

Briefing Paper

Guidance on Rents for Social Housing

June 2014

Introduction

In October 2013 the government published a consultation paper on rents for social housing from 2015/16. Consultation ended on 24th December 2013. In May 2014 the government responded to the consultation and provided its final guidance on rents for social housing.

The purpose of this briefing paper is to summarise the guidance and provide some commentary.

A copy of my briefing paper on the original consultation can be downloaded from my website at:

<http://www.awics.co.uk/dynamicdata/data/docs/rents%20for%20social%20housing%20from%202015%20-%20briefing%20paper.pdf>

Summary

This guidance sets out the Government's policy on rents for social housing for April 2015 onwards. Technically, it applies only to stock-owning local authorities although the Secretary of State has also issued a direction on the rent standard to the Homes & Communities Agency that will oblige them to have regard to it in setting the Rent Standard for private registered providers.

The guidance replaces the 'Guide to Social Rent Reforms', published by the Department of Environment, Transport and the Regions in 2001, and 'A Guide to Social Rent Reform in the Local Authority Sector', issued in February 2003; and any other guidance on rents issued in relation to those documents.

The Government's aims for its new rent policy are to:

- Ensure that rents for social housing remain affordable in the long-term.
- Protect social tenants from excessive increases in rents.
- Ensure rents take account of local conditions.
- Provide long-term certainty and stability to social tenants, social landlords and their funders to:
 - Enable tenants to understand their future housing costs better;
 - Enable landlords to plan for future investment better;
 - Encourage landlords to invest in new affordable housing, helping more people in need;
 - Support landlords to drive value for money; and
 - Give investors confidence in social housing.
- Give landlords significant income to invest in the maintenance and improvement of existing homes, the provision of new affordable homes, and in providing good services to their tenants.
- Control public expenditure – principally, housing benefit costs.
- Support landlords to charge a fairer rent to those social tenant households with high incomes.

In particular, in coming to a decision on an appropriate basis for increasing rents in future, the government has tried as far as possible to balance the need to ensure rents remain affordable, with the need to ensure that landlords have the income they need to remain in good financial health and to invest, particularly in new affordable homes.

For local authorities, specifically, the government's aim is also to support them to make use of the opportunities presented by self-financing. Ten years of rent certainty should put them in a strong position to plan strategically and utilise the freedoms they now have following the reforms – including the ability to keep full rental income – and invest in homes and services.

However, the proposal to end 'rent convergence' will leave housing associations and local authorities that have yet to achieve 'target rents' with a 'black hole' in their budgets that will make it difficult for them to deliver either 'decent homes' or 'new build'.

Background

Since 2001, most rents for social housing have been set based on a formula set by Government. The formula creates a 'formula' rent for each property that is worked out based on a combination of the relative value of the property, relative local earnings levels and the size of the property. Landlords are expected to move the actual rent of a property to this formula rent, over time. Rents set based on the formula are known as 'social rents'.

Landlords have flexibility to set rents up to 5% above the formula rent. There are also formula rent caps, set by property size that increase by the Retail Price Index plus 1% each year.

Annual changes in social rent levels have also been based on policy set by Government. Weekly rents are expected to increase by up to the Retail Price Index plus 0.5% annually, plus up to an additional £2 where the rent is below the formula rent for the property. At the 2010 Spending Review, the Government extended this policy for rent increases to 2014/15.

The method of calculating formula rents was set by the previous government and is explained in detail in my briefing paper 'Rents and Service Charges' that was published in June 2013 and can be downloaded from my website at: <http://www.awics.co.uk/dynamicdata/data/docs/briefing%20paper%20-%20rents%20and%20service%20charges.pdf>

At the 2010 Spending Review, the Government also introduced 'affordable rent'. Affordable rent allows landlords to let new properties and some existing vacant properties at up to 80% of local market rent (inclusive of service charges), as part of an agreement on new affordable housing supply. Affordable rents are expected to increase by up to the retail price index plus 0.5% annually under current policy. Where an affordable rent property is re-let, the expectation is that the rent is re-set, based on a new valuation, to ensure it remains at no more than 80% of market rent.

