Briefing Paper

Rents for Social Housing from 2015/16

November 2013

Introduction

Housing Minister Kris Hopkins has offered social landlords and their tenants a deal on rents that he says will give a decade of strong protection for social tenants with the cost of living and greater stability for landlords. The proposals, unveiled on 31st October 2013, would come into effect from April 2015.

Annual rent increases would be linked to inflation - using the Consumer Price Index as a measure rather than the Retail Price Index as has been used in previous years.

According to the government, this would give councils and housing associations the stability they need to plan investment in new homes in their area, supporting £23billion public and private investment in affordable homes planned from 2015; and helping towards achieving the fastest rate of affordable house building for two decades.

Ministers also want to ensure that landlords have the powers they need to charge tenants on higher incomes a rent closer to the market rate so these limits on social rent levels would be lifted for instances where tenants earn at least £60,000. When possible, new rules would be introduced requiring those social tenants earning above this threshold to declare their income to their landlords.

Housing Minister Kris Hopkins said:

"Today's proposals offer a fair deal on rents for tenants, helping with their cost of living and ensuring those who can afford to pay more do and those on lower incomes know what to expect… It also offers the certainty and stability councils and housing associations need to plan ahead and invest their revenues to build more affordable homes in their area… This and the £23billion of public and private investment planned in the three years after 2015, means we're on track to deliver the fastest rate of affordable house building for two decades."

Section 197 of the Housing & Regeneration Act 2008 gives the Secretary of State certain powers to direct the social housing regulator to set standards, and about the content of those standards. Once formally issued, a direction is binding on the regulator when it consults on and set standards for private registered providers. The government proposes to use these powers to issue a new direction to the regulator on rent. They also propose to issue new guidance to stock-owning local authorities, a draft of which is included in the consultation.

The consultation invites views on the proposed changes to the policy, draft direction and draft guidance. It runs for eight weeks and closes on 24th December 2013.

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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.

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.

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"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."

The government therefore intended, 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.

There is a briefing paper on the 'AWICS' website regarding social and affordable rent policy in England that can be freely downloaded as follows:
Rents and Service Charges – May 2013 - http://www.awics.co.uk/dynamicdata/data/docs/briefing%20paper%20-%20rents%20and%20service%20charges.pdf

Summary

Under the proposed policy the majority of existing rented properties in the social sector will continue to be let at social rent. The government expects that most new build properties will continue to be let at affordable rent – principally because they propose to continue using affordable rent that they consider to be successfully delivering more homes for less capital investment under the current Affordable Homes Programme, in their next Programme.

Following announcements in the 2013 budget and the 2013 spending review on changes to rent policy the main changes 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

The current basis upon which social rents and affordable rents are set would continue to apply.

To implement the new policy for registered providers, the government intends to issue a new direction to the Regulator on rent; a draft version for consultation is attached to the consultation. Once the direction has been formally issued, in final form, following consultation, the Regulator would issue for consultation a new regulatory standard on rent, setting out the rent requirements on registered providers to apply from April 2015. This direction would replace the existing direction issued in April 2012.

To implement the new policy for stock-owning local authorities, the government intends to issue new rent guidance; a draft version for consultation is attached to the consultation. This guidance is intended to replace the 'Guide to Social Rent Reforms', issued in March 2001, 'A Guide to Social Rent Reform in the Local Authority Sector', issued in February 2003; and any other guidance issued in relation to those documents.

The direction and guidance have no pre-determined end date, though the Government has committed to the new policy until March 2025.

All of the proposed changes to rent policy outlined in the consultation paper are intended to come into force for the 2015/16 rent year. So, from 1st April 2015, the changes are reflected in the draft rent direction and guidance.

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Social Rent Policy

The government proposes to maintain aspects of current social rent policy. In particular, social rents would continue to be set on the current basis. For each social rent property, a formula rent would therefore be calculated (where one has not been calculated already) based on the current formula, and using the values that are currently used for national average rent and capital value (as at January 1999 prices) and manual earnings levels.

