016, moving in the opposite direction of CPI, largely due to rent reductions implemented under the previous government. This trend continued until 2020, after which social housing rents began to rise again. In 2023/24, average weekly rents stood at £109.44 for PRPs (General Needs) and £98.90 for LARPs (General Needs and Supported Housing[1]), with increases of 7.8% (CPI+1%) in 2024/25, bringing them to an estimated £117.98 and £106.61 respectively – 36.8% and 33.2% of the April 2025 PRS average weekly rent.

[1] For the purposes of Figure 1, GN and SH rents have been used given data availability earlier in the period. See Additional tables; Table 1.14 - https://www.gov.uk/government/collections/registered-provider-social-housing-stock-and-rents-in-england

Figure 1: Rents and inflation index, Jan 2015 – April 2025[2]



Alongside the cost pressures mentioned above, the effect has been to reduce RPs' aggregate financial capacity significantly. There are different metrics available to measure financial viability. Here, we have focussed on operating deficits (or surpluses) for LARPs and aggregate interest cover for PRPs. Other measures, such as the operating margin or level of debt for PRPs, are available in sector reports[3].

In aggregate across all 162 council landlords with Housing Revenue Accounts[4], spending has exceeded turnover in four of the past five years, leading to a corresponding decrease in aggregate reserves as they are used to cover the shortfall in the ring-fenced account. This is demonstrated in Figure 2 below, taken from local authority revenue expenditure and financing data published by MHCLG. PRP aggregate interest cover[5], a key measure of their financial viability, has declined from 174% in 2017-18 to just 88% in 2023-24. This is demonstrated in Figure 3 below taken from the Global Accounts 2023-24 published by the Regulator of Social Housing ('the Regulator'), which shows the aggregate interest cover position since 2017/18[6].

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2 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/privaterentandhousepricesuk/may2025/relateddata; https://www.ons.gov.uk/economy/inflationandpriceindices; https://www.gov.uk/government/organisations/regulator-of-social-housing/about/statistics

3 See, for example, RSH's Global Accounts which states PRP total debt of £99.7bn in 2023/24 - https://www.gov.uk/government/publications/2024-global-accounts-of-private-registered-providers/2024-global-accounts-of-private-registered-providers

4 The Housing Revenue Account (HRA) records expenditure and income on running a council's own housing stock and closely related services or facilities.

5 EBITDA MRI, as reported by the Regulator of Social Housing (RSH) - https://www.gov.uk/government/publications/2024-global-accounts-of-private-registered-providers

Figure 2: HRA surplus/deficits and HRA reserves, 2013-14 to 2023-24[7]

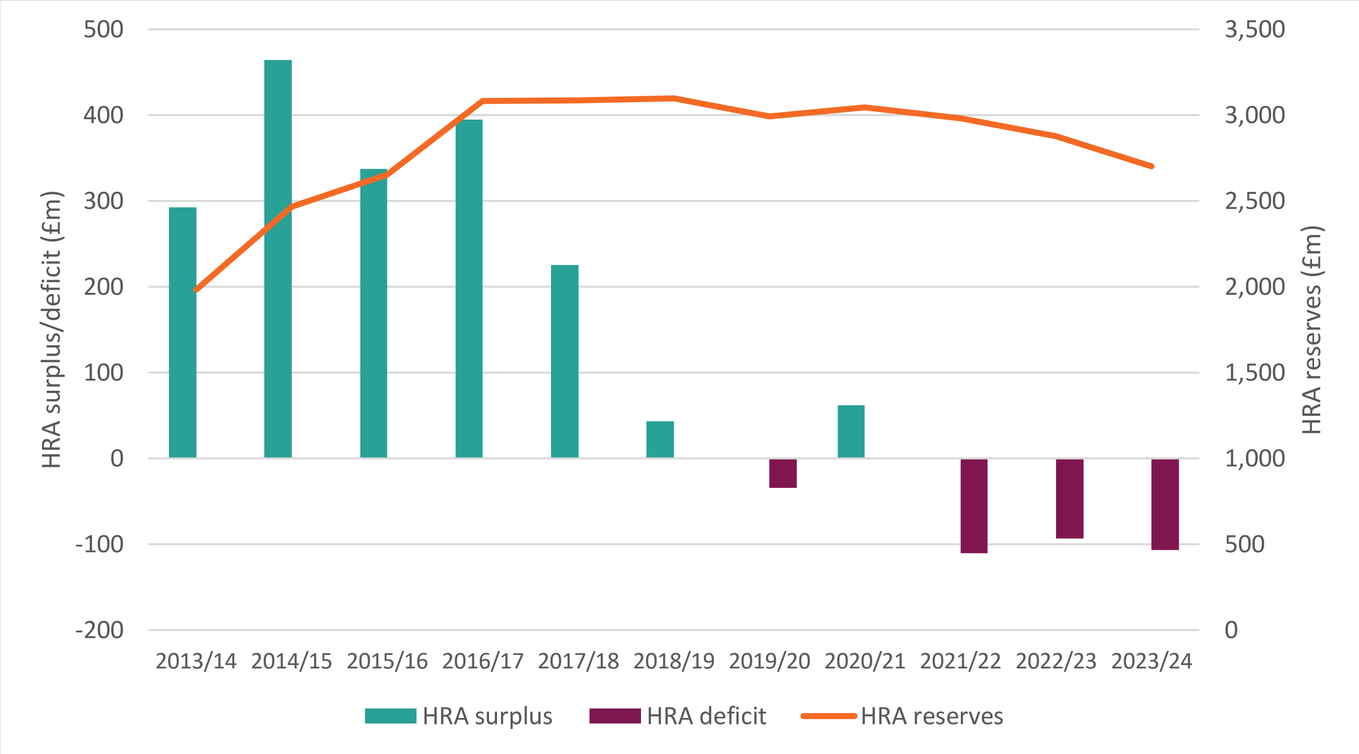
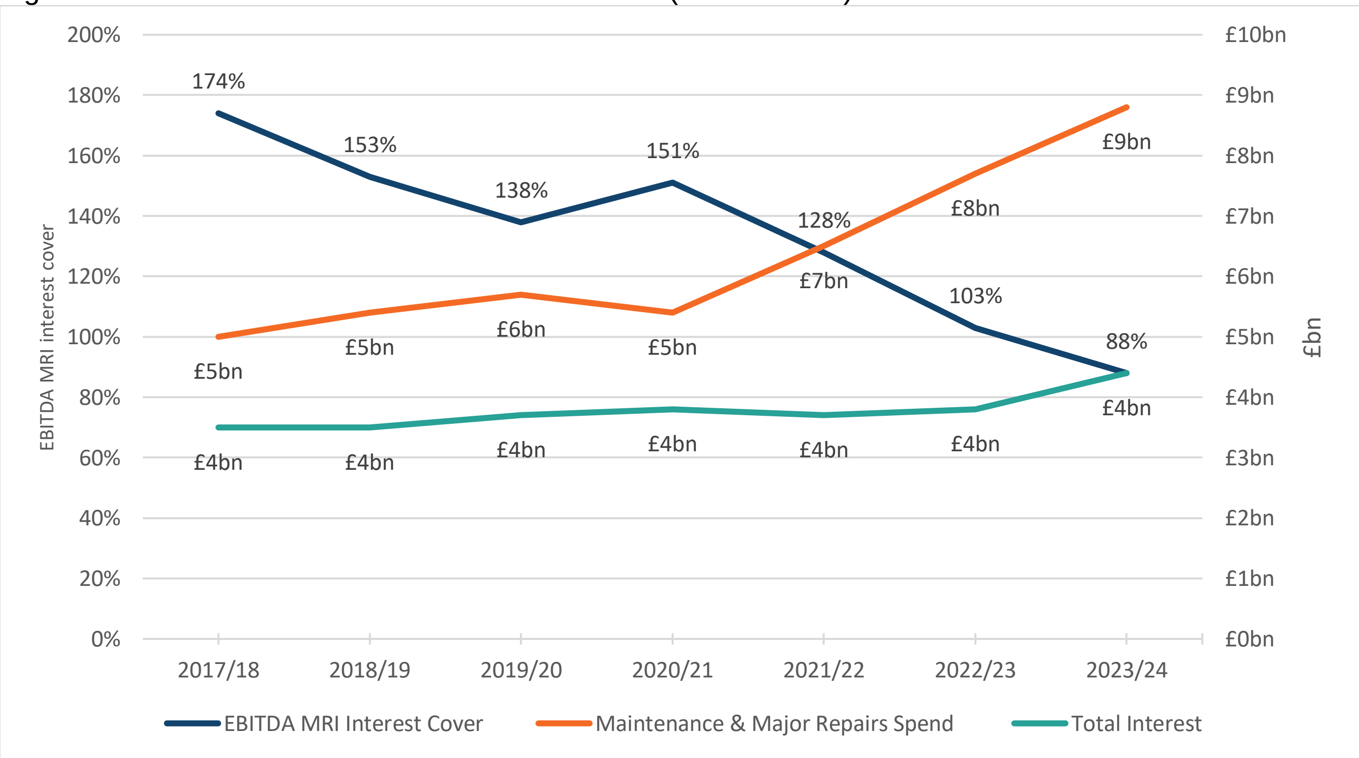


Figure 3: PRP EBITDA MRI interest cover 2020-24 (consolidated)[8]