The consultation follows announcements at Budget 2013 and the Spending Round 2013 on changes to rent policy. In the budget, the government set out their intention to allow social landlords to charge tenants in social rented housing with high incomes a fairer level of rent. They also signalled their intention to set out, at the Spending Round, a rent policy to apply for ten years from 2015/16. At the Spending Round, the government confirmed that, from April 2015, rents in the social sector would increase by Consumer Price Index inflation plus 1% annually, for ten years.

The government's announcement in the spending review that social rents will increase by the consumer prices index plus 1% each year from 2015 onwards was initially welcomed by many in social housing as it gave certainty and continued buoyancy in rental income. However, it came with a 'sting in the tail' when it was revealed by Graham Duncan, Deputy Director for Affordable Housing Regulation and Investment at 'Communities & Local Government' – in a letter to selected housing organisations – that the government intended to bring 'rent convergence' to an end. 'Rent convergence' is the process by which it is intended that all local authority and housing association rents should reach the government's target rents by 2015 unless to do so would result in rent increases of more than inflation plus 0.5% plus £2 a week each year.

Following the government's surprise announcement that rent convergence was to be ended I wrote to Communities & Local Government to ask whether the government intended to introduce the policy through legislation or guidance and, if guidance was to be used, how the guidance would be enforced. I am grateful to Communities & Local Government for their response that was as follows:

"We are intending to bring in a regulatory limit for annual rent increases (for both social rent and affordable rent) of consumer prices index plus 1% from April 2015 until March 2025... Our current intention is that this is applied through guidance and the limit on housing benefit expenditure as currently.

"Our intention is that, for social rented sector tenants, the housing component of Universal Credit will build on the support currently provided by the housing benefit system and be based on actual rents. We are considering how to proceed with a housing benefit expenditure control mechanism in universal Credit and will set out further details in due course."

In October 2013 the government published its consultation paper. This made clear the government's intention, following consultation, to replace the current policy of limiting rent increases to Retail Price Index plus 0.5% plus £2 a week with a policy of limiting rent increases to Consumer Price Index plus 1% enforced through the rent rebate subsidy limitation mechanism. This method of enforcement obviously only applies to local authorities.

Responses to the Consultation

The government received 178 responses to their consultation of which seventy were from housing associations, 68 were from stock-holding local authorities and forty were from other organisations including arms' length management organisations and housing sector representative bodies.

More than half of respondents welcomed the ten year, index-linked rent settlement and agreed that it would provide the stability and certainty that would enable social housing providers to plan for future investment – and give investors confidence. They agreed that it also provided clarity and stability for tenants and helped to ensure that rents are affordable.

There was also support for the continuation of the principle of a consistent national framework for setting social housing rents that would apply to both local authorities and private registered providers.

However, around 45% of respondents said that while they agreed with some of the proposals they had some concerns. The key concerns expressed related to the removal of the flexibility available to landlords to increase social rents each year by an additional £2 above the increase in formula rent, where the rent is below the rent flexibility level and rent cap (what is known as rent convergence policy). A small number were also concerned about a potential divergence between the Consumer Prices Index and the Retail Prices Index in the long term, which they argued presented a degree of risk to business planning for the long term.

Around 40% were more clearly opposed. Their main objection was to the end of rent convergence. Their main concern related to the potential loss of income arising. Some landlords were also concerned that it would lead to differential rents between existing and new tenants.

Surveys by two tenant representative bodies found that tenants' views were mixed. Overall, more disagreed with the policy than agreed. However, there was some tension between views expressed – while tenants wanted to limit rent increases they were also concerned about the impact of ending rent convergence on the Housing Revenue Account, which they felt could impact on services and investment in new housing.

A local authority representative body felt that it was important that councils continued to have some local discretion in setting reasonable rents to reflect local circumstances. They welcomed the fact that the Government's rent policy for councils remains non-statutory.

There were some suggestions that reference to the 1999 values and earnings data in the calculation of social rents should be reviewed, to make social rent more responsive to current local housing market trends and conditions.

Social Rent Guidance

Unless houses are to be let at affordable rent or are to be let to tenants on high incomes (see below) the government expects that social housing properties let by local authorities should continue to have their rents typically set on a social rent basis. The formula rent will continue to be calculated as before.

For the vast majority of social rent properties, a formula rent has already been set. There will however be some cases where a formula rent is not in place – usually, only for new properties developed or acquired. Where this is the case, and the property is to be let at social rent, a formula rent will need to be calculated.