The current formula takes into account the value of the property and its size, and also local earnings (meaning affordability is considered). The government wants to maintain the formula, and the values used, to provide stability to tenants; and to landlords, that should support them to make the most of the £3.3billion further investment in new affordable homes announced in the 2013 Spending Round.

The main change the government is proposing to social rent policy is to move from an annual limit on weekly rent increases of the retail price index plus 0.5% plus up to £2; to a limit of the consumer prices index plus 1%.

The government wishes to move from the retail prices index to the consumer prices index following the Office for National Statistics' announcement in January 2013 that the formula used to produce the Retail Price Index does not meet international standards. As a result, the Government is looking to move to the Consumer Price Index, where possible, where an inflation-index is currently used in policy. This change should also put rents on a more stable footing as the consumer prices index has been less susceptible to sudden changes and broad variations than the retail prices index in recent years.

The consumer prices index figure to be used is for September in the previous year – the same basis as is currently used for the retail prices index.

The government considers that maintaining an inflation-linked rent policy would provide stability for tenants and landlords, and ensure that changes in rents continued to be linked to changes in costs. They consider that this approach should 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.

The government has committed to this policy for ten years – until 2024/25. Their aim is that long-term certainty and stability on rents would give confidence to investors and would help landlords to plan for future investment. The government expects it to support landlords to build more new affordable homes and to drive value for money.

Related to this change, the government proposes that formula rents should uprate by the consumer prices index plus 1% each year, from April 2015; rather than the retail prices index plus 0.5% each year.

A consequence of this change in policy would be that the flexibility to increase rents by up to an additional £2 above the increase in formula rent would no longer be available after 2014/15. In other words, the rent increase limit will no longer be higher than the increase in formula rent. This flexibility currently exists to help landlords to bring actual rents in line with formula rents.

The government considers that this change would create a rent increase system that would be simpler and that should be more easily understood by tenants. And overall, they think rent increases of the consumer prices index plus 1% each year for ten years would give landlords a strong basis on which to plan for the future, and strike the right balance between protecting tenants and giving landlords the income they need to invest in homes.

While the government expects most social rent properties to be at formula rent by 2014/15, they recognise that this will not be the case for all properties; in part because some will have been prevented from reaching formula rent by the current limit on rent increases of the retail price index plus 0.5% plus £2 a week.

Where a property is not at formula rent by 2014/15, the government would expect landlords to apply the new limit on rent changes from April 2015. They could then move the rent up to formula rent if the property is re-let at social rent, following vacancy; so the rent need not remain below the formula rent permanently.

The government recognises that this policy change would impact more significantly on some landlords than others. In general, they expect that it would not impact on a landlord's financial viability. But where a registered provider believes that any aspect of the new policy would impact on their financial viability, the government considers that they should contact the Regulator, which would be able to offer time-limited waivers from adherence to policy to support associations to remain financially viable. Before providing a waiver, the Regulator would expect an association to have looked at all other solutions for addressing their viability concerns, including reducing non-core spending.

The government states that this policy change is intended to ensure that all social tenants, in future, would see their rents increase on the same basis. They consider that it would also help to control the housing benefit bill that is a key priority for Government.

Housing Benefit and Welfare Reform

Tenants in social housing are able to apply for Housing Benefit to help them meet their housing costs. For social tenants, the calculation of Housing Benefit reflects the actual rent charged – subject to the government's welfare reforms including the under-occupation penalty and the total benefit cap.

Housing Benefit costs relating to the tenants of registered providers are largely controlled by the regulatory limit on rent increases. However, local authorities are subject to a control known as the 'limit rent' that is set based on rent policy. To determine how much Housing Benefit subsidy a local authority receives their limit rent is compared to their average actual rent, and where the average rent is higher, housing benefit subsidy is proportionately reduced.

The Government is introducing Universal Credit. Under Universal Credit, six existing working age benefits including Housing Benefit will be made into a single payment and the claimant will typically receive this payment themselves – rather than having their housing costs paid directly to their landlord.