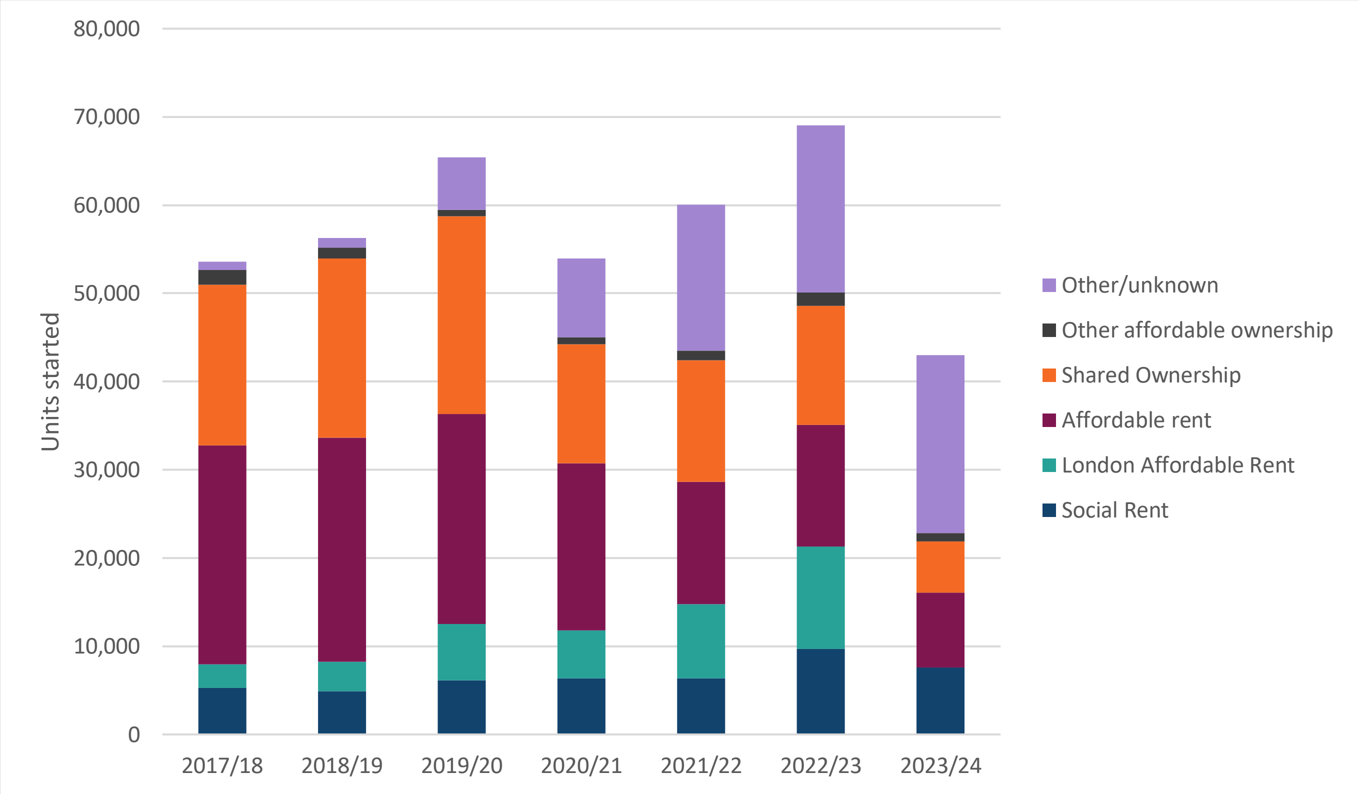


As a consequence, RPs have been scaling back their planned delivery of new homes in the years ahead. Affordable housing starts were 39% lower in 2023-24 than in the previous year – see Figure 4 below on affordable housing starts in England by tenure since 2017-18, taken from affordable housing supply data published by MHCLG. PRPs reduced their five year development forecast by 105,000 homes between June 2022 and June 2024, from 397k to 292k[9]. A recent survey conducted by

[7] https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing
[8] https://www.gov.uk/government/publications/2024-global-accounts-of-private-registered-providers
[9] https://www.gov.uk/government/publications/2024-global-accounts-of-private-registered-providers

Southwark Council[10] of 76 stockholding council landlords found two-thirds (67%) are at risk of being unable to balance their housing budgets by 2029/30 and that 68% expect to scale back their housebuilding commitments in order to manage their budget pressures.

Figure 4: Affordable housing starts on site by tenure, England, 2017-18 to 2022-24[11]



Rental income is the single biggest source of turnover for RPs. In 2023-24, rental income was worth around £24bn (70% of turnover[3,12]). The amount of rental income that RPs receive has implications for how much they can spend on their activities such as managing, maintaining, repairing and improving their existing social housing properties. It also affects the number of homes they can build, not least because the amount they can borrow partly depends on expectations about future levels of rental income.

Government social housing rent policy regulates the maximum rent that RPs can charge for their Social Rent and Affordable Rent homes. 91% of rented social housing properties owned by RPs are let at 'Social Rent'[13]. Social Rents are set using a formula specified by government. This creates a 'formula rent' for each property, which is calculated in a way that takes account of the relative value of the property, the size of the property and relative local income levels. Landlords have flexibility to set initial rents up to 5% above the formula rent (10% in the case of supported housing) – this is known as the 'rent flexibility level'. The majority of Social Rent homes have rents that remain below formula - as at 31 March 2024, PRPs held 2.1 million non-excepted Social Rent homes, of which 1.3 million (61.3%) were below formula rent; LARPs held 1.5 million non-excepted Social Rent homes, of which 1.5 million (99.9%) were below formula rent. 9% of rented social housing properties owned by RPs are let at 'Affordable Rent', where rents are permitted to be set at up to 80% of market rent (inclusive of service charges).

Since 2020, social housing rents have been permitted to increase by CPI+1% per annum, based on the CPI rate taken at the previous September ('the CPI+1% policy'). The one exception to this was in 2023-24, when the previous government introduced a 7% rent cap in light of higher than expected inflation.

[10] Council housing budget survey results (January 2025) | Southwark Council

[11] https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply

[12] https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2023-to-2024-individual-local-authority-data-outturn

[13] https://www.gov.uk/government/statistics/registered-provider-social-housing-stock-and-rents-in-england-2023-to-2024

The CPI+1% policy was set in February 2019, via a Direction issued by the then Secretary of State to the Regulator under section 197 of the Housing and Regeneration Act 2008 ('the 2008 Act'). The CPI+1% policy came into effect in April 2020, under a Rent Standard issued by the Regulator under section 194 of the 2008 Act. Registered Providers of social housing ('RPs') must comply with the Rent Standard.

At the Spending Review, the government announced a 10 year social housing rent settlement from 2026 that will permit rents to increase by CPI+1%. The government believes that this 10 year rent settlement, alongside a 10 year £39 billion Social and Affordable Homes Programme, gives the sector the long-term certainty it needs. It sets the foundations for RPs to play their full role in delivering the biggest increase in social and affordable housebuilding in a generation, as well as lasting change in the safety and quality of social housing.

However, as noted above, the majority of Social Rent homes have rents that remain below formula, and the government recognises that this is an important limiting factor on the sector's overall financial capacity. This deficit between actual rents and formula rents has arisen for two main reasons. First, although there was a convergence mechanism in rent policy between 2002 and 2015 that allowed actual rents to be brought into line with formula rents, some rents remained below formula by 2015. This mechanism permitted – but did not require – weekly rents to increase by an additional £2 per annum until they 'converged' with formula rents. Second, the temporary 7% limit that applied to rent increases in 2023-24 resulted in more homes having rents below formula (formula rents increased by 11.1% in that year).

The Government believes it is right to go further than the CPI+1% policy and address the disparity between actual rents and formula rents by implementing Social Rent convergence. This would allow rents on Social Rent properties that are currently below formula rent to increase by an additional amount each year, over and above the CPI+1% limit. This would increase the financial capacity of RPs to invest in new and existing homes. Failing to do so would have adverse consequences for those who would otherwise benefit from that investment. This includes existing social housing tenants, where the constraining effect of unconverged rents on RPs' financial capacity could result in their properties not being maintained at the standard they have every right to expect. It also includes those who are currently homeless or in unaffordable or unsuitable private rented housing, for whom the provision of an affordable, safe and secure home can have a life-changing impact.

We believe that implementing Social Rent convergence is a fairer approach than increasing the CPI-linked limit, which would permit higher rent increases across the board. We do not believe it would be fair to ask those who are already paying higher rents – for example, those in Affordable Rent homes or Social Rent homes with rents that are at or above formula rent – to meet the cost of rent increases in excess of CPI+1%. Implementing Social Rent convergence is preferable because it would involve those who currently pay lower rents being asked to pay an additional amount.

As noted above, a convergence mechanism would allow rents on Social Rent properties that are currently below formula rent to increase by an additional amount on top of CPI+1% each year. We are consulting on what that additional amount should be, focusing on narrowing the gap against the total sector deficit of approximately £790m by £1 or £2 increases in weekly rent each year. At an aggregate level, we estimate that an additional £2 will be required for between two and three years, whilst £1 would be required for between three and six years. However, the length of time required for properties to converge will vary on a dwelling-by-dwelling basis.

Below, Figures 5-8 demonstrate how many years of £1 or £2 convergence would be required for RPs, as estimated using data from the Regulator of Social Housing[14]. This has been calculated by comparing average net rents for General Needs Social Rent dwellings subject to the rent settlement with formula rents at an RP-level from 2023/24 data[15].