From 2015/16 to 2024/25, the uplift for each year should be the Consumer Price Index at September of the previous year plus 1%. This differs from the current practice if using the Retail Price Index plus 0.5%.

The Government's policy has always recognised that authorities should have some discretion over the rent set for individual properties, in order to take account of local factors and concerns, in consultation with tenants. As a result, the policy contains flexibility for authorities to set rents at up to 5% above formula rent (10% for supported housing and sheltered housing). Authorities have been expected to use this flexibility in a balanced way, and not set all rents at 5% (or 10%) above the formula rent. This approach will continue.

From April 2015, the government expects local authorities to increase rents by no more than the Consumer Prices Index plus 1%. Formula rents should also increase by the Consumer Prices Index plus 1% each year, from 2015/16.

The government recognises that, in practice, due in part to the annual limit on weekly rent increases between 2001/02 and 2014/15, of the Retail Prices Index plus 0.5% plus £2 a week, some properties will not have reached formula rent by April 2015. Where this is the case, the government expects authorities to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let following vacancy.

However, the calculation of the debt settlement for self-financing was based on the assumption that the previous policy of allowing rent increases of the Retail Prices Index plus 0.5% plus £2 a week would continue. This means that in practice authorities that have not achieved 'rent convergence' will receive less rent income than was assumed in the self-financing model but will still have the same level of debt. This will leave a 'black hole' in their budgets and oblige them to reduce expenditure on other items such as the 'decent homes standard' or 'new build'.

Local authorities are expected to apply rent caps in determining formula rents. These are maximum rents that can be charged based on the number of bedrooms. Up to 2014/15, rent caps were inflated annually by the Retail Prices Index plus 1%. From 2015/16 onwards, rent caps should increase by the Consumer Prices Index plus 1.5%. However, the annual change in rent for the tenant in a 'rent capped' property should still be governed by the Consumer Prices Index plus 1% limit on rent changes. However, where a property whose rent is governed by the rent cap comes up for re-let (and formula rent remains above the rent cap), the new rent charged should be based on the rent cap level.

In calculating the formula rent, the value of the property will continue to be based on an existing use value, assuming vacant possession and continual residential use. Existing use values should be produced by the comparative method and not by a discounted cash flow method. Existing use value is not the same as 'existing use value – social housing', which is typically used for resource accounting purposes, and makes a downward adjustment to the existing use value to reflect the lower value of properties when used for social housing. The valuation should continue to be made at January 1999 prices. However, an authority may want to revalue where it has carried out major works that materially affect the value of the property.

The continued use of 1999 as the year of valuation is interesting. The passage of time is making the data used increasingly out of date. However, the continued increase in divergence in housing values between London and other parts of England means that an updating of the valuation date would result in increases in rents in London and reductions in rents in other parts of England. Clearly the government does not wish this to occur.

Service Charges

In addition to their rent, tenants may also pay service charges. Rents are generally taken to include all charges associated with the occupation of a property, such as maintenance and general housing management services. Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than being particular to the occupation of a dwelling. Service charges are subject to separate legal requirements and are limited to covering the cost of providing the services.

Authorities are expected to set reasonable and transparent service charges that reflect the service being provided to tenants. For social rent, they are also expected to identify service charges separately to the rent charge.

Service charges are not governed by the same factors as rent. However, authorities should endeavour to keep increases for service charges within the limit on rent changes, of the Consumer Prices Index plus 1%, to help keep charges affordable.

The only exception to this expectation is where new or extended services are introduced, where the government expects an additional charge may need to be made. Where this is the case, authorities are expected to consult appropriately with tenants before introducing new or extended services and associated charges.

This guidance supersedes the guidance issued in 2002 that included complex arrangements for setting rents and service charges when they are de-pooled. The former guidance provided that, where service charges are de-pooled the service charge should be set at an appropriate level and the rent should be adjusted to ensure that the total of rent and service charges paid by a tenant would not exceed the previous year's rent by more than the increase in the Retail Prices Index plus 0.5% plus £2 a week. Under the new arrangements for setting social rents it would clearly not be in the interests of landlords to adjust rents when service charges are de-pooled.