With the introduction of Universal Credit, not all local authority tenants will be covered by Housing Benefit subsidy payments to local authorities, as is the case currently. The Government is considering how to ensure that Universal Credit only meets reasonable housing costs for local authority tenants. An option would be to use the powers it has taken, through The Rent Officers (Universal Credit Functions) Order 20132, to refer housing payments to the rent officer if they appear to be excessive or are subject to excessive increases.

These powers, used in this way, would be an extension to those that already exist for housing benefit, applicable to registered providers. If they are used, the intention would be that they would be used sparingly. Whilst the government wishes to protect the financial integrity of

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Universal Credit, they do not want to undermine the certainty that social landlords and tenants gain from the general principle that benefit reflects the rent charged.

The government intends to apply these powers to social rent properties (excluding temporary accommodation); all properties let at affordable rents in line with policy will be considered reasonable.

The government intends to continue to use the limit rent to control costs relating to pension age tenants and those council tenants who remain on Housing Benefit, during the transition to Universal Credit. This process would work the same as currently, with the proportion of Housing Benefit subsidy a local authority receives being reduced if its average actual rent is above its limit rent; and with affordable rent properties excluded from the limit rent, provided certain conditions are met (as set out in the draft guidance). The government would update their method for calculating limit rents to reflect the new policy coming in from April 2015, of annual rent increases of CPI plus 1% and no 'convergence factor'.

The government intends to set out details of proposed limit rents for 2014/15 in due course. They will also set out, in due course, details of how they propose to treat properties let to high income social tenants in relation to the Rent Rebate Subsidy Limitation system.

There are briefing papers on the 'AWICS' website regarding housing benefit and welfare reform that can be freely downloaded from: http://www.awics.co.uk/Housing.asp

Other aspects of Policy

Current policy gives landlords flexibility to set rents up to 5% above or below formula rent (this is called the rent flexibility level). The government intends to maintain this flexibility – as they consider it gives landlords some discretion to reflect local factors and concerns, in discussion with their tenants.

However, the government is proposing to make a small change relating to it. Specifically, they intend to make clear that where a rent is more than 5% above formula rent, it should be brought within the rent flexibility level, over time, either through applying a rent increase of less than the consumer prices index plus 1%, or through lowering the rent when the property is re-let on vacancy (the current rent direction says that increases for rents above the flexibility level should be limited to the retail prices index plus 0.5%). This change is intended to ensure that any rents that remain above the flexibility level are brought within it, over time.

There are a small number of housing associations who have waivers with the Regulator that allow them to continue for a period to set rents above the rent flexibility level, to help maintain their financial viability. This policy change is not intended to override those waivers.

Current policy contains rent caps known as 'bedroom caps'. They apply as cash limits, and depend on the size of the property (the number of bedrooms it contains). Where the formula rent would be higher than the rent cap for a particular size of property, the expectation is that the rent cap would be used instead.

The government is considering whether to remove the rent caps, to provide flexibility to landlords to move the rent to formula rent on re-let. This would be consistent with the approach they are otherwise taking for 'rent convergence' where existing tenants receive the protection of the rent increase limit, but landlords can set rents at formula rent on re-let. The government has invited views on this.

If the government does provide this flexibility, it would have no impact on existing tenants who remain in their home – they would benefit from the limit on annual rent increases of the

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consumer prices index plus 1%. Rather, it would allow landlords to use vacant properties to increase their capacity for investment in new homes.

While the government is considering providing this flexibility, they have set out in the draft direction and guidance what their proposed policy would be if caps were maintained, to enable interested parties to provide views on a fuller basis.

Currently, rent caps increase by the retail prices index plus 1% each year. Under the new policy, if rent caps were maintained, they would increase by the consumer prices index plus 1.5% each year. This change is intended to reflect the approach taken in current policy – where rent caps inflate by 0.5% more than the formula rent – but for the new formula of the consumer prices index plus 1%.