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[14] https://www.gov.uk/government/statistics/private-registered-provider-social-housing-stock-and-rents-in-england-2023-to-2024; https://www.gov.uk/government/statistics/local-authority-registered-provider-social-housing-stock-and-rents-in-england-2023-to-2024

[15] This is based on large PRPs which own 1,000 or more dwellings and are therefore submit more detailed rents data to the RSH. LARP Figures also include a small number of small RPs (which own <1,000 dwellings). Also, it should be noted that average deficits will increase slightly by 2026/27 given CPI+1% increases will be larger in nominal terms on formula rent compared with average net social rent.

As noted in the figure headings, this data is representative of the average deficit between rents paid and formula rent for each RP. However, in addition to variation between RPs, there will be variation within RPs around their respective average net rents. Where RPs own stock with significant variation in respective dwelling-level deficits, this would mean that some of their dwellings may converge quicker and some may converge slower than the below Figures suggest.

Figure 5, Years of £2 convergence required, PRPs (at average deficit level)[16]

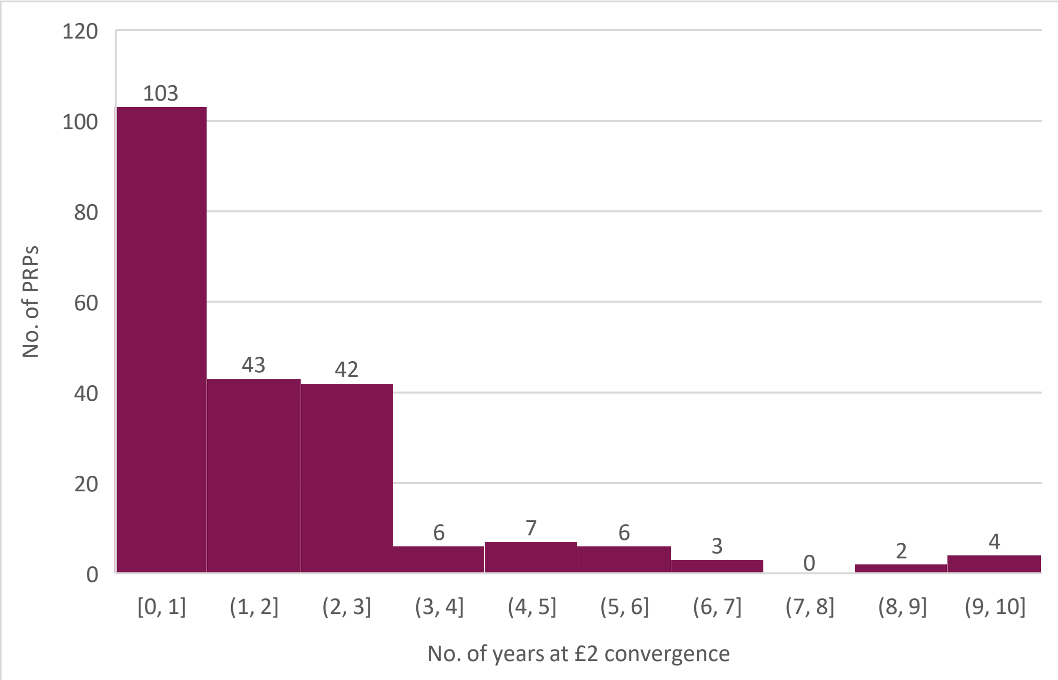
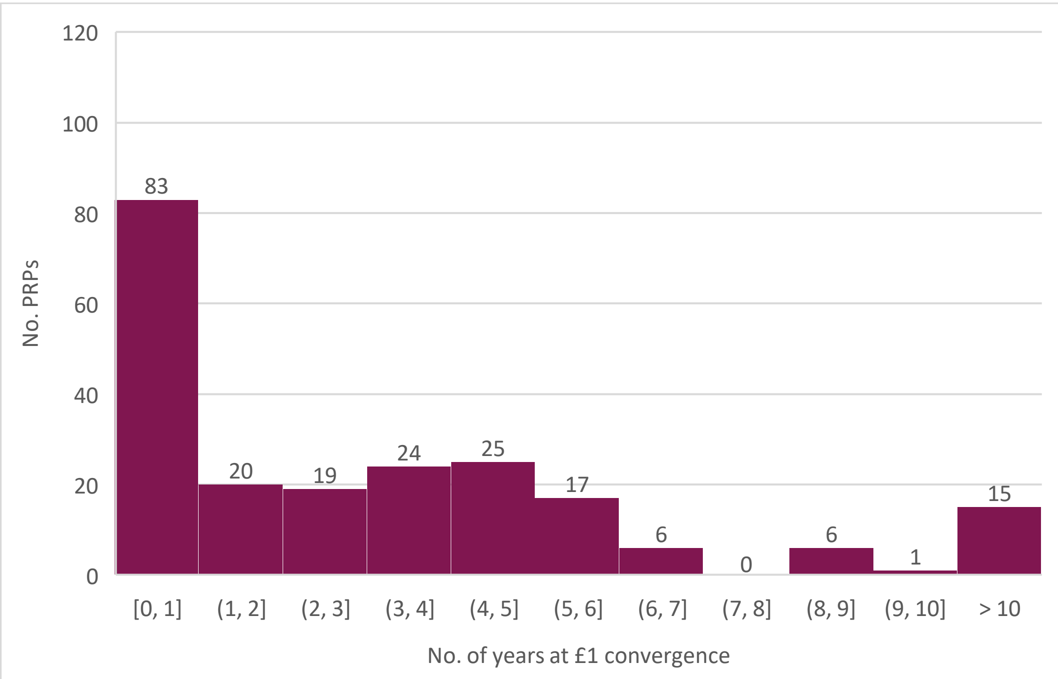


Figure 6, Years of £1 convergence required, PRPs (at average deficit level)



Of the 216 PRPs for which data is available, 159 (74%) would benefit from convergence because their average Social Rent dwelling net rent is below formula rent. With a £2 convergence mechanism, 103 (65%) of these PRPs would converge within the first year of the policy. 15 (9%) would require five or

[16] To assist with understanding of the X-axis – parentheses () mean the value is excluded, while brackets [ ] mean the value is included. For example (1,2] means that values greater than 1 and up to and including 2 are included.

more years. With a £1 convergence mechanism, 83 (52%) would converge within the first year. However, 45 (28%) would require five or more years.

Figure 7, Years of £2 convergence required, LARPs (at average deficit level)

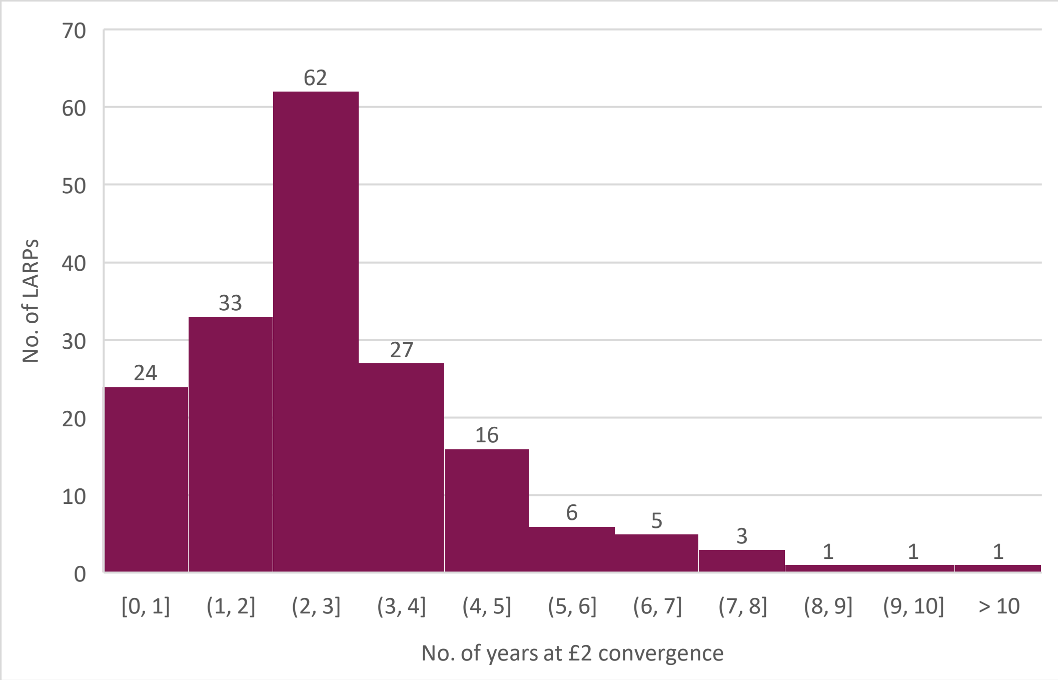
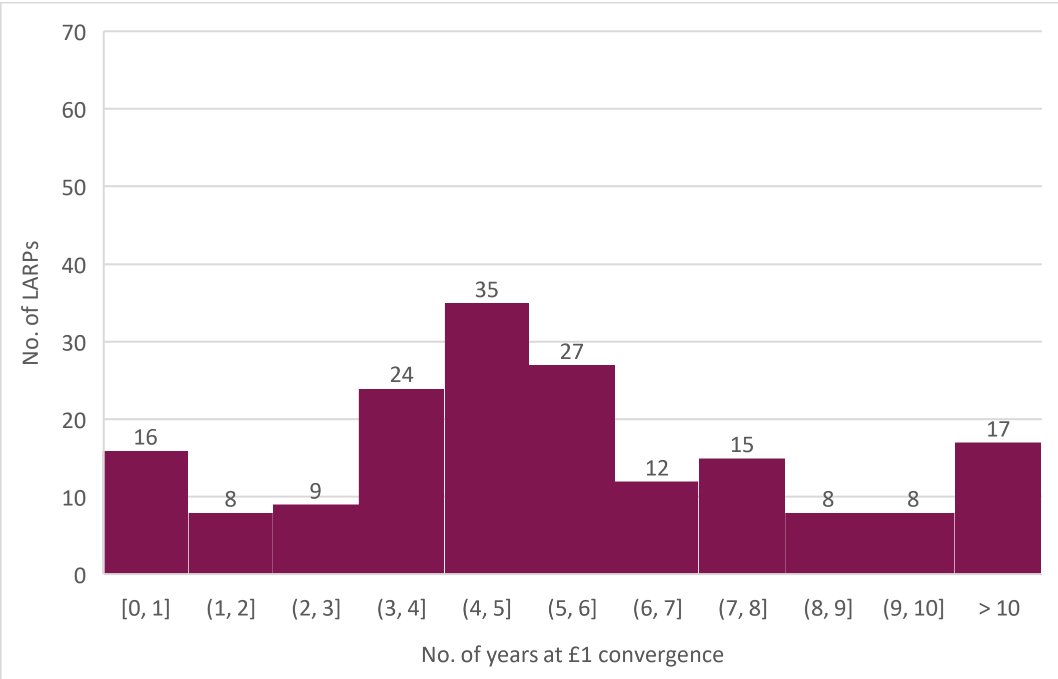