As the guidance states that service charges should increase by no more than the Consumer Prices Index plus 1% each year it is not easy to see how the government envisages service charges being de-pooled in future. Authorities would appear to have two options: to introduce the full service charge immediately thus increasing costs for the tenant at the outset; or introducing the full service charge in stages thus increasing costs for the tenant over a period of years.

Affordable Rent Guidance

Properties let on affordable rent terms fall within the definition of social housing, but are exempt from the social rent expectations outlined above. Affordable rent allows local authorities to set rents at levels up to 80% of gross market rents (inclusive of service charges) and that are typically higher than social rents. The intention behind this flexibility is to enable them to generate additional capacity for investment in new affordable housing. Affordable rent therefore allows for more new affordable homes to be built for every pound of upfront Government investment, meaning more people in need can be housed at sub-market rents than would otherwise be the case.

Local authorities should only let properties on affordable rent terms where:

- They have a Framework Delivery Agreement in place with the Homes and Communities Agency or Greater London Authority, under the Government's affordable homes programmes.
- The Homes and Communities Agency or Greater London Authority have indicated that the new supply they propose to provide represents value for money, for new build affordable housing that is not funded (in part) by Government grant.
- They have an agreement in place with the Secretary of State, to retain additional Right to buy receipts for investment in new affordable rented homes.

Gross market rents generally include any service charges, and these, as well as the property size and location, should be taken into account when determining what rent level a property might achieve.

A tenancy where a local authority is the landlord is excluded from the mainstream Local Housing Allowance rules. Whilst the government does not propose to set maximum rents above which local authorities should not charge for affordable rent properties, authorities should have regard to the local market context, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located, when setting affordable rents.

An affordable rent should be no lower than the potential formula rent for the property. In cases where the rent would be lower than the formula rent, the formula rent should constitute a floor for the rent to be charged.

Housing for vulnerable and older people often includes a range of services to support the particular needs of the client group. When setting an affordable rent level for housing for vulnerable and older people, the gross market rent comparables should be based on similar types and models of service provision, ideally within the local area. Where there are insufficient comparables for similar types of provision in the local area, valuers should be requested to identify comparables from other areas and extrapolate their best estimate of what the gross market rent should be. Local authorities should then set the initial rent up to 80% of that level.

Local authorities should also be mindful of the need to comply with the terms of agreements with the Homes and Communities Agency or Greater London Authority, in setting rents. They should also have regard to the conditions and policies set out in the Frameworks for the Government's affordable homes programmes, where they are letting properties on affordable rent terms within these programmes.

Valuations for initial rent setting should be made in accordance with a method recognised by the Royal Institution of Chartered Surveyors. This expectation is intended to help ensure that authorities adopt a consistent and transparent approach to the valuation of market rents.

The Royal Institution of Chartered Surveyors sets out its principles for valuations in "Royal Institution of Chartered Surveyors Valuation – Professional Standards" (known as the Red Book). This is available free to their members and can be purchased online or as a hard copy.

Local authorities may not always need to undertake a full valuation on each occasion that a property is let on affordable rent terms. In areas where affordable rent is widely used, local authorities may have a rolling schedule of tenancies coming up for re-issue or re-let. Where that is the case, over time, local authorities may have adequate comparables readily to hand, and there may be no need for a full valuation. Where this is so, authorities may want to rebase rents using a desktop review of recent transactions.

Local authorities should increase rents for properties let on affordable rent terms by no more than the Consumer Prices Index plus 1% each year. The Consumer Prices Index should be taken as at September of the previous year.

On each occasion that an affordable rent tenancy is issued for a property – whether it is let to a new tenant, or an existing tenancy is re-issued – local authorities should re-set the rent based on a new valuation, to ensure it remains at no more than 80% of the relevant market rent. The only exception to this is where the accommodation is re-let to the same tenant as a consequence of a probationary tenancy coming to an end. In this case, an authority is not expected to re-set the rent. This expectation overrides the Consumer Prices Index plus 1% limit on rent changes.