While caps would increase annually by the consumer prices index plus 1.5%, the annual change in rent for the tenant in the property would be governed by the consumer prices index plus 1% limit on rent increases. This difference would mean that the actual rent deviates from the rent cap, for the period that the tenant remains in the property. But it would also mean that rent caps continue to move towards (catch up with) formula rents, over time; and when a landlord comes to re-let a property, where the rent is controlled by the rent cap, they will be able to do so at a level based on rent increases of the consumer prices index plus 1.5% rather than the consumer prices index plus 1%.

Affordable Rent Policy

The government is only proposing one change to affordable rent policy – that the limit on annual rent increases should be the consumer prices index plus 1%, rather than the retail prices index plus 0.5%, from April 2015. This change reflects what the government is proposing for social rent, and is being made for the same reasons.

Affordable rents would therefore continue to be set on the current basis, at a level (inclusive of service charges) that is no more than 80% of the estimated local market rent (inclusive of service charges), based on a valuation in accordance with a method recognised by the Royal Institution of Chartered Surveyors.

The government considers that this approach would allow landlords to increase their financial capacity for investment in new homes, whilst ensuring tenants continue to benefit from a sub-market rent. It would also allow for lower rents to be set, where specific circumstances meant this would be appropriate.

The government's intention is that homes for rent in the 2015-18 Affordable Homes Programme would be let at affordable rent. While offers that included affordable rent at less than 80% of local market rent would be considered, in specific circumstances, they would expect providers to utilise the flexibility to charge rents of up to 80% of market rents to maximise financial capacity.

Under the current Affordable Homes Programme, in aggregate, a modest number of vacant properties have been converted from social rent to affordable rent, or sold and the proceeds reinvested. Some providers have taken a more active approach than others to using conversions and sales to maximise financial capacity for investment in new housing. In the new Programme, the government will expect all providers to take a rigorous approach in looking at vacant properties and asking how they could best be used to help build more homes to help more people in housing need. Further details of the new Programme will be set out in due course.

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Rents for social tenants with high incomes

In July 2012, the Government published a consultation paper setting out proposals to enable landlords to charge higher rents to social tenant households with high incomes. They then set out at Budget 2013 their intention to allow landlords to charge market rents to social tenant households with incomes of at least £60,000 per year; and make sure that it is the responsibility of these tenants to ensure they are making a fair contribution.

A formal summary of responses to the consultation was published on 25th July 2013. This summary provided further information on how the government intended to implement this policy. Specifically, it explained that they would take steps towards removing the regulatory controls preventing registered providers charging market rents to social tenant households on incomes of more than £60,000 per year; and would set out revised rent guidance for local authorities.

The summary also reiterated the government's intention to place responsibility on high income social tenants to ensure they are making a fairer contribution; and set out their aim to seek a legislative opportunity to place the onus on tenants earning over the threshold to declare their income, when Parliamentary time allows.

The Government believes that social landlords should be able to charge those in social housing with high incomes what they regard as a fairer level of rent. They consider that this would help landlords to make best use of social housing and that 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 to those tenants who need them the most.

To enable landlords to implement the policy as soon as possible, the government is proposing two stages: the first stage would be to remove the regulatory controls preventing social landlords from charging market rents to high-income social households; the second stage would be to introduce a legal measure – when parliamentary time allows – requiring social tenant households on incomes of at least £60,000 per year to declare this to their landlord.

Registered providers are expected to adhere to rent regulation. Regulation expects them to set rents for social housing based on the formula, unless a specific exemption is provided (as for affordable rent, for example).

Local authorities are obliged by legislation to charge reasonable rents. They are also expected to have regard to Government guidance on rents that currently contains no exemption on this issue.

The government proposes to create a new exemption from rent policy expectations, for social tenant households on incomes of more than £60,000 per year. They intend to do so through an exemption to the rent direction for registered providers and through guidance on this issue for local authorities. To create an exemption, they have set out (in the draft direction and guidance) what is meant by 'income' and 'household', in this context.