Figure 8, Years of £1 convergence required, LARPs (at average deficit level)



Of the 179 LARPs for which data is available, 167 (93%) would benefit from convergence because for their average Social Rent dwelling net rent is below formula rent. With a £2 convergence mechanism, 24 (14%) of these LARPs would converge within the first year of the policy. 17 (10%) would require five or more years. With a £1 convergence mechanism, 16 (10%) would converge within the first year. However, 87 (52%) would require five or more years.

For brevity, we have presented analysis of convergence required for General Needs dwellings only, excluding Supported Housing dwellings. The latter is included within overall estimates of convergence required, underpinning the costs and benefits in this Impact Assessment. Supported Housing dwellings account for a smaller proportion of overall convergence required, given the number of dwellings at (or above) formula rent. Supported Housing dwellings are estimated to account for 5% of the overall formula rent deficit. 72% of PRP SH dwellings and 1% or LARP SH dwellings are estimated to be at or above formula rent.

Under either of the £1 or £2 options, there is also a choice about the *timing* of convergence. This involves deciding whether convergence should be available to RPs for the full period of the 10 year rent settlement or only for part of it (i.e. by being implemented after 2026 and/or terminated before 2036). We are seeking views on this through the consultation. Making convergence available for a longer period would permit RPs to raise more income and – much as with the £1 and £2 options – this would have a more significant impact for those RPs with larger average deficits (as more time is required to eliminate them). For simplicity and ease of comparison, we have assessed the £1 and £2 options in this Impact Assessment with the assumption that they will be available for the full 10 year period of the rent settlement. If instead these options were only available for part of that period, their impacts would be smaller than indicated.

We recognise that this policy would have an impact on the disposable income of some tenants, specifically around one third of social rented sector household not in receipt of Housing Benefit or the housing element of Universal Credit (HB/UCHE) to help pay their rent, and those subject to the benefit cap or removal of spare room subsidy (RSRS). We nevertheless think this policy strikes a fair balance between the need for increased investment in new and existing homes, the interests of those whose disposable income would be affected by rent increases and the consequences for social security spending.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

The analysis is largely based on:

- Rental income data set out in Housing Revenue Account data[17] (for local authority registered providers) and the 2024 Global Accounts published by the Regulator[18] (for private registered providers).
- The rental income forecasts issued by the OBR in its March 2025 Economic and fiscal outlook.[19]
- Social security savings are estimated based on a proportion (2/3rds) of the estimated change in rental income.
- Distributional analysis has been calculated using data from the Households Below Average Income series[20], and methodology from the MHCLG Appraisal Guide.[21]
- PRP financial forecasts – reported in the Annex to the 2024 Global Accounts. These forecasts show a continuation of the trends of weaker financial performance, increasing repair and maintenance spend, higher interest costs and reduced forecast development.[22]

This is sufficient to provide overall estimates of the rental income impacts of different options on RPs.

The actual impacts will vary depending on (a) the decisions that individual RPs would make about where to set rent increases within whatever limit is set; (b) the extent to which actual CPI varies from the forecasts.

Monetised costs and benefits have focused on these rental income impacts and how they would be distributed between tenants, social security, and RPs' income – effectively acting as transfers. Higher rents will be felt as a reduction to disposable income for tenants who pay their rents, and for those in receipt of

[17] https://www.gov.uk/government/collections/local-authority-housing-data

[18] https://www.gov.uk/government/collections/global-accounts-of-housing-providers

[19] https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/

[20] Accessed via Stat-Xplore - https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml

[21] https://assets.publishing.service.gov.uk/media/67fe6be1ed87b8160854670a/MHCLG_The_Appraisal_Guide.pdf; see Annex H – Distributional Impacts

[22] https://www.gov.uk/government/collections/global-accounts-of-housing-providers

housing-related social security payments, an increase in the social security bill. Conversely, such increases will equate to an identical increase in income for RPs[23].

We have accounted for the reduction in utility for social tenants within the distributional analysis – this is discussed in more detail within the monetised costs and benefits. The benefits of increased rental income for RPs are presented in the form of increased supply – specifically the number of homes required to offset the distributional cost to tenants. These homes are valued using Land Value Uplifts, as per MHCLG appraisal guidance.[24]

Our non-monetised benefits have focused on the impact increased rental income could have on investment in providing new social housing, which is vital if we want to reduce pressure on temporary accommodation, improving the quality and energy efficiency of RPs' existing social homes or providing services to their tenants. Each RP's financial position and set of priorities is unique, so it is difficult to predict how each RP will react to different changes in rental income. Responses to the consultation will help us to better understand the impacts on individual RPs and tenants.

Description of options considered

We have considered the following options:

- **Option 1:** Do nothing - leave the CPI+1% policy unamended

- **Option 2:** Continue to permit rents to increase by up to CPI+1% each year for 10 years from 2026-27 – 2035-36, but also introduce a convergence mechanism that permits RPs to increase weekly rents on their Social Rent homes that are below formula rent by a further £2 each year until those rents converge with formula rent. Convergence is assumed to begin in 2026-27 and end when the deficit is removed (the aggregate deficit requiring two to three years is used for modelling purposes, however, this will vary on a dwelling-by-dwelling basis). We will hereafter refer to this option as 'CPI+1% plus £2 convergence'.

- **Option 3:** Continue to permit rents to increase by up to CPI+1% each year for 10 years from 2026-27 – 2035-36, but also introduce a convergence mechanism that permits RPs to increase weekly rents on their Social Rent homes that are below formula rent by a further £1 each year until those rents converge with formula rent. Convergence is assumed to begin in 2026-27 and end when the deficit is removed (the aggregate deficit requiring four to six years is used for modelling purposes, however, this will vary on a dwelling-by-dwelling basis). We will hereafter refer to this option as 'CPI+1% plus £1 convergence'.

Options 2 and 3 are intended to provide RPs with additional rental income to support their investment in new and existing homes. They would be implemented by issuing a direction to the Regulator under section 197 of the 2008 Act. This direction would require the Regulator to set a Rent Standard (under section 194 of the 2008 Act) with which RPs are required to comply.

Policy objective

The policy objective is to provide RPs with the rental income and stability they need to be able to borrow and invest in both new and existing homes, while ensuring there are appropriate protections for both existing and future social housing tenants.

Summary and preferred option with description of implementation plan

We do not have a preferred option at this stage. This decision will be informed by response to the consultation. Based on our modelling, we think that introducing a convergence mechanism at £1 or £2 would improve the financial capacity of RPs so they can commit to greater levels of investment, delivering more new social and affordable housing and helping to ensure that every social tenant can live in a home that is safe, decent and warm.

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[23] Note that we do not explicitly monetise the societal benefits of RPs' increased rental income, namely from their ability to increase housing supply. This is covered within the 'non-monetised benefits' and 'switching analysis' sections.

[24] https://www.gov.uk/government/publications/the-mhclg-appraisal-guide

£1 or £2 convergence mechanisms would only apply to Social Rent homes, and only those homes with actual rents that are below formula rents. This is especially prevalent amongst councils, where 99.9% of dwellings require convergence (according to average formula rent vs. average net rent at LARP level)[25,26]. It is important to note that households paying Affordable Rent would not see their rent levels impacted by the introduction of a convergence mechanism.

As noted above, these options would be given effect through a direction from the Secretary of State to the Regulator under section 197 of the 2008 Act. This direction would require the Regulator to bring a Rent Standard into effect form 1 April 2026. The Regulator would then be responsible for the ongoing monitoring and enforcement of the Rent Standard, in the same way that it is now.