The Government has implemented a process to allow properties let on affordable rent terms by local authorities to be treated outside of the Rent Rebate Subsidy Limitation scheme. To claim Housing Benefit subsidy above the limit rent for affordable rent properties, an authority must show the auditor of their subsidy claim form a letter signed by their Section 151 Officer, addressed to the Department that:

- Lists the addresses of all affordable rent properties – broken down between existing homes that have been converted to affordable rent, and newly built homes let at affordable rent;
- Confirms that the rents will not rise except in line with Government policy;

- Confirms any properties re-let have had their rents re-set, if needed, to ensure they remain at no more than 80 percent of market rent;
- Confirms that all income derived from the higher rent has been spent or will be spent – and only spent – on new affordable housing.
- And, for new build housing that is not funded (in part) by Government grant, confirms that the schemes' finances have been approved by the Homes and Communities Agency or Greater London Authority.
- And for housing that is provided under the Government's programmes confirms that the amount of capacity generated by conversions of existing properties to affordable rent is no greater than that specified in their delivery agreement with the Homes and Communities Agency or Greater London Authority.

The government will not permit existing properties to be excluded from the Rent Rebate Subsidy Limitation system unless they have been converted to affordable rent in line with the terms of an authority's delivery agreement with the Homes and Communities Agency or Greater London Authority, under the Government's affordable home programmes. Otherwise affordable rent housing that is provided without funding from Government will only be excluded if it is new build housing provided using additional Right to Buy receipts that have resulted from the increase in sales arising from the increase in the discount cap for Right to Buy. In this case, to claim Housing Benefit subsidy above the limit rent, an authority must show their auditor a:

- Copy of their agreement with the Secretary of State, which enables them to retain additional Right to Buy receipts; and
- Statement signed by their Section 151 Officer which confirms that the homes in question have been built or acquired using Right to buy receipts in line with the conditions set out in the agreement.

Guidance on Rents for Social Tenants with High Incomes

The Government believes that local authorities should be able to charge those in social housing with high incomes a fairer level of rent to stay in their homes.

The government considers that this would help them to make best use of social housing. It would give them additional income to invest in new social housing – helping more people in housing need – and would help ensure sub-market rents are being provided only to those tenants who clearly need them.

As a result, the Government does not expect local authorities to adhere to its social rent policy expectations in relation to social tenants with high incomes.

The government will encourage local authorities to implement rent policies for social tenants with high incomes that reflect the aims outlined above. Where they do so, the government expects them to follow some general principles, set out below.

The expectations regarding social and affordable housing do not apply to properties let to households with an income of at least £60,000 per year.

In this context, by household, the government means tenants named on the tenancy agreement, and any named tenant's spouse, civil partner or partner where they reside in the rental accommodation. By income, they mean taxable income in the tax year ending in the financial year prior to the financial (i.e. rent) year in question.

To give an example, the income received in the 2013/14 tax year would guide the rent payable in the 2015/16 rent setting year, where a household was above the threshold. Here, 2013/14 is the 'tax year ending (on 5th April 2014) in the financial year (2014/15) prior to the financial (i.e. rent) year in question (2015/16)'.

Where a household is subject to a sudden and ongoing loss of income, having declared that they are above the threshold, the government would expect authorities to reconsider the rent that household is being charged, and amend if appropriate.

Where a high income social tenant's tenancy comes to an end, and they vacate the property, the government would expect properties typically to be re-let in line with their previous lower rent – be it at social rent or affordable rent – to a household in housing need.

Where there are more than two incomes within the household, as defined, the government would expect the two highest incomes only to be taken into account.

The government expects authorities to use the additional capacity generated to fund new affordable housing, where possible.

Many in the sector have criticised these proposals as unworkable, especially because they rely on the tenant declaring their income and volunteering to pay the additional rent. This would result in considerable costs of administration especially for landlords whose tenants are unlikely to have incomes in excess of £60,000 a year.

Implications for Housing Associations

At the same time as issuing the guidance for local authorities, the government issued a 'Direction on the Rent Standard 2014' to the Homes & Communities Agency, directing them to include the same principles in their Rent Standard that applies to housing associations. In May 2014 the Homes & Communities Agency issued their own consultation on proposals to amend the rent standard to comply with the government's new policies on social rents. The consultation ends in August 2014.

In particular, the Direction provides that:

"The Regulator must set a standard relating to rent; the rent standard is to apply to private registered providers only; and in setting the rent standard the regulator must have regard to the rent guidance."