In considering these terms, and in their general approach to implementation, the government has been guided by the principle that the policy should be simple to understand and administer, as far as possible, unless there is a specific, compelling reason for taking a more complex approach.

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The government's previous consultation set out that they intended to define 'household' for the purposes of this policy, as 'a single tenant earning at or above the agreed threshold or the two highest earning individuals whose joint income is at or above the threshold'. Having considered further, they propose to define 'household' so that it covers:

- Tenants named on the tenancy agreement; and
- The tenants' spouses, civil partners or partners where they reside in the rental accommodation.

The government proposes that a spouse, civil partner or partner's income should only be taken into account where they are living at the property. Where there are more than two incomes within the household (for example, four people with an income who fall within the definition of household above), the government proposes that only the two highest incomes should be taken into account, when considering whether the household is above the threshold.

The government proposes to use a definition of income based on total taxable income. They think this is a reasonable and comprehensive reflection of income coming in, and expect that most if not all households with a taxable income of at least £60,000 a year should be able to determine easily that this is the case. Taxable income would include: earnings from employment and from self-employment; income from pensions; most interest from savings, investment income (dividends on company shares), rental income, income paid from a trust; and some state benefits.

The definition does not include existing capital, although it does cover the income that this generates. The government has considered whether capital should be included. They consider that including it would not always provide the best reflection of ongoing 'income' – given the potential for it to go quickly, and, where it goes, the difficulty of 'recovering' it quickly (compared to income from moving in and out of employment). They also consider that it would be challenging to define an appropriate threshold for capital that should be considered as income.

However, the government would welcome views on whether capital should be included. They would also welcome views on whether – if it were to be included – a threshold should be used, and if so at what level; and on the point at which capital should be taken into account (for example, should this be capital at the end of the tax year under consideration?)

As the definition of income is based on taxable income, the government is proposing to use the tax year as the period for which tenants should calculate their annual income, for the purposes of the policy. This approach was supported by a majority of those who responded on this issue to the previous consultation.

This would mean that there would be a time difference between the income period (the tax year, that runs from 6th April to 5th April) and the rent year in question (the financial year, which runs from 1st April to 31st March), to ensure a full tax year can be taken into account. To ensure this, the relevant tax year for the purpose of the policy is the tax year that ends in the year preceding the 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.

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 them to discuss this matter with their landlord.

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The government intends to seek a legislative opportunity – when parliamentary time allows – to introduce a requirement for social tenant households on incomes of at least £60,000 per year to declare this to their landlord, along with appropriate sanctions and other consequential changes to the primary legislation which might be needed.

Only households whose income was above the threshold would be required to make a declaration to the landlord. Where a tenant made a declaration, the landlord could decide whether to charge the tenant up to full market rent. If a landlord decided to do so, it would need to give the tenant reasonable notice before the new rent came into effect.

Other aspects of Policy

The previous consultation asked for views on how additional income arising from the policy should be spent. Around a half of respondents thought that it should be reinvested in social housing – either improving stock or providing additional social housing.

In the summary of consultation responses, the government set out that they would generally expect providers to use additional income to help fund new affordable housing, to meet housing need. This position is reflected in the draft guidance.

A further issue considered in the previous consultation was the treatment of historic Government grant in properties converted to market rent as a result of this policy.

In general, where a landlord converts a grant-funded social rent property to a higher rent, some or all of the capital grant in that property will need to be recycled by the provider or recovered by the Homes and Communities Agency or Greater London Authority, depending on the conditions attached to the grant payment.

Under the terms of the Affordable Homes Programme, where an existing social rent property is converted to Affordable Rent, historic grant can be kept in the property, provided the additional rental capacity generated is used for new supply. If Affordable Rent properties are converted to market rent, historic grant would currently need to be recycled.

Under this policy, the position would be more complex, as there is potential for the property to fluctuate between market rent and social rent (for example, if the high income household moves out, or their circumstances change).