No specific transitional arrangements are required. RPs make decisions about what annual rent increases to set each year, once the September CPI figure is known (published by ONS in mid-October).

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Description of method:

To estimate the cost impacts of the policy, we have modelled how the rental income of RPs would grow over 10 years from 2026-27 to 2035-36 based on current OBR CPI forecasts to calculate a baseline. This is set out in Table 1.

For Options 2 and 3, we calculated current levels of divergence from formula rent at an RP-level from RSH Statistical Data Returns[27] and Local Authority Data Returns[28]. As noted previously, at a provider/area level, 61.3% of PRP dwellings and 99.9% of LARP dwellings require convergence. The amount of convergence required (i.e., years of +£1 or £2 per week) varies significantly across the distribution (see Figures 5-8 for further detail). At an aggregate level, the total deficit is estimated as approximately £310m for PRPs and £480m for LARPs.

The next step in the analysis is to forecast rents forward with and without divergence, adding £1 or £2 per week to diverged dwellings until the deficit is removed. As noted in the risks and assumptions section, it is assumed that rents for all dwellings increase by the maximum increase of CPI+1%. As a result of this assumed increase in rents, we assume that the current level of divergence remains until weekly supplements are added (and once converged, dwellings remain so).

The difference between the baseline and policy scenario rental income was then calculated and is reported in the later sections of this chapter.

Table 1: Rent increase assumptions[29]

Financial Year	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**
Counterfactual annual rent increase	4.8%	2.9%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%

Social security impacts are calculated as 2/3 of the change in rental income. This is the long-run average of the proportion of social rented sector rental income paid via Housing Benefit or the housing element of Universal Credit.

25 https://www.gov.uk/government/collections/local-authority-registered-provider-social-housing-stock-in-england

26 This compares to 61.3% for PRPs (averages taken at RP and local authority area level) – https://www.gov.uk/government/collections/private-registered-provider-social-housing-stock-in-england

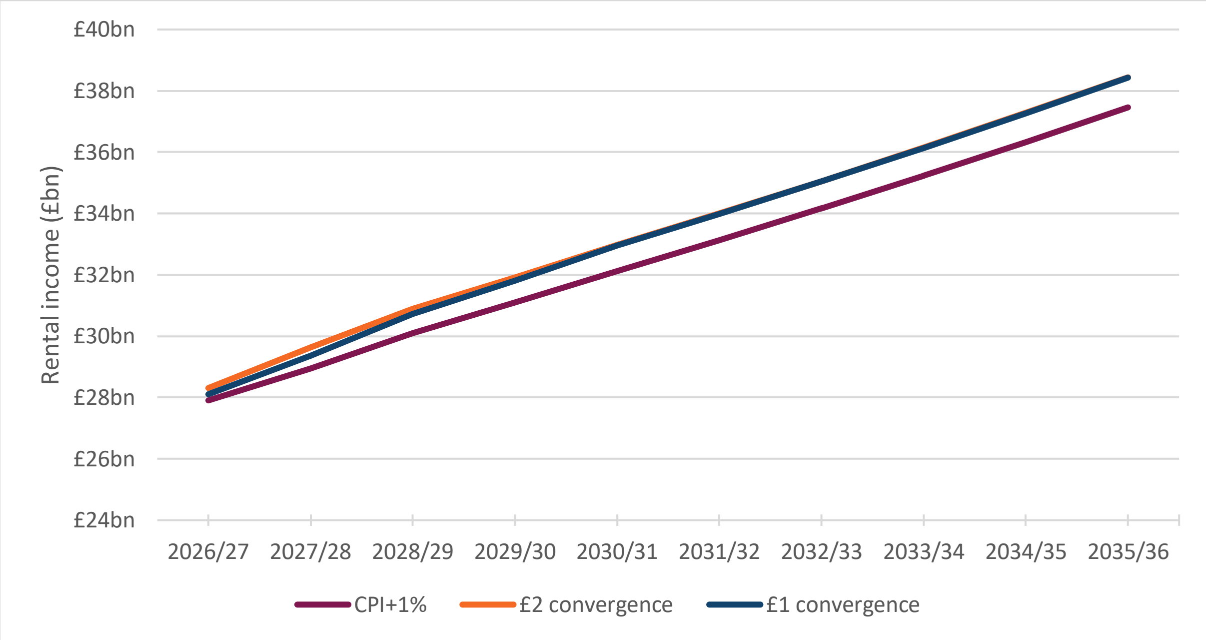
27 https://www.gov.uk/government/statistics/private-registered-provider-social-housing-stock-and-rents-in-england-2023-to-2024

28 https://www.gov.uk/government/collections/local-authority-registered-provider-social-housing-stock-in-england

29 OBR March 2025 Economic and Fiscal Outlook, Economy Detailed forecast tables, Table 1.18 Eligible rent growth assumptions; https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/

As outlined on page 15, the source for estimates of PRP income was the Global Accounts and for Local Authorities, the Local Authority revenue outturn data (RO4). We then apply annual rental growth rates as per OBR's latest Economic and Fiscal Outlook to forecast future rental income. The annual rental growth rates are outlined in the assumptions and sensitivities chapter.

Figure 9: comparison of rental income (nominal terms)[30,31]



Under the current policy, CPI+1%, sector incomes are forecast to increase to >£30bn per year by the third year of the rent settlement, 2028/29. This equates to £20bn for PRPs and £10bn for LARPs. The addition of a convergence mechanism enables rents to increase by £7.4bn-£8.2bn over the period (a gap of £1bn in the final year of the 10 year settlement). Both +£2 and +£1 result in the same yearly rents once converged, with +£2 enabling landlords to converge more quickly. It is worth noting that this analysis is produced at an aggregate level, however, landlords (and therefore dwellings) have significant deviation in time required to converge at +£2 vs. +£1, as shown in Figures 5-8.

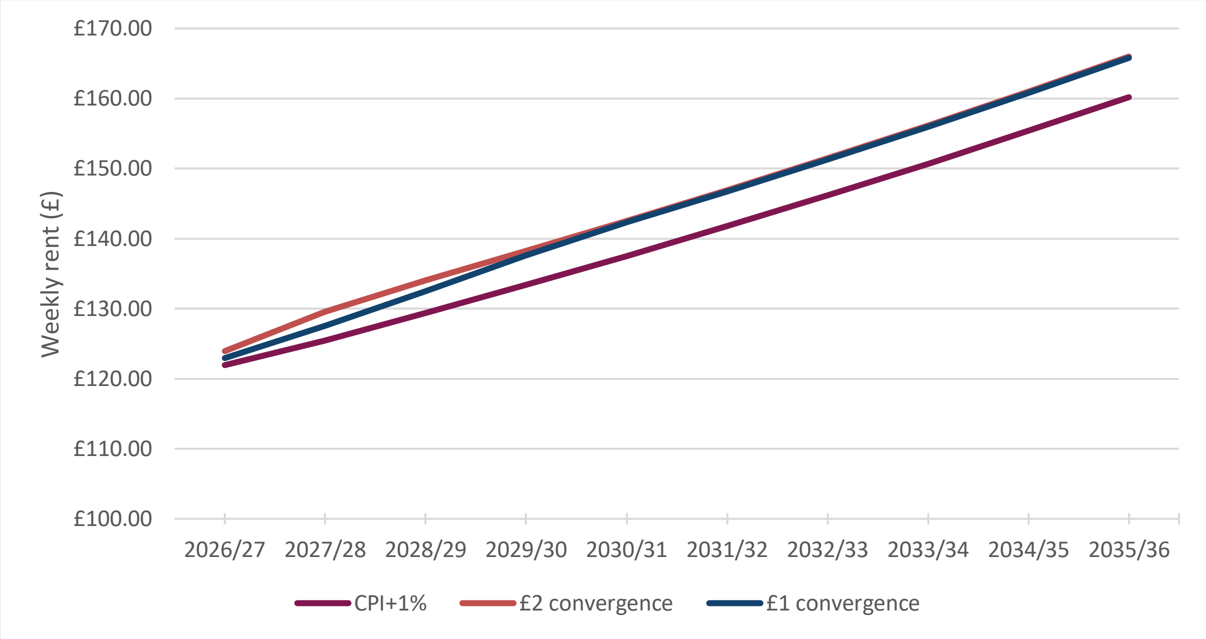
Figure 10: comparison of average rents (nominal terms)[32,33]

30 Income is presented in nominal terms, meaning that it is inclusive of inflation and undiscounted. This differs from Tables 7-9 below, where figures are provided in constant 2025 prices, and discounted, as per HMT Green Book guidance.

31 Forecasted internally using data on PRP and LARP incomes, and OBR forecasts for rental growth. See footnotes 17-19 on page 15.

32 Rents are presented in nominal terms, meaning that it is inclusive of inflation and undiscounted. This differs from Table 2 and 3 below, where figures are provided in constant 2025 prices, and discounted, as per HMT Green Book guidance.

33 Forecasted using data from the Family Resources Survey, accessed via Stat-Xplore - https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml, and OBR CPI determinants from the March 2025 Economic and Fiscal Outlook - https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/



In 2023/24, the weekly median rent in the social rented sector was £105. By 2026/27, this is forecast to be £122 under the current policy of CPI+1%, Option 1. Convergence would impact this by £1-£2 in options 2 or 3, with no effects of compounding in the first year. By 2030/31, the weekly average rent is projected to reach £142.50 under Option 2 and £142.30 under Option 3, compared to £137.50 under the counterfactual, Option 1. The average weekly rent is forecast based on the median household in the social rented sector, regardless of whether they receive housing support. Further detail on social security and income impacts can be found in the monetised costs section below.

Option 1: Do Nothing – continue with CPI+1%

As this is the ‘do nothing’ counterfactual, there are no monetised or non-monetised costs and benefits.

Affordability for Options 1, 2, and 3 is discussed in the non-monetised costs section below. Under all options, rents are forecast to account for a slightly higher proportion of income by the year 2029/30, before reducing back towards current levels. These estimates are sensitive to OBR forecasting of CPI and income growth.

Options 2 and 3: CPI+1% plus £2 (option 2) or £1 (option 3) convergence for 10 years from 2026-36

<u>Monetised costs</u>

In addition to familiarisation costs, Options 2 and 3 would have monetised costs in the form of (a) higher rental costs to some social housing tenants; and (b) higher social security expenditure. For the purposes of analysis, it is assumed that all RPs increase rents by the maximum increase. Tables 2 and 3 below provide an estimate of these costs for £2 and £1 convergence respectively.

Table 2: Monetised costs of CPI+1% plus £2 convergence compared to counterfactual (2026-36)

£bn (2025 prices, PV)	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**	**Total – 26-36**
Higher rental costs for tenants	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	2.0
Higher social security expenditure	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	4.0
Total	0.4	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	6.0

Table 3: Monetised costs of CPI+1% plus £1 convergence compared to counterfactual (2026-36)

£bn (2025 prices, PV)	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36	Total – 26-36
Higher rental costs for tenants	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.8
Higher social security expenditure	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	3.6
Total	0.2	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	5.3

The monetised costs to tenants would not be distributed equally among all tenants. Firstly, convergence would only apply to those tenants living in Social Rent homes (equating to ~3.8m dwellings, or 91% of social rented stock), and those whose rents are below formula rent. Secondly, we estimate that the only the following groups of tenants would see an impact on their disposable income: (a) tenants who pay rents without assistance from Housing Support (i.e. Housing Benefit or the housing element of Universal Credit); and (b) those who receive Housing Support but are subject to the benefit cap or the removal of the spare room subsidy. In the non-monetised costs section below, we provide some analysis of the impacts on these groups. The disposable income of other social renters should not be affected by Options 2 or 3, because the amount of Housing Support they receive would be adjusted upwards to reflect the higher level of rent.

Distributional Impacts

There would also be distributional costs given that the policy results in a reduction in the disposable income of below average income households. Nearly half of social renters (around 2 million households) are in the lowest income quintile, and a further 28% (around 1 million households) are in the second lowest income quintile.[34] However, the impacts would not be distributed equally among all tenants, but the reduction in disposable income would be experienced by social tenants' whose rents are not covered by housing related social security payments (and hence are paying rents out of their own pockets rather than through social security payments). Those tenants who are in receipt of housing support do not experience the same impacts given additional social security essentially acts as a transfer to landlords, without any subsequent reduction in disposable income for tenants.

Using data from the Households Below Average Income series[35], we are able to estimate the reduction in utility to this group of tenants (i.e. those tenants of social housing who are not in receipt of Housing Benefit or Universal Credit[36]) by estimating a distributional weighting. 34% of those social housing tenants not in receipt of such benefits are in the lowest income quintile, 25% are in the second lowest income quintile.

The basis for distributional weighting is the economic principle of diminishing marginal utility of income. It states that the value of an additional pound of income is higher for a low-income recipient than for a high-income recipient[37]. We therefore apply a net distributional weighting of 0.7 to the estimated change in (non-social security recipient) tenants' rents, resulting in a monetised cost of £1.3bn (2025 prices, PV) for Option 2 or £1.2bn for Option 3.

However, there are likely to be distributional benefits for prospective social housing tenants who would otherwise remain in the private rented sector, where rents are higher. This is discussed in the non-monetised benefits section below.

Familiarisation costs

There are small familiarisation costs to account for the time taken for staff to understand and implement new policy. Landlords will be referred to guidance which is estimated to be 20-25 pages in length. Based

[34] English Housing Survey: Rented Sectors, 2023-24

[35] https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2024; breakdowns available via Stat-Xplore

[36] We are not able to isolate those in receipt of the housing element of Universal Credit only, so use total Universal Credit for the purpose of this analysis.

[37] For more information see Annex H – Distributional Impacts https://assets.publishing.service.gov.uk/media/67fe6be1ed87b8160854670a/MHCLG_The_Appraisal_Guide.pdf

on reading speeds of technical material, we have assumed that it takes an hour to read and a further hour to understand 20 pages of regulation, which we then scale to our estimated page lengths.

Most social housing is held by large organisations with multiple employees. Familiarisation activities will therefore often be required of many people per organisation. The number of people per landlord required to read the guidance will vary greatly based on the size of the organisation, but for illustrative purposes on average we expect 10 people at small landlords will be required to read the guidance in full and around 100 at larger landlords.

At present there are 231 large PRPs (with a stock volume of greater than 1,000 social dwellings) and 1,135 small PRPs (1,000 social dwellings or fewer) in the sector. Using the same thresholds, there are 160 large local authority registered providers (LARPs) and 66 small LARPs in operation across the sector.

An average hourly wage cost of £21.02 (including a 20.2% uplift to account for non-wage costs) was calculated using 2024 Annual Survey of Hours and Earnings (ASHE) data for the familiarisation of housing officers with the new requirements. We applied this cost, converted into 2025 prices, to the time taken to familiarise per staff member. We then scaled this by the estimated number of staff required to familiarise, for both larger and smaller providers, and then scaled this up to meet the volume of the larger and smaller providers in the sector. This resulted in total familiarisation costs, when using the midpoint estimate of 22.5 pages, of £1.1m for larger PRPs and £0.5m for smaller PRPs. The total impact on PRPs is therefore £1.6m.

We quantified the equivalent costs for local authority registered providers, maintaining the same methodology, accounting for differences in the total number of smaller and larger local authorities. This resulted in total familiarisation costs of £0.8m for larger LARPs and £30k for smaller LARPs. The total impact on LARPs is therefore £0.8m.

The combined impact on the whole sector of familiarisation costs across the appraisal period is therefore £2.4m. This does not differ between Options 2 and 3.

Non-monetised costs

There are non-monetised costs to tenants in the form of impacts on wellbeing due to lower disposable income. We have estimated the impact on affordability of social housing rents for those households not in receipt of housing support using data from the Family Resources Survey[38]. This is calculated by dividing weekly rents by weekly income[39]. Rents are forecast as described above, whilst income is forecast using OBR earnings growth forecasts. For pensioners, we estimate the 'Triple Lock' between earnings, inflation, and the 2.5% lower limit. We are not able to disaggregate those who pay Social Rent vs. Affordable Rent, General Needs vs. Supported Housing, or PRP vs. LARP dwellings.

Table 4: Affordability, all households (nominal terms)

	2023/24		2029/30	
	Weekly income	Weekly rents (as a proportion of income)	Weekly income	Weekly rents (as a proportion of income)
Option 1	£641	£110 (17.2%)	£754	£140 (18.6%)
Option 2	-	-	-	£145 (19.2%)
Option 3	-	-	-	£144 (19.1%)

In 2023/24, weekly income for the median household in the social rented sector who were not in receipt of housing support was £641, while weekly rents were £110 (17.2% of income). Incomes and rents differ by region, with those in London typically paying the highest rents (£145 per week in 2023/24, 21.5% of the median income of £674). Across the 10 year period, we forecast that the affordability ratio peaks in 2029/30 – this is because up to this point, CPI+1% is forecast to increase at a greater rate than income growth. For the median household in England, rents peak at 19.2% of income for Option 2 and 19.1% of income for Option 3 (equating to £4-£5 more per week, compared to CPI+1%). In London, the

[38] https://www.gov.uk/government/statistics/family-resources-survey-financial-year-2023-to-2024; breakdowns available via Stat-Xplore

[39] Note that income is gross and from all sources, meaning that affordability ratios will be lower than if comparing to other metrics which consider net income or earnings income only.

affordability ratio increases from 18.4% to 19.9% for Option 1, 23.8% for Option 2 and 23.7% for Option 3.

Table 5: Affordability, working households[40], (nominal terms)

	2023/24		2029/30	
	Weekly income	Weekly rents (as a proportion of income)	Weekly income	Weekly rents (as a proportion of income)
Option 1	£729	£112 (15.4%)	£858	£142 (16.6%)
Option 2	-	-	-	£147 (17.1%)
Option 3	-	-	-	£146 (17.1%)

In 2023/24, the median income for working households (defined as those households with no unemployed adults under State Pension Age) was £729 nationally (£785 in London), with £112 rents accounting for 15.4% (£145 accounting for 18.4% in London). For working households, we forecast rents to peak at 17.1% of income nationally and 20.4% in London (to one decimal place, these proportions are the same under Options 2 and 3).

Table 6: Affordability, pensioners, (nominal terms)

	2023/24		2029/30	
	Weekly income	Weekly rents (as a proportion of income)	Weekly income	Weekly rents (as a proportion of income)
Option 1	£446	£106 (23.8%)	£525	£135 (25.7%)
Option 2	-	-	-	£139 (26.6%)
Option 3	-	-	-	£139 (26.5%)

In 2023/24, the median income for pensioners was £446 nationally (£435 in London), with £106 rents accounting for 23.8% (£145 accounting for 33.3% in London). For pensioners, we forecast rents to peak at 26.6% of income nationally for Option 2 and 26.5% of income for Option 3. In London, this increases to 36.9% for Option 2 and 36.7% for Option 3.

While we have not been able to monetise the costs of this option on those subject to RSRS and the benefit cap, we think the impact on those subject to RSRS would be marginal and we think it would impact those on the benefit cap in a limited number of cases.

Monetised benefits

We estimate that, compared to the counterfactual (Option 1), RPs' rental income would be £6.0bn higher in Option 2 or £5.3bn higher in Option 3 over the period 2026-36. This is shown in Tables 7 and 8 below.

Table 7: Estimated effect of CPI+1% plus £2 convergence on RP rental income (2026-36)

£bn (2025 prices, PV)	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**	**Total – 26-36**
PRP rental income increase	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.0
LA rental income increase	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.1
Total rental income increase	0.4	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	6.0

Table 8: Estimated effect of CPI+1% plus £1 convergence on RP rental income (2026-36)

£bn (2025 prices, PV)	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**	**Total – 26-36**

[40] Note that due to rounding, not all percentages will be calculable from the data provided.

PRP rental income increase	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	2.7
LA rental income increase	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	2.6
Total rental income increase	0.2	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	5.3

We estimate that £3.0bn to £2.7bn (Option 2 vs. Option 3) of this higher rental income would be received by businesses (in the form of PRPs) – see Table 9 below. This is around 2% of their forecasted income over the period 2026-36. The remaining £3.1bn to £2.6bn would be received by local authority registered providers. The monetised benefits of convergence would not be distributed equally among all RPs. Similar to the explanation set out in the monetised costs section, benefits would be experienced by those RPs with Social Rent homes and in particular those with Social Rent homes with rents below formula.

Table 9: Estimated effect of CPI+1% plus £2 and plus £1 convergence on private registered provider rental income (2026-36) (2025 prices, PV)[41]

£bn	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**	**Total – 26-36**
Option 1: Estimated rental income under CPI+1%	18.0	17.7	17.5	17.1	16.8	16.4	16.0	15.6	15.3	14.9	165.4
Option 2: Estimated rental income under CPI+1% **plus £2 convergence** (difference to counterfactual)	18.2 (0.2)	18.0 (0.3)	17.8 (0.3)	17.5 (0.3)	17.1 (0.3)	16.7 (0.3)	16.3 (0.3)	15.9 (0.3)	15.6 (0.3)	15.2 (0.3)	168.3 (3.0)
Option 3: Estimated rental income under CPI+1% **plus £1 convergence** (difference to counterfactual)	18.1 (01)	17.9 (0.2)	17.8 (0.3)	17.5 (0.3)	17.1 (0.3)	16.7 (0.3)	16.3 (0.3)	15.9 (0.3)	15.6 (0.3)	15.2 (0.3)	168.1 (2.7)

Non-monetised benefits

The higher level of rental income compared to the 'do nothing' counterfactual would leave RPs with more money to invest in providing new social housing, improving the quality and energy efficiency of their existing social homes or providing services to their tenants. As stated in the monetised benefits section, this would not be distributed equally among all RPs.

This could have a positive impact on existing social tenants, who would benefit from improvements to the quality of stock. Where registered providers have the financial capacity to improve the energy efficiency of their homes (for example, co-investing alongside funding from the Warm Homes: Social Housing Fund), tenants may benefit from lower energy bills, resulting in warmer, cheaper homes that are free from damp and mould. Prospective social tenants would likely benefit from an increase in the supply of social homes, including those on social housing waiting lists, in Temporary Accommodation or currently living in the Private Rented Sector. By comparison, the social rented sector is more affordable, and less likely to be non-decent or have HHSRS Category 1 hazards. Supply is discussed in greater detail in the Switching Value Analysis section below. While we assume that, given greater income, Option 2 would likely result in greater supply, we have only presented a single range of impact for convergence, given underlying uncertainties and assumptions regarding landlord behaviour.

The above impacts may be considered a positive redistribution of income from a societal perspective. As noted in the monetised costs section, the value of an additional pound of income is higher for a low-income recipient than for a high-income recipient.[42] Such benefits would occur where there are financial impacts for new or existing social housing tenants, who are typically lower in the income distribution than

[41] Note that figures are provided in economic terms (i.e., constant 2025 prices and discounted), hence decreasing over time.

[42] For more information see Annex H – Distributional Impacts https://assets.publishing.service.gov.uk/media/67fe6be1ed87b8160854670a/MHCLG_The_Appraisal_Guide.pdf

the average taxpayer. This may occur, for example, where new tenants would otherwise remain in the private rented sector, where rents are typically higher. As a result of increasing supply, household moves would result in increased disposable income (for those paying their own rents or those above the Local Housing Allowance cap). These households are likely to have lower income, on average, than the general taxpayer and even current social rented sector tenants (because income-related eligibility is only measured at the point of let). We have not monetised this benefit given uncertainty relating to how landlords would spend additional rental income, as noted in the below switching value analysis.

Switching Value Analysis:

We estimate that the additional rental income private registered providers would receive would enable them to deliver 15-40k more social homes compared to the 'do nothing' counterfactual, dependent on the availability of grant to be used alongside the additional capacity created by the increase in rental income, and the decision on the level of convergence.

There is uncertainty on the exact share of additional rental income that PRPs will direct towards supply. Our estimate is based on a range of differing proportions of income being leveraged and used on supply as opposed to other pressures.

This approach is likely to underestimate the impact on supply for two reasons: 1) it only estimates the impact on PRP supply, and 2) the approach captures the impact of additional income, but doesn't take into account the increase in financial capacity as a result of the increase in income due to the increased supply.

The vast majority of new social supply is delivered by PRPs rather than local authorities, with PRPs responsible for 79% of new affordable housing delivery in 2023-24 compared to 14% by LARPs (2% unknown)[43]. As such, we have not estimated what impact the additional rental income for LARPs would have on new supply. However, we recognise that it would help to address some of the pressures facing local authority HRAs and create additional capacity to build new council housing. Given the proportion of dwellings below formula rent (and therefore the increase in income), a £2 convergence mechanism would likely have a more significant impact (compared to convergence at £1) on reducing financial pressure and increasing supply for LARPs. However, due to uncertainty within our forecasts, we have not provided individual supply estimates, instead, presenting a range for supply of 15-40k units.

We have not monetised the impact on new supply given the dependence on grant funding, however we have carried out switching analysis to determine the number of additional homes that are required to be supported in order for the NPV to be zero, and therefore for the benefits to offset the costs. Using the land value uplift approach to valuing the economic benefits of additional housing supply, we estimate that it would require 19 – 22k additional homes to be supported in order for the NPV to be zero under options 2 and 3 respectively. **Given that this is well within our estimated supply range, our assessment is that the NPV is very likely to be above zero under either option.**

Direct costs and benefits to business calculations

Options 2 and 3 would affect the rental income of RPs, which comprise local authority landlords and PRPs. PRPs are businesses for these purposes, whereas local authority landlords (as public bodies) are not.

The benefits of convergence are not distributed equally among all RPs. We are able to compare the average net Social Rent with formula rent on a provider basis using the Regulator's Statistical Data Returns (for PRPs) and Local Authority Data Returns[44]. Using this, we can determine which RPs require convergence (for their average Social Rent dwelling), and how much convergence is required.

[43] There is no provider information on the remaining 5% of units – https://www.gov.uk/government/statistics/affordable-housing-supply-in-england-2023-to-2024/affordable-housing-supply-in-england-2023-to-2024

[44] https://www.gov.uk/government/organisations/regulator-of-social-housing/about/statistics

The vast majority of LARPs would benefit from convergence (applicable to 100% of GN dwellings and 99% of SH dwellings[45]), however, there is a broader distribution for PRPs. For PRPs, 67% of GN dwellings and 29% of SH dwellings require convergence. For PRP GN dwellings, the deficit in the average property in 2023/24 was £4.64 per week, however, some deficits exceeded £10 per week[46].

PRPs include a range of organisations, such as housing associations, almshouses and community land trusts. There are around 1,400 PRPs, of which the majority have fewer than 1,000 homes. 209 PRP groups own or manage at least 1,000 social homes, together representing more than 95% of PRP homes.[47] A complete list of RPs is published by the Regulator.[48] Table 9 above demonstrate the impact on PRPs income of the Options 2 and 3.

Risks and assumptions

Assumptions

Rent baseline and CPI assumptions

To estimate the cost impacts of the policy, we forecasted the rental income of private registered providers and local authority registered providers over 10 years from 2026-27 to 2035-36. This is based on outturn rental income from PRPs and LARPs, and March 2025 OBR rental income forecasts. This forecast is sensitive to deviation from OBR forecasts, as well as significant changes to RP dwelling stocks. Please see Table 10 below for rent increase assumptions.

Table 10: Rent increase assumptions

Financial year	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**
Counterfactual rent increase	4.8%	2.9%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%

We have also assumed that RPs implement the maximum headline rent increase (but without any additional flexibility).

As noted earlier, we have assessed Options 2 and 3 on the assumption that they will be available for the full 10 years of the rent settlement period, but we are seeking views on this as part of the consultation.

Costs faced by RPs:

The activities of RPs include the construction of new housing units, the maintenance and repair of existing units (both routine and stock upgrades such as making homes more energy efficient), management of existing stock and depending on tenure, supporting the living of their tenants. Estimating the future costs of these activities is difficult, but specific inflation indexes for building related services with national statistic status are published by the ONS as part of their Construction Output Price Indices (OPIs)[49]. See Table 11 below for the most recent ONS estimates on new housing construction, repair and maintenance and all construction inflation:

Table 11: June 2024 estimates of construction metric inflation

Inflation metric	**% change in 12 months to June 2024**
New housing construction	3.4%
Housing repair and maintenance	1.0%
All construction (inc R&M)	1.9%

45 https://www.gov.uk/government/statistics/local-authority-registered-provider-social-housing-stock-and-rents-in-england-2023-to-2024

46 https://www.gov.uk/government/statistics/private-registered-provider-social-housing-stock-and-rents-in-england-2023-to-2024

47 https://www.gov.uk/government/publications/2023-global-accounts-of-private-registered-providers

48 https://www.gov.uk/government/publications/registered-providers-of-social-housing

49 Construction output price indices - Office for National Statistics

The ONS Construction OPI is not a forward-looking index. One of the most prominent forecasters of future build costs is the Building Cost Information Service (BCIS) who published 5-year build cost inflation estimates in September 2024. BCIS forecasted that building costs will increase by 15% over the next five years, while tender prices will rise by 20%.[50]

The financial forecasts submitted by large PRPs to the Regulator in June 2024 indicated that total forecast spend on repairs and maintenance over the first five years of plans had grown to £50bn, compared to the £45bn forecasted one year previously. This forecast average spend of £10bn per annum is significantly higher than the reported annual spend of only £5bn as recently as 2017-18. The Regulator notes that *"based on latest forecasts, repairs and maintenance spending is growing at a faster rate than income from social housing lettings which is squeezing projected EBITDA MRI margins and contributing to the decline in interest cover"*.[51] LARPs are exposed to similar repair and maintenance spend pressures.

In their June 2024 forecasts, PRPs were anticipating £25.7bn in interest payments over the first five forecast years. This was an increase of 7% compared to their June 2023 forecasts.

Risks

Inflation differs from forecasts

As explained above, the analysis set out in this Impact Assessment is based on the OBR's forecasts from March 2025. It is possible inflation could diverge from these forecasts, however, given options are inflation-linked, the relative difference remains almost identical.

Impact on investment

We have made assumptions about how RPs in general will respond to changes in rental income under Options 2 and 3 and how that could impact investment in new and existing homes. It is not possible to determine what level of supply or maintenance will occur given increased rental turnover. Therefore, it is possible that we may be overestimating the impacts on investment, with some of the additional rental income actually being spent on areas that do not support our objectives.

Impact on small and micro businesses

Some PRPs are small or micro businesses (by definition, local authorities are not small or micro businesses). As noted above, there are around 1,400 PRPs, of which the majority have fewer than 1,000 social homes each. 230 groups own or manage at least 1,000 social homes, together representing more than 95% of the PRP stock. Of the PRPs who own under 1,000 units, the majority of these own between 1 and 250 units, with a minority owning between 251 and 1,000 units (see Table 12).[52] Information provided by RSH to DLUHC shows that, on average, PRPs with fewer than 1,000 homes have fewer than 50 staff.

Table 12 – PRPs with stock of under 1,000 units

Size of PRP (number of homes owned)	Number of PRPs (weighted)	% of total PRPs	Stock (weighted)	% of total stock PRP stock
0	120	8.7	N/A	N/A
1 to 250	878	63.4	47,203	1.6
251 to 1,000	157	11.3	79,674	2.8

50 Construction Industry Forecast | BCIS

51 2024 Global Accounts of private registered providers – Regulator of Social Housing (January 2025)

52 Private registered provider social housing stock and rents in England 2022 to 2023, Regulator of Social Housing – data from additional table 3.1 Private registered provider social housing stock and rents in England 2022 to 2023 - GOV.UK (www.gov.uk)

We think it is reasonable to assume that 5% of the impacts of the policy would fall on PRPs that are small or micro businesses. Consequently, as 65% of the total impacts of the policy fall on PRPs, we would expect around 3% of the total impact to fall on small or micro businesses (i.e. 5% of 65%).[53]

Not all RPs would benefit to the same degree from convergence under Options 2 and 3. However, we don't have the data to determine whether these benefits would be disproportionately larger or smaller for small or micro businesses.

As such, we assume that these small or micro businesses would be affected by Options 2 and 3 in the same way as other PRPs, and we do not expect there to be a disproportionate impact on them.

Wider impacts (consider the impacts of your proposals)

Equalities

Data from the 2022-23 English Housing Survey indicates that people with certain protected characteristics are over-represented in the SRS (unfortunately, we do not have a breakdown for those in Social Rent or Affordable Rent homes). Compared to the general population, households in the SRS:

- Are more likely to have an ethnic minority Household Reference Person (HRP). In 2022-23, 20% of SRS households had an ethnic minority HRP, compared to 15% of all households.[54]

- Are more likely to have a household member with a disability or long-term illness. In 2022-23, 57% of SRS households had a household member with a disability or long-term illness, compared to 36% of all households.[55]

- Are more likely to have a female HRP. In 2022-23, 56% of households in the SRS had a female HRP, compared to 44% of all households.[56] The SRS also contains a higher proportion of lone parent households. In 2022-23, 15% of SRS households were lone parent households with dependent children, compared to 6% of all households. 6% of SRS households were lone parent households with non-dependent children, compared to 3% of all households.[57] Although being a lone parent is not a protected characteristic as such, according to ONS the majority (85%) of lone parent families in the UK in 2021 were headed by a female lone parent.[58] It therefore seems reasonable to assume that the majority of lone parent households in the SRS in England are headed by a female lone parent.

Data from the 2022-2023 English Housing Survey also indicates that some groups with protected characteristics may be less likely to be adversely affected financially by the new policy because they receive Housing Support to help pay their rent. For example, single female households are more likely to be recipients of Housing Support (69%) and the household type that had the highest proportion of households in receipt of Housing Support was "lone parent, dependent children" (87%), which we've said it's reasonable to assume the majority of which are headed by a female lone parent.[59]

Unfortunately, we do not have data on other groups with protected characteristics and the extent to which they receive Housing Support to help pay their rent, and we do not have data on the extent to which groups with protected characteristics receive Housing Support and are subject to deductions from the benefit cap and/or RSRS. Given that groups with the protected characteristics race and disability are overrepresented in the sector (in addition to sex), we think they are more likely to have their disposable income affected by this policy. These impacts would be greater under Option 2 than Option 3 due to the higher rents it would produce.

[53] https://www.gov.uk/government/publications/2021-global-accounts-of-private-registered-providers

[54] English Housing Survey 2022-23: Rented Sectors (Annex Table 1.3)

[55] English Housing Survey 2022-23: Rented Sectors (Annex Table 1.15)

[56] English Housing Survey 2022-23: Rented Sectors (Annex Table 1.6)

[57] English Housing Survey 2022-23: Rented Sectors (Annex Table 1.9)

[58] Families and households in the UK: 2023, ONS (Figure 2)

[59] English Housing Survey 2022-23: Rented Sector (Annex Table 2.10)

However, Options 2 and 3 would be beneficial for social tenants, and in particular those with the protected characteristics sex, race and disability, insofar as they would provide greater rental income for RPs to invest in new and existing homes (including improvements to the energy efficiency, safety and quality of their homes), and spend on services. Again, we think the benefits and impacts of Option 2 would be greater than Option 3 due to the higher rents it would produce.

Wider impacts to individuals

Staff of RPs might be positively/adversely affected by increases/reductions in rent increases, as this would leave RPs with more/less income to spend on employment costs.

Environmental impacts

Under section 19 of the Environment Act 2021, when making policy decisions Ministers must have due regard to the Government's environmental principles statement. This includes the principle that policy should seek not only to prevent and mitigate environmental harm but also to embed opportunities to improve and promote environmental protection and enhancement. Borrowing against rental income is the primary funding source for new supply and Options 2 and 3 will provide more rental income to registered providers. This will have an impact on the amount of new supply brought forward - we estimate that the additional rental income received as a result of reintroducing convergence will enable Private Registered Providers of social housing (mainly housing associations) to deliver 15-40k more social homes. Considered in isolation, these could have negative environmental impacts. However, housing need is and must be balanced against other sustainable development objectives that concern social and economic benefits. Higher rental income also increases registered providers' financial capacity to invest in their existing homes. Therefore, Options 2 and 3 – alongside our proposal to introduce Minimum Energy Efficiency Standards (MEES) for socially rented homes in England – are likely to facilitate improvements to the energy efficiency of rented social housing.

A summary of the potential trade implications of measure

We have not identified any potential trade implications.

Monitoring and Evaluation

Whatever option we choose, we will continue to monitor rent levels in social housing, including in relation to the financial pressures facing tenants and the social security system (working with DWP). We will also continue to monitor the volume of development by RPs and the level of their investment in existing SRS properties. A key objective of this 10 year proposal is to provide the sector with stability and a basis on which it can make long-term investment decisions. It would therefore not be suitable to build in a specific and formal review point that might undermine this aim. However, as above and in line with good practice, we will monitor and assess its impact on an ongoing basis so that we can understand and be assured that it has having the effects it intended.