The Rent Standard requires that 'registered providers shall charge rents in accordance with the Government's direction to the regulator of May 2014'. This replaces the direction of November 2011 and introduces several changes that are described as follows by the Homes & Communities Agency:

"The Spending Review 2013 and subsequent consultation by the Department for Communities and Local Government on rent setting policy has resulted in a rent direction. The new rent policy changes the indexation basis from the Retail Price Index to the Consumer Prices Index and removes the ability to increase rent relative to the formula level by up to £2 a week. Registered providers will be permitted to charge up to market rent levels to those tenants earning high incomes."

However, housing associations will be allowed to apply for 'waivers', an option that is not available to local authorities. They will be able to do this if the new policy would prevent them from meeting obligations to tenants (for example, the decent homes standard) or where it could affect their financial viability.

The draft Rent Standard is shown below:

Required outcome of the Rent Standard

Private registered providers shall charge rents in accordance with the Government's direction to the Regulator of May 2014 and the Rent Standard Guidance.

Specific expectations

1. Private registered providers shall ensure they meet the following requirements, which derive from the Government's direction to the Regulator of May 2014, and the 'key requirements' set out in the Rent Standard Guidance that accompanies this Standard.

1.2 Subject to paragraphs 1.3, 1.5 and 1.6 private registered providers shall set rents for low cost rental accommodation with a view to achieving the following so far as possible.

1.2.1 Rents conform with the pattern produced by the rents formula set out in the Rent Guidance¹² ('formula rents') with a 5% upward tolerance on individual rents (10% for supported housing and sheltered housing) ('the limit of the rent flexibility level'), but subject to the maximum rent levels specified in that Guidance ('rent caps').

1.2.2 Weekly rent for accommodation increases each year by an amount which is no more than CPI + 1%.

1.2.3 Weekly rent for accommodation which is above the limit of the rent flexibility level increases each year by an amount which is less than CPI +1%, until it reaches the limit of the rent flexibility level.

1.2.4 Rent caps increase annually by CPI +1.5%.

1.2.5 Formula rents increase annually by CPI + 1%.

1.3 The requirements of paragraph 1.2 do not apply to accommodation let on Affordable Rent terms. Subject to paragraph 1.6, where accommodation is let on Affordable Rent terms, registered providers shall set rents with a view to achieving the following, so far as possible.

1.3.1 Rent for accommodation (inclusive of service charges) is set at a level which is no more than 80% of the estimated market rent for the accommodation (inclusive of service charges), based on a valuation in accordance with a method recognised by the Royal Institution of Chartered Surveyors.

1.3.2 Rent for accommodation increases each year by an amount which is no more than CPI + 1%.

1.3.3 Rent for accommodation is re-set, based on a new valuation, each time the accommodation is:

- (i) let to a new tenant
- (ii) re-let to the same tenant (but where a probationary tenancy comes to an end and the registered provider re-lets the accommodation to the same tenant the provider is not required to re-set the rent).

1.4 Affordable Rent terms can only be used in relation to accommodation provided pursuant to a housing supply delivery agreement entered into between a private registered provider and the Homes and Communities Agency (HCA) or the Greater London Authority (GLA).

1.5 The requirements of paragraph 1.2 shall not apply to rental accommodation let by private registered providers to a social housing tenant household during a financial year where the household income was £60,000 or more in the tax year which ended in the financial year preceding the financial year in which the Rent Standard will not apply.

1.6 Where the application of the Rent Standard would cause providers to be unable to meet other standards, particularly in respect of financial viability, including the risk that a reduction in overall rental income causes them to risk failing to meet existing commitments such as banking or lending covenants, the Regulator may agree to waive specific requirements of the Rent standard for a period of time.

1.7 Private registered providers shall provide clear information to tenants that explains how their rent and any service charge are set, and how they are changed, including reference to the CPI benchmark to which annual changes to rents should be linked (except where rents are controlled under different legislation).

Reactions in the Sector

Reactions in the sector have not all been positive. The main issue is the ending of 'convergence' and the effect that this will have on the finances of local authorities and housing associations that have yet to achieve 'target rents'. The secondary concern is around the practical implications of charging higher rents to tenants on higher incomes.

The National Housing Federation has called on the government and the Homes & Communities Agency to postpone implementation of the policy until April 2016 on the grounds that it could reduce the capacity of housing associations to develop. Catherine Ryder, Head of policy at the National Housing Federation told 'Inside Housing' that:

"We have a smaller number that fall into that territory 9of qualifying for a waiver) but there will be a much larger group of housing associations for which the ending of convergence is significant."

Conclusions

The main changes included in the guidance are:

- Moving from annual increases in weekly rents of Retail Price Index +0.5% (plus up to £2 for social rents), to increases of Consumer Price Index + 1%
- As a result, removing (from 1st April 2015) the flexibility available to landlords to increase weekly social rents each year by an additional £2, above the increase in formula rent, where the rent is below the rent flexibility level and rent cap
- Making clear that rent policy does not apply where a social tenant household has an income of at least £60,000 a year

For many landlords and tenants the change from rent increases of the retail prices index plus 0.5% to the consumer prices index plus 1% will not be significant as the consumer prices index has historically risen at a rate of about 0.5% less than the retail price index. Many landlords and tenants will also welcome the announcement as bringing more certainty to future rent policy in the long-term.

However, where landlords have yet to achieve rent convergence the new approach would prevent them from doing so in future. This mainly affects local authorities that have not been able to converge their rents with formula rents either because of the operation of the 'caps and limits' in the existing rent policy framework or because of historic policy decisions. This is especially significant in that the debt settlement with self-financing was based on the assumption that rents would converge and the implementation of the new rent policy would therefore leave those councils with a 'black hole' in their self-financed business plans.

The government's approach for local authorities and registered providers also differs. Registered providers would be able to negotiate waivers with the Homes & Communities Agency whereas in the case of local authorities the new regime will be enforced through the rent rebate subsidy limitation mechanism with 'rent limits' being calculated based on the permitted increase in the previous year's rents rather than on the rent formula.

This spells bad news for landlords whose rents are still below the formula and provides an incentive for landlords in this position to maximise their rent increases in 2014.

It is interesting that the government wishes to increase the 'bedroom caps' in real terms. This will result in significant increases in rents in high value areas when dwellings are re-let.

The proposal to increase rents for tenants with high incomes is also contentious with many landlords arguing that it would be unworkable.

Adrian Waite
June 2014

Developments in Local Authority Housing Finance in England 2014

July 2014

We are holding a seminar and workshop on 'Developments in Local Authority Housing Finance in England' in London on 8th July 2014. This seminar is designed to look in depth at current developments in local authority housing finance in England – especially the implications of the recession, austerity, self-financing and the welfare reforms.

If you want to be up to date with the world of local authority housing finance, this is the seminar and workshop for you!

The seminar and workshop will address the following questions:

- What is the Political, Economic, Social and Technical Context of Local Authority Housing?
- How can we develop effective self-financed business plans in the light of government reforms to rents, right to buy and welfare; and changing approaches to the ring-fence?
- How can we invest in existing and new housing in the light of the 'borrowing cap' and the conditions for social housing grant?
- What can the Strategic housing services achieve?
- How can we get 'value for money' and excellent customer service?

The day also includes a Participatory Case Study – Budgeting and Business Planning for a Local Authority Housing Revenue Account.

We believe in quality rather than quantity and so numbers at each session are limited to twenty people to permit the maximum possible interaction and participation.

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Who should attend?

All those with an interest in developments in local authority housing finance in England, including Senior Management and Housing Managers in Local Authorities and Arm's Length Management Organisations, Elected Members, ALMO Board Members, Housing Accountants, Civil Servants, Tenant Representatives and College Lecturers. The course will assume a basic knowledge of local authority housing finance but will not assume that delegates are experts.

The course is accompanied by a very useful book entitled: **“Developments in Local Authority Housing Finance in England 2014”**

Venue and Date:

London: Novotel Hotel, Waterloo – Tuesday 8th July 2014

About ‘AWICS’

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Services that we offer include:

- Management Consultancy – <http://www.awics.co.uk/ManagementConsultancy.asp>
- Interim Management – <http://www.awics.co.uk/interimmanagement.asp>
- Regional Seminars - <http://www.awics.co.uk/regionalSeminars.asp>
- In-House Training - <http://www.awics.co.uk/inHouseCourses.asp>
- Independent Residents’ Advice – <http://www.awics.co.uk/IndependentTenantAdvice.asp>
- Technical Books - <http://www.awics.co.uk/TechnicalBooks.asp>
- Information Service - <http://www.awics.co.uk/informationService.asp>