The government wants to safeguard their historic investment in social housing, but also not disincentivise landlords from charging higher rents to high income social tenants. In this context, they propose the following approach to the treatment of historic grant if a landlord increases the rent to market level using the policy exemption created:

- The landlord repays or recycles the grant in the same way they would do currently when converting properties to market rent (where they have regulator approval to convert, in the case of registered providers); or
- The grant remains in the property, provided that additional capacity generated is spent on new affordable housing. The government expects that this approach may be more attractive to landlords where they want to re-let the property at social rent following vacancy.

Where a landlord proposes to retain the grant in the property, they should make the relevant grant-giving authority aware up front; the government will set out further details of who they should contact and what information they need to provide in due course. Changes required to the Capital Funding Guide to support this approach will be published in advance of implementation of the new rent policy (April 2015) and will be notified by the Homes and Communities Agency and Greater London Authority in the normal way.

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Consultation Questions

The consultation paper asks specific questions as follows:

Question 1: *What are your views on the Government's proposed policy on social rents from 2015-16?*

Question 2: *Should the rent caps be removed? If you are a landlord, how (if at all) do the caps impact on you currently?*

Question 3: *Do you agree with the move from basic rent increases of retail prices index plus 0.5% to the consumer prices index plus 1% (for social rent and affordable rent)?*

Question 4: *Do you agree with the definition of "household" proposed'?*

Question 5: *Do you agree with the definition of "income" proposed?*

Question 6: *In particular, should capital be included and if so, how?*

Question 7: *Do you agree with the income period proposed?*

Question 8: What are your views on the proposed self-declaration approach?

Question 9: Do you agree with how we propose to treat historic grant?

Reactions to the Consultation

Grainia Long, Chief Executive of the Chartered Institute of Housing said:

"Rent policy is a fundamental and we are very pleased that a ten year deal on rents has been agreed. This provides certainty and is critical in underpinning long-term business planning for new supply and wider housing services.

"However, we are disappointed that the opportunity to carry out a more thorough review of rents has not been taken. Our recent report 'We need to talk about rents' showed significant discrepancies and tensions in current rent policy - particularly around affordability and consistency. These have not been addressed and these issues will worsen with time.

"Several technical details based on past agreements must be properly bottomed out. We will be working with government departments to ensure this happens. This consultation will need careful consideration by landlords who will be able to use evidence from their organisation to assess the potential impact."

However, Council landlords have branded the government's new social rent policy 'unfair' as its most financially punitive rules would apply only to local authorities and not housing associations. This is because local authority landlords will not qualify for the short-term waivers that the Homes and Communities Agency will be allowed to issue.

Council landlords stand to lose up to £1.2billion over the course of the ten year rent policy that ends the government's 'rent convergence' scheme one year early. Two of 171 landlord authorities could see more than £70million taken out of their housing budget, according to research by the Chartered Institute of Housing. Almost fifty will lose more than £10million.

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Matthew Warburton, policy adviser at the Association for Retained Council Housing, indicated that the policy appeared was unfair and told 'Inside Housing' that:

"For housing associations the government has said that there is an appeal mechanism… The question that raises is why is there not a similar provision for local authorities? There's no logic there… If convergence is a problem for financial viability [of housing associations] then it is equitable to extend the same temporary waivers to local authorities that are badly affected. Why not?

"Is it because they [the government] believes local authorities won't be affected like housing associations? It is odd there is no mention of the impact on councils finances."

Conclusions

The main changes proposed in the consultation paper 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 f 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 is considering removing the 'bedroom caps'. This would 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.

The deadline for responses to the consultation is 24th December 2013.

Adrian Waite - November 2013

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November 2013

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The course is accompanied by a very useful 100+ page book entitled:

"All You Want To Know About Local Authority Housing Finance 2013"

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Venue and Date:

London: Novotel Hotel, Waterloo – 12th November 2013

Further details can be found at:
http://www.awics.co.uk/local_authority_housing_finance_2013_training_course.asp

The seminar is also available in-house.

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